4 September 2023

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended June 2023

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Strategy Team
research@midf.com.my

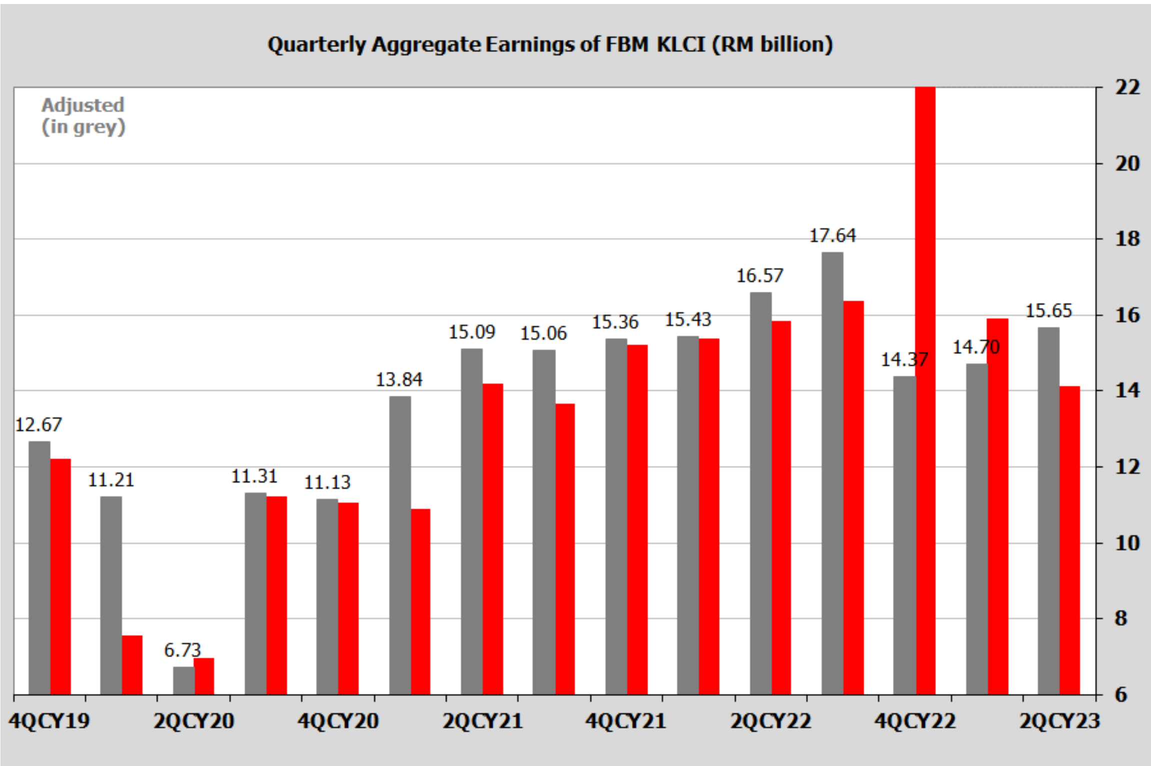
4 September 2023 | Earnings Wrap

Muted

- *In 2QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM14.1b. It slumped sequentially at -11.1%qoq and against the corresponding quarter last year at -10.8%yoy.*
- *On adjusted basis, the aggregate 2QCY23 normalized earnings of FBM KLCI 30 current constituents risen sequentially at +6.5%qoq but declined on-year at -5.6%yoy to RM15.6b.*
- *Within MIDFR Universe, 13% of stocks under coverage reported higher than expected earnings. Moreover, 36% posted earnings that were lower than expected versus 51% which came within expectations. Target price changes involved 23 upward adjustments and 30 downward adjustments. Furthermore, we made 10 changes to our stock recommendations with 0 upgrades and 12 downgrades.*
- *The aggregate FY2023(E) and FY2024(F) earnings of the FBM KLCI constituents under our coverage were both cut by -7.2% to RM60.3b and -3.2% to RM65.3b respectively. Likewise, the aggregate FY2023(E) and FY2024(F) earnings of the stocks under MIDFR Universe were both cut by -6.2% to RM77.3b and -3.3% to RM84.9b respectively.*
- *Nonetheless, we maintain both our end-2023 FBM KLCI and FBM70 targets at 1,540 and 14,500 points respectively due to (i) increasingly positive market sentiment engendered by the likely cessation of further Fed rate hike, and supported by (ii) still attractive FBM KLCI and undemanding FBM70 valuations.*

FBM KLCI

In 2QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM14.1b. It registered negative sequential growth at -11.1%qoq and on-year at -10.8%yoy.



