

20 March 2015 | Strategy

Syed Muhammed Kifni | smkifni@midf.com.my

## PEG-based assessment

KLCI: 1,809.13

Among the major sectors in FBM KLCI

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

**Consensus expects a rebound in earnings growth next year.** As mentioned in our earlier Strategy report dated 12 March, the tepid earnings growth of last year may continue on into this year. This is evident by the prevailing consensus FBM KLCI earnings growth estimate of barely 2-percent for 2015. Nevertheless, the consensus FBM KLCI earnings growth rate for 2016 is expected to recover to more than 8-percent levels.

**The 5 major sectors.** The following five major sectors, namely (i) Banking, (ii) Telecommunication, (iii) Plantation, (iv) Oil & Gas, and (v) Utility make up more than four-fifth of the total market capitalization of FBM KLCI constituents. Hence the earnings prospects of these sectors will have material bearings on the overall forward earnings performance of the FBM KLCI.

### Forward earnings and growth forecasts of FBM KLCI constituents (As at 19 March 2015)

Sector (#)	Mkt Cap (RM mn)	FY15 Earn* (RM mn)	FY16 Earn* (RM mn)	FY15 PER (X)	FY16 Earn (YoY Chg)	PEG (X)
Banking (7)	291,767	23,384	25,399	12.48	8.6%	1.45
Telecom (4)	189,880	7,658	8,238	24.80	7.6%	3.27
Plantation (5)	137,124	6,214	7,146	22.07	15.0%	1.47
Oil & Gas (4)	120,085	6,614	7,107	18.15	7.4%	2.44
Utility(2)	99,475	7,855	8,018	12.66	2.1%	6.11
Others (8)	200,776	9,671	10,629	20.76	9.9%	2.10
<b>OVERALL (30)</b>	<b>1,039,105</b>	<b>61,397</b>	<b>66,537</b>	<b>16.92</b>	<b>8.4%</b>	<b>2.02</b>

Source: Bloomberg, MIDFR; (#) - No. of constituent, \* Consensus forecasts

**Growth and valuation.** As FBM KLCI is the recognised benchmark among many market participants, overweighting on its sectorial price outperformer may help in the quest to generate excess investment return. But in the pursuit to identify potential winners, it must however be noted that future earnings growth arguably explains only part of the prospective price picture while valuation considerations take up the remainder.

**Sectorial FY16 earnings growth.** In this Strategy report, we dissected the overall growth figure of FBM KLCI constituents for FY16 into its sectorial components. What we found out was that the sectorial earnings growth expectations mostly fall within  $\pm 1.5$ -ppts around the overall figure of 8.4%, excepting for two outlying sectors. As for the two outlying sectors, one is a growth outperformer while the other an underperformer. In this regard, as per the table above, Plantation sector is expected to register the highest FY16 earnings growth of 15.0%yoy. In contrast, earnings for Utility sector may inch up by merely 2.1%yoy in FY16.

**Current year PER multiple.** Insofar as the relative valuation of the major sectors is concerned, the current year price earnings ratio (PER) multiple paints a different picture. We observed that, unlike earnings growth, the sectorial multiples exhibit greater dispersion away from the overall PER of 16.9x, with only Oil & Gas sector trading at somewhat near parity to the overall market. Contrastingly, Banking and Utility sectors trade at substantially cheaper multiples of only circa 12x whereas the remaining sectors are in the twenties.

**Overweight decision based on PEG assessment.** Thus, price earnings growth (PEG) may provide the relative trade-off linkage between forward year earnings growth and current year PER multiple. On this score, the far right column of the table above lists the PEGs of overall FBM KLCI constituents as well as its major sectors. With 2.02x being the PEG of overall FBM KLCI, only Plantation and Banking sectors are cheaper at 1.47x and 1.45x respectively.

**Maintain FBM KLCI year-end 2015 target at 1,900 points.** Based on the recent FOMC statement, the US economic growth and inflation are now expected to be lower than previously estimated. Thus a plausible implication is that the US interest rate may not likely be raised so soon or at least a string of hikes is not forthcoming. This latest development could mean better days ahead for the ringgit. And by extension, the local equity market may benefit from favourable flows of foreign funds. 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. 

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.