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## 4QCY13: Good sequential but weak on-year growth

KLCI: 1,824.17

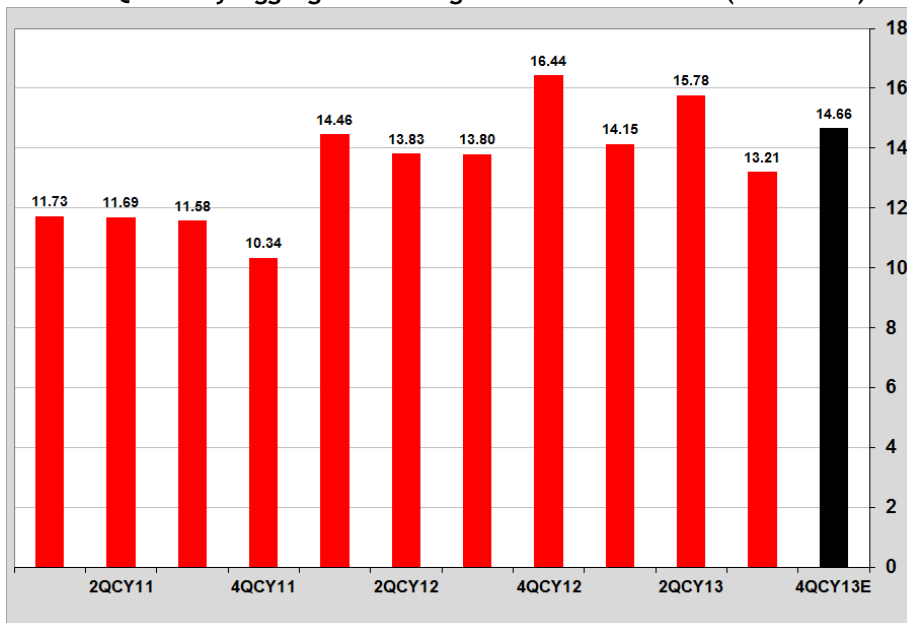
*Anticipate more robust earnings growth in subsequent quarters*

*(2014 Year-end Target: 1,900 points)*

- Expect 4QCY13 FBM KLCI reported earnings to increase +11.0%qoq but decline -10.8%yoy
- Market priced-in robust upward earnings trajectory in first half of 2014
- It also supports ours circa 10% earnings growth expectation for FBM KLCI in 2014
- We reiterate our FBM KLCI 2014 year-end target of 1,900 points

In 4QCY13, expect reported earnings of FBM KLCI stocks to increase +11.0%qoq... For the quarter ended December 2013, the aggregate profit of FBM KLCI stocks is expected to increase by +11.0%qoq to RM14.66b (see Chart 1). The anticipated improvement in sequential growth performance is mainly attributable to better performance by plantation companies due to the rise in CPO prices in the final quarter of last year. Additionally, it is also boosted by a jump in the net profit of Tenaga Nasional due to deferred taxation adjustments but however moderated by some exceptional charges which lowered the earnings of Maxis.

Chart 1: Quarterly Aggregate Earnings of FBM KLCI Stocks (RM billion)



