4 December 2023

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended September 2023

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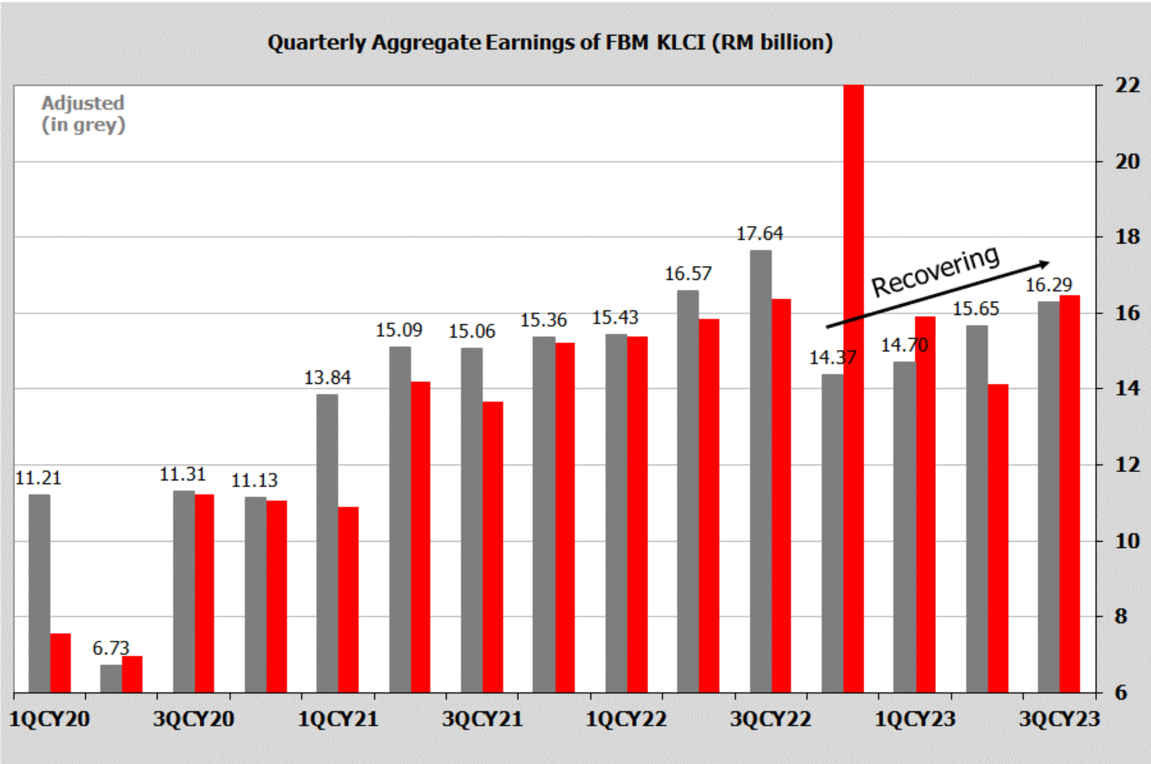
4 December 2023 | Earnings Wrap

Recovering

- *In 3QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM16.5b. It increased sequentially at 16.6%qoq and against the corresponding quarter last year at 0.7%yoy.*
- *On adjusted basis, the aggregate 3QCY23 normalized earnings of FBM KLCI 30 current constituents risen sequentially at 4.1%qoq but declined on-year at -7.7%yoy to RM16.3b.*
- *Within MIDFR Universe, 24% of stocks under coverage reported higher than expected earnings. Moreover, 38% posted earnings that were lower than expected versus 37% which came within expectations. Target price changes involved 27 upward adjustments and 29 downward adjustments. Furthermore, we made 14 changes to our stock recommendations with 8 upgrades and 6 downgrades.*
- *The aggregate FY2023(E) and FY2024(F) earnings of the FBM KLCI constituents under our coverage were both cut by -3.3% to RM58.3b and -2.0% to RM64.0b respectively. Meanwhile, the aggregate FY2023(E) and FY2024(F) earnings of the stocks under MIDFR Universe were cut by -2.7% to RM74.9b and raised by 1.8% to RM86.0b 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 cessation of Fed rate hike and supported by (ii) attractive FBM KLCI and still undemanding FBM70 valuations.*

FBM KLCI

In 3QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM16.5b. It registered positive sequential growth at 16.6%qoq and on-year at 0.7%yoy.



