3 September 2024

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended June 2024

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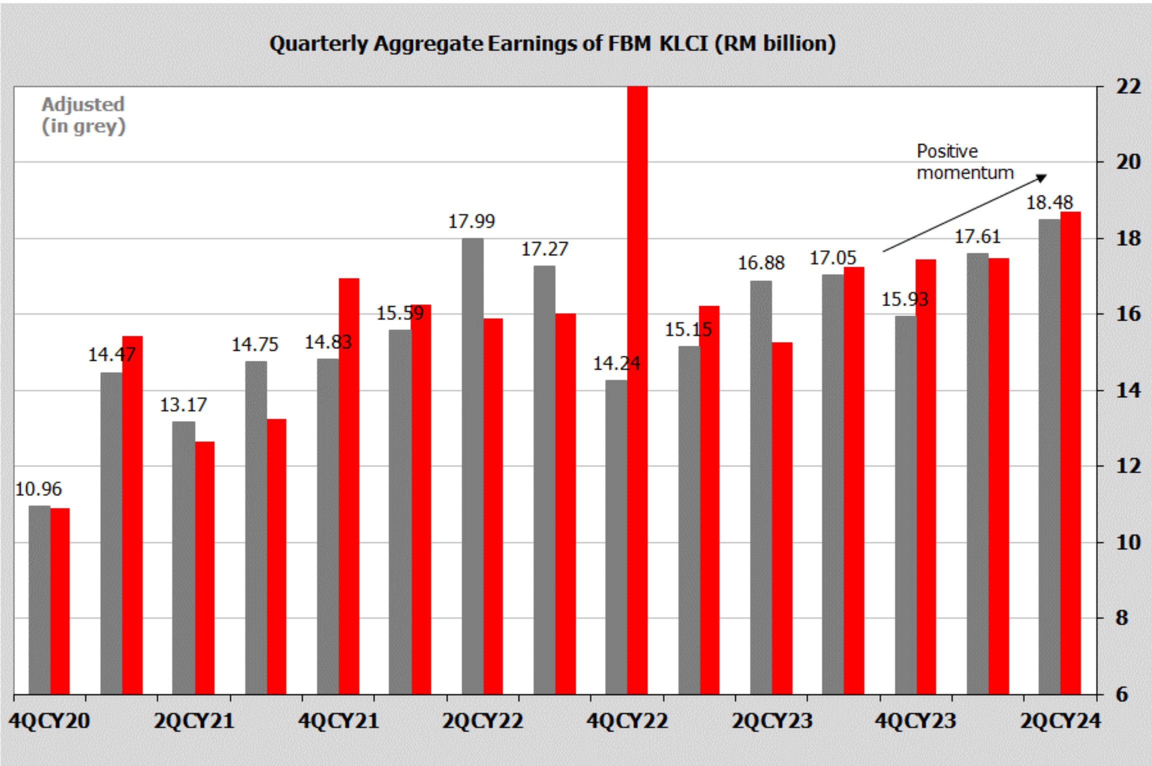
3 September 2024 | Earnings Wrap

Positive Momentum Continues

- *In 2QCY24, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM18.7b. It registered positive growth both on-quarter and on-year at +7.2%qoq and +22.6%yoy respectively.*
- *On adjusted basis, the aggregate normalized earnings grew both on-quarter and on-year at +5.0%qoq and +9.5%yoy respectively to RM18.5b.*
- *Within MIDFR Universe, 18% of stocks under coverage reported higher than expected earnings. Moreover, 23% posted earnings that were lower than expected versus 60% which came within expectations. Target price changes involved 35 upward adjustments and 16 downward adjustments. Furthermore, we made 18 changes to our stock recommendations with 8 upgrades and 10 downgrades.*
- *The aggregate FY2024e and FY2025f earnings of the FBM KLCI constituents under our coverage were both raised by +0.7% to RM66.2b and by +0.5% to RM70.7b, respectively. Likewise, the aggregate FY2024e and FY2025f earnings of the stocks under MIDFR Universe were both raised by +2.0% to RM88.9b and by +3.9% to RM97.6b, respectively.*
- *We see further upside to the local equity market to be driven by further inflow of foreign funds into Ringgit assets underpinned by relative weakening of US Dollar due to the expected Fed rate cuts, and with the investment case to be premised on healthy macro/corporate earnings prospects as well as relatively inexpensive stock valuations. We maintain our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 at 1,750 points, 14,100 points, and 18,900 points, respectively.*

FBM KLCI

In 2QCY24, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM18.7b. It registered positive growth both on-quarter and on-year at +7.2%qoq and +22.6%yoy respectively.



