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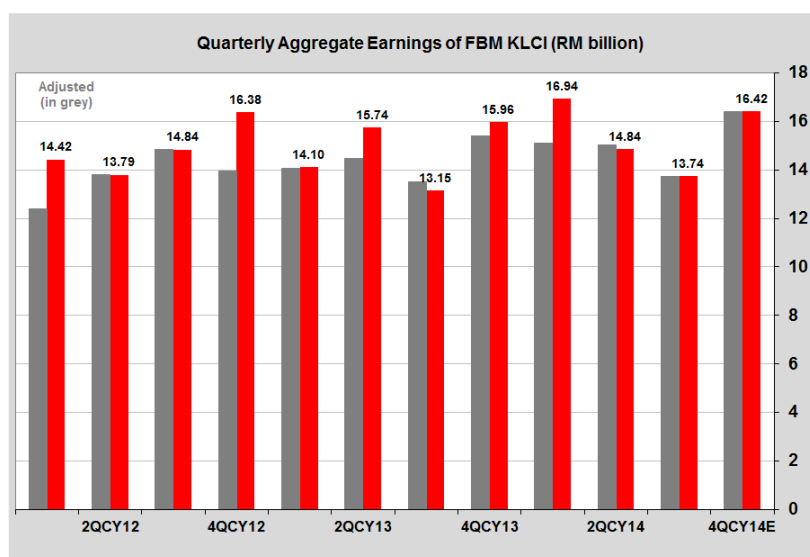
4QCY14: Double-digit sequential growth beckons

KLCI: 1,813.25

Despite expectation of mixed results among major sectors

(2015 Year-end Target: 1,900 points)

Aggregate earnings of FBM KLCI stocks may increase +19.5%qoq and +6.7%yoy. For the quarter ended December 2014, the aggregate earnings of FBM KLCI current constituents is estimated at RM16.42b. Against the combined RM13.74b earnings recorded in preceding quarter, the 4QCY14 aggregate earnings is expected to record a double-digit sequential growth of +19.5%qoq. Furthermore, the on-year growth number in 4QCY14 is estimated to rise by +6.7%yoy hence outdoing the prior quarter's +1.8%yoy adjusted growth performance.



4QCY14 aggregate earnings is estimated at RM16.42b

Source: Bloomberg, MIDFR

Expect mixed results among major sectors. We are expecting mixed results among the FBM KLCI's Big 5 sectors, i.e. Banking, Utility, Oil & Gas, Plantation and Telecommunication. Of the Big 5, Oil & Gas and Utility are expected to report positive on-year earnings growth. Interestingly, the best on-year earnings performance may come from the Oil & Gas sector. We also expect positive on-quarter growth for all Big 5 sectors excepting Banking and Telecommunication. The highest sequential earnings growth number among the Big 5 in 4QCY14 may come from the Utility sector.

FBM KLCI: Quarterly adjusted earnings (RM million) and growth estimates

Sector (#)	4QCY14E*	3QCY14	QoQ	4QCY13	YoY
Banking (7)	5,589.32	5,620.05	-0.5%	5,655.63	-1.2%
Utility (2)	2,727.71	1,572.03	73.5%	2,118.44	28.8%
Oil & Gas (4)	1,807.04	1,685.83	7.2%	1,240.58	45.7%
Plantation (5)	1,804.18	1,163.51	55.1%	2,377.44	-24.1%
Telecom (4)	1,670.68	1,755.75	-4.8%	1,758.35	-5.0%
Transport (1)	959.03	470.80	103.7%	501.58	91.2%
Gaming (2)	807.89	693.20	16.5%	884.35	-8.6%
Automotive (1)	281.50	197.00	42.9%	109.13	157.9%
Property (1)	267.29	57.92	361.5%	193.60	38.1%
Healthcare (1)	251.74	146.91	71.4%	230.10	9.4%
Tobacco (1)	137.81	241.10	-42.8%	189.09	-27.1%
Media (1)	113.30	137.80	-17.8%	123.80	-8.5%
OVERALL (30)	16,417.49	13,741.89	19.5%	15,382.09	6.7%

Source: Bloomberg, MIDFR; E* - estimate, (#) - No. of constituent


Banking. Pricing for liabilities have increased due to strong competition for deposits, in particularly retail deposits as banks continued to compete for deposits. We expect competition for deposits couple with the requirement to have higher quality lower yielding assets for LCR to weigh on NIM of banks. Pressure on NIM of banks is likely to continue going forward. Moreover, capital market activities remained subdued with relatively flat growth in new PDS issuance.

Utility. This sector is boosted by the performance of Tenaga Nasional given the easing trend in fuel costs, thanks to the decline in coal and gas prices.

Oil & Gas. Collectively, the Oil & Gas constituent stocks might register a quarterly sequential and year-on-year increase due to the still strong orderbook of SapuraKencana Petroleum as well as expected higher volume of downstream products sold by Petronas Chemicals. In addition, there could potentially be higher transportation capacity booked by Petronas which could sustain Petronas Gas' earnings.

Plantation. Average CPO price declined circa -13% to RM2,200pmt in 4QCY14 from 2,531pmt in the corresponding quarter last year. Quarter-on-quarter, the decline in CPO price was much more modest at less than half percent from RM2,209pmt in 3QCY14. Hence plantation companies may likely show negative on-year earnings growth in 4QCY14. On the other hand, the aggregate plantation earnings of FBM KLCI constituents may show a sequential rise. This is mainly due to the low base effect owing to poor earnings performance among some of the constituents in 3QCY14, e.g. IOI Corp earnings suffered from the demerger of its property business and FGV recorded losses due to poor downstream performance.

Telecommunication. The expected weak growth performance among telecommunication players is reflective of the maturing and competitive industry landscape. We do not think this situation will change drastically for the better anytime soon.

Maintain FBM KLCI year-end 2015 target at 1,900 points. We maintain our FBM KLCI baseline 2015 year-end target to 1,900 points, with the upper and lower bounds at 1,950 points and 1,850 points respectively. Moreover, the year-end target equates to PER of 16.37x or +0.74 standard deviation (SD) over its long-term mean (since 2006 to present). 

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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.