Source: Bloomberg, MIDFR

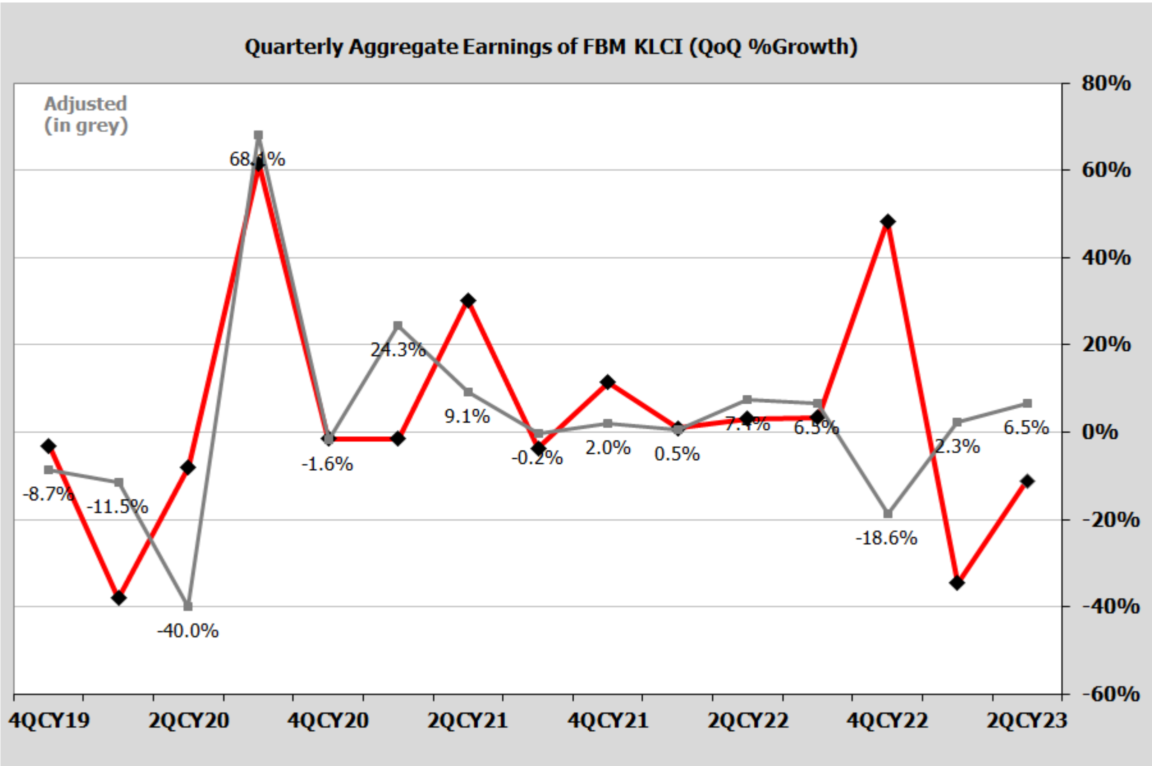
After adjusting for non-operational/recurrence items incurred during the review quarter (primarily non-ordinary losses totalling -RM620m by Axiata and -RM454m by Tenaga Nasional), the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM15.6b in 2QCY23. Moreover, after neutralizing the extraordinary items during relevant quarters (2QCY23: -1.52b, 1QCY23: 1.21b, 2QCY22: -RM726m), the aggregate normalized growth in 2QCY23 risen sequentially at 6.5%qoq but declined on-year at -5.6%yoy.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	2QCY23	1QCY23	QoQ	2QCY22	YoY
CONSUMER P&S	1,701.82	1,453.03	17.1%	1,774.71	-4.1%
ENERGY	126.80	130.84	-3.1%	118.20	7.3%
FINANCIAL SERVICES	8,417.00	8,456.00	-0.5%	7,236.18	16.3%
HEALTHCARE	315.00	329.90	-4.5%	317.50	-0.8%
INDUSTRIAL P&S	939.58	821.80	14.3%	2,284.46	-58.9%
PLANTATION	802.50	459.00	74.8%	1,962.20	-59.1%
TELCO & MEDIA	1,465.70	1,045.66	40.2%	1,323.30	10.8%
TRANSPORT & LOGISTICS	612.80	601.16	1.9%	50.10	1123.2%
UTILITIES	1,266.80	1,398.40	-9.4%	1,506.00	-15.9%
TOTAL	**15,648.00**	**14,695.80**	**6.5%**	**16,572.66**	**-5.6%**