Source: Bloomberg, MIDFR

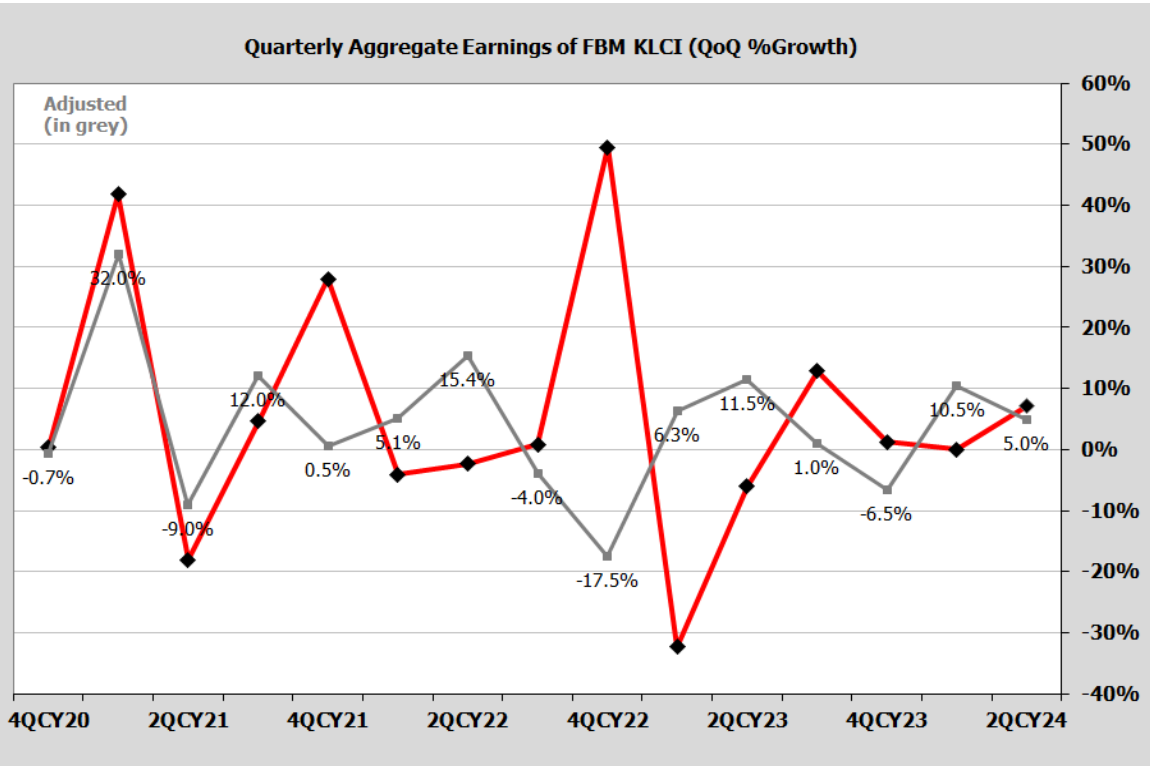
After adjusting for extraordinary (non-recurrence) items incurred during the review quarter, the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM18.5b. Moreover, after neutralizing the extraordinary items during relevant quarters (2QCY24: RM239m, 1QCY24: -RM137m, 2QCY23: -RM1.62b), the aggregate normalized growth in 2QCY24 registered positive growth both on-quarter and on-year at +5.0%qoq and +9.5%yoy respectively.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	2QCY24	1QCY24	QoQ	2QCY23	YoY
CONSUMER P&S	1,517.05	1,841.92	-17.6%	1,701.82	-10.9%
FINANCIAL SERVICES	8,772.00	8,670.00	1.2%	8,065.00	8.8%
HEALTHCARE	437.00	402.80	8.5%	315.00	38.7%
INDUSTRIAL P&S	1,508.83	1,290.01	17.0%	1,089.70	38.5%
PLANTATION	981.30	583.40	68.2%	802.50	22.3%
TELCO & MEDIA	1,333.40	1,413.80	-5.7%	1,465.70	-9.0%
TRANSPORT & LOGISTICS	540.90	840.30	-35.6%	418.00	29.4%
UTILITIES	3,389.80	2,563.90	32.2%	3,026.41	12.0%
TOTAL	**18,480.27**	**17,606.13**	**5.0%**	**16,884.14**	**9.5%**

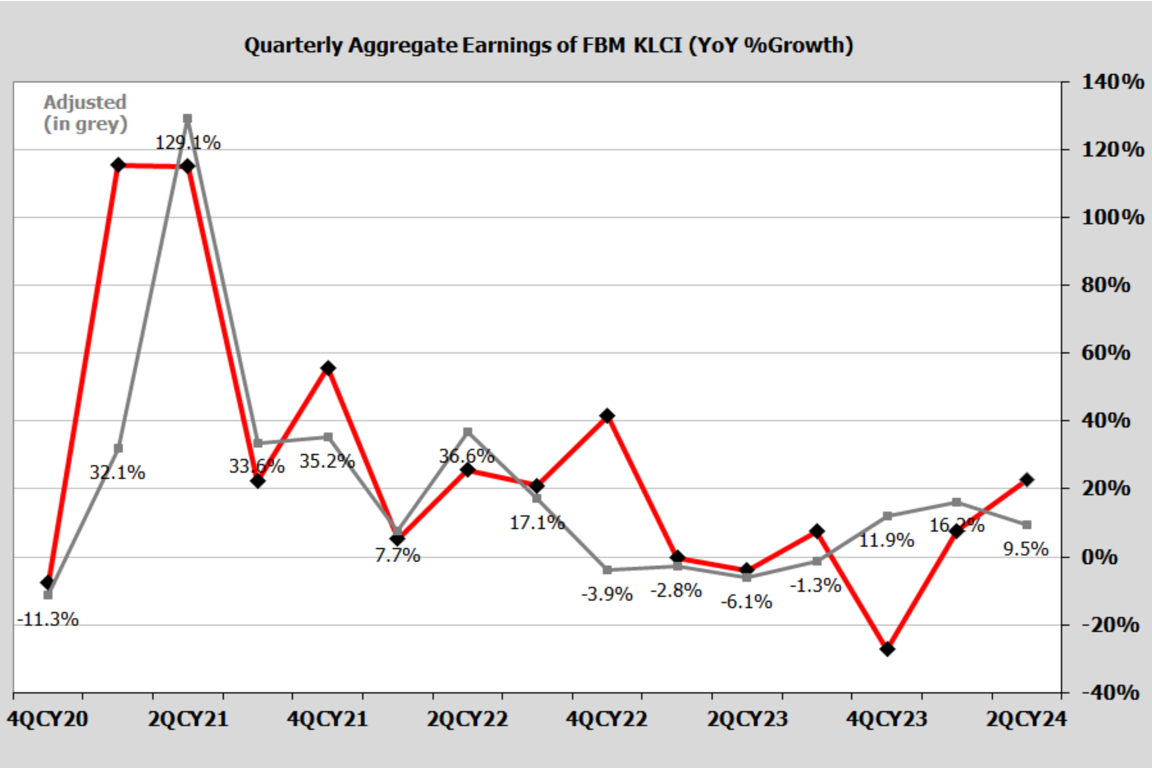
Source: Bloomberg, MIDFR

The positive on-quarter normalized growth performance in 2QCY24 was mainly due to earnings expansion among its Utilities (Tenaga Nasional and YTL Power), Plantation (KL Kepong and SD Guthrie), Industrial P&S (Petronas Chemicals and Press Metal), and Financial Services (Public Bank) constituents.