Expect RM14.66b earnings in 4Q13

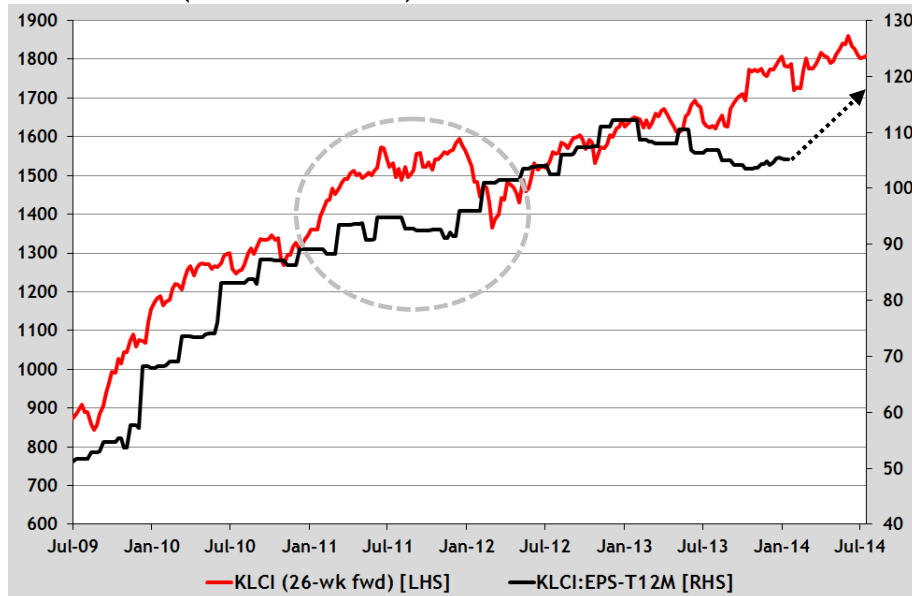
Source: Bloomberg, MIDFR

...but decline -10.8%yoy. On the other hand, the on-year growth number may see a decline of -10.8%yoy in 4QCY13 principally due the high base effect of Genting's RM1.9b extraordinary profit related to the disposal of its Kuala Langat power plant which was realized in 4QCY12. After deducting this huge exceptional item, we saw a lower aggregate profit of RM14.52b in 4QCY12 hence an adjusted on-year rise of +1.0%yoy in 4QCY13.

Empirically, the movement of FBM KLCI is a good leading indicator to its upcoming earnings result performance. Our 'best-fit' historical chart of the FBM KLCI against its 12-month trailing earnings (KLCI:EPS-T12M) shows the former led the latter by about 26 weeks. The approximately half-year lead time provides reliable guidance on earnings performances of the recent/prevaling quarter as well as the subsequent one.

Market priced-in robust upward earnings trajectory in first half of 2014. By looking at the performance of FBM KLCI during the past 26 weeks (see Chart 2), we can expect its trailing earnings to experience a robust upward trajectory in the first quarter of this year. Subsequently, its trailing earnings trajectory may continue on at a similar upbeat pace in the quarter ending June 2014.

Chart 2: KLCI (26-week forward) versus KLCI:EPS-T12M



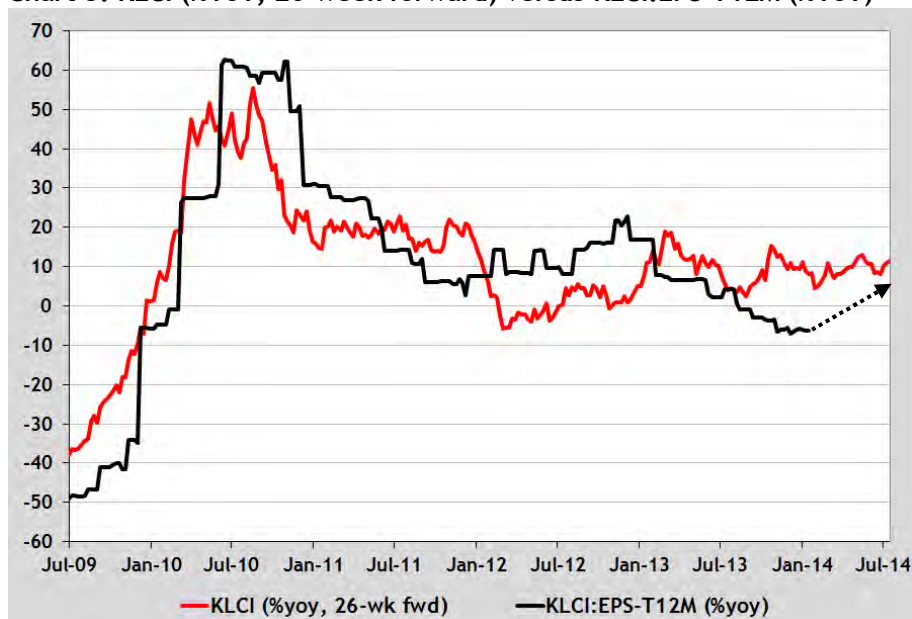
Source: Bloomberg, MIDFR

Expect earnings to experience robust upward trajectory at least up to 2Q14, without which it may invite price correction

Failure of earnings to perform to market expectation shall invite price correction. Nonetheless, as evident during the period of between 4QCY10 to 2QCY11, failure of earnings to keep pace with market expectation may eventually results in price correction.


On-year earnings growth is expected to regain positive territory. In tandem with the steady year-on-year growth performance of FBM KLCI during the past 26 weeks (see Chart 3), we can expect its trailing earnings growth during the first and second quarters of 2014 to regain positive territory and trend higher towards the low double-digit levels. The anticipated on-year earnings growth path is in congruence with our circa 10% earnings growth expectation for FBM KLCI in 2014.

Chart 3: KLCI (%YoY, 26-week forward) versus KLCI:EPS-T12M (%YoY)



Source: Bloomberg, MIDFR

Accordingly, on-year EPS growth is anticipated to trend higher going forward

FBM KLCI year-end 2014 target of 1,900 points. We reaffirm our FBM KLCI baseline 2014 year-end target of 1,900 points, with the upper and lower bounds at 1,980 points and 1,840 points respectively. 

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.