5 June 2024

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended March 2024

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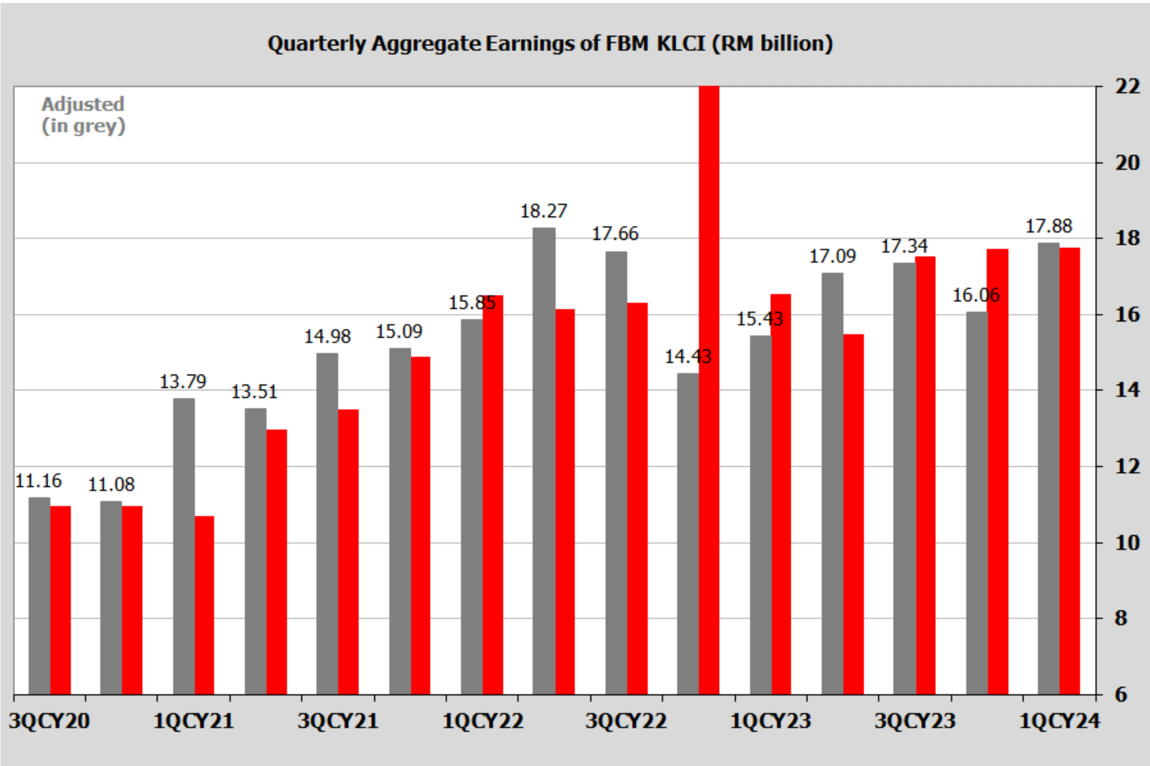
5 June 2024 | Earnings Wrap

Showing positive momentum

- *In 1QCY24, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM17.8b. It registered positive growth both on-quarter and on-year at +0.2%qoq and +7.6%yoy respectively.*
- *On adjusted basis, the aggregate normalized earnings grew both on-quarter and on-year at +11.3%qoq and +15.8%yoy respectively to RM17.9b.*
- *Within MIDFR Universe, 16% of stocks under coverage reported higher than expected earnings. Moreover, 15% posted earnings that were lower than expected versus 69% which came within expectations. Target price changes involved 55 upward adjustments and 7 downward adjustments. Furthermore, we made 17 changes to our stock recommendations with 13 upgrades and 4 downgrades.*
- *The aggregate FY2024 earnings forecast of the FBM KLCI constituents under our coverage was raised by +1.9% to RM67.0b. Likewise, the aggregate FY2024 earnings forecast of the stocks under MIDFR Universe was raised by +2.2% to RM87.2b.*
- *We see further upside to the local equity market to be driven by inflow of foreign funds into Ringgit assets (conceivably attracted by potential US Dollar weakness) with the investment case to be underpinned by healthy macro/corporate earnings prospects as well as inexpensive stock valuations. We raised our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 to 1,750 points (from 1,665 points), 14,100 points (from 13,450 points), and 18,900 points (from 16,890 points), respectively.*

FBM KLCI

In 1QCY24, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM17.8b. It registered positive growth both on-quarter and on-year at +0.2%qoq and +7.6%yoy respectively.



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Source: Bloomberg, MIDFR

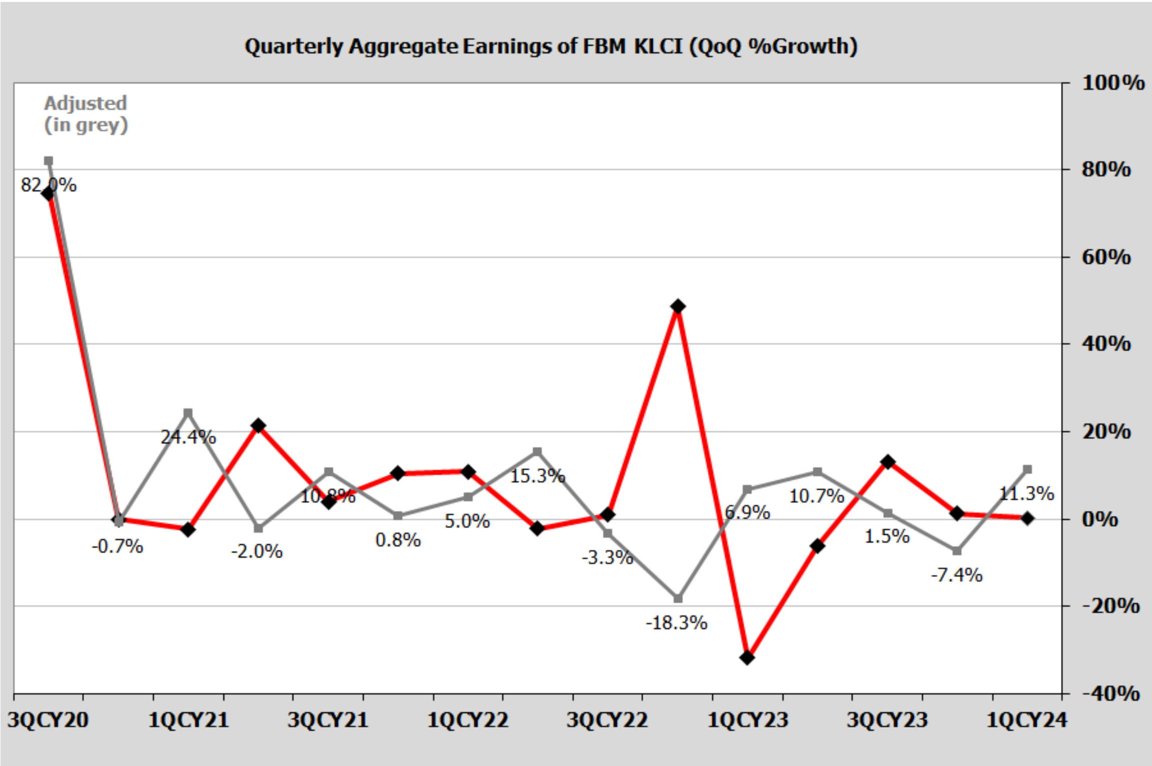
After adjusting for extraordinary (non-recurrence) items incurred during the review quarter, the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM17.9b. Moreover, after neutralizing the extraordinary items during relevant quarters (1QCY24: -RM102m, 4QCY23: RM1.68b, 1QCY23: RM1.09b), the aggregate normalized growth in 1QCY24 registered positive growth both on-quarter and on-year at +11.3%qoq and +15.8%yoy respectively.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	1QCY24	4QCY23	QoQ	1QCY23	YoY
CONSUMER P&S	1,841.92	1,734.37	6.2%	1,453.03	26.8%
FINANCIAL SERVICES	9,146.00	8,187.00	11.7%	8,456.00	8.2%
HEALTHCARE	402.80	265.50	51.7%	329.90	22.1%
INDUSTRIAL P&S	1,083.05	438.46	147.0%	821.80	31.8%
PLANTATION	583.40	834.50	-30.1%	459.00	27.1%
TELCO & MEDIA	1,413.80	1,510.50	-6.4%	1,045.66	35.2%
TRANSPORT & LOGISTICS	840.30	575.80	45.9%	544.00	54.5%
UTILITIES	2,563.90	2,511.50	2.1%	2,323.04	10.4%
TOTAL	**17,875.17**	**16,057.63**	**11.3%**	**15,432.43**	**15.8%**