Source: Bloomberg, MIDFR

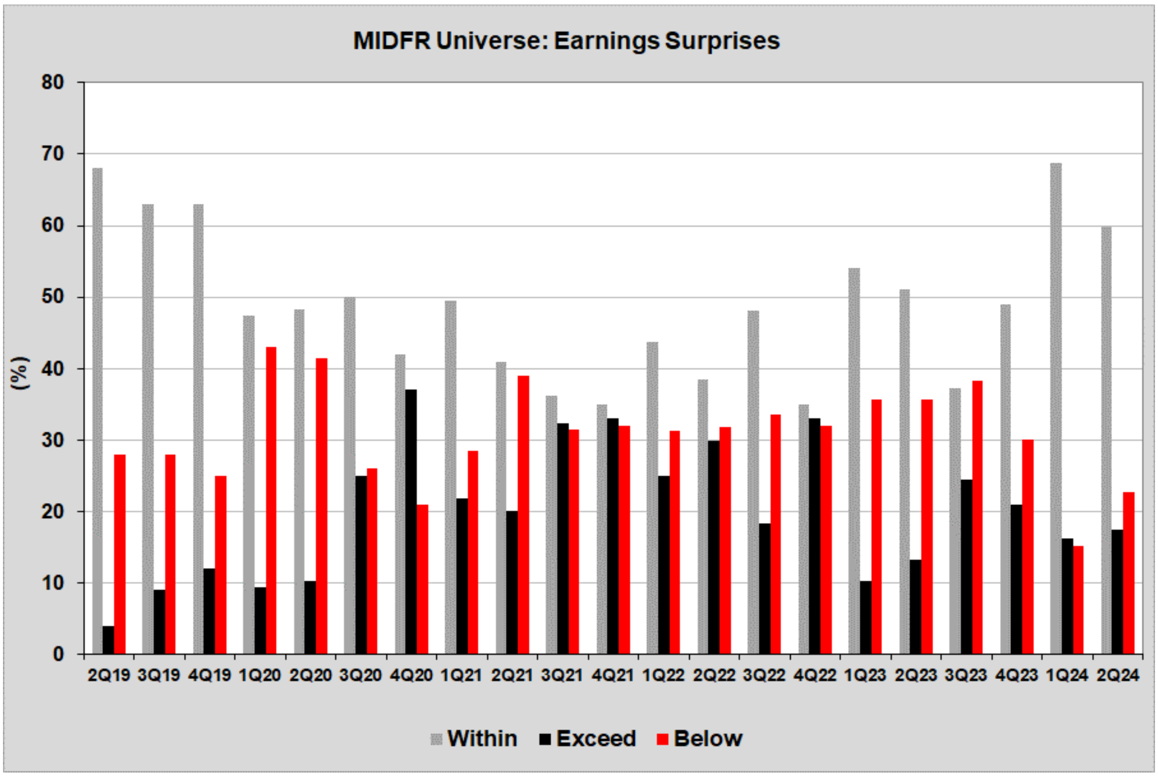
Moreover, the positive on-year normalized growth performance in 2QCY24 was mainly contributed by earnings expansion among its Financial Services (CIMB, HLFG, Public Bank, Hong Leong Bank and Maybank), Industrial P&S (Press Metal and Petronas Chemicals), Utilities (Tenaga Nasional), and Plantation (KL Kepong) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations increased to 18% in 2QCY24 as compared to 16% in the prior quarter. Similarly, the percentage of negative surprises also risen to 23% from 15% in 1QCY24.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation fell to 60% in 2QCY24 from 69% in the prior quarter. Moreover, Energy sector recorded the highest percentage of positive surprises at 75% of stocks under our coverage. Meanwhile, Healthcare sector registered the biggest percentage of underperformers at 67% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	100%	0%	0%
CONSUMER PRODUCTS & SERVICES	53%	12%	35%
ENERGY	25%	75%	0%
FINANCIAL SERVICES	86%	14%	0%
HEALTH CARE	33%	0%	67%
INDUSTRIAL PRODUCTS & SERVICES	43%	43%	14%
PLANTATION	63%	38%	0%
PROPERTY	50%	25%	25%
REITS	83%	0%	17%
TECHNOLOGY	50%	0%	50%
TELECOMMUNICATIONS & MEDIA	50%	25%	25%
TRANSPORTATION & LOGISTICS	71%	0%	29%
UTILITIES	50%	17%	33%
TOTAL	**60%**	**18%**	**23%**

Source: MIDFR

In total, we made 18 changes to our stock recommendations with 8 upgrades and 10 downgrades. Furthermore, target price changes involved 35 upward against 16 downward adjustments.

In 2QCY24, the aggregate reported earnings of companies under MIDFR Universe came in at RM23.8b. It recorded positive growth both on-year and on-quarter at +29.1%yoy and +14.0%qoq respectively.

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

	YoY (%)	*QoQ (%)*	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21
CONSTRUCTION	*6.2*	*(30.2)*	393	563	98	367	370	238	1,315	317	346	244	367	852
CONSUMER P&S	*(68.2)*	*(44.8)*	723	1,309	1,295	1,104	2,276	1,355	1,509	681	676	85	384	-118
ENERGY	*475.3*	*20.2*	501	416	4	217	-133	344	379	303	335	330	149	258
FINANCIAL SERV	*10.8*	*1.0*	10,132	10,033	9,405	9,671	9,143	9,250	8,919	9,478	7,964	7,937	7,511	6,182
HEALTH CARE	*396.4*	*(5.2)*	816	860	734	180	164	953	-584	296	766	501	1,199	2,640
INDUSTRIAL P&S	*34.8*	*21.3*	1,203	992	544	718	892	790	739	2,223	2,118	2,315	4,603	2,078
PLANTATION	*101.5*	*125.4*	1,269	563	941	1,866	629	589	2,178	1,721	2,689	2,406	2,381	2,206
PROPERTY	*336.9*	*333.8*	2,098	484	537	399	480	333	619	863	536	215	475	183
REITS	*22.6*	*5.5*	490	464	761	723	400	434	642	525	378	426	347	230
TECHNOLOGY	*20.7*	*(6.1)*	276	294	313	269	229	200	278	372	419	279	303	262
TELCO & MEDIA	*94.2*	*6.5*	1,293	1,214	230	484	666	1,042	10,410	792	821	831	789	1,259
TRANSP & LOGIS	*24.7*	*(19.1)*	967	1,196	1,135	767	776	887	1,296	1,008	123	472	563	452
UTILITIES	*43.5*	*46.6*	3,637	2,480	2,589	2,791	2,534	2,466	1,686	1,630	1,585	2,827	1,426	1,796
TOTAL	***29.1***	***14.0***	23,797	20,869	18,583	19,555	18,427	18,880	29,385	20,210	18,755	18,868	20,497	18,278

Source: MIDFR

Energy, Financial Services, Industrial P&S, Plantation, Property, REITs, Telco & Media and Utilities were the sectors which recorded improved total earnings (as reported) in 2QCY24 when compared to both the preceding quarter and corresponding period last year.

On the other hand, only Consumer P&S sector registered both negative sequential and on-year earnings (as reported) growth percentages in 2QCY24.

Sectoral commentary

Construction: The construction sector performed within expectations in 2QCY24. Four companies – IJM Corp, Sunway Construction and Cahya Mata Sarawak came in within expectations while MRCB and Malayan Cement produced upside surprises for the quarter. Gamuda, which has a July financial year end, will be reporting its FY24 result later this month. Nevertheless, its 3QFY24 result ending Apr-24 was also within expectations. For the sector, we can expect progress billings to improve in upcoming quarters as the construction progress pick up pace, alongside the improving pipeline of jobs, driven by industrial building projects and expectations of a stronger rollout of civil jobs in 2HCY24.