Source: Bloomberg, MIDFR

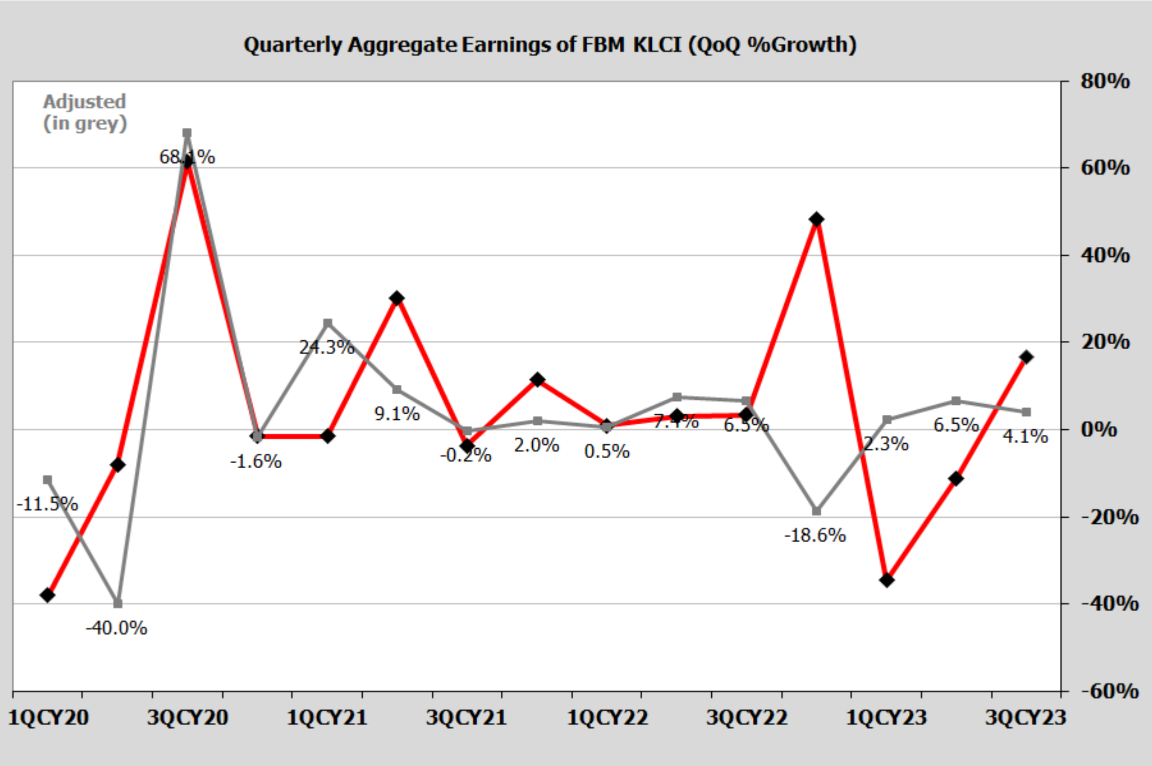
After adjusting for non-operational/recurrence items incurred during the review quarter (primarily non-ordinary losses of -RM925m by Axiata and gains of RM842m by Sime Darby Plantations), the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM16.3b in 3QCY23. Moreover, after neutralizing the extraordinary items during relevant quarters (3QCY23: 196m, 2QCY23: -1.52b, 3QCY22: -RM1.27b), the aggregate normalized growth in 3QCY23 registered positive sequential growth at 4.1%qoq but contracted on-year at -7.7%yoy.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	3QCY23	2QCY23	QoQ	3QCY22	YoY
CONSUMER P&S	1,966.89	1,701.82	15.6%	1,855.21	6.0%
ENERGY	132.20	126.80	4.3%	125.80	5.1%
FINANCIAL SERVICES	8,799.00	8,417.00	4.5%	8,076.88	8.9%
HEALTHCARE	369.00	315.00	17.1%	188.10	96.2%
INDUSTRIAL P&S	731.46	939.58	-22.1%	2,210.80	-66.9%
PLANTATION	810.70	802.50	1.0%	1,270.70	-36.2%
TELCO & MEDIA	1,590.20	1,465.70	8.5%	1,282.30	24.0%
TRANSPORT & LOGISTICS	624.90	612.80	2.0%	905.90	-31.0%
UTILITIES	1,261.80	1,266.80	-0.4%	1,728.50	-27.0%
TOTAL	**16,286.15**	**15,648.00**	**4.1%**	**17,644.19**	**-7.7%**