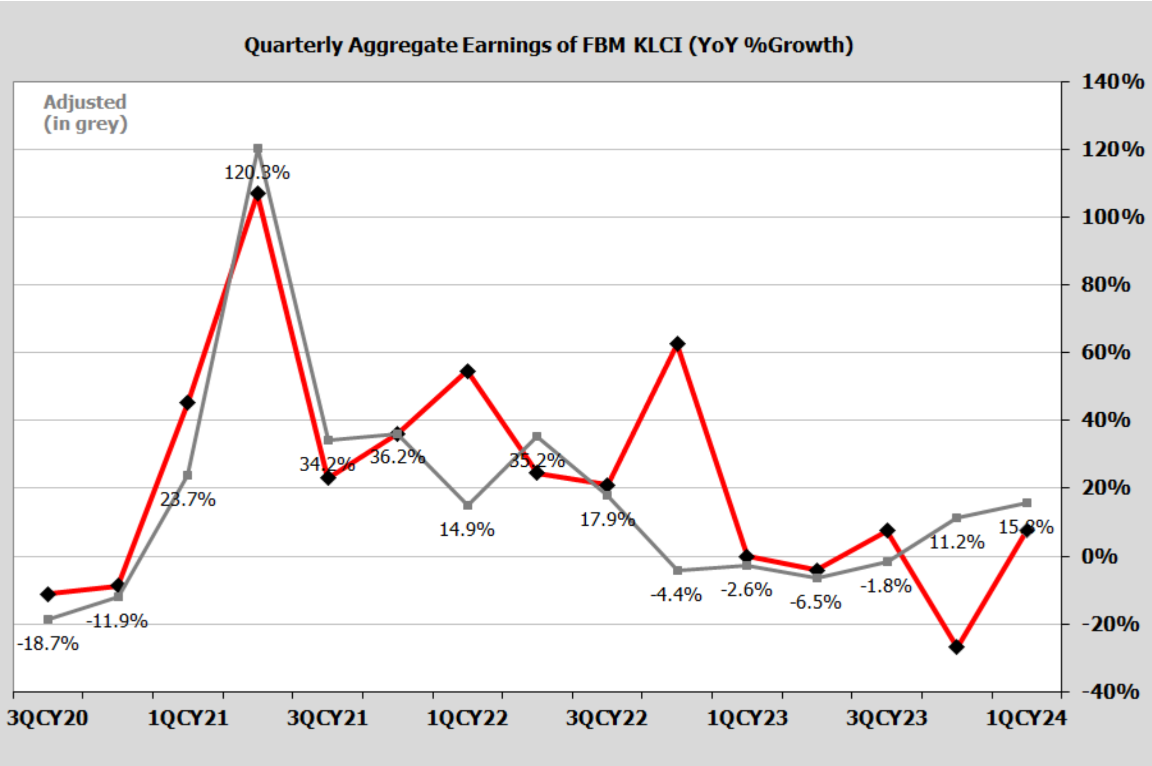
Source: Bloomberg, MIDFR

The positive on-quarter normalized growth performance in 1QCY24 was mainly due to earnings expansion among its Financial Services (CIMB, RHB Bank and Maybank), Industrial P&S (Petronas Chemicals), Transport & Logistics (MISC), and Healthcare (IHH) constituents.



