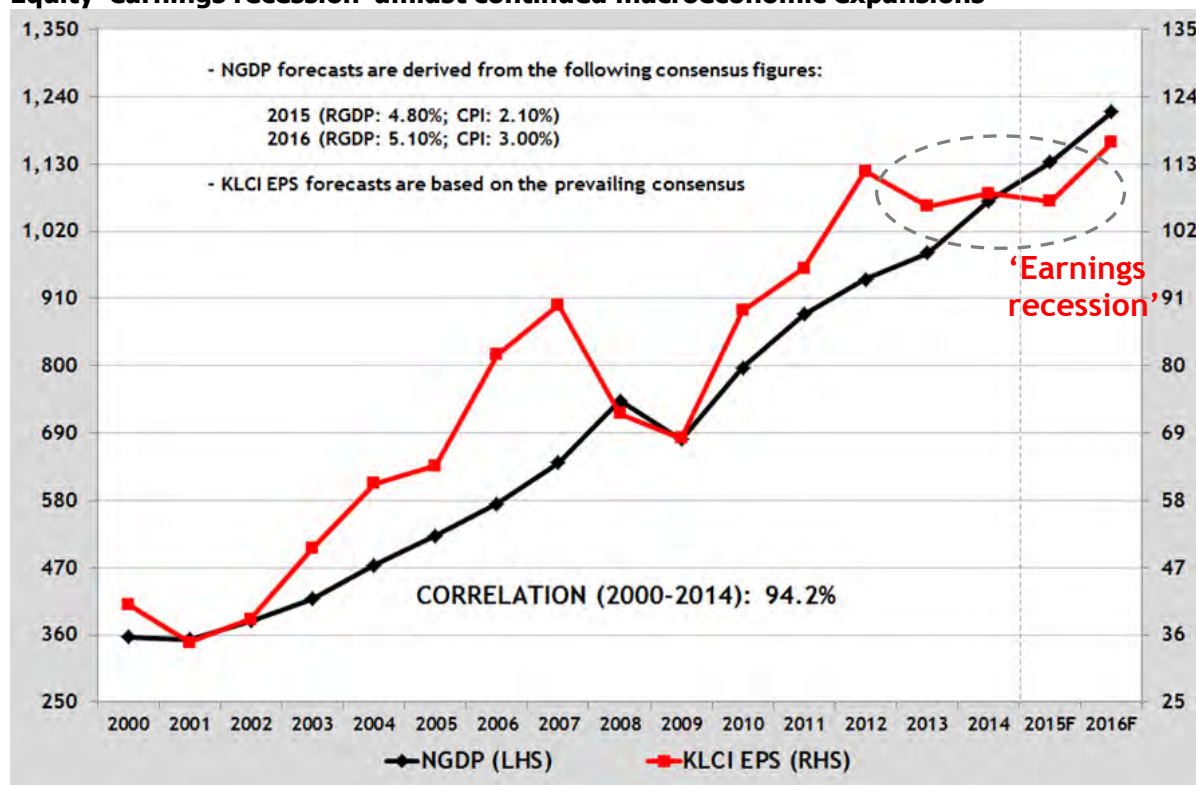


'Earnings recession' ending Market seen supported as growth returning to normalcy

KLCI: 1,699.92 points
2015 Year-end Target:
1,800 points

FBM KLCI 'earnings recession' since 2013 is likely to end soon... The earnings growth path of Malaysia's 30 largest listed corporations has been rather dismal during the past several years despite the continued macroeconomic expansions. The odd disconnect can be attributable, among others, to the higher aggregate weightage of commodity-related constituents, particularly from oil palm and oil & gas sectors, in the FBM KLCI vis-à-vis their weighted contributions to the overall economic output. On this score, it must be highlighted that, pursuant to the post-2008 recovery, world's commodity prices in general (based on UBS Bloomberg CMCI Composite) reached their cyclical peak in 2011 period and the subsequent pullbacks saw further intensification last year. Nevertheless, the 'earnings recession' which began in 2013 is likely to end soon as commodity prices are believed to be bottoming out. Furthermore, domestic demand is expected to remain robust coupled with improving external conditions particularly among the industrialized economies.