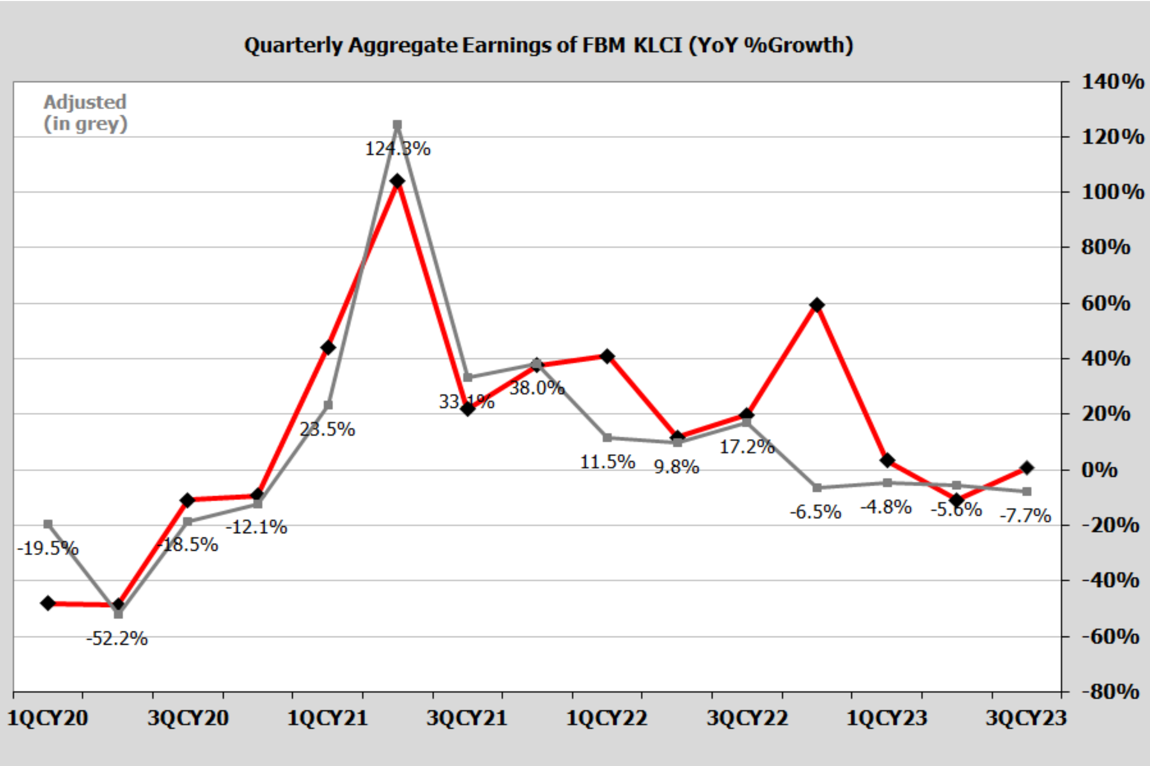
Source: Bloomberg, MIDFR

The positive on-quarter normalized growth performance in 3QCY23 was mainly contributed by earnings improvement among its Financial Services (Hong Leong Bank, AMMB, and HLFG), Consumer P&S (Genting Malaysia, and Genting), and Telco & Media (Axiata, and CelcomDigi) constituents.



Source: Bloomberg, MIDFR

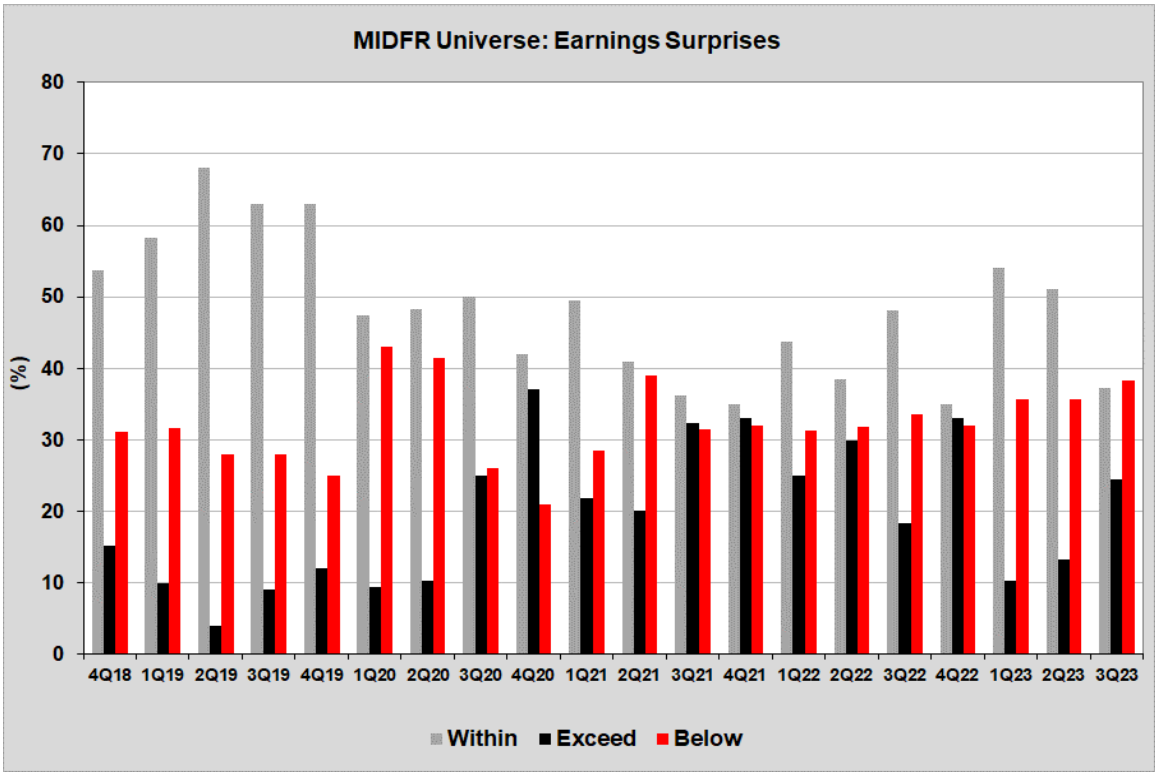
On the other hand, the negative on-year normalized growth performance in 3QCY23 was mainly contributed by earnings diminution among its Industrial P&S (Petronas Chemicals), Utilities (Tenaga Nasional), Plantation (KL Kepong, and Sime Darby Plantation), and Transport & Logistics (MISC) constituents. Nonetheless, the decline was moderated by the on-year improvement particularly among Financial Services (CIMB, Maybank, and Public Bank) as well as Telco & Media (CelcomDigi, and TM) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations improved to 24% in 3QCY23 as compared to 13% in the prior quarter. Similarly, the percentage of negative surprises also risen to 38% from 36% in 2QCY23.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation declined to 37% in 3QCY23 from 51% in the prior quarter. Moreover, Industrial P&S sector recorded the highest percentage of positive surprises at 60% of stocks under our coverage. Meanwhile, Transportation & Logistics sector registered the biggest percentage of underperformers at 71% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	0%	40%	60%
CONSUMER PRODUCTS & SERVICES	17%	44%	39%
ENERGY	50%	0%	50%
FINANCIAL SERVICES	83%	8%	8%
HEALTH CARE	33%	50%	17%
INDUSTRIAL PRODUCTS & SERVICES	0%	60%	40%
PLANTATION	75%	0%	25%
PROPERTY	43%	0%	57%
REITS	50%	0%	50%
TECHNOLOGY	67%	0%	33%
TELECOMMUNICATIONS & MEDIA	25%	50%	25%
TRANSPORTATION & LOGISTICS	0%	29%	71%
UTILITIES	17%	33%	50%
TOTAL	**37%**	**24%**	**38%**

Source: MIDFR

In total, we made 14 changes to our stock recommendations with 8 upgrades and 6 downgrades. Furthermore, target price changes involved 27 upward against 29 downward adjustments.