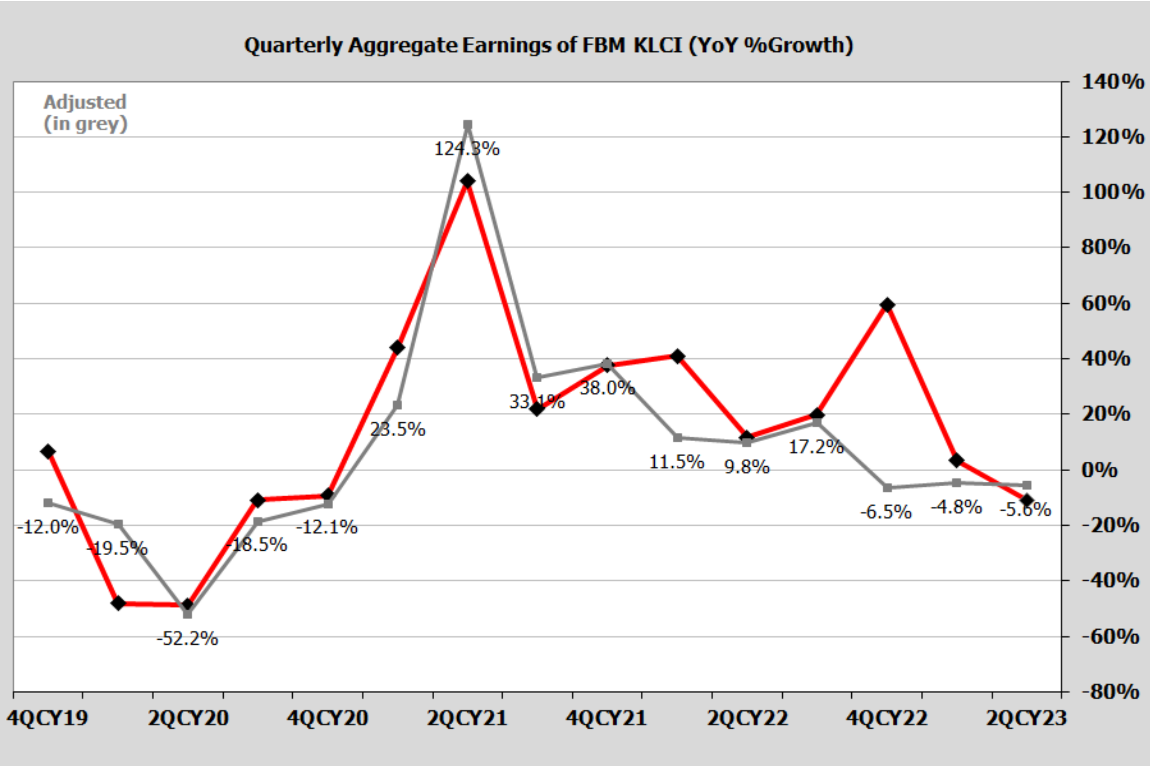
Source: Bloomberg, MIDFR

The positive quarter-on-quarter normalized growth performance in 2QCY23 was mainly contributed by earnings improvement among its Telco & Media (CelcomDigi and Telekom Malaysia), Plantation (Sime Darby Plantation), Industrial P&S (Petronas Chemicals), and Consumer P&S (Mr. DIY, Genting, and Sime Darby) constituents.



Source: Bloomberg, MIDFR

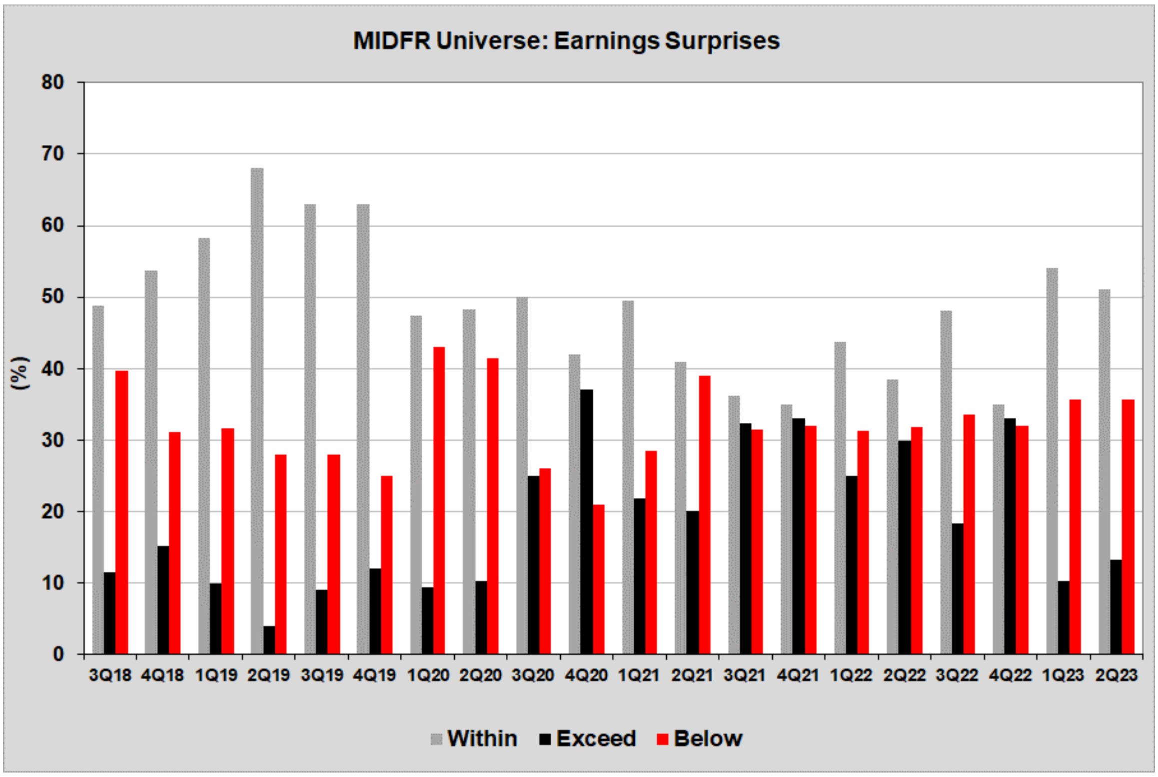
On the other hand, the negative on-year normalized growth performance in 2QCY23 was mainly contributed by earnings diminution among its Industrial P&S (Petronas Chemicals and Press Metal), Plantation (IOI Corp, KL Kepong, and Sime Darby Plantation), and Utilities (Tenaga Nasional) constituents. Nonetheless, the decline was moderated by the on-year improvement particularly among the Financial Services (CIMB, Maybank, Public Bank, and RHB Bank) as well as the Transport & Logistics (MISC and Westports) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations improved to 13% in 2QCY23 as compared to 10% in the prior quarter. Meanwhile, the percentage of negative surprises was unchanged from the prior quarter at 36% in 2QCY23.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation declined to 51% in 2QCY23 from 54% in the prior quarter. Moreover, Telco & Media and Utilities sectors recorded the highest percentage of positive surprises with each at 33% of stocks under our coverage. Meanwhile, Healthcare sector registered the biggest percentage of underperformers at 83% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	29%	0%	71%
CONSUMER PRODUCTS & SERVICES	50%	28%	22%
ENERGY	25%	0%	75%
FINANCIAL SERVICES	100%	0%	0%
HEALTH CARE	17%	0%	83%
INDUSTRIAL PRODUCTS & SERVICES	40%	20%	40%
PLANTATION	38%	0%	63%
PROPERTY	57%	14%	29%
REITS	83%	0%	17%
TECHNOLOGY	50%	17%	33%
TELECOMMUNICATIONS & MEDIA	33%	33%	33%
TRANSPORTATION & LOGISTICS	43%	14%	43%
UTILITIES	50%	33%	17%
TOTAL	**51%**	**13%**	**36%**

Source: MIDFR

In total, we made 12 changes to our stock recommendations with 0 upgrade and 12 downgrades. Furthermore, target price changes involved 23 upward against 30 downward adjustments.