Source: Bloomberg, MIDFR

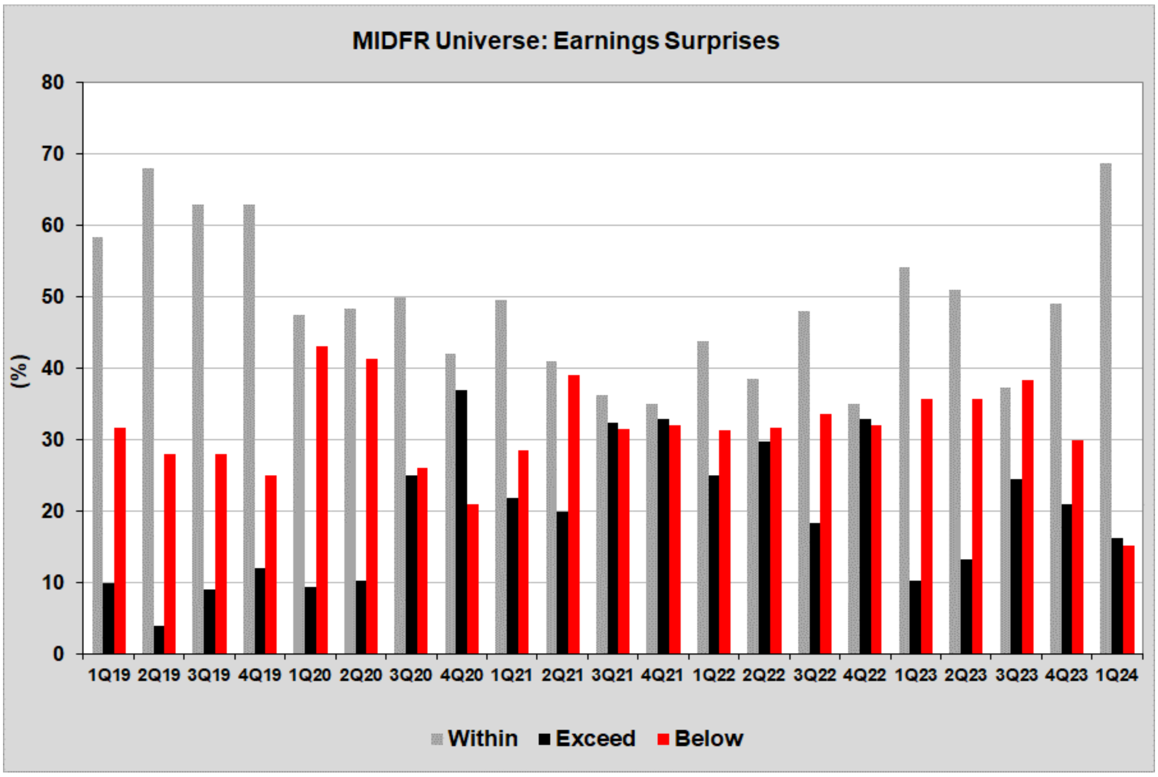
Moreover, the positive on-year normalized growth performance in 1QCY24 was mainly contributed by earnings expansion among its Financial Services (CIMB, Maybank and Hong Leong Bank), Consumer P&S (Genting and Sime Darby), Telco & Media (CelcomDigi and Telekom Malaysia), and Transport & Logistics (MISC) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations declined to 16% in 1QCY24 as compared to 21% in the prior quarter. Similarly, the percentage of negative surprises also fell to 15% from 30% in 4QCY23.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation jumped to 69% in 1QCY24 from 49% in the prior quarter. Moreover, Technology sector recorded the highest percentage of positive surprises at 50% of stocks under our coverage. Meanwhile, Industrial P&S sector registered the biggest percentage of underperformers at 50% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	40%	20%	40%
CONSUMER PRODUCTS & SERVICES	76%	18%	6%
ENERGY	75%	25%	0%
FINANCIAL SERVICES	86%	14%	0%
HEALTH CARE	67%	0%	33%
INDUSTRIAL PRODUCTS & SERVICES	25%	25%	50%
PLANTATION	75%	13%	13%
PROPERTY	63%	13%	25%
REITS	100%	0%	0%
TECHNOLOGY	33%	50%	17%
TELECOMMUNICATIONS & MEDIA	75%	25%	0%
TRANSPORTATION & LOGISTICS	57%	14%	29%
UTILITIES	100%	0%	0%
TOTAL	**69%**	**16%**	**15%**

Source: MIDFR

In total, we made 17 changes to our stock recommendations with 13 upgrades and 4 downgrades. Furthermore, target price changes involved 55 upward against 7 downward adjustments.

In 1QCY24, the aggregate reported earnings of companies under MIDFR Universe came in at RM20.9b. It recorded positive growth both on-year and on-quarter at +10.5%yoy and +12.4%qoq respectively.

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

	YoY (%)	*QoQ (%)*	1Q24	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21
CONSTRUCTION	*134.9*	*513.6*	567	92	368	366	241	1,316	314	364	244	379	861	248
CONSUMER P&S	*(3.4)*	*1.1*	1,309	1,295	1,104	2,276	1,355	1,509	681	676	85	384	-118	112
ENERGY	*20.9*	*11,298*	416	4	217	-133	344	379	303	335	330	149	258	246
FINANCIAL SERV	*8.5*	*6.7*	10,033	9,405	9,671	9,143	9,250	8,919	9,478	7,964	7,937	7,511	6,182	7,630
HEALTH CARE	*(9.7)*	*17.3*	860	734	180	164	953	-584	296	766	501	1,199	2,640	5,843
INDUSTRIAL P&S	*25.5*	*82.0*	996	547	728	902	794	745	2,224	2,119	2,317	4,607	2,088	1,987
PLANTATION	*(4.4)*	*(40.2)*	563	941	1,866	629	589	2,178	1,721	2,689	2,406	2,381	2,206	2,347
PROPERTY	*39.8*	*(8.4)*	544	594	463	545	389	673	914	583	277	535	234	283
REITS	*7.0*	*(42.6)*	404	704	659	335	377	588	474	331	365	287	179	182
TECHNOLOGY	*46.9*	*(6.1)*	294	313	269	229	200	278	372	419	279	303	262	251
TELCO & MEDIA	*16.5*	*428.9*	1,214	230	484	666	1,042	10,410	792	821	831	789	1,259	1,136
TRANSP & LOGIS	*34.9*	*5.4*	1,196	1,135	767	776	887	1,296	1,008	123	472	563	452	501
UTILITIES	*0.6*	*(4.2)*	2,480	2,589	2,791	2,534	2,466	1,686	1,630	1,585	2,827	1,426	1,796	433
TOTAL	***10.5***	***12.4***	20,877	18,582	19,566	18,433	18,888	29,393	20,208	18,775	18,871	20,515	18,298	21,199

Source: MIDFR

Construction, Energy, Financial Services, Industrial P&S, Telco & Media, and Transport & Logistics were the sectors which recorded improved total earnings (as reported) in 1QCY24 when compared to both the preceding quarter and corresponding period last year.

On the other hand, only Plantation sector registered both negative sequential and on-year earnings (as reported) growth percentages in 1QCY24.

Sectoral commentary

Construction: The first quarter of 2024 kicked off on a rather healthy note with two out of the eight companies (excluding Gamuda which has a July financial year end) under our coverage coming in above expectations, one coming in within and five below. IJM Corp and Malayan Cement came in above expectations while WCT Holdings came in within. Despite that, most of those that came in below expectations could be considered within as the first quarter of the year is typically a slower one, due to the shorter month in February and the higher number of public holidays in conjunction with the festive seasons. We can expect progress billings to improve in upcoming quarters as the construction progress pick up pace, alongside with the healthy pipeline of jobs expected, both civil and private. Meanwhile, data from the Department of Statistics Malaysia (DOSM) showed that the value of construction work done continued to increase for the 10th consecutive quarter, which was recorded at RM36.79b (+14.2%yoy) in 1QCY24. This was driven by civil engineering (41.1%), non-residential buildings (27.7%) residential buildings (21.1%), followed by special trade activities (10.0%). We remain POSITIVE on the construction sector, with our top picks being Gamuda (BUY, TP: RM6.98), IJM Corp (BUY, TP: RM3.01), and Malayan Cement (BUY, TP: RM6.03).