Equity 'earnings recession' amidst continued macroeconomic expansions



Source: Bloomberg, MIDFR

...with consensus 2016 earnings growth returning to near double-digit... Accordingly, the consensus 2016 FBM KLCI earnings growth is expected to return to a healthy, and more normal, near double-digit level of 9.01%. The anticipated forward year performance is in stark contrast to the current year earnings growth estimate of -1.26% as well 2014 and 2013 growth figures of merely 1.99% and -5.05% respectively. As a rule of thumb, basing of empirical performance, the equity benchmark would normally register earnings growth that outperform or at least matches the percentage rise in nominal GDP.

FBM KLCI historical and forward consensus earnings growth

	EPS	YoY (%chg)
CY2013	106.14	-5.05
CY2014	108.25	1.99
CY2015(E)	106.89	-1.26
CY2016(F)	116.52	+9.01

Source: Bloomberg, MIDFR

...as reflected by the earnings forecasts of its constituents. The source of FBM KLCI forward year earnings growth can be inspected from the consensus earnings forecasts of its 30 constituents. Among the expected top earnings growth performers in 2016 are SapuraKencana, IHH Healthcare and CIMB Group.

Consensus earnings forecasts (calenderized) of FBM KLCI constituents

	Earnings (RM mn)		Earnings (%YoY)
	CY2015(E)	CY2016(F)	
SapuraKencana	941.49	1,170.50	24.3%
IHH Healthcare	945.55	1,155.59	22.2%
CIMB Group	3,705.31	4,508.06	21.7%
Sime Darby	2,320.48	2,772.75	19.5%
Astro	634.41	755.57	19.1%
KL Kepong	1,005.84	1,152.44	14.6%
UMW Holdings	752.00	861.38	14.5%
Westports	530.67	606.67	14.3%
Petronas Chemicals	2,707.36	3,060.81	13.1%
Genting Malaysia	1,394.60	1,549.30	11.1%
Genting	1,941.44	2,151.56	10.8%
Axiata	2,487.79	2,750.54	10.6%
Petronas Dagangan	730.63	807.25	10.5%
Telekom Malaysia	941.00	1,035.44	10.0%
Malayan Banking	6,920.26	7,540.83	9.0%
RHB Capital	2,062.90	2,239.10	8.5%
Public Bank	4,746.13	5,126.48	8.0%
Hong Leong Bank	2,203.62	2,375.79	7.8%
Hong Leong Financial	1,757.14	1,890.55	7.6%
Maxis	1,950.18	2,075.36	6.4%
MISC	2,160.58	2,273.08	5.2%
PPB	986.75	1,034.50	4.8%
Digi	2,025.75	2,110.07	4.2%
KLCCP Stapled	700.73	726.36	3.7%
Petronas Gas	1,803.00	1,844.73	2.3%
Tenaga	6,486.04	6,555.04	1.1%
BAT	938.06	947.88	1.0%
AMMB	1,737.84	1,723.48	-0.8%
YTL Corp	1,423.27	1,402.10	-1.5%
IOI Corp	1,505.76	1,339.59	-11.0%

Source: Bloomberg, MIDFR

Similarly, expect FBM KLCI to also escape the ongoing 'price recession'... It is notable that FBM KLCI trajectory since 2013 mimicked the underlying earnings performance. Hence the anticipated earnings growth recovery in 2016 may also see the benchmark similarly escaping the ongoing 'price recession'.