In 3QCY23, the aggregate reported earnings of companies under MIDFR Universe came in at RM19.4b. It recorded slight decline on-year but risen on-quarter at -3.2%yoy and 4.8%qoq respectively.

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

	YoY (%)	***QoQ (%)***	**2Q23**	**3Q23**	**1Q23**	**4Q22**	**3Q22**	**2Q22**	**1Q22**	**4Q21**	**3Q21**	**2Q21**	**1Q21**	**4Q20**
CONSTRUCTION	*17.2*	*0.6*	368	366	241	1,316	314	364	244	379	861	248	409	78
CONSUMER P&S	*63.4*	*(50.5)*	1,277	2,580	1,507	1,615	782	766	203	642	-166	91	625	-1,320
ENERGY	*(28.5)*	*262.6*	217	-133	344	379	303	335	330	149	258	246	200	265
FINANCIAL SERV	*1.6*	*4.6*	9,400	8,984	9,000	8,817	9,256	7,890	7,663	7,231	5,959	7,483	4,352	5,261
HEALTH CARE	*(39.2)*	*9.5*	180	164	953	-584	296	766	501	1,199	2,640	5,843	5,420	4,336
INDUSTRIAL P&S	*(67.5)*	*(19.4)*	720	894	783	738	2,216	2,113	2,309	4,599	2,085	1,984	1,605	703
PLANTATION	*8.4*	*196.4*	1,866	629	589	2,178	1,721	2,689	2,406	2,381	2,206	2,347	1,568	1,136
PROPERTY	*(53.8)*	*(16.9)*	399	480	333	619	863	536	215	475	183	251	206	326
REITS	*38.8*	*96.7*	659	335	377	588	474	331	365	287	179	182	198	-47
TECHNOLOGY	*(27.7)*	*17.6*	269	229	200	278	372	419	279	303	262	251	237	274
TELCO & MEDIA	*(39.0)*	*(27.4)*	484	666	1,042	10,410	792	821	831	789	1,259	1,136	1,000	603
TRANSP & LOGIS	*(23.9)*	*(1.1)*	767	776	887	1,296	1,008	123	472	563	452	501	412	30
UTILITIES	*71.2*	*10.1*	2,791	2,534	2,466	1,686	1,630	1,585	2,827	1,426	1,796	433	1,673	1,945
TOTAL	***(3.2)***	***4.8***	19,396	18,503	18,722	29,336	20,029	18,737	18,645	20,423	17,972	20,995	17,906	13,591

Source: MIDFR

Construction, Financial Services, Plantation, REITs, and Utilities were the sectors which recorded improved total earnings (as reported) in 3QCY23 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Industrial P&S, Property, Telco & Media, and Transport & Logistics were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 3QCY23.

Sectoral commentary

Construction: The cumulative 9MFY23 performance of the construction sector was not that all exciting, with three out of eight companies under our coverage coming in above expectations while five came in below expectations. Contractors that have reported good numbers were those that have been consistently winning jobs and making good progress working on their outstanding order book. Weaker performances were due to early stages of new projects being worked on, therefore lower margins were being recorded. This is expected to pick up in upcoming quarters. Among protracting issues were elevated building material prices and labour costs. Those whose results came in above expectations were IJM Corp (BUY, TP: RM2.11), KKB Engineering (BUY, TP: RM1.77) and the direct beneficiary of a stronger construction sector, Malayan Cement (BUY, TP: RM4.91). Eight out of the 9 construction companies under our coverage announced their quarterly/half-year results ending Sept-23. The remaining one is Gamuda (BUY, TP: RM5.38), which is expected to announce its results for 1QFY24 ending Nov-23 this week. Meanwhile, the Department of Statistics Malaysia (DOSM) reported that the value of work done for 3Q23 was RM33.4m (+9.6%yoy), driven by civil engineering (40.5%), non-residential buildings (27.5%), residential buildings (21.9%) and special trade activities (10.0%). 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, where the Federal Government has allocated RM10b under Budget 2024. Contractors are also upbeat on 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: RM5.38), IJM Corp (BUY, TP: RM2.11), Sunway Construction (BUY, TP: RM2.09) and Malayan Cement (BUY, TP: RM4.91).