In 2QCY23, the aggregate reported earnings of companies under MIDFR Universe came in at RM18.5b. It recorded slight decline both on-year and on-quarter at -1.7%yoy and -1.3%qoq respectively.

MIDFR Universe: Sectoral Quarterly Net Profit (as reported, RM Million)

	YoY (%)	QoQ (%)	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20
CONSTRUCTION	1.0	51.5	374	247	1,304	317	371	250	373	865	253	419	26	97
CONSUMER P&S	236.7	71.2	2,580	1,507	1,615	782	766	203	642	-166	91	625	-1,320	265
ENERGY	(139.8)	(138.7)	-133	344	379	303	335	330	149	258	246	200	265	244
FINANCIAL SERV	13.9	(0.2)	8,984	9,000	8,817	9,256	7,890	7,663	7,231	5,959	7,483	4,352	5,261	6,172
HEALTH CARE	(78.6)	(82.8)	164	953	-584	296	766	501	1,199	2,640	5,843	5,420	4,336	2,394
INDUSTRIAL P&S	(57.7)	14.2	894	783	738	2,216	2,113	2,309	4,599	2,085	1,984	1,605	703	660
PLANTATION	(76.6)	6.9	629	589	2,178	1,721	2,689	2,406	2,381	2,206	2,347	1,568	1,136	961
PROPERTY	(10.4)	44.3	480	333	619	863	536	215	475	183	251	206	326	174
REITS	1.2	(11.2)	335	377	588	474	331	365	287	179	182	198	-47	234
TECHNOLOGY	(45.5)	14.3	229	200	278	372	419	279	303	262	251	237	274	232
TELCO & MEDIA	(26.2)	(37.2)	691	1,101	10,439	898	936	964	924	1,354	1,291	1,173	786	1,514
TRANSP & LOGIS	532.4	(12.5)	776	887	1,296	1,008	123	472	563	452	501	412	30	143
UTILITIES	59.9	2.8	2,534	2,466	1,686	1,630	1,585	2,827	1,426	1,796	433	1,673	1,945	1,745
TOTAL	**(1.7)**	**(1.3)**	18,537	18,787	29,352	20,137	18,860	18,784	20,552	18,071	21,155	18,089	13,722	14,837

Source: MIDFR

Construction, Consumer and Utilities were the sectors which recorded improved total earnings (as reported) in 2QCY23 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Energy, Healthcare and Telco & Media were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 2QCY23.

Sectoral commentary

Construction: The first half of 2023 saw a rather mixed performance among construction players, with four posting stronger bottom lines while six others came in weaker. Similar to 1QCY23, some contractors reported a slower period as compared to a year ago as the active projects currently undertaken were still at initial stages, hence the lower top and bottom-line recognitions. Building material prices were also a factor for some contractors, which still remained elevated compared to pre-pandemic levels. While average prices of steel bars began softening in May-23 in line with the decline in steel and iron ore prices, average prices of cement have risen eight consecutive months until Jun-23 before coming off slightly in Jul-23. Meanwhile, the Department of Statistics Malaysia (DOSM) recorded RM32.4b, an improvement of +8.1%yoy. This was driven by civil engineering (37.4%), non-residential buildings (30.7%), residential buildings (22.7%) and special trade activities (9.2%). Ten out of the 11 construction companies under our coverage announced their quarterly/half-year results ending Jun-23 (Gamuda's announcement is next month). Out of these, only Malayan Cement (BUY, TP: RM4.50) came in above expectations while IJM Corp (BUY, TP: RM2.11) and KKB Engineering (BUY, TP: RM1.58) came in within expectations. The other seven companies came in below expectations. We opine that two mega projects that will give the construction sector a jolt in the near term would be the impending rollout of the RM45b MRT3, which has been delayed since Dec-22 for cost review and the Penang LRT project. Contractors are also upbeat on future prospects, with job flows expected from data centres, logistic warehouses and semiconductor plants. We remain POSITIVE on the construction sector, with our top picks being Gamuda (BUY, TP: RM5.04), IJM Corp (BUY, TP: RM2.11), Sunway Construction (BUY, TP: RM2.09) and Malayan Cement (BUY, TP: RM4.50).

Consumer (Retail, F&B): Mostly within expectation with 7 out of the 10 companies under our coverage met our earnings projections. These companies were primarily consumer staple related, including Nestle Malaysia, QL Resources, Frasers and Neave, Hup Seng Industries, Leong Hup International, Spritzer, and Aeon Co. In 2QCY23, we observed that F&B and poultry companies reported decreased raw material costs, due to the recent drop in most global commodities prices, which are now below their two-year peak levels. This had boosted the profit margins, in addition to several price hikes implemented in the past 1 year. Meanwhile, two consumer discretionary companies, Padini Holdings and Rhong Khen International, exceeded our expectation. Padini's higher-than-expected earnings was primarily driven by lower-than-anticipated material costs and selling & distribution expenses (normalized freight charges). Rhong Khen's better-than-expected results was mainly due to higher revenue and lower manufacturing costs, thanks to increased production output, which lowered the cost per unit. Conversely, Asia File's earnings fell below expectation, mainly due to lower-than-anticipated revenue resulting from weaker demand for files and consumer & foodware products.

Looking forward, we remain bullish on consumer staple-related companies and so maintain an optimistic outlook for the consumer sector, underpinned by: (1) a defensive play due to the resilient demand for staple-related products (2) solid domestic consumption ahead, supported by a stable labour market, robust retail trade, and increased tourism activities, and (3) better profit margins for F&B producers driven by falling global commodity prices and previous price hikes, offsetting other cost pressures. We also anticipate steady demand for Padini's products due to their moderate prices, along with lower material costs and normalized freight costs, all of which could benefit the company. On the flip side, we anticipate that the outlook for discretionary companies like Rhong Khen and Asia File will remain gloomy due to concerns in the global economy that have slowed business activity and the demand for discretionary goods. Note that both Rhong Khen and Asia File are export-oriented companies.