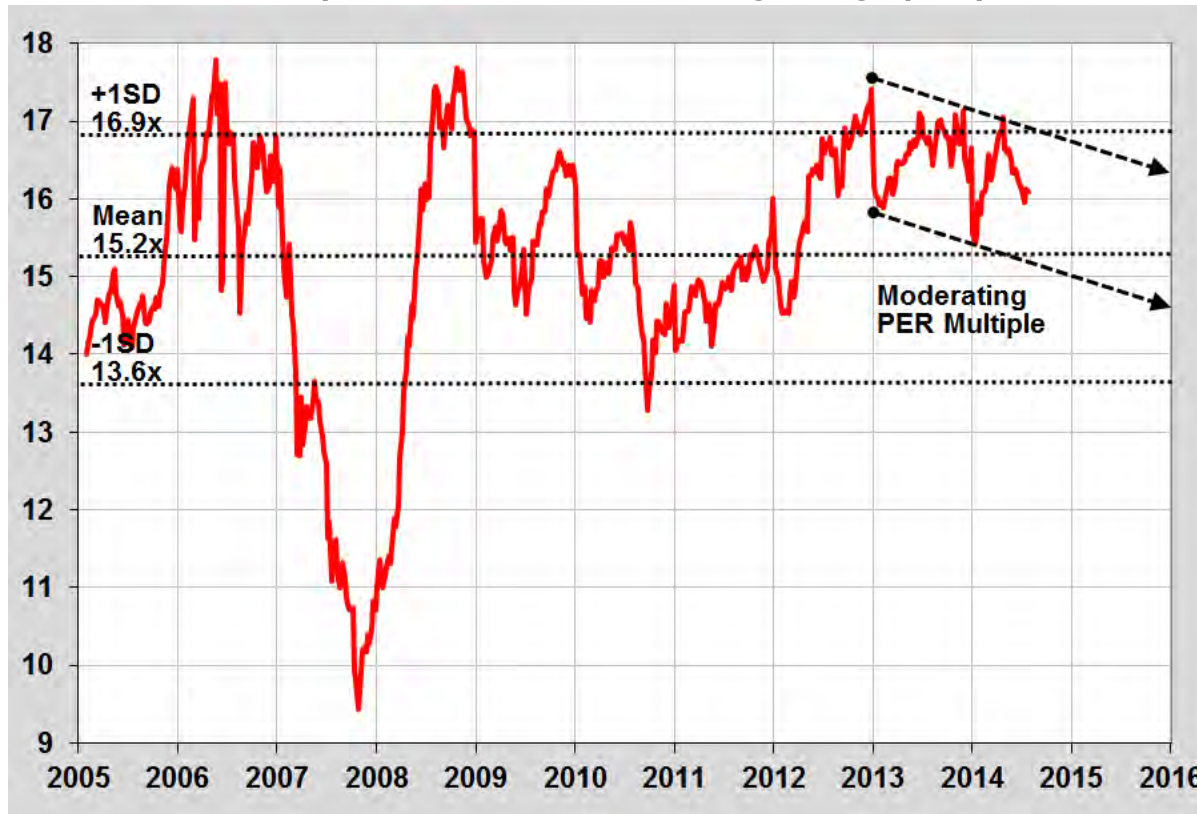
FBM KLCI 'price recession' since 2013 mimicked the underlying earnings performance



Source: Bloomberg, MIDFR

...albeit tepidly as forward valuation may be dragged by tightening liquidity. However, going forward, we expect ever tightening liquidity conditions pursuant to the unwinding of QE3 in last year and coupled with the prospect of US interest rate hikes beginning later this year. Thus, the pace of FBM KLCI price recovery may be restrained by the gradual moderation of its PER multiple.

FBM KLCI valuation may continue to moderate due to tightening liquidity conditions



Source: Bloomberg, MIDFR

Reiterate FBM KLCI year-end baseline target at 1,800 points. In all, we believe the returning of healthy forward earnings growth would counteract the impact of anticipated moderation in market valuation on the index price levels. Against this backdrop, we expect the upward secular trend of the equity market to remain intact into the foreseeable future. We reiterate our 2015 year-end baseline target to 1,800 points with upper and lower bounds of 1,850 points and 1,750 points respectively.



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.