Consumer (Retail, F&B): Earnings of consumer companies were mixed. Only 2 out of the 10 companies under our coverage met our earnings projections (Nestle Malaysia & QL Resources). Five came in above expectations (Frasers & Neave, Hup Seng Industries, Spritzer, Leong Hup International, and Asia File), and three came in below expectations (Aeon, Rhong Khen International, and Padini). Overall, most F&B companies outperformed earnings due to: (i) increased local and export sales, and (ii) lower operational costs resulting from recent declines in global commodities and effective cost management. Poultry player Leong Hup recorded significantly higher core earnings, attributed to (i) a strong turnaround in its Malaysia and Indonesia businesses, (ii) greater sales of high-margin goods, and (iii) lower operational expenses due to economies of scale and lower feed input prices. Asia File's earnings exceeded expectations, partly due to effective cost management compensating for lower sales. However, Aeon and Rhong Khen reported weaker earnings primarily due to reduced spending and demand for discretionary products, influenced by various factors impacting family income. While Padini's demand remained robust due to its comparatively low product pricing, increased operating costs impacted profit margins in 3QCY23.

We maintain our Positive stance on consumer sector. Nevertheless, we are positive on consumer staples but neutral on consumer discretionary. We remain bullish on consumer staples due to: (1) their defensive nature, supported by resilient demand for staple-related products, (2) a robust domestic consumption outlook fuelled by improved job market prospects and expectations of higher tourist traffic, and (3) anticipated improved profit margins for F&B and poultry players due to recent declines in global commodity prices. Moreover, most consumer staples retain substantial net cash positions to protect against downside risks. In contrast, we have a neutral outlook on consumer discretionary companies, as we expect persistently low consumer discretionary spending both locally and globally. This is likely to impact sales for Aeon, Rhong Khen, and Asia File. On the other hand, while we anticipate Padini's topline to remain resilient, increased inflationary pressures eroding profit margins are expected to impact earnings in the near term.

Financial Services: Some banks came below expectations, largely expecting a much weaker 3QCY23 than previously expected, but most were within expectations. NIM this quarter saw some rebound or at least stabilization, as banks benefited from the asset yield uplift brought about by the May-23 OPR hike. It was also helped by the heavy FD paring exercises taken in the last few quarters. Fortunately, the NIM compression in the following quarter is expected to be relatively muted, as a repeat of last-year's abnormal deposit competition is unlikely, and other banks are much better prepared from a liquidity standpoint to weather 4Q. NOII remained surprisingly resilient despite 2QCY23's bumper result, bolstered by decent MTM and forex-related gains. Stronger loan-related-fee income accompanied the stronger loan growth seen this quarter. Similarly, OPEX saw some normalisation from 1HCY23's heavy Collective Agreement oneoffs – except for some banks which recorded their adjustments this quarter, and some which frontloaded personnel costs.

Domestic loan growth (and foreign contributions, too) saw a return to form in the quarter, following a weak 1HCY23. This was due to a post-election lift – while residential mortgages retained steady level of growth, SME and corporate started issuing larger drawdowns. Higher-yield assets, such as credit card and personal financing loans remain in demand. Disbursement pipeline is expected to remain resilient for the next couple of quarters. Do note that some banks have alluded to hire purchase and residential mortgage take-up seeing dwindling – also residential mortgage margins are so thin, we expect banks to prioritise other segments instead. Deposit and CASA growth was more mixed among banks, a reflection of different liquidity approaches undertaken this year – some of them have locked in liquidity in previous quarter, while others are doing it now. Regardless, most banks have locked in deposits in preparation of seasonal deposit competitions, with maturities expected only after CNY.

Asset quality outlook was far better, with many banks retaining their GIL ratio well – or at least acknowledging that the worst is over. Some banks weren't as good – RHB and Affin were hit hard by SME impairments. So far, consumer and SME-related repayment assistant loans seem to have peaked in terms of impairment – or at least come very close. As a result, there were few positive surprises in NCC, as writebacks for good consumer book performance were seen. But generally, provisions were neither too large nor too small this quarter. 4QCY23 may be a bit more challenging for NCC, as some banks are guiding for higher provisions.

Healthcare (Gloves): In 3QCY23, most glovemakers under our coverage reported higher-than-expected core earnings, with Hartalega and Kossan Rubbers turned profitable. This was primarily due to higher-than-expected sales volume and lower-than-expected operating costs, which were ascribed to lower raw material prices, natural gas expenses, and production costs per unit (due to increased sales volume). Meanwhile, Top Glove's core earnings met our estimation, with narrowed net losses in 3QCY23. Overall, the continuous oversupply of gloves in the market caused price-sensitive buyers to demand lower ASP from glovemakers in 3QCY23, given the recent drop in raw material costs (40% of total opex). On a positive note, replenishment activities following the expiry of pandemic inventory led to better sales volumes for all three glovemakers during the quarter. In 3QCY23, we upgraded our stock recommendation for all glovemakers from Sell to Neutral. Moving forward, we remain wary of the intense competition from Chinese players, which may exert upward pressure on pricing flexibility for all glovemakers under our coverage. On a positive note, the replenishment of inventory following the expiry of pandemic inventory is expected to boost glove demand. This, combined with recent permanent and temporary closures of production facilities, could potentially improve production efficiency, and reduce production costs per unit. Hence, we now expect all glove companies under our coverage to post positive core earnings in the upcoming 4QCY23. Overall, we maintain Neutral on Gloves sector. Our top picks for the sector are Hartalega (NEUTRAL, TP: RM2.20) and Kossan Rubber Industries (NEUTRAL, TP: RM1.38). This is primarily based on their effective cost management, and a higher net cash position.