Data from the Department of Statistics Malaysia (DOSM) showed that the value of construction work done continued to increase for the 11th consecutive quarter at +20.2%yoy in 2QCY24, recording RM38.9b in terms of value of work done. This was the steepest rise in seven quarters, driven mainly by civil engineering (39.0% of total output), non-residential buildings (27.4%), residential buildings (22.6%) and special trade activities (11.0%). We remain POSITIVE on the construction sector, with our top picks being IJM Corp (BUY, TP: RM3.89) and Malayan Cement (BUY, TP: RM6.60).

Consumer (Automotive): The automotive companies under our coverage have disclosed earnings for 2QFY24, which have fallen within the expected range. The quarter was generally weaker compared to the previous one due to public holidays during the quarter, which prompted major OEMs to schedule plant shutdowns and consequently reduced vehicle supply. MBM Resources reported robust earnings compared to last year, fuelled by sustained high demand for Perodua vehicles, achieving a +24.1%yoy increasing in unit sales volume, which outpaced the +8.3%yoy growth in TIV during the same period.

TIV for 1HCY24 increased by +6.6%yoy, largely due to the performance of national car brands and the entry of new Chinese marques. However, the MAA has projected a -4.0%yoy decrease in full-year TIV to 765,000 units (CY23: 799,731), suggesting a softer 2HCY24. Our full-year TIV forecast is still under review. For Tan Chong, while results were in line with expectations, the company remains in the red due to weaker sales and increased competition both locally and internationally. We anticipate a weak earnings outlook, compounded by the lack of attractive new models in the market.

Consumer (F&B, Staples): In 2QFY24, the F&B and staples divisions under the Consumer sector continue to show a relatively stable performance.

Nestle (NEUTRAL, TP:RM126.00) saw its earnings slip by -57%yoy, due to weaker domestic sales amid the challenging environment from geopolitical tensions and inflationary pressures. Contrariwise, F&N (BUY, TP:RM37.00) saw an increase in its 9MFY24 core earnings by +28%yoy, due to higher demand from Thailand and Malaysia; offset by higher input cost of raw materials and uncertainties in exports following the rising freight rates. Despite higher earnings at +25%yoy, Hup Seng (NEUTRAL, RM1.04) saw flattish growth in the industry, following weakened export market from Thailand, Saudi Arabia and East Malaysia. Spritzer (NEUTRAL, RM2.78) also saw earnings surge up to +86%yoy. However, the risks on material and logistics cost outweighed the increased sales and higher ASP.

Leong Hup (BUY, TP: RM0.80) reported a +53%yoy earnings growth, in line with the higher ASP and sales volume of day-old chicks and broiler chickens, as well as feed mills. The group also reported a lower raw material cost for their products, which we believe will continue to support its performance alongside the growing demand for food security. Similarly, QL Resources (BUY, TP: RM7.25) started its FY25 with a gain in earnings by +16%yoy, attributed to higher earnings across all its segments (marine products, livestock, palm oil and convenience store). Its marine and livestock products reported better margins in material input cost, while its convenience store operations gained higher average store sales in line with better consumer sentiments.

Overall, we continue to be cautiously positive on this subsector, in consideration of the persisting headwinds caused by the ongoing geopolitical tensions, supply chain disruptions and inflationary pressures. The near-term risks remain to be the rising cost of raw materials – notably sugar, CPO, wheat, cocoa, milk powder and wheat – as well as increased freight rates and changes in consumer sentiment, which would subsequently impact buyer demand. However, we noted that livestock would continue to be supported by cheaper feeds and lower input cost, in line with the government's initiative to control staples prices through the ceiling price mechanism.

Consumer (Retail): The earnings results for consumer companies have been mixed. Out of the four companies we cover, two met our earnings projections, while results from two retailers, Rhong Khen and Padini, fell short of expectations. Sales for discretionary items were subdued during this period, largely due to the absence of festive celebrations.

Despite this, we are becoming more optimistic about the sector. Easing inflationary pressures, partly due to the minimal impact of the expanded scope of services tax on consumer companies, are contributing to this positive outlook. Additionally, any postponement of targeted fuel subsidies is expected to boost consumer sentiment and alleviate inflationary pressures on the sector.

Overall, we view that EPF Account 3 and the revision of public servant salaries could benefit value product retailers like Aeon (BUY, TP: RM1.67) and Padini (BUY, TP: RM4.30) due to its products exposure that cater for the mass market subsegment, which broadly benefited from these 2 developments.

Financial Services: Results were mostly within expectations, except HLFG (which beat our and consensus forecast). Overall, an unsurprising quarter: NOII was more subdued (in most cases), and NIM did not deviate too much from 1QCY24's result. High-cost inflation was seen throughout the board, but this was long since guided for. Credit cost was fairly normalised, though more banks reported large recoveries and writebacks rather than heavier provisions. No serious issues about asset quality. All dividends issued were healthy, with some banks reporting increased payout. Moving on, we are still optimistic and stronger asset growth in 2HCY24, while NIM outlook is still solid: worries about compressing loan yield should be offset by COF upside, due to increased liquidity coming from Fed rate cute. For Insurance, we remain optimistic about the sector largely due to strong economic/loan growth outlook to bolster growth.

Healthcare (Gloves): For 2QCY24, the performance of glove companies under our coverage failed to keep pace with our expectation. Only Top Glove is loss-making while Hartalega and Kossan showed a profitable quarter. In this round of quarterly result, we downgraded Hartalega to NEUTRAL from BUY previously as the concern on utilisation rate and thus, profit margin to persist. With this, all the glove companies under our coverage carry only Neutral recommendations. Nonetheless, on a comparative basis, we view that Hartalega performed better as compared to its peers.

On the revenue end, some recovery in demand has been observed. This was seen in the improvement in revenue of between +10.9%yoy to +32.7%yoy. We understand that restocking activities have resumed in conjunction with the depletion of pandemic stockpiles. Fortunately, given the subdued market condition, the threat of new entrants has greatly diminished. Couple with ongoing industry consolidation and capacity streamlining, we opine that the industry has bottomed out. Nonetheless, at this juncture, there is still access capacity in the market. This led to competition on the ASPs front, especially from the international competitors. As such, we see little room for the rising operating cost to be passed on to the customer. Thus, it is imperative that the glove companies continue its efforts in driving down operational cost towards a sustainable profit margin.

