

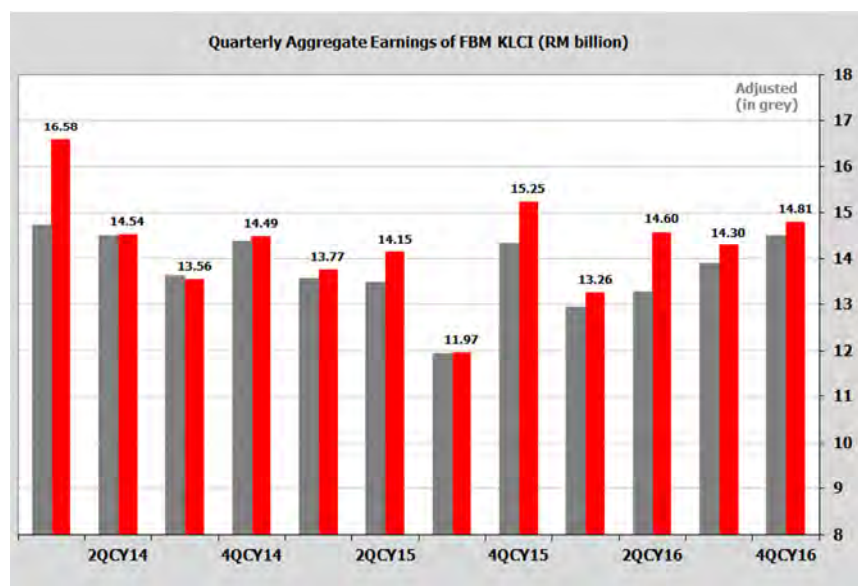
4QCY16: Earnings Preview

Inching up

KLCI: 1,707.59 points

2017 Year-end Target: 1,830 points

FBM KLCI reported earnings may grow +3.6%qoq but drop -2.9%yoy. For the quarter ended December 2016, the aggregate reported earnings of FBM KLCI current constituents is estimated at RM14.81b. Against the combined RM14.30b earnings reported in preceding quarter, it is expected to record a positive sequential growth of +3.6%qoq in 4QCY16. On the other hand, the on-year reported growth figure is estimated to drop by -2.9%yoy.



4QCY16 aggregate adjusted earnings is estimated at RM14.50b

Source: Bloomberg, MIDFR

FBM KLCI adjusted earnings may rise +4.3%qoq and +1.1%yoy. Nevertheless, adjusted for extraordinary and non-recurring items, the on-quarter growth may be slightly higher at +4.3%qoq in 4QCY16. Moreover, the adjusted on-year growth number may post an increase of +1.1%yoy, markedly muted compared to the +16.5%yoy adjusted growth performance of the prior quarter.


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

Sector (#)	4QCY16*	3QCY16	QoQ	4QCY15	YoY
Banking (7)	5,737.87	5,712.48	0.4%	5,320.98	7.8%
Utility (2)	1,895.50	1,891.14	0.2%	2,210.75	-14.3%
Telecommunication (4)	1,221.43	1,354.57	-9.8%	1,514.40	-19.3%
Plantation (4)	1,573.46	1,155.89	36.1%	1,545.80	1.8%
Oil & Gas (3)	1,519.21	1,551.58	-2.1%	1,214.69	25.1%
Gaming (2)	1,260.37	939.30	34.2%	815.32	54.6%
Transportation (2)	501.17	387.72	29.3%	945.07	-47.0%
Healthcare (1)	227.80	173.38	31.4%	323.50	-29.6%
Construction (1)	163.67	163.77	-0.1%	151.56	8.0%
Tobacco (1)	150.00	208.56	-28.1%	194.48	-22.9%
REIT (1)	13.62	65.26	-79.1%	-77.96	-117.5%
Media (1)	162.48	125.50	29.5%	106.00	53.3%
Diversified (1)	76.65	171.00	-55.2%	79.14	-3.1%
Overall (30)	14,503.23	13,900.16	4.3%	14,343.72	1.1%

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

Positive adjusted on-year and sequential growth performance for Banking and Plantation. Among the FBM KLCI's high-weighted sectors, i.e. Banking, Utility, Telecommunication, Oil & Gas and Plantation, we are anticipating positive on-year adjusted earnings growth performance for Banking, Plantation and Oil & Gas in 4QCY16. On the other hand, the aggregate adjusted earnings of Utility and Telecommunication constituents are expected to report sizable decline in their on-year growth. On the other hand, Banking, Plantation and Utility sectors are expected to register higher sequential growth during the quarter under review.

- **Banking.** We expect the positive year-on-year growth of banks' earnings in 4QCY16 coming from: (1) tight control of OPEX, and (2) lower provisions due to bulk of impairment done in 1HCY16 and on possible write backs on some of the performing loans accounts that was rescheduled and restructured either last year or at the start of CY16. We could also see better recoveries. Our top pick is CIMB (TP: RM5.90) as its asset quality remains solid and improving, operational income is expected to continue to grow and cost to be rationalised further. Our other BUY calls are Public Bank (TP: RM22.60), Hong Leong Bank (TP: RM15.00) and Affin Holdings Bhd (TP: RM2.85).
- **Utility.** The sequential earnings growth is largely driven by: (1) Still solid growth in demand mainly coming from the commercial and consumer sectors despite a slight decline from the industrial segment, (2) Stable average tariffs (3) Lower LNG uptake as Tenaga managed to squeeze out additional contribution from coal. There is also a 2-3 months lag impact from the uptick in spot coal price seen in the most part of 4QCY16. We maintain our BUY call on TNB with unchanged TP of RM16.80.
- **Telecommunication.** The expected decline in telecommunication was mainly attributable to the expected decline in Axiata Group Bhd's earnings. This is mainly brought about by our concern on Celcom's outlook. Intense price competition is expected to lead to further erosion in average revenue per user (ARPU). The price war will also negatively impact its subscriber base as subscribers switch to other mobile operators who are agile and more competitive.
- **Oil & Gas.** We are expecting the three oil and gas constituent stocks to register a year-over-year growth in 4QCY16. We are expecting Petronas Dagangan's earnings to nearly double in 4QCY16 from a year earlier as the previous preceding quarter experienced low average selling prices in relation with the cost of sales. In addition, we are also expecting higher plant utilisation rate for Petronas Chemicals in 4QCY16 which should provide higher earnings compared with that of 4QCY15. As for Petronas Gas, higher take up rate along with higher demand is expected to buoy earnings in 4QCY16 into FY17.
- **Plantation.** 4QCY16 average CPO price of RM2935/MT was higher by 13%qoq and 36%yoy hence is likely to result in better earnings for plantation companies both qoq and yoy. Although production declined yoy due to the lagged impact of Strong El Nino, the sensitivity of earnings to CPO price is usually higher than FFB production. Our top pick is KLK (TP: RM29.25) as it is expected to benefit significantly from high CPO price as 64% of earnings contribution came from upstream plantation division.

Reiterate FBM KLCI year-end 2017 target at 1,830 points. We restate our assertion that empirical observations between earnings and price are conclusive with regard to the nature of their secular direct relationship. This is despite the ever present 'noises' from short-term price volatility which is influenced by market sentiment and other situational issues. Basing on the expectation of further earnings recovery this year, we reiterate our 2017 FBM KLCI target at 1,830 points. The baseline target equates to PER17 of 17.1x. 

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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.