Consumer (Automotive): Auto stocks under our coverage came in within expectations. Tan Chong saw wider losses given stiff competition in all markets it is operating in coupled with a strong USD during the period which negatively impacted margins. Meanwhile MBM Resources (MBMR) saw earnings expand marginally by +2.8%yoy given peaking associate (Perodua) earnings growth. We expect the trend to eventually trickle down to MBMR's parts manufacturing and dealership divisions going forward. Meanwhile, BAuto is due to release its results this month.

Consumer (Retail, F&B): Earnings of consumer companies are largely within expectations, with only retailers outperformed. 8 out of the 10 consumer companies we cover met our earnings projections, with two retailers (Aeon Co and Padini Holdings) results exceeded expectations. The outperformance of Aeon (BUY, TP: RM1.52) and Padini (BUY, TP: RM4.30) was mainly due to effective cost management, which resulted in lower-than-expected costs, even though revenue was in line with forecasts. As such, we have upgraded Aeon and Padini to BUY from NEUTRAL, mainly due to easing inflationary pressures. Moving forward, we are turning more optimistic about the sector as potential inflationary pressures on operations are easing thanks to the minimal impact of the higher and expanded scope of services tax on consumer companies. Besides, the postponement of targeted fuel subsidies will improve consumer sentiment and reduce inflationary pressure on consumer companies. On the other hand, we view that EPF Account 3 and the revision of public servant salaries could benefit value product retailers like Aeon and Padini as well as Family Mart under QL Resources. In a nutshell, we are maintaining our NEUTRAL stance on consumer sector, pending further review. We continue to like F&N (BUY, TP: RM37.00) and QL Resources (BUY, TP: RM7.30) due to their diversified businesses and the staple nature of their products.

Financial Services: Banks have become more optimistic over CY24's prospects, particularly on NIM. The Cost of Funds (COF) outlook is brighter, as government and BNM initiatives are geared towards driving liquidity back to our economy. Loan yields have seen minimal compression thus far. In addition, NOII outlook is also brighter, as a brighter market outlook will drive retail fee income. The onset of digital banks is not expected to put too much pressure on banks, aside from smaller players.

Unfortunately, OPEX inflation remains a persistent problem due to steep wage inflations and tech costs. Loan growth outlook remains solid, with retail loan demand still going strong, while business loans should see a pickup in 2HCY24 due to large infrastructure projects coming online. As previously mentioned, an improved liquidity outlook should drive local deposit growth.

While some banks should still see rising impairments, these are mostly isolated incidents and largely provisioned for. As always, dividend outlook is as solid as ever (apart from HLBK and ABMB, which have low CET 1 ratios).

Healthcare (Gloves): Earnings of gloves companies are mostly below expectation. Two of the three glovemakers under our coverage, Hartalega (BUY, TP: RM4.45) and Top Glove (NEUTRAL, TP: RM0.87), reported lower-than-expected core earnings for 1QCY24. This shortfall was due to higher-than-anticipated raw material and operating costs, even though revenue met expectations. Kossan Rubber (NEUTRAL, TP: RM2.45) reported a 1QCY24 core PATANCI of RM24.7m, which was in line with expectations. None of the three glovemakers declared dividends for 1QCY24, as anticipated. During the earnings reporting season, we upgraded our stock calls for Hartalega to BUY (from NEUTRAL) and Kossan Rubber to NEUTRAL (from SELL) after revising our target prices higher. We see an improving outlook for the gloves sector as customers are replenishing their inventory, reflected in the positive momentum of sales volume and utilisation rates. Besides, customers are now more willing to accept ASP adjustments to pass on higher costs, driven by capacity rationalisation among Malaysian players, the exit of newer players, diversified sourcing, and normalising global demand with replenishment activities. However, higher operating costs and delays in reflecting ASP hikes could pose downside risks. Hence, we maintain our NEUTRAL stance on the sector. Hartalega (BUY, TP: RM4.45) remains our top pick due to its cheap valuation, improving demand outlook, and efficient production following the decommissioning of the Bestari Jaya plant and the full utilisation of the more efficient NGC plant.

Healthcare (Hospitals): In 1QFY24, the healthcare services and hospital's subsector began the year with an optimistic performance, on the strength of increasing inpatient visits, surgery demands and bed capacity. KPJ Healthcare (BUY, TP: RM2.54) had seen such an increase in its gestation hospitals, as 4 out of 5 (KPJ DSH2, KPJ Klang, KPJ Ampang Puteri and KPJ Selangor) contributed to an increase in revenue, consequent to the surge in inpatient visits (+3%yoy), bed capacity (+8%yoy) and surgeries (+13%yoy). With the disposal of Jeta Gardens in Australia and the increase in demand for medical tourism, we believe KPJ's business model of focusing on Malaysia's healthcare front first and foremost, would continue to contribute to its earnings moving forward.

Meanwhile, IHH Healthcare (BUY, TP: RM7.35) saw a similar increase in healthcare services demand. Earnings improved by +22%yoy. Additionally, IHH's laboratory saw an increase in test volumes (+5%yoy), indicating higher inpatient treatments for NCDs. However, IHH's business operative in the international front remain vulnerable to unfavorable forex and inflationary pressures. Nevertheless, IHH continue to address the growing demand for healthcare services and would remain steadfast in its expansion to new territories as well as improvements of its existing hospitals; indicating that healthcare services will continue to be in high demand for the rest of CY24.

Nevertheless, for the subsector, we are expecting both companies to continue with the positive trajectory, given that: (i) Budget 2024 and state budgets continue to favour the Healthcare sector, (ii) increased beds, services and medical consultants in line with the expansion of hospitals, (iii) rising aging population in Malaysia by +4.5% 10-year CAGR, (iv) medical tourism expected to exceed RM2b of revenue in CY24 and (v) increased demand for digital and AI solutions to treatments and surgeries.

Oil & Gas: 1QFY24 earnings saw promising improvement in the Oil and Gas sector, with Oil & Gas Services & Equipment (OGSE) continuing to contribute to the highest positive earnings growth by +19%yoy in the sector. This was generally attributed to higher Brent crude oil (average Brent: USD84pb (+2%yoy) with a subsequently increased upstream production and higher selling price. Consequently, Malaysia's Oil and Gas front were similarly affected by the price movement, adding to the mellowed geopolitical tensions in the Middle East and Eastern Europe and demand recovery for certain petroleum products. The following is a breakdown by division:

Upstream

Upstream saw an improvement in activities, as Brent crude oil prices had reached a stable range for production to commence as normal. Likewise, given the contractual nature of upstream projects, OGSE companies remain the main beneficiary of this situation. Deleum (BUY, TP:RM1.58) saw its earnings jumped +20%yoy due to higher sales and commission income for its offshore machinery services.