Financial Services: Overall, earnings were roughly in line with expectations. The big story this time was NIM compression being steeper than initially guided for in the past results season. Several banks have revised their NIM guidance downward (or missed their NIM target) as a result. 2HCY23 outlook is a bit more positive, though banks are worried about year-end deposit competition effects. Banks with foreign exposures have it a little mixed but the general consensus is that SG exposures should see NIM compression, while IND exposures should see some improvement in the 2H.

Domestic loan growth was weak in the quarter (as was the previous quarter), but banks with significant overseas exposure did fare well in this respect. Most banks are guiding for a strong 2HCY23 pipeline of corporate loans to pad out its loan growth targets. Favourites were personal financing and credit card loans, which saw good take-up due to its higher interest yields. Deposits, on the other hand, did see a fair amount of attrition by certain companies. This was part of a NIM optimisation strategy, where pricier, long-tenured deposits would mature and not be renewed. 3QCY23 should see more normalised growth figures. As of now the market seems to be flushed with liquidity, with most banks boasting still-elevated levels of LCR.

Asset quality outlook was mixed as most banks had its overall GIL ratio under control but there have been notable upticks in residential mortgages and SMEs, particularly for loans that have just exit repayment assistance (RA) programmes. Some banks were beginning to see pressure from non-RA programme loans, which we believe will be exacerbated as delinquencies stemming from the May-23 OPR hike start to be reflected. We believe 2HCY23 may be a tough period for credit costs, though this has not been specifically alluded to by banks. There had been significant writeoffs, though overlay writeback has been relatively minimal (except in the case of RHB, which may have been used to buoy ROE targets) – with most banks either opting to reallocate such overlays or retain them in light of poorer macroeconomic conditions.

NOII performance was split as some banks saw vast improvements in treasury gains whereas some saw the exact opposite. Fee income was flattish and still moderate. Lastly, OPEX performance was mixed, though skewed towards the heavier side, as one-offs pertaining to the Collective Agreement (and higher tech spend) continue to push OPEX year-on-year growth to double-digit-levels.

Healthcare (Gloves): All glove manufacturers reported a wider-than-expected net loss in 2QCY23. This was mainly due to higher-than-expected input costs, driven by low utilization rates that increased production costs per unit. Despite attempts by Top Glove and Hartalega to raise ASP during this quarter, these efforts were unsuccessful, causing a decline in sales volume as customers shifted to other suppliers offering lower prices. Throughout the quarter, all glove manufacturers within our coverage had temporarily or permanently closed down inefficient production lines. While this move may eventually help bridge the cost gap between local and Chinese glove manufacturers, we believe that it is insufficient in the face of intense competition with Chinese glovemakers. Also, the recent decrease in global coal prices has given Chinese glovemakers a more significant cost advantage, likely enabling them to further lower ASP for a greater market share. Overall, given the ongoing oversupply, normalizing demand post-pandemic, and intense competition from Chinese manufacturers, we maintain a negative outlook on the glove sector. Hence, we are now expecting companies to experience losses for the next 2 quarters before reaching a break-even point due to the continuous margin compression and oversupply situation.

Plantation: For the 2QCY23, planter performance under our coverage was mixed with 4 companies performing within expectations and 5 falling short. The total declined in earnings was in line with consolidation of average CPO price realized, which hovered around RM3,331-4,293/Mt levels. In 2QCY23, the average selling price (ASP) of CPO plummeted significantly from 2QCY22's RM6,552/Mt to RM3,846/Mt (-3.8%qoq, -41.3%yoy). FGVH, KLK, Genting Plantations, TSH and IOI Corp were a some of the companies that produced results that fell short of our expectations. The variation was mostly caused by decreased operating profit in the plantation segment due to lower CPO prices realised and output (on poor seasonality months) combined with high fixed and upkeeping costs incurred.

The softening demand for oleochemical and biodiesel products, on the other hand, has had a significant negative effect on Oleo refineries operational profit (in fact, some refineries run with negative margins). Other than that, it appears that even though the issue of a labour shortage has been mostly handled, most planters still had to deal with freshly hired workers or harvesters which took anywhere from 6 to 12 months to become competent in harvesting activities.

As a result, we pared our sector profits forecasts for FY23E/FY24F by -20%yoy/-12%yoy to RM5.7b/RM5.1b from RM7.2b/RM5.8b respectively, due to the disappointing performance that was reported. Weaker estimates were pulled down by lower earnings revisions for PPB (lower contribution from Wilmar) and KLK, which carried considerable weightage in our sector universe.

The sector's downside risks are remains (i) consolidation of CPO prices on reduction of domestic sales obligations (DMO), (ii) reduced spread between CPO and SBO, which has since fallen to an average of USD89.7/Mt (-68.1%qoq) from $281.3 in 1QCY23; (iii) the weakening of the ringgit (which reduced the price of CPO's competitiveness to compete with other vegetable oils); (v) high cost of production (RM2,800-3,100Mt; 1QCY23: RM2,500-2,900/Mt); and (vi) slower consumption on palm oil products (Oleochemical and biodiesel) owing tight spending in high interest environments.

Looking ahead, we maintain NEUTRAL call on the sector with average CPO price of RM3,500/Mt. Our top picks are KLK (BUY, TP: RM24.60). With the consolidation of CPO prices, we expect its downstream business will continue to operate as a safety net against any possible downside risk from plantation segment, hence minimizing earnings instability Aside that, we just downgraded FGVH to SELL call w TP of RM1.06 (previously RM1.38) as we opine FGV's outlook remains unstable, and the share price rally for the past few months more skewed to technical rally in anticipation of higher contribution coming from MSM subsegment.