Plantation: For the 3QCY23, planter performance under our coverage was mixed with 5 companies performing within expectations, 3 falling short and 1 above estimates. The total declined in earnings was in line with consolidation of average CPO price realized, which hovered around RM3,630-4,061/Mt levels. In 3QCY23, the average selling price (ASP) of CPO remained stable from 3QCY22's RM3,990/Mt to RM3,810/Mt (-0.9%qoq, -4.5%yoy). FGVH, Sarawak Plantation and PPB 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 (impacts of insufficient fertilizer application for the past 2 years in a row) combined with high fixed and upkeeping costs incurred.

The softening demand for oleochemical and biodiesel products, on the other hand, has a significant negative effect on Oleo refineries operational profit (in fact, some refineries run with negative margins due to competitive competition again Indonesia refineries). 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 (we anticipate harvesters' productivity to normalize in 1Q24).

As a result, we adjusted lower our sector profits forecasts for FY23E by -27%yoy but higher for FY24-25F by +6%yoy/+12%yoy respectively. Weaker estimates were pulled down by lower earnings revisions for PPB (lower contribution from Wilmar) and FGVH, which carried considerable weightage in our sector universe. The sector's downside risks are remains (i) continuation of domestic sales obligations (DMO) in Indonesia, (ii) the weakening of the ringgit (which reduced the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production (RM2,500-3,000Mt; 2QCY23: RM2,800-3,100Mt); 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 RM3,800/Mt. Our new top pick are Ta Ann (BUY, TP: RM4.25). Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to upcoming EL-Nino in 2Q24) would provide trading opportunity in the stock.

Property: Earnings of property companies in 3QCY23 were mixed. Out of seven property companies under our coverage that released quarterly earnings in November, four reported earnings that met expectation, two reported earnings that came in below expectations while one reported earnings that beat our expectation. Notably, Sunway Berhad reported earnings that surpassed our expectation due to resilient earnings from healthcare division. Subsequently, we upgraded Sunway Berhad to BUY with a revised TP of RM2.25 as we see catalyst from healthcare division. On the flip side, S P Setia and Glomac reported earnings that missed expectations. Earnings of S P Setia was dragged by higher tax rate while Glomac reported weak quarterly earnings due to earnings recognition from lower margin product. Overall, new property sales of property companies were largely in line with management expectations of flattish or slightly better new sales. Going forward, we expect new property sales of property companies to be better in the coming quarters as the pause in OPR hike should support demand for property. Besides, earnings outlook for property companies is expected to be stronger as labour shortage issue is resolved. In a nutshell, we maintain our POSITIVE stance on property sector.

REITs: Earnings of REITs in 3QCY23 were mixed. Out of six REIT under our coverage, three reported earnings that came in within expectations while three reported earnings that missed expectations. Notably, Axis REIT, Pavilion REIT and Al-`Aqar Healthcare REIT reported earnings that were below expectations as earnings were dragged by higher expenditure. Meanwhile, IGB REIT, Sunway REIT and KLCCP Stapled Group reported resilient earnings as malls namely Mid Valley Megawall, Sunway Pyramid and Suria KLCC continues to see strong shopper footfall. Besides, the recovery in hospitality industry has benefited Sunway REIT's hotels and Mandarin Oriental. Overall, earnings of REITs with high exposure to retail industry continues to see earnings recovery in 3QCY23 as rental reversion returned to positive territory. Going forward, rental reversion is expected to remain positive as tenant sales remain encouraging while shopper footfall remains strong. Hence, we maintain our POSITIVE stance on REIT.

Technology: It was a mix of performance for outsourced semiconductor assembly and test (OSAT) companies under our coverage with half of the OSAT failed to kept pace with our earnings expectation. The quarterly performance of Inari and D&O came in within our expectation. Both has performed better on a year-over-year basis, supported by better topline performance. Between the two, D&O has shown a stronger rebound as compared to Inari.

Meanwhile, Globetronics and Unisem underperformed owing the weak revenue. Nonetheless, all the OSAT showed earnings improvement on a sequential basis, albeit at different pace. Premised on the above, we only upgrade our recommendation for D&O from Neutral to Buy with a higher target price of RM4.03 as we anticipate strong rebound momentum in the coming quarters.

On another note, there is no surprises in Myeg and Datasonic 3QCY23 financial performance. Between the two, preference resides with Myeg given their active effort to expand revenue base. The upcoming trade facilitation service using Zetrix would serve as a strong catalyst.

Telecommunications: There is a mix of performance for telecommunication companies under our coverage. In this quarter-in-review, we gather that the financial performance of both Celcomdigi and Telekom Malaysia stands out among its peers. The quarterly earnings performance surpassed our expectations at 80.8% and 90% 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 the ongoing network integration and modernisation efforts.

Meanwhile, Maxis' 3QCY23 financial performance came in within our expectation, making up 75.4% 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 3QCY23 performance was unsatisfactory. This led to 9MFY23 earnings made up only 34.1% of full year earnings estimates. The group suffers greatly from the deconsolidation of Celcom and mix performance from the various OpCos. We opine that XL would not be able to assume the void left by Celcom anytime soon.

Transport & Logistics (Aviation): The aviation sector had a mixed quarter, as MAHB (NEUTRAL, RM7.80) surpassed expectations, while Capital A (NEUTRAL, TP: RM0.80) failed to meet estimates. MAHB's stronger performance was attributed to better-than-expected international passenger traffic in its Turkish operations, comprising higher-yielding passengers. We anticipate a further uplift in earnings with the discontinuation of rental discounts and waivers in the coming year. Meanwhile, Capital A faced challenges with high fuel and maintenance costs as it continued to bring back its grounded fleet. We anticipate a return to profitability next year, as they aim to fully reactivate their aircraft by 1QFY24.