Healthcare (Hospitals): In 2QFY24, the healthcare services and hospitals subsector continue to ride on the demand growth for quality services. KPJ Healthcare (BUY, TP: RM2.54) had seen an increase in revenue (+15%yoy) and core earnings (+61%yoy); contributed by higher BOR (+3%yoy), consequent to the surge in inpatient visits (+14%yoy), outpatient treatments (+4%yoy), bed capacity (+7%yoy) and surgeries (+9%yoy). With the complete consolidation of its portfolio – which led to the closure of non-profitable businesses – as well as aggressive recruitments of medical professionals amid its service expansion within Malaysia, we believe that KPJ will retain its excellent performance moving forward.

Meanwhile, IHH Healthcare (BUY, TP: RM7.35) saw a similar increase in healthcare services demand. Revenue gained +30%yoy while earnings improved by +30%yoy in the first half. Additionally, IHH's Labs division saw an increase in test volumes (+8%yoy), indicating higher inpatient treatments for NCDs, viral and rare diseases. However, IHH's business operative in the international front remain vulnerable to unfavorable forex and inflationary pressures. Nevertheless, IHH continues to address the growing demand for healthcare services through its initiative in expanding its bed capacity by CY29 by +46%, as well as advancing and modernizing its hospitals and the services it offers.

Overall, we are expecting both companies to continue with the positive trajectory, given that the: (i) Budget 2024 and state budgets continue to favour the Healthcare sector, (ii) rising aging population in Malaysia by +4.5% 10-year CAGR, (iii) medical tourism expected to exceed RM2b of revenue in CY24 and (iv) increased demand for digital and AI solutions to treatments and surgeries. The downside risks in the near term for the subsector include: (i) rising costs of medical supplies, technology and labour, (ii) unfavourable changes to governmental regulations, and (iii) vulnerable data security amid digitalisation of operations.

Oil & Gas: 2QFY24 earnings saw promising improvement in the Oil and Gas sector, supported by: (i) higher crude oil prices, with average 2QFY24 Brent at USD85.03pb (+4%qoq, +9%yoy), (ii) increased capex (global: +24%yoy to USD600b, Malaysia: +23%yoy to RM31.2b), and (iii) stable and elevated charter rates. Out of 9 companies under our coverage, only 2 came below expectations.

The upstream division remained resilient due to its contractual work basis, which provided stability even with fluctuations in oil prices, which are affected by the ongoing geopolitical tensions in the Middle East and Europe, the continuous OPEC+ production cut, and the demand for crude and refined petroleum regionally and globally. The following is a breakdown by division:

Upstream

OGSE companies remain the main beneficiary of the upstream division, given the increase in exploration and development activities, in line with the contractual nature of projects amid relatively stable crude oil and natural gas prices. Deleum (BUY, TP:RM1.64) saw its revenue gained +24%yoy and earnings jumped +77%yoy due to higher sales and commission income for its offshore machinery services, while its oilfield services saw recovery from higher demand for its slickline and ell services. Similarly, 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:RM0.85) saw an increase in earnings by +58%yoy on the back of its impairment reversal from an FPSO shutdown in FY23, with promising extensions on its fleets. Additionally, one of its FPSOs (Sterling V) had received its first oil, hence commenced its charter rate to Bumi Armada. Likewise, MISC (BUY, TP:RM9.75) and MMHE (BUY, RM0.65) saw earnings jumped +36%yoy and >100%yoy respectively, contributed by increased freight rates and higher demand for heavy engineering and marine solutions. Freight rates had been improving in 2QCY24 (+2%yoy for dirty tankers, +27%yoy for clean tankers), in line with favourable translational impact from a weakening MYR to USD, giving tankers the leverage of lowering operating cost, as well as the growing demand for refined petroleum products.

Midstream

Gas transportation saw an increase in sales volume, depending on the performance of the industries that they are serving. Gas Malaysia (BUY, TP: RM3.96) saw its earnings up by +11%yoy, despite lower revenue by -14%yoy, due to higher volume gas sold following lower ASP. F&B sector saw the highest gas offtake at 20.1mGJ (26%), followed by Rubber industry at 17.4mGJ (23%) offtake and Chemicals industry at 8.3mGJ (11%). We are expecting this trend of offtakes from the industrial and consumer sectors to continue following better GDP numbers (estimated 4-5%), barring any major changes to their contracts in the near term. Meanwhile, Petronas Gas (BUY, TP:RM19.23) recorded a higher profit by +2%yoy due to lower opex and lower exposure to forex. Like 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 had seen an increase in sales volume and higher ASPs for refined petroleum products, in line with the higher demand and relatively stable Brent crude oil price. However, these caused product costs and operation costs to jump. As such, Petronas Dagangan (BUY, TP:RM24.63) earnings were down by -13%yoy. All fuel and non-fuel operations reported lower earnings despite the higher sales volume (+6%yoy) and increased ASP (+4%yoy). Moving forward, we expect demand fundamentals for fuel oil and non-fuel items will continue to support the group, with a slight risk on higher operating cost. Meanwhile, the petrochemicals subdivision saw improvement from its bottom cycle in 2QCY24. Petronas Chemicals (BUY, TP:RM7.54) reported improved earnings by +25%yoy, boosted by favourable forex and higher sales from its Specialty Chemicals segment. However, plant utilization rates remained low at 86-91% (optimum at >95%) due to higher plant maintenance activities resulting in lower production and sales volumes. Particularly for petrochemicals, we are expecting the headwinds to remain despite the improvements, with near-term risks from maintenance activities, utilities cost and feedstock availability.

Integrated Oil and Gas

Dialog Group (BUY, TP: RM2.72) saw an improvement in its earnings by +13%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. We noted that the geopolitical tensions in the Middle East – notably in the Red Sea blockade – had a slight upside to Dialog's midstream segment.

Nevertheless, Dialog is still susceptible to other factors, including: (i) escalated geopolitical tensions, (ii) inflationary pressures and unfavourable forex, and (iii) supply chain disruptions

All in all, we maintain POSITIVE for the sector in CY24, on the basis that we are expecting the oil market to stabilize based on: (i) increase in global demand for crude and petroleum products, (ii) OPEC+ continuously supporting oil prices up until CY25, and (iii) the ongoing impact from geopolitical tensions. As such, we remain optimistic for the upstream and the midstream activities, following higher demand for offshore services, marine solutions, and storage and tankers. Meanwhile, for downstream, we anticipate higher operating costs and lower plant utilization to persist, offset by a slight recovery coming into 2HCY24.