Property: For the recently concluded 2QCY23 earnings reporting season, most of the property companies reported earnings that were within expectations except for IOI Properties Group reported earnings that fell short of expectations. Notably, IOI Properties Group saw earnings dragged by lower margin as a result of higher cost. On new property sales front, most of the property companies reported new sales that were on track to meet management sales target. New property sales of property companies are expected to be marginally better going forward due to better buying sentiment and pause of OPR hike by Bank Negara Malaysia. The improving property sales coupled with pick up in progress billing as labour issue resolved should underpin earnings outlook for property developers. Overall, property market is on marginal recovery with lower residential overhang and improving property market in Johor with upcoming RTS that links Johor Bahru and Singapore. We maintain our NEUTRAL with positive bias call on property sector.

REITs: Most of the REIT under our coverage reported earnings that were within expectation except for Al-`Aqar Healthcare REIT which reported earnings that missed expectations. Earnings of Al-`Aqar Healthcare REIT came in weaker than expected mainly due to higher trust expenditure in 2QCY23. Meanwhile, most of the REIT with exposure to retail assets saw higher earnings contribution from retail assets especially malls in strategic location. The better performance of retail segment was driven by higher shopper footfall and improved tenant sales that supported rental reversion in positive territory. Nevertheless, earnings growth was partly negated by higher cost particularly higher utilities cost. Looking ahead, we see that earnings of REIT to remain stable with positive growth going forward as rental reversion is expected to remain in positive territory. Besides, risk of higher borrowing cost is low as Bank Negara Malaysia paused rate hike. In a nutshell, we maintain our Positive stance on the sector.

Technology: Generally, semiconductor companies came in within our expectation except for Unisem. As expected, the slowdown in demand has impacted the financial performance of semiconductor companies, leading to profitability on a year-over-year basis. Meanwhile, on a sequential basis, we have yet to see a strong recovery.

Comparatively, we opine that Inari outperformed its peers due to a lower rate of earnings contraction. We believe this was mainly due to the management's business acumen in selecting which supply chain to be in. Note that such performance was also seen in 1QCY23. This, in our view, has been reflected in the share price performance which has increased by 20.2% on a year-to-date basis. Nonetheless, the group may experience power disruption in 2HCY23 which may temporarily interrupt its production activities. Premised on this, we have downgraded the stock to NEUTRAL.

On another note, we suspect both Globetronics and D&O Green Technologies (DOGT) were running at breakeven utilisation rate in 2QCY23 as seen in its earnings performance. Despite this, we only have SELL recommendation on Globetronics as we expect the earnings recovery to remain tepid in 2HCY23. Meanwhile, we expect a better earnings recovery for DOGT in the second half of the year, especially in 4QCY23.

Last but not least, Unisem's 2QCY23 financial performance came in below our expectation, premised on slower-than-expected earnings recovery. Unisem's product portfolio was more diverse as compared to its peers which may partially explain the underperformance. The recovery could only pick up pace in CY24, in-line with the global trend.

Moving away from the semiconductor industry, both Myeg and Datasonic recorded commendable earnings growth on a year-over-year basis at +25.9%yoy and +58.2%yoy. This was mainly supported by the better demand for their products and services. Nonetheless, between the two, we favour Myeg as we expect the upcoming launch of the cross-border trade facilitation services with China and the Philippines will translate into further earnings upside potential. In the meantime, we detected some weakness in Datasonic quarterly performance. We do not discount the possibility that demand could potentially plateau after a surge in demand is seen in FY23. This has prompted us to downgrade Datasonic to NEUTRAL from BUY previously.

Telecommunications: There was a mix of performance for telecommunication companies under our coverage. In this quarter-in-review, we gathered that the financial performance of both Celcomdigi and Telekom Malaysia stood out among its peers. The quarterly earnings performance surpassed our expectations at 62.4% and 72.2% of our full year earnings estimates respectively. This was primarily due to lower operating cost and/or favourable taxation while revenue remained relatively resilient. Nevertheless, Celcomdigi was only our BUY recommendation in the sector as it stands to benefit from procurement synergies post the merger.

Meanwhile, Maxis' 2QCY23 financial performance came in within our expectation, making up 52% of our full year's earnings estimates. The group also benefited from a lower effective tax rate. Notably, from the revenue perspective, Maxis' revenue growth rate outperformed its peers, driven by its postpaid and connectivity segment. However, there are concerns on the cost front emanating from the depreciation and amortisation as well as the finance cost.

On the other hand, only Axiata's 2QCY23 performance was appalling. This led to 1HFY23 earnings made up only 16% of full year earnings estimates. The group suffers greatly from the consolidation of Celcom. In addition, there have yet been other operating companies that can replace the void left by Celcom.

Transport & Logistics (Aviation): The aviation sector reported a mixed performance in 2QFY23, as MAHB met expectations, whereas Capital A fell short of them. Nonetheless, the overall passenger traffic has shown a commendable recovery, maintaining a healthy load factor of >80%. The primary challenge stemmed from seat capacity limitations resulted from reduced aircraft availability due to: (i) operational adjustments during the pandemic and (ii) long queues at the MRO facilities caused by shortages of components. Capital A has also recently adjusted its full fleet reactivation timeline, pushing it from the initially planned Aug-23 to Dec-23. Furthermore, the China's sector recovery is still at an early stage. As of Jun-23, both passenger movements and seat capacity filings have only attained 40% of the levels seen in FY19. However, MAHB expects the seat capacity will make further progress, reaching around 60% by year-end.