Transport & Logistics (Logistics): It was a disappointing quarter for logistics players, with all falling short of our earnings estimates. This was primarily attributed to the normalisation of goods consumption post-Covid, resulting in decreased shipment volumes, compounded by the slowdown in global trade due to inflation. Some logistics players also faced thinning margins due to diseconomies of scale. Looking ahead, we anticipate shipment volumes to gradually recover, contingent on the growth exhibited by the industries in which their major customers operate.

Transport & Logistics (Port): The quarter presented a mixed performance for port players, with Westports (BUY, TP: RM4.00) exceeding our expectations in earnings, while Suria Capital (NEUTRAL, TP: RM1.70) fell short of our estimates. Westports benefitted from the higher-than-expected container volumes, registering at +7.0% in 9MFY23, surpassing the initially guided low single-digit growth. We expect the Group to profit from the increasing share of gateway containers, boosted by strong local exports and FDIs, which typically yield higher handling rates. For Suria Capital, the weaker performance was attributed to declines in conventional and container volumes. However, we anticipate a potential boost in their container business from the recent start of production at SK Nexilis' and Kibing Group's plants in early-4QFY23.

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 3QCY23 from 3 to 4. Nonetheless, the number of underperformers likewise increased from 6 to 8.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
4QCY23	4	8
2QCY23	3	6
1QCY23	1	5
4QCY22	4	9
3QCY22	5	9

Source: MIDFR

In 3QCY23, the outperformers among FBM KLCI constituents under our coverage comprised of two telcos namely CelcomDigi, and Telekom Malaysia, as well as CIMB, and Westports. Meanwhile, the underperformers comprised of three O&G-related companies namely MISC, Petronas Chemicals, and Petronas Gas, as well as Axiata, IHH, PPB Group, Public Bank, 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 -RM2.0b (-3.3%) to RM58.3b and -RM1.3b (-3.0%) to RM64.0b respectively.

The lower aggregate figure for FY2023(E) were mainly contributed by downward revisions to forward earnings of Utilities (Tenaga Nasional, and Petronas Gas), Industrial P&S (Petronas Chemicals), and Plantation (KL Kepong, and IOI Corp) constituents. Moreover, the lower aggregate figure for FY2024(F) were mainly contributed by downward revisions to forward earnings of Plantation (IOI Corp, and KL Kepong), Healthcare (IHH), and Utilities (Petronas Gas) constituents.

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

SECTOR	Stocks	FY2023 (E)	FY2024 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	-116	-4
ENERGY	Dialog	-1	0
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	50	-133
HEALTHCARE	IHH Health	-220	-243
INDUSTRIAL P&S	Petronas Chemicals	-502	195
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	-446	-605
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	79	-195
TRANSPORT & LOGISTICS	MISC, Westports	-166	-105
UTILITIES	TNB, Petronas Gas	-685	-219
TOTAL		**-2,008**	**-1,310**

Source: MIDFR

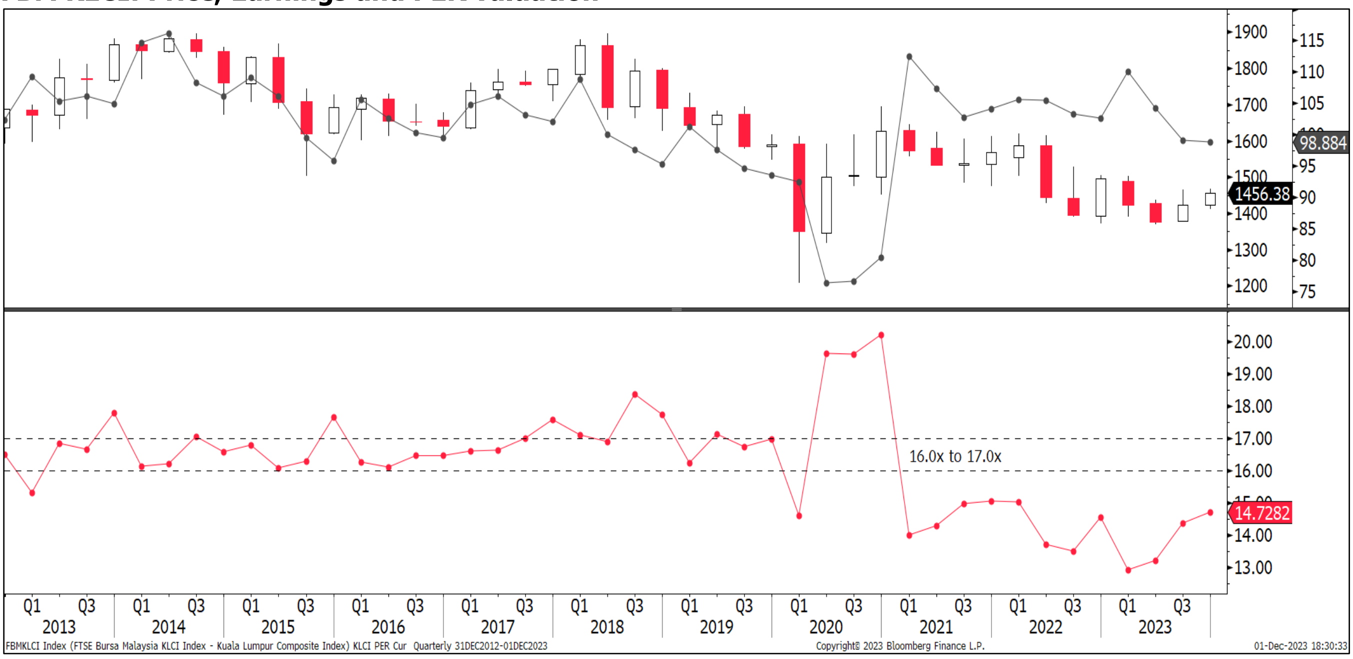
Meanwhile, the aggregate FY2023(E) and FY2024(F) earnings of the stocks under MIDFR Universe were cut by -RM2.1b (-2.7%) to RM74.9b and raised by RM1.6b (1.8%) to RM86.0b respectively.