Plantation: For the 2QCY24, planter performance under our coverage was mixed, with 5 companies performing within expectations, 1 falling short and 2 were above expectations. The total improved in earnings was driven by decent crops ripeness, amidst the elevated average CPO price realized, which hovered around RM3,834 to RM4,129/Mt levels. In 2QCY24, the average selling price (ASP) of CPO strengthen to RM4,038/Mt (+1.4%qoq, +5.0%yoy, +2.3%ytd). PPB was the only one of the companies that produced results falling short of our expectations. The variation was mostly caused to the weakness of its core business namely consumer products, film exhibition and the Wilmar contribution, note that, we revised our earnings estimates for the stock by -5.0%/-7.3%/-13.6% over FY24E-26F due weaker estate activity seen in Plantation & Sugar business, particularly when the FFB, CPO and PK production, FFB Yield and OER were down by -6%/-10%/-10%/-7% and -2% respectively, due to prolonged dry weather (El-Nino in Indonesia and Sabah area) conditions, which resulted squeezed in margins due to fixed input cost in cost production items.

On the other hand, demand for oleochemical, biodiesel, and oil & fats products has rebounded significantly, leading to a notable turnaround in operational profits for biodiesel and oleo and fats refineries. Many refineries are now benefiting from expanded margins, with improvements seen in both oleo sales and profits. In Europe, oleo has experienced a strong recovery, driven by increased demand and better margins, despite continuing high utility costs. However, the Chinese market remains relatively weak, with sluggish demand and ongoing uncertainties affecting derivatives products.

All in, we tweaked higher our sector profits forecasts for by +3%yoy/+3%yoy/+2%yoy over FY24E-26F, respectively. Higher estimates were pushed up by higher earnings revisions for KLK and SD Guthrie after considering revision of our new average CPO price expectation of RM3,800/Mt and RM3,600/Mt as well improvement in FFB production and yield on Indonesia side (these 2 companies carried considerable weightage in our sector universe roughly 40%).

Looking ahead, we maintain NEUTRAL call on the sector with average CPO price of RM3,800/Mt. Our top pick remains IOI Corp (BUY, TP: RM4.50) and Ta Ann (BUY, TP: RM4.16). IOI Corp outlook maintains steadfast and is well supported by both upstream and downstream profitability. Its refinery and oleo plant are well insulated from high input costs due to their strategic locations they operated in, unlike their peers that were operating in Europe, that mostly are impacted by high production costs - high natural gas. 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 prolong dry in 3-4Q24) would provide trading opportunity in the stock. Meanwhile, the sector's downside risks remain continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which will reduce the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production c. RM2,500-2,800/Mt (1Q24:RM2,700-2,900Mt; 4QCY23: RM2,700-3,100Mt); and (vi) EUDR implementation in which will slow the CPO and PPO trade due rigid environmental policy.

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. S P Setia reported earnings that came in above expectation as earnings were boosted by land sale gain which offset the losses from its Battersea Power Station project in UK. On the flip side, IOI Properties reported earnings that missed expectation due to higher-than-expected depreciation charges and lower margin. Earnings of property developers in 2QCY24 are largely positive with stable progress billing. Besides, property sales were largely within expectation of marginal new sales growth. We opine that the growth in new sales were driven by improving buying sentiment on property which supported by improving outlook for property market in Malaysia. In a nutshell, our calls on property companies are unchanged post earnings reporting season and we are maintaining our POSITIVE call on property sector.

REITs: For the recently concluded earnings reporting season, earnings of REIT were largely within expectations with five out of six REIT that under our coverage report reported earnings that met earnings estimates. Al-`Aqar Healthcare REIT is the only REIT that reported earnings that missed expectation mainly due to higher-than-expected trust expenditure which dragged by higher professional fees. Overall earnings for retail REIT were lower on sequential basis in 2QFY24 due to seasonally shopper footfall. However, earnings were largely higher on yearly basis as rental reversion of malls returned to positive territory due to higher shopper footfall at malls. Meanwhile, earnings of Axis REIT which has high exposure to industrial asset improved in 2QCY24 due to contribution from new assets and positive rental reversion. In a nutshell, earnings of REIT are commendable in 2QCY24, and we expect positive earnings outlook for REIT in 2HCY24 as outlook for retail, hotel and industrial industries remain stable. Hence, we are maintaining our POSITIVE call on REIT.

Technology: For 2QCY24, majority of semiconductor companies under our companies underperformed. Only D&O's 2QFY24 financial performance came in within our expectation as the group rebound strongly from near breakeven level a year ago. As a result, we upgraded D&O to BUY from NEUTRAL previously. There was underperformance from Inari, Globetronics and Unisem. For Inari and Unisem, the pace of revenue recovery was slower than expected. While we maintain our NEUTRAL recommendation for Inari, the poor result from Unisem led us to downgrade the stock to SELL from NEUTRAL previously. Meanwhile, Globetronics posted a contraction in quarterly revenue, owing to lower demand.

These indicated that the recovery in the industry remains tepid. Nonetheless, the results further signalled that the worst is over. Given the weak demand, there is no significant improvement in utilisation rate which in-turn affect the profit margin. In addition, higher operating cost, primarily from higher electricity tariff, put more pressure on the earnings.

Aside from the above, IT solutions providers namely Myeg and Datasonic posted a strong 2QCY24 earnings growth of +48.3%yoy and +40.3%yoy respectively which in-line with our expectations. This was premised on commendable growth in revenue. In the case of Myeg, contribution from Zetrix continue to chart the revenue growth, while Datasonic continue to see strong demand for smart cards, passport and personalisation services. Notably, profit margin also healthier for both Myeg and Datasonic at 68.3% and 29.2% respectively.

Telecommunications: For 2QCY24, expectation on the financial performance of telecommunication companies under our coverage was rather mix. Both Axiata and Telekom Malaysia (TM) tracked our expectations at 47.2% and 48.6% respectively. As such, there is no change to our NEUTRAL recommendation for both telcos. Meanwhile, Maxis is the only out performer this time around, coming in at 56%. This also prompted us to upgrade our recommendation for Maxis to BUY from NEUTRAL previously. On the contrary, slight disappointment was observed for Celcomdigi (CDB) whereby first half performance only made up 40.4% of our full year expectation. Nonetheless, we remain positive on CDB as higher pace of modernisation and integration will help to support future earnings. Between the two, our top pick lies with Maxis given the expectancy of all-round improvement.

On a comparative basis, Maxis and Axiata saw its 2QCY24 earnings growing by +8%yoy and +389%yoy respectively which was mainly supported by the expansion in revenue. For Maxis, all segments, apart from prepaid, contributed to the rise in revenue, while Axiata's revenue growth was supported by almost all of its Opcos except for Link Net, Boost and Dialog. In contrast, CDB and TM saw a contraction in 2QCY4 earnings due to the decline in revenue. Moreover, Telekom Malaysia's performance was further impacted as the effect of tax credit will wane off in FY24.

