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STRATEGY

In this report:

Malaysia: 4Q 2016 Results Round-up – Improvement Over 3Q 2016

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A 'satisfactory' 4Q 2016 reporting season

- The 4Q 2016 reporting season was "satisfactory" with 21% beating and 45% meeting our projections respectively, while 34% came in below. This is an improvement over 14%, 51% and 35% for "above", "within" and "below" in 3Q 2016. Similarly, as against the market consensus, the numbers were better with "above", "within" and "below" at 25%, 47% and 28% respectively, as compared with 13%, 35% and 52% in 3Q 2016 (see Exhibit 1).

- The plantation sector was the star performer, with major players (KLK, IOI Corp, Genting Plantations and IJM Plantations) beating forecasts thanks largely to the higher-than-expected CPO and PKO prices realised, which more than offset the weak production and the still subdued performance of the downstream segment (on margin squeeze arising from higher feedstock costs).

- Banks generally delivered their numbers. While there was an uptick in provisioning during the Oct-Dec 2016 quarter (which is not uncommon during the final quarter of the calendar year), the quantum of the provisioning was within their previous guidance.

- On the other hand, the showing from telcos was mixed. Maxis' numbers came in stronger thanks to lower year-end marketing costs while Axiata was weighed down by accelerated depreciation and lumpy M&A-related costs.

- Similarly, while the Malaysian bellwether oil & gas stock SapuraKencana Petroleum turned stronger-than-expected numbers owing to higher engineering & construction and drilling margins achieved, other players continued to struggle.

- Meanwhile, in the consumer space, there was a divergence between retailers and "sin" stocks – with the former topping our forecasts, while the latter disappointed on earnings. The retailers generally saw top line and margin expansion on improved consumer sentiment and reduced price discounting. On the other hand, while the decline in sales volumes of the cigarette maker and brewers stabilised, the margin pressure remained as they no longer enjoyed abnormally low input costs as in the previous years.

FBM KLCI 2017 earnings growth tweaked down to +7.2% from +7.6%

- After reflecting actual 2016 numbers and factoring in earnings changes for 2017F, our FBM KLCI earnings growth rates for 2016 and 2017F have been tweaked to +0.1% and +7.2% (Exhibit 2), from -1.6% and +7.6% previously. For 2018F, we project FBM KLCI earnings to grow by +8.3%.

- Meanwhile, in terms of earnings growth forecasts of "all sectors" – a broader but slightly more volatile earnings gauge encompassing the entire universe of our stock coverage – the numbers for 2016 and 2017F have been tweaked to +3.0% and +13.5%, from +2.2% and +11.1% previously.

End-2017 FBM KLCI target maintained at 1,745pts

- We maintain our end-2017 KLCI target of 1,745pts which is based on 17.5x 2017 earnings, at a 1x multiple premium to its 5-year historical average of about 16.5x. We believe the premium could be justified by: (1) a cyclical upturn in corporate earnings as reflected in our projected +7.2% growth in FBM KLCI earnings, which are in turn underpinned by a stronger projected GDP growth of +4.5% in 2017 versus +4.2% in 2016; (2) asset allocation in favour of equities over bonds in a rising interest rate environment; (3) the still favourable underlying emerging market outlook (healthy growth and favourable yields); and (4) firming commodity prices.

Exhibit 1: Corporate Results Performance In 4Q 2016

	No. of stocks	Versus Ambank Research			Versus Consensus		
		Above	Within	Below	Above	Within	Below
Overall (%)	**96**	**21%**	**45%**	**34%**	**25%**	**47%**	**28%**
Auto	5	40%	0%	60%	40%	0%	60%
Financial Services	10	10%	70%	20%	0%	70%	30%
Construction	8	13%	50%	38%	13%	38%	50%
Consumer	10	30%	20%	50%	20%	40%	40%
Gaming	5	0%	80%	20%	80%	0%	20%
Healthcare	2	0%	50%	50%	0%	100%	0%
Media	4	25%	50%	25%	25%	50%	25%
Oil & Gas	9	22%	44%	33%	33%	33%	33%
Plantation	10	40%	20%	40%	50%	20%	30%
Infrastructure	5	0%	80%	20%	0%	60%	40%
Property	7	43%	14%	43%	43%	57%	0%
Rubber Products	3	0%	100%	0%	0%	67%	33%
Technology	2	0%	100%	0%	50%	50%	0%
Telcos	4	25%	50%	25%	25%	75%	0%
Timber	2	0%	0%	100%	0%	50%	50%
Transport / Logistics	5	40%	20%	40%	20%	80%	0%
Manufacturing	2	0%	50%	50%	0%	50%	50%
REIT	3	0%	100%	0%	0%	100%	0%

Source: AmInvestment Bank

Exhibit 2: Market Earnings Projections

		SECTORAL WEIGHTING (%)	EPS GROWTH (%)			PER (X)		
			2016 A	2017 F	2018 F	2016 A	2017 F	2018 F
ALL SECTORS			3.0	13.5	10.7	25.5	23.0	20.9
FBM KLCI @	1,693.8		0.1	7.2	8.3	18.2	17.0	15.7
Automobile		0.9	n.m	n.m	15.3	(36.1)	22.4	19.4
Building Material		0.8	51.7	14.2	18.6	12.3	10.8	9.1
Construction		1.9	4.6	10.9	12.9	19.4	17.5	15.5
Consumer		1.8	(9.2)	8.3	9.1	18.9	17.5	16.0
Financial Services		18.4	(2.3)	10.4	9.8	14.0	12.6	11.5
Gaming		4.6	12.1	13.5	10.0	20.1	17.7	16.1
Healthcare		3.4	(1.2)	19.2	21.2	53.6	45.0	37.1
Infrastructure		1.7	32.7	14.4	11.8	31.8	27.8	24.9
Manufacturing		28.2	25.7	14.5	16.0	316.1	276.1	238.0
Media		1.2	(5.1)	1.5	8.7	20.1	19.8	18.2
Oil & Gas		8.1	(25.4)	15.5	16.9	24.0	20.8	17.8
Plantation		8.1	4.8	13.1	11.8	31.1	27.5	24.6
Power		5.9	20.7	(4.8)	6.9	10.5	11.0	10.3
Property		2.2	12.7	1.2	11.3	15.7	15.5	14.0
Technology		0.4	10.9	26.2	8.7	19.7	15.6	14.3
Telecommunication		9.2	(26.7)	18.8	5.0	29.6	24.9	23.8
Timber		0.2	7.4	7.0	24.8	11.6	10.8	8.7
Transportation & Logistics		2.9	6.8	1.0	1.5	13.0	12.9	12.7
Utilities		0.2	24.9	(1.4)	5.7	24.2	24.5	23.2

Source: AmInvestment Bank

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