Refer to Appendix for further details.

Outlook

Post-3QCY23 earnings season, the consensus EPS23 estimate for FBM KLCI stands at 98.9 points. It is down from post-2QCY23 estimate of 100.3 points. Despite the latest earnings cut, the prevailing valuation of FBM KLCI (which represents large-cap stocks) remains attractive at 14.7x vis-à-vis its historical range of 16.0x to 17.0x.

FBM KLCI: Price, Earnings and PER valuation

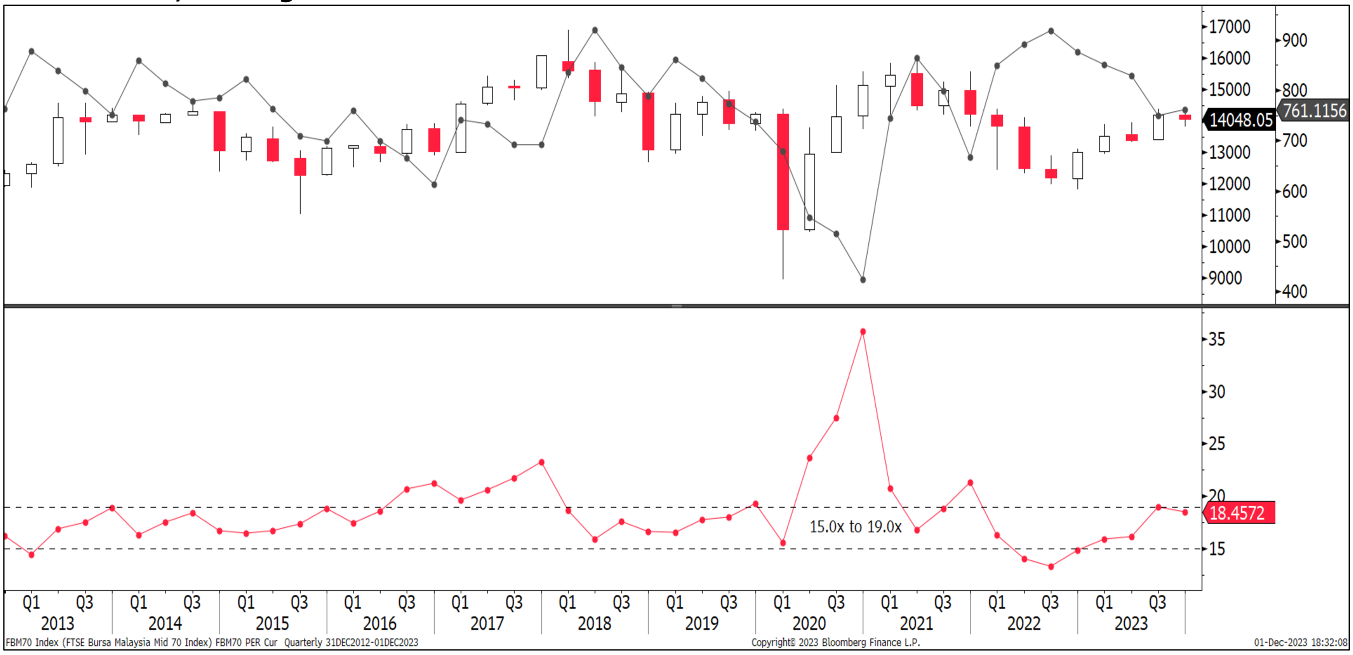


Source: MIDFR, Bloomberg (G658)

Going forward, we expect FBM KLCI to tread higher despite the earnings cut due to (i) increasingly positive market sentiment engendered by the cessation of Fed rate hike, and (ii) 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 15.6x.

On the other hand, the consensus EPS23 estimate for FBM70 which now stands at 761.1 points is slightly up from post-2QCY23 estimate of 756.6 points. The current valuation of FBM70 (which represents mid-cap stocks) at 18.5x is nearing the upper end of its 15.0x to 19.0x historical range.

FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G715)

Going forward, we expect the valuation of FBM70 to tread higher supported by Malaysia's macro growth as well as the end of interest rate tightening cycle. It is notable that when compared to the large-caps, the mid-cap stocks have 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 19.0x.

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)	77,023.4	74,908.6	84,434.8	85,989.7	*(2.7)*	*1.8*
Annual % Change	*1.7*	*(1.1)*	*9.6*	*14.8*		
TOTAL (FBM KLCI)*	60,330.7	58,322.7	65,280.5	63,970.8	*(3.3)*	*(2.0)*
Annual % Change	*2.3*	*(1.1)*	*8.2*	*9.7*		

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

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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.
HOLD	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