Transport & Logistics (Logistics): The logistics players within our coverage reported weaker-than-expected results in 2QFY23. This was mainly attributed to a reduction in shipping volume, exacerbated by inflationary pressures impacting on its operational expenses. Some of these players may not have been able to fully transfer these increased costs to their customers. Given the prevailing macroeconomic challenges, we maintain a cautious stance on their earnings prospects, as these challenges have the potential to impact the demand for their transportation and warehousing businesses.

Transport & Logistics (Port): Meanwhile, results from the port players under our coverage were a mix, with Suria Capital surpassing expectations and Westports meeting them. For Port Klang, the significant expansion in container throughput was largely driven by a rise in empty container boxes, primarily linked to repositioning initiatives towards China. However, when excluding this factor, the transshipment container throughput, which forms the major share of Westports' operations (>70%), experienced a decline due to the deceleration in global trade. Meanwhile, the performance of Suria Capital remained relatively stable, largely due to its stronger reliance on commodities. Notably, Sabah's palm oil exports mirrored its production growth, exhibiting double-digit expansion in 7MCY23.

Outperformer versus underperformer

In comparison to preceding quarter, there was an increase in the number of outperformers among the FBM KLCI constituents under our coverage in 2QCY23 from 1 to 3. Nonetheless, the number of underperformers likewise increased from 5 to 6.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
2QCY23	3	6
1QCY23	1	5
4QCY22	4	9
3QCY22	5	9
2QCY22	7	10

Source: MIDFR

In 2QCY23, the outperformers among FBM KLCI constituents under our coverage comprised of two telcos namely CelcomDigi and Telekom Malaysia, as well as Petronas Dagangan. Meanwhile, the underperformers comprised of two plantation companies namely IOI Corp and KL Kepong, as well as Axiata, IHH, Petronas Chemicals and Tenaga Nasional.

Earnings revision/ variation

The aggregate FY2023(E) and FY2024(F) earnings of the FBM KLCI constituents under our coverage were both cut by -RM4.7b (-7.2%) to RM60.3b and -RM2.1b (-3.2%) to RM65.3b respectively.

The lower aggregate figure for FY2023(E) were mainly contributed by downward revisions to forward earnings of Industrial P&S (Petronas Chemicals), Utilities (Tenaga Nasional), Telco & Media (Axiata) and Plantation (IOI Corp and KL Kepong) constituents. Moreover, the lower aggregate figure for FY2024(F) were mainly contributed by downward revisions to forward earnings of Industrial P&S (Petronas Chemicals), Financial Services (Hong Leong Bank, HLFG, and RHB Bank) and Telco & Media (Axiata) constituents.

FBM KLCI Constituents: Earnings Revision/Variation (RM million)

SECTOR	Stocks	FY2023 (E)	FY2024 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	-335	-25
ENERGY	Dialog	-81	141
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	-248	-641
HEALTHCARE	IHH Health	91	88
INDUSTRIAL P&S	Petronas Chemicals	-2,087	-1,846
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	-613	538
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	-648	-468
TRANSPORT & LOGISTICS	MISC, Westports	-68	-79
UTILITIES	TNB, Petronas Gas	-670	151
TOTAL		**-4,659**	**-2,141**

Source: MIDFR

Similarly, the aggregate FY2023(E) and FY2024(F) earnings of the stocks under MIDFR Universe were both cut by -RM5.1b (-6.2%) to RM77.3b and -RM2.9b (-3.3%) to RM84.9b respectively.

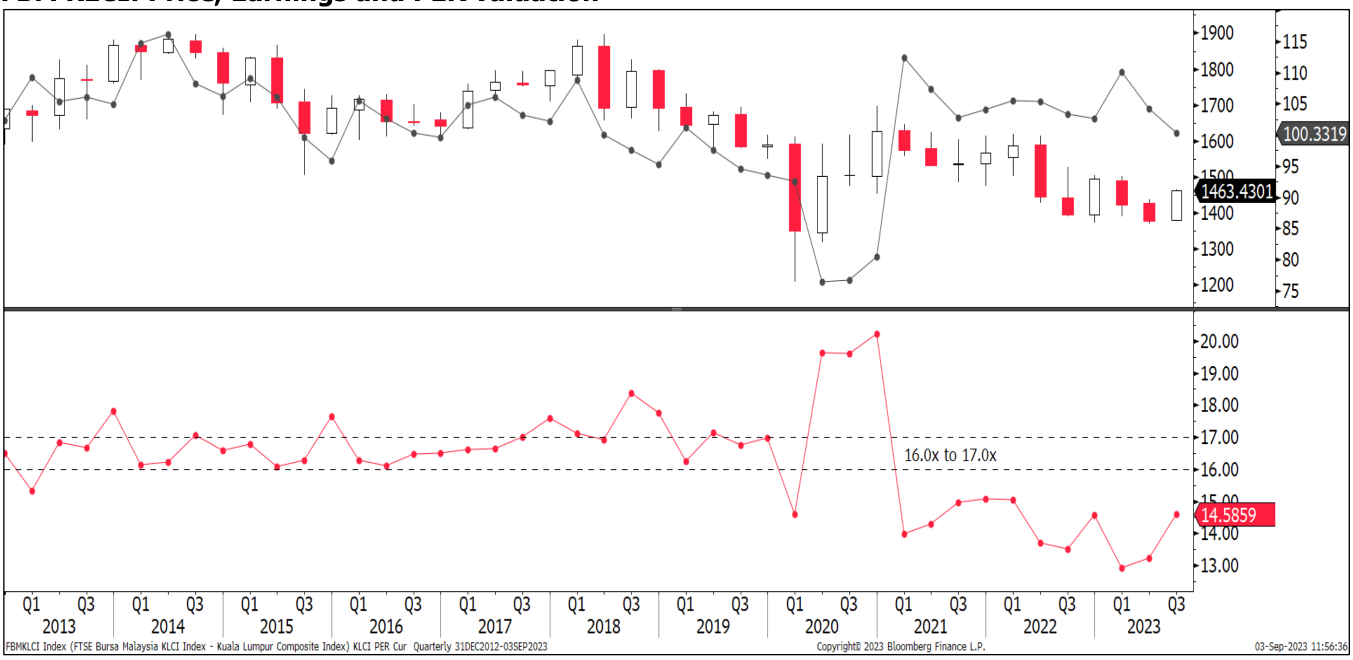
Refer to Appendix for further details.