All-in-all, competition remains stiff among the telcos for both mobile and fixed broadband. Thus, offering need to be attractive but sustainable at the same time to evade irrational pricing conundrum. Also, there is a need for continuous cost optimisation to keep a favourable cost structure. On this note, we note that capital for 2QCY24 remain on the conservative end as it was generally lower on a year-over-year basis.

Transportation (Aviation): The aviation companies we cover reported 2QFY24 results that met expectations. Malaysia's passenger traffic for 7MCY24 reached an 88% recovery rate compared to 2019 levels. Given recent challenges faced by some local airlines, such as delays in aircraft deliveries and shortages of parts and labour, we expect full recovery in passenger traffic to occur next year rather than this year. The impact on MAHB's earnings was largely minimal, as passenger traffic for its Turkish operations has been exceptionally strong and has surpassed 2019 levels. For Capital A, we expect improved performance in the coming quarters due to further fleet reactivation and a stronger USDMYR, as its costs as mainly in USD, with a substantial portion related to jet fuel expenses. By the end of FY24, Capital A plans to have 195 operational aircraft, up by +17 from 2QCY24. This expansion will raise the operational fleet utilisation from 82% to 89%, along with the delivery of 8 additional aircraft in 2HCY24.

Transportation (Logistics): Logistics companies under our coverage reported a mixed set of results for 2QCY24. Tasco's results met expectations, while Swift Haulage and CJ Century fell short. The underperformance of these two companies was likely attributed to diseconomies of scale, as shipment volumes are still recovering and some customers in certain industries continue to struggle with post-Covid declines in demand. Freight rates are anticipated to stay high due to a shortage of vessel space and the upcoming peak period from Oct-Dec. We are optimistic that freight forwarders will adjust their strategies to balance tendered contracts with spot rate business, which offers higher margins. We also expect an increase in volume as customers switch from ocean to air forwarding to expedite shipments amid port congestion. Additionally, we are optimistic about the warehousing sector, as the newly added capacities will create cross-selling opportunities for related transportation services once they reach optimal utilisation.

Transportation (Port): Similarly, the reported earnings from port operators were as expected, with no surprises. For Suria Capital, the commencement of operations at SK Nexilis and Kibing Group's plants in KKIP in 4QFY23 has boosted container volume and is expected to continue driving it throughout this year. For Westports, yard occupancy started to rise from Mar-24 due to ships being diverted from the Port of Singapore because of congestion. However, the current situation is less severe than during lockdowns. Yard occupancy decreased from 100% in Jun-24 to 85% in Jul-24, compared to the ideal level of 65% in Dec-23. As a result, the increased revenue from value-added services is expected to normalise. Management continues to forecast a low single-digit growth in container volume for FY24F and anticipate that container volumes in 2HCY24 will exceed those in 1HCY24 as port congestion eases.

Utilities: The utilities sector largely came in within expectations for the quarter. Tenaga Nasional came in within our expectations with a +68.1%yoy growth in core earnings, driven by a growth in sales demand volume, lower coal prices and GenCo's rebound into the black. YTL Power, which saw its share price dipping prior to its results announcement over fears of a weaker quarter, proved otherwise when it exceeded expectations. Its FY24 earnings grew +88.8% on the back of surprise recovery from Wessex Water and the group's telco business, offsetting a slightly weaker Power Seraya. The stronger Malayan Cement and YTL Power results contributed to a +95.0% growth in YTL Corp's earnings.

Ranhill Utilities came in below expectations, dragged by a -RM8.0m reversal of profits that was previously recognised for a project. In the solar EPCC space, earnings were driven by higher margin residential and commercial and industrial (C&I) rooftop solar projects, which led to Samaiden coming in above expectations, registering a +52.0% growth in net profit for its FY24 while Pekat was within estimates with a +40.3%yoy growth in core earnings for the quarter. Sunview disappointed with a -35.4%yoy lower earnings for the quarter as a huge chunk of revenue and earnings for its large scale solar (LSS) projects' materials were recognised in the previous quarter.

While we remain NEUTRAL on the Utilities sector, given the stretched valuations, we still like the solar EPCC sub-sector as the key immediate-term beneficiaries of RE initiatives. Our top picks are Samaiden (BUY, TP: RM1.57) and Pekat (BUY, TP: RM1.32).

Outperformer versus underperformer

There was a sequential increase in the number of outperformers among the FBM KLCI constituents under our coverage from 5 to 7 in 2QCY24. Nonetheless, the number of underperformers also risen from 0 to 5.

In 2QCY24, all three Plantation constituents namely IOI Corporation, KL Kepong and SD Guthrie outperformed. Moreover, the other outperformers were Hong Leong Financial, Maxis, Petronas Chemicals and YTL Power.

Meanwhile, three Consumer P&S constituents namely Nestle, Petronas Dagangan and PPB Group underperformed. Furthermore, the other underperformers were Celcomdigi and Petronas Gas.

FBM KLCI: Outperformer versus Underperformer

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

Source: MIDFR

Earnings revision/ variation

The aggregate FY2024e and FY2025f earnings of the FBM KLCI constituents under our coverage were both raised by +0.7% to RM66.2b and by +0.5% to RM70.7b, respectively.

The higher aggregate figures for both FY2024e and FY2025f were mainly contributed by upward revisions to forward earnings of Industrial P&S, Financial Services and Plantation constituents.

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

SECTOR	Stocks	FY2024 (E)	FY2025 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	-41	-72
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG	409	322
HEALTHCARE	IHH Health	0	0
INDUSTRIAL P&S	Petronas Chemicals, Sunway	567	447
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	204	311
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	-142	-333
TRANSPORT & LOGISTICS	MISC	-536	-82
UTILITIES	TNB, Petronas Gas, YTL Corp, YTL Power	-17	-213
TOTAL		**443**	**380**

Source: MIDFR

Likewise, the aggregate FY2024e and FY2025f earnings of the stocks under MIDFR Universe were both raised by +2.0% to RM88.9b and by +3.9% to RM97.6b, respectively.

Refer to APPENDIX for further details.

Earnings and valuation

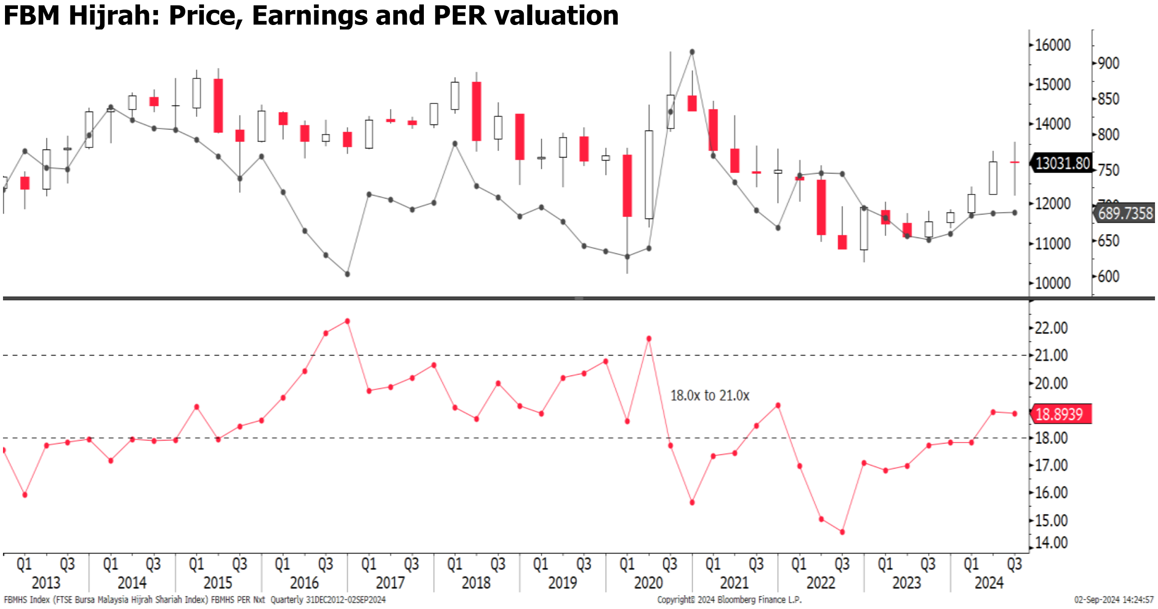
FBM KLCI: Post-2QCY24 earnings season, the consensus EPS25 forecast for FBM KLCI stands at 118.4 points. The prevailing PER valuation of FBM KLCI (which represents large-cap stocks) at 14.2x is relatively cheap vis-à-vis its historical range of 15.0x to 16.0x.

FBM KLCI: Price, Earnings and PER valuation

Source: MIDFR, Bloomberg (G657)

FBM Hijrah: Post-2QCY24 earnings season, the consensus EPS25 forecast for FBM Hijrah stands at 689.7 points. The prevailing PER valuation of FBM Hijrah (which represents large-cap shariah stocks) at 18.9x is near the lower end of its historical range of 18.0x to 21.0x.

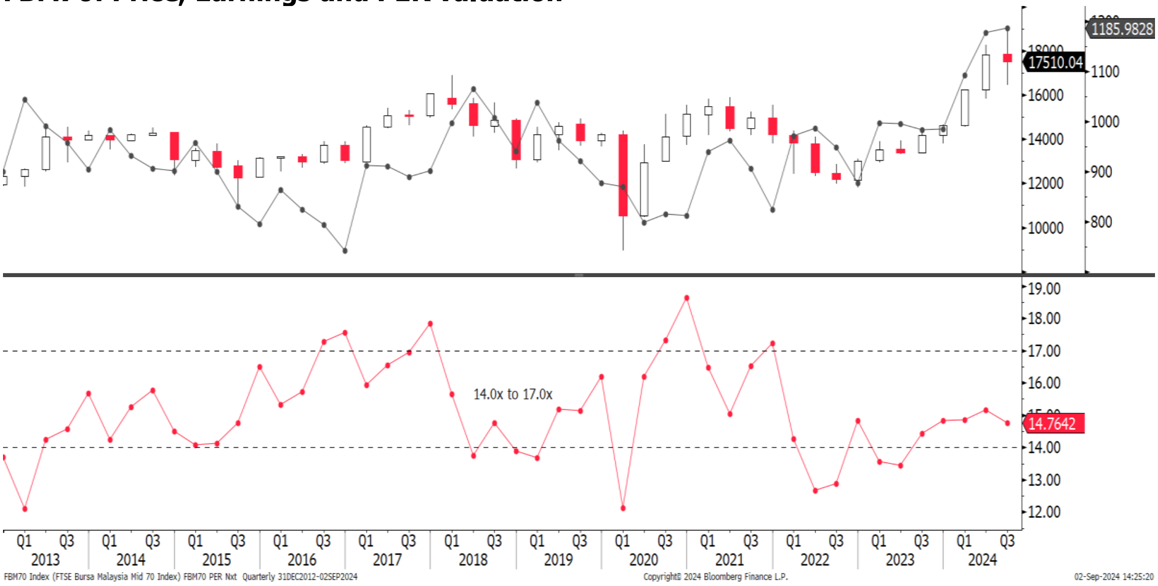
FBM Hijrah: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G737)

FBM70: Post-2QCY24 earnings season, the consensus EPS25 forecast for FBM70 stands at 1,186.0 points. The prevailing PER valuation of FBM70 (which represents mid-cap stocks) at 14.8x is near the lower end of its historical range of 14.0x to 17.0x.

FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G736)

Market outlook and price targets

Overall, the 2QCY24 results season was generally positive as attested by the upward revisions to aggregate forward earnings of both the FBM KLCI constituents under our coverage and MIDFR Universe.

We see more upside to the local equity market in coming months, (1) to be driven by further inflow of foreign funds into Ringgit assets underpinned by relative weakening of US Dollar due to the expected Fed rate cuts, and (2) with the investment case to be premised on healthy macro/corporate earnings prospects as well as relatively inexpensive stock valuations.

We maintain our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 to **1,750 points** or PER25 of 14.8x, **14,100 points** or PER25 of 20.4x, and **18,900 points** or PER25 of 15.9x, respectively.

APPENDIX

MIDFR: Changes in Aggregate Earnings Forecasts

	EARNINGS (RM mn)				EARNINGS *(% Chg)*	
	FY2024		FY2025		FY2024	FY2025
	Old (F)	New (E)	Old (F)	New (F)		
TOTAL (MIDFR Universe)	87,131.3	88,877.5	93,941.6	97,649.0	*2.0*	*3.9*
Annual % Change	*14.7*	*17.0*	*7.8*	*9.9*		
TOTAL (FBM KLCI)*	65,796.4	66,239.2	70,339.3	70,719.2	*0.7*	*0.5*
Annual % Change	*9.4*	*10.1*	*6.9*	*6.8*		

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