Additionally, for the marine subsegment, offshore vessels continue to be in high demand as upstream activities picked up and MRM activities eased. Bumi Armada (BUY, TP:RM0.84) saw an increase in earnings by +20%yoy on the back of its impairment reversal from an FPSO shutdown in FY23, with promising extensions on its fleet. Likewise, MISC (BUY, TP:RM9.75) and MMHE (BUY, RM0.65) saw earnings jumped +55%yoy and 97%yoy respectively, as higher demand for offshore vessels and infrastructure contributed to increased deliveries, as well as increased engineering and marine activities. Freight rates had been improving in 1QCY24 (+15%yoy for dirty tankers, +3%yoy for clean tankers), in line with favourable translational impact from a weakening MYR to USD, giving tankers the leverage of lowering operating cost. LNGC demand had also seen improvement as LNG prices had increased +42%yoy to an average USD15.82pMMBtu in 1QCY24.

Midstream

Gas transportation had seen tight competition between operating companies. However, sales volume is susceptible to the performance of the industries that they are serving. Gas Malaysia (BUY, TP: RM3.96) saw its earnings up by +6%yoy due to higher volume gas sold following lower ASP. Industrials dealing with commodities remain the sectors with the most gas offtake, with Rubber topping at 22% offtake, followed by Oleo Chemical (19%) and Steel/Aluminium/Copper (15%). We are expecting this trend of offtakes from the industrial and consumer sectors to continue following better GDP numbers (MIDFR estimate: 4.7%), barring any major changes to their contracts in the near term. Meanwhile, Petronas Gas (BUY, TP:RM19.44) recorded a higher profit by +8%yoy due to the higher earnings were due to lower fuel gas and internal gas consumption expenses, in tandem with lower fuel gas price. Similar to Gas Malaysia, Petronas Gas also saw a higher sales volume following lower ASP. With a stable Brent crude oil price movement expected in CY24, we believe the gas players could leverage on the similarly stable MRP to gauge on the ASP of fuel gas in the near term.

Downstream

Downstream continues to be susceptible to consumer demand coming into CY24. Petronas Dagangan (BUY, TP:RM24.91) earnings were down by -25%yoy, contributable to the higher operating expenses and product costs, in line with higher demand for its fuels. Brent crude oil averaging at USD85pb in 1QCY24 (+3.5%yoy) caused product costs to jump, subsequently contributing to higher average selling price (+2%, 1QFY23: +1%) but lower sales volume growth (+7%, 1QFY23: +13%). However, petrochemicals' uptrend remains elusive in 1QFY24. Petronas Chemicals (NEUTRAL, TP:RM7.34), despite its earnings gained by +26%yoy due to weakening of MYR against USD and lower energy & utilities costs, average product spreads continue to be lower. Plant utilization rates were also lower at 86-87% due to higher statutory turnaround and plant maintenance activities resulting in lower production and sales volumes. Particularly for petrochemicals, we are expecting the headwinds to remain, including: (i) unfavorable global economic conditions, (ii) volatile petrochemical product prices (in which is correlated with Brent crude oil prices), (iii) lower utilization rate of production facilities, and (iv) unfavorable foreign exchange rate movements.

Integrated Oil and Gas

Dialog Group (BUY, TP: RM2.72) saw an improvement in its earnings by +14%yoy, contributed by increased upstream activities and higher tank storage demand. As is the overall downstream sector, Dialog was also plagued by project cost overruns following maintenance and repairs. While we believe the tensions in the Middle East – notably in the Red Sea blockade – had a slight upside to Dialog's storage farm, the group still faced challenges in terms of: (i) inflationary pressures, (ii) supply chain disruption, and (iii) higher material prices and labour cost. Prolonged geopolitical tensions in Eastern Europe and the Middle East could result in cost overruns and project delays.

All in all, we maintain positive for the sector in CY24, on the basis that we are expecting the oil market to stabilize following an increase in global demand for crude and petroleum products, and tighter supply of crude oil and natural gas considering OPEC+ continuous production cuts up until CY25 and the ongoing geopolitical tensions in Middle East and Europe. We remain optimistic for the upstream and the midstream, while downstream, barring fuel, would see a slight demand headwind until 2HCY24. Additionally, we are also expecting clean energy and renewables to make more significance in the market moving forward, whether through EPCC of clean energy infrastructure or cleaner products, following the continuously higher demand for sustainable and green solution within the sector.

Plantation: For the 1QCY24, planter performance under our coverage was largely within our expectations, with 7 companies performing within and 1 falling short. The total decline in earnings was dragged by low crops seasonality, however the impact was cushion by the elevated average CPO price realized, which hovered around RM3,622-4,371/Mt levels. In 1QCY24, the average selling price (ASP) of CPO weakened to RM3,983/Mt (+8.7% qoq, -0.3% yoy). FGV was one of the only companies that produced results falling short of our expectations. The variation was mostly caused by a decreased operating profit in the plantation segment due to lower FFB and CPO processed, compounded by the high CPO cost production circa RM2,800/Mt level on combination of higher upkeep and maintenance, manuring, and labour costs.

The demand for oleochemical, biodiesel and oil & fats products, on the other hand, rebound and has a significant turnaround effect on biodiesel and oleo and fats refineries' operational profit. However, some Biodiesel plant still run with negative to thin margins due to competitive competition against Indonesian players. Other than that, even though it appears that the issue of a labour shortage has been mostly handled. Broadly, the labour shortage still stood at about 40,000. Nonetheless, most of the big players have seen its newly hired workers gradually become competent in estate activities particularly in upkeeping and manuring activities, taking advantage of dry weather environments, and this has translated to better OER and FFB yield. We foresee the impacts of insufficient fertilizer application for the past 2 years in a row on FFB production slowly diminish.

The sector's downside risks are remains (i) continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which reduced the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production (RM2,500-2,900Mt; 4QCY23: RM2,700-3,100Mt); and (vi) slower consumption on palm oil products (Oleochemical, biodiesel and oil and fats) owing tight spending in high interest environments. Looking ahead, we maintain NEUTRAL call on the sector with average CPO price of RM3,600/Mt for CY24. Our top pick is Ta Ann (BUY, TP: RM4.10). 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 La-Nina in 2HCY24) would provide trading opportunity in the stock.

Property: For the recently concluded earnings reporting season, four out of six property companies that released earnings have reported earnings that came in within expectation. Meanwhile, IOI Properties reported earnings that beat our expectation as quarterly earnings were boosted by land sale gain. On the flip side, Matrix Concepts reported slight miss in earnings due to higher-than-expected expenses. Overall, earnings growth in 1QCY24 for property companies is positive, driven by higher recognition from property projects as labour shortage issue resolved. Besides, the overall improving new property sales has also supported earnings growth. Meanwhile, new property sales in 1QCY24 of property companies are largely on track to meet expectation as buying interest on property remains healthy. On the other hand, we have revised our target prices for property companies upwards during the earnings reporting season after pegging narrower discount to RNAV in view of the improving landscape for property sector and better earnings visibility. In a nutshell, we are maintaining our POSITIVE stance on property sector.

REITs: For the recently concluded earnings reporting season, all six REIT under our coverage reported earnings met expectations. Earnings growth for REIT was largely positive in 1QCY24 except for Al-`Aqar Healthcare REIT and Sunway REIT. Al-`Aqar Healthcare REIT reported lower earnings (-5%yoy) due to lower rental income from Australia division. Meanwhile, Sunway REIT recorded lower earnings (-9.8%yoy) due to loss of income from Sunway Medical Centre and lower rental from Sunway Pyramid Mall as AEON moved out from the mall. Among REIT that reported earnings growth in 1QCY24, Axis REIT registered the highest earnings growth of +25.8%yoy due to contribution from Bukit Raja Distribution Centre 2, lower property operating expenditure and lower provision for doubtful debts. Similarly, Pavilion REIT recorded double-digit earnings growth of +18.7%yoy in 1QCY24 due to contribution from Pavilion Bukit Jalil and higher rental income from Pavilion KL Mall. Meanwhile, IGB REIT and KLCCP Stapled Group recorded single digit earnings growth due to organic growth of positive rental reversion. On the other hand, Axis REIT remains on active acquisition trail as it proposed to acquire two properties from Cycle & Carriage Bintang Berhad. This was following its few asset acquisitions in Bukit Raja in February and April 2024. We think that the active acquisition of Axis REIT signals that outlook for industrial segment remains promising. Overall, we maintain our POSITIVE stance on REIT due to the stable outlook for retail and industrial sector.

Technology: For 1QCY24, we saw a mixed of financial performance for OSAT under our coverage with one company surpass expectations, another one met expectations and two others fell below expectations. Nonetheless, in general we observed that OSAT companies posted better earnings performance on year-over-year basis, though at a difference pace, ranging from +7.6% to more than +100%. This supported our view that the industry remains on recovery mode and has not entered the upcycle.

D&O Green Technology (NEUTRAL; TP:RM3.85) posted a healthy rebound for 1QCY24 as strong demand momentum from 4QCY23 spillover to the quarter. This led to elevated utilisation rate as compared 1QCY23 and thus profitability. Note that low utilisation rate in 1QCY23 led to the group be barely breakeven. Meanwhile, Globetronics Technology Bhd (NEUTRAL; TP:RM1.10) meet our expectations as we assumed a conservative pace of recovery. It may take some time for the "China +1" and "Taiwan + 1"strategies to bear fruit. Note that we upgraded the stock from a sell recommendation, after the share decline by more than 20% on a year-to-date basis.

On the contrary, both Inari Amertron Bhd (NEUTRAL, TP:RM3.11) and Unisem (M) Bhd (NEUTRAL, TP:RM3.41) underperformed. On a year-over-year basis, Inari record close to +9%yoy in revenue. However, the contraction in profit led to lower-than-expected profit. Management guided that this was mainly due to higher running costs as well as inclusion of new product which carry lower profit margin during the early phase. Similarly, Unisem's 1QCY24 financial performance came in lower-than-expected mainly due to the low utilisation rate for the Ipoh operation. Only the China operation show commendable pace of recovery.

On another note, IT solutions providers i.e. Myeg and Datasonic, generally perfomed better than the OSAT companies. Both posted strong earnings growth of +47.2%yoy and +78.4%yoy respectively. This was mainly due to a combination of strong revenue growth as well as expansion in profit margin. Note that for 1QCY24, Myeg and datasonic's profit margin was respectable at 66.9% and 32.9% respectively. We do not see any let up in the foreseeable term.

Telecommunications: In 1QCY24, all the telecommunication companies under our coverage met our expectation. On a comparative basis, Maxis outperformed its peers as the 1QFY24 earnings made up 28% of our full year estimates. Meanwhile, earnings of both Axiata and Celcomdigi came in at lower the end of our estimates at about 21%. There were also no surprises on Telekom Malaysia performance as it was well within our earnings projection at about 25%.

All the telcos posted a commendable year-over-year growth due to a combination of higher revenue and/or effective cost management. On this note, Celcomdigi and Telekom Malaysia saw a decline in depreciation and amortisation cost.

The locally derived revenue generally saw a low single digit growth at best, while Celcomdigi saw a marginal decline in revenue. On the mobile side, postpaid revenue from Maxis grew at the fastest pace as compared to its peers, premised on effective plan offerings. Nonetheles, Celcomdigi has come with new postpaid offerings which indicate a competitive landscape remains. Meanwhile, prepaid revenue continued to slide as telcos continue to push for the pre-to-post conversion. On the home fibre broadband, Maxis continues to gain traction, ahead of its peers. Telekom Malaysia, on the other hand, saw it revenue boosted solely by TM Global while Unfi and TM one posted earnings contraction. Outside of Malaysia, Axiata's revenue grew at a higher pace of +13.3%yoy, mainly driven by XL Axiata.

All in, Celcomdigi bhd (BUY, TP: RM4.95) remains our favourite for the sector as we foresee recovery in service revenue as well as synergies effect continue to take shape. It is also our sole buy recommendation for the sector.

Utilities: The utilities sector performed within expectations in 1QCY24. Tenaga is one of two companies under coverage that saw earnings contraction (-6.3%yoy) mainly due to reduction in other operating income and a drag from Genco given outage at the Manjung 4 generation plant. YTL Power and YTL Corp on the other hand, saw earnings expand +35%yoy and +20%yoy respectively given still strong contribution from Power Seraya notwithstanding some sequential decline from rollover of retail contracts, while YTL Corp's cement division continues to benefit from increased volumes and stabilising ASPs. Ranhill, meanwhile, saw earnings contraction of -7%yoy as the results have yet to fully reflect RSAJ's domestic water tariff hike, while earnings during the quarter were heavily skewed towards 51%-owned Ranhill Worley's engineering projects, which drove an increase in MI recognition. In the solar EPCC space, Samaiden saw earnings expand by a strong +116%yoy given pickup in remaining LSS4 project progress ahead of scheduled completion in 3QCY24.

Outperformer versus underperformer

In comparison to preceding quarter, there was a decline in the number of outperformers among the FBM KLCI constituents under our coverage in 1QCY24 from 7 to 5. Nonetheless, the number of underperformers also declined from 5 to 0.

In 4QCY23, the outperformers among FBM KLCI constituents under our coverage came from varied sectors. They were Axiata, Hong Leong Financial, IOI Corp, MISC, and Petronas Chemicals. Meanwhile, there were no underperformer among the FBM KLCI constituents under our coverage in the review quarter.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
1QCY24	5	0
4QCY23	7	5
3QCY23	4	8
2QCY23	3	6
1QCY23	1	5

Source: MIDFR

Earnings revision/ variation

The aggregate FY2024(F) earnings of the FBM KLCI constituents under our coverage was raised by RM1.2b (+1.9%) to RM67.0b.

The higher aggregate figure for FY2024(F) was mainly contributed by upward revisions to forward earnings of Financial Services (Hong Leong Financial), Industrial P&S (Petronas Chemicals), Plantation (IOI Corp), and Transport & Logistics (MISC) constituents.

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

SECTOR	Stocks	FY2024 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	-55
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	352
HEALTHCARE	IHH Health	0
INDUSTRIAL P&S	Petronas Chemicals	232
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	104
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	1
TRANSPORT & LOGISTICS	MISC	536
UTILITIES	TNB, Petronas Gas, YTL Corp, YTL Power	52
TOTAL		**1,222**

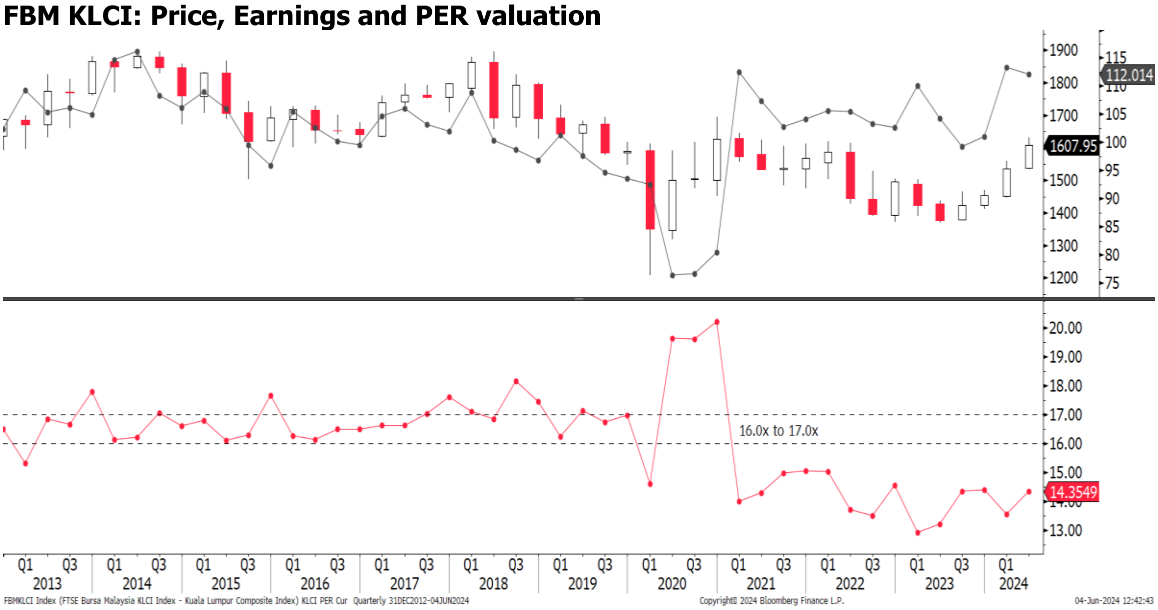
Source: MIDFR

Similarly, the aggregate FY2024(F) earnings of the stocks under MIDFR Universe was raised by RM1.8b (+2.2%) to RM87.2b.

Earnings and valuation

FBM KLCI: Post-1QCY24 earnings season, the consensus EPS24 forecast for FBM KLCI stands at 112.0 points. The prevailing PER valuation of FBM KLCI (which represents large-cap stocks) at 14.4x is relatively cheap vis-à-vis its historical range of 16.0x to 17.0x.

FBM KLCI: Price, Earnings and PER valuation



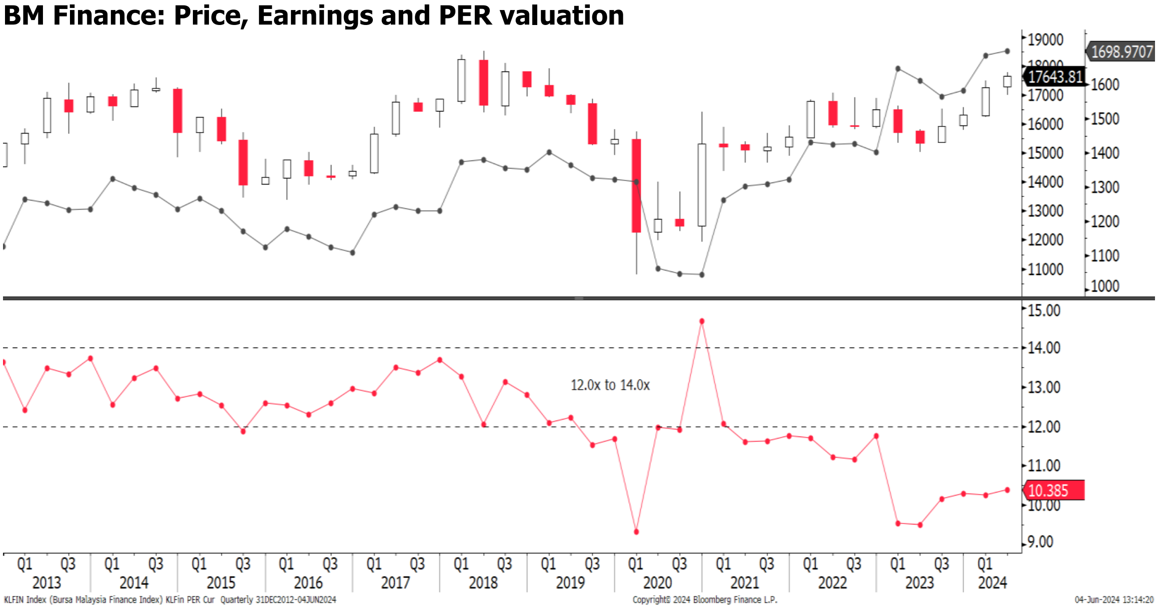
Source: MIDFR, Bloomberg (G658)

In above regard, the cheap valuation of FBM KLCI is mainly contributed by its financial services constituents. The prevailing PER valuation of BM Finance (which represents financial services stocks) at 10.4x is relatively cheap vis-à-vis its historical range of 12.0x to 14.0x. It is notable that the weightage of financial services constituents in the FBM KLCI stands at circa 40 percent.

We recently turned positive on the banking sector (report here), largely due to (1) local COF situation outlook is improving, bolstered by government and BNM initiatives to preserve liquidity in the economy, (2) retail loan yields remaining resilient while loan pipeline is still strong, hence we are not expecting any slowdown in take-up until at least next year, and (3) positive market sentiment should drive NOII via retail fee income component.

Thus, we expect to see a general improvement in the valuation (with the prospect of positive re-rating) of financial services stocks.

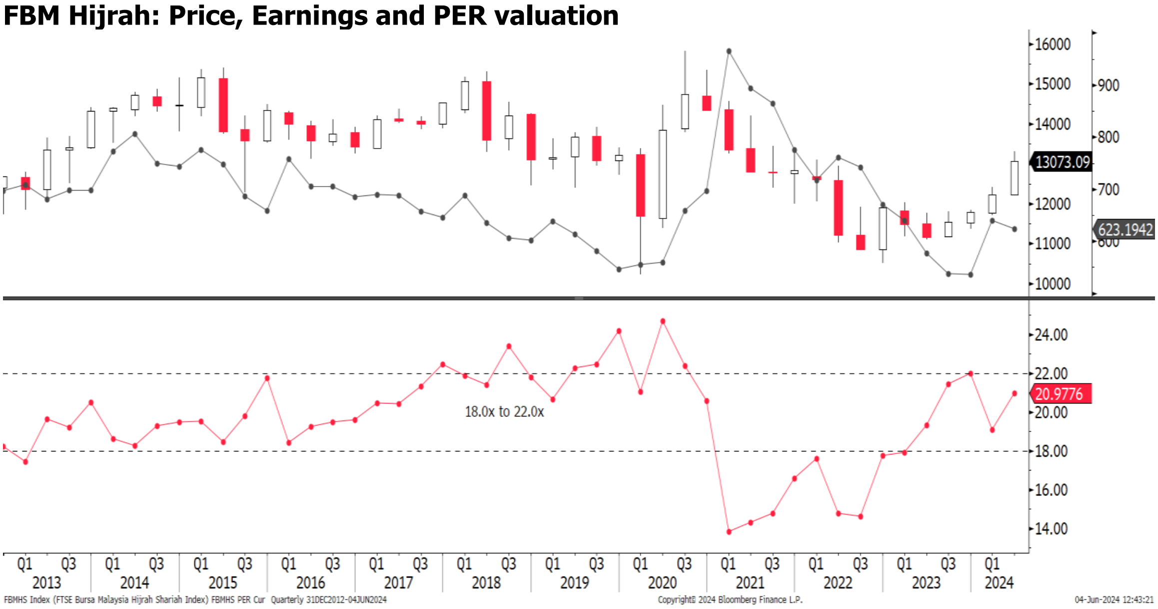
BM Finance: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G724)

FBM Hijrah: Post-1QCY24 earnings season, the consensus EPS24 forecast for FBM Hijrah stands at 623.2 points. The prevailing PER valuation of FBM Hijrah (which represents large cap shariah stocks) at 21.0x is neither cheap nor too expensive vis-à-vis its historical range of 18.0x to 22.0x.

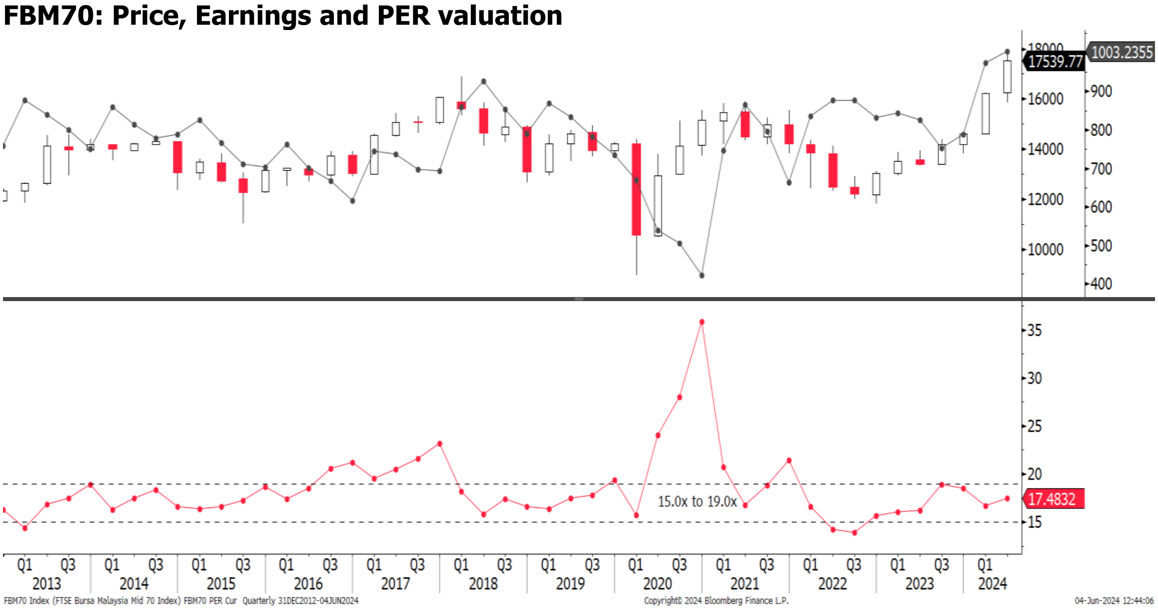
FBM Hijrah: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G725)

FBM70: Post-4QCY23 earnings season, the consensus EPS24 forecast for FBM70 stands at 1,003.2 points. The prevailing PER valuation of FBM70 (which represents mid-cap stocks) at 17.5x is not expensive vis-à-vis its historical range of 15.0x to 19.0x.

FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G715)

Market outlook and price targets

Overall, the 1QCY24 results season was quite positive as attested by the upward revisions to aggregate forward earnings of both the FBM KLCI (constituents under our coverage) and MIDFR Universe. Refer to Appendix for further details.

Moreover, we see further upside to the local equity market to be driven by inflow of foreign funds into Ringgit assets conceivably attracted by potential US Dollar weakness (engendered by the likelihood of US Fed rate cuts in the second half of this year), and with the investment case to be underpinned by Malaysia's healthy macro/corporate earnings outlook as well as the prospect of positive re-rating (premised on hitherto inexpensive stock valuations).

On 7 December 2023, we introduced our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 at 1,665 points or PER24 of 15.0x, 13,450 points or PER24 of 20.4x, and 16,890 points or PER24 of 17.4x, respectively.

In view of the positive liquidity and fundamental considerations, we raised our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 to **1,750 points** or PER24 of 15.6x, **14,100 points** or PER24 of 22.6x, and **18,900 points** or PER24 of 18.8x, respectively.

APPENDIX

MIDFR: Changes in Aggregate Earnings Forecasts

	EARNINGS (RM mn)				EARNINGS *(% Chg)*	
	FY2024		FY2025		FY2024	FY2025
	Old (F)	New (F)	Old (F)	New (F)		
TOTAL (MIDFR Universe)	85,339.6	87,175.4	93,907.1	93,996.1	*2.2*	*0.1*
Annual % Change	*12.3*	*14.7*	*10.0*	*7.8*		
TOTAL (FBM KLCI) *	65,782.6	67,004.7	71,249.9	71,338.3	*1.9*	*0.1*
Annual % Change	*7.4*	*9.4*	*8.3*	*6.5*		

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.
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