Outlook

Post-2QCY23 earnings season, the consensus EPS23 estimates for FBM KLCI and FBM70 now stand 100.3 points and 756.6 points respectively. They are both down from the post-1QCY23 respective forecasts of 104.3 points and 829.4 points.

Despite the latest earnings cut, the prevailing valuation of FBM KLCI (which represents large-cap stocks) remains attractive at 14.6x vis-à-vis its historical range of 16.0x to 17.0x. Moreover, the valuation of FBM70 (which represents mid-cap stocks) remains undemanding at 18.9x vis-à-vis its historical range of 15.0x to 19.0x.

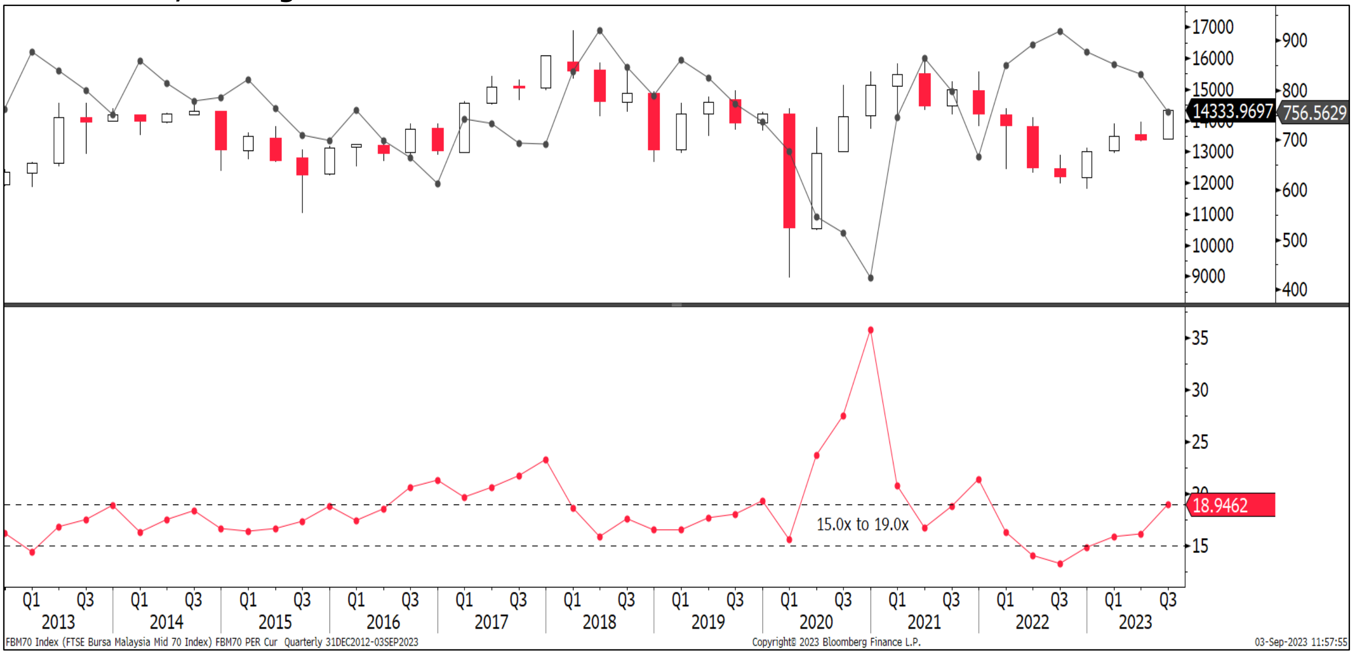
FBM KLCI: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G658)

Going forward, we expect FBM KLCI to tread higher due to (i) the increasingly positive market sentiment engendered by the likely cessation of further Fed rate hike, and (ii) its relatively attractive valuation buttressed by Malaysia's general macro growth. Hence, we maintain our **FBM KLCI end-2023 target at 1,540 points** or PER23 of 15.3x.

FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G715)

Likewise, we expect the valuation of FBM70 to improve further supported by Malaysia's macro growth as well as the looming end of interest rate tightening cycle. It is notable that when compared to the large-caps, the mid-cap stocks performed better thus far this year both in terms of valuation and year-to-date price return. We maintain **our FBM70 end-2023 target at 14,500 points** or PER23 of 19.2x.

APPENDIX

MIDFR: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS *(% Chg)*	
	FY2023 (E)		FY2024 (F)		FY2023	FY2024
	Old	New	Old	New		
TOTAL (MIDFR Universe)	82,469.2	77,344.0	87,731.8	84,868.8	*(6.2)*	*(3.3)*
Annual % Change	*8.1*	*1.4*	*6.4*	*9.7*		
TOTAL (FBM KLCI)*	64,989.8	60,330.7	67,421.1	65,280.5	*(7.2)*	*(3.2)*
Annual % Change	*10.2*	*2.3*	*3.7*	*8.2*		

Source: MIDFR; * Aggregate earnings of 25 FBM KLCI constituents under MIDFR coverage

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 ("MIDF Investment") for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology