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Corporate earnings improved in 2Q

Expectations of a more robust recovery in the coming quarters could be on hold

by S BIRRUNTHA

THE corporate sector's second-quarter (2Q) financial results reporting season appears to be healthier in terms of face value, with the number of companies meeting and/or exceeding expectations trumping those that missed, Public Investment Bank Bhd (PublicInvest) stated results from the banking, plantation and consumer sectors exceeded expectations.

"A closer look into the results will reveal some extremes. Be it a function of over-pessimism or under-estimation, results were telling.

"While one can be forgiven for opening that recovery is well on track, notable weakness in the consumer-centric property, real estate investment trust and gaming suggests otherwise," it stated in a note yesterday.

PublicInvest added expectations of a more robust recovery in the coming quarters could be on hold as companies continue to work through the effects of the movement restrictions, delayed economic sector reopenings and capacity constraints.

It highlighted the market remains trading-oriented with volatile swings to be expected.

The investment bank maintained its year-end FTSE Bursa Malaysia KLCI (FBM KLCI) closing at 1,590 points (15 times multiple to one-year forward earnings) adding the country's manufacturing Purchasing Managers' Index remained lacklustre in August due to the disruption from partial lockdown measures.

The partial lockdown measure or Phase 1 of the National Recovery Plan (NRP) pencilled strict standard operating procedures (SOPs) where only a limited number of manufacturing subsectors were allowed to operate.

Pic by Hussein Shaharuddin

TNB is among the 6 FBM KLCI component stocks that beat projections

"Less-than-favourable operating conditions pushed the index to remain below the neutral level at 43.4 in August, a rebound, however, against 40.1 in July.

"We remain cautious on the near-term outlook given the ongoing Phase 1 in key industrial areas — such as Selangor, Johor, Perak and Kuala Lumpur — which could take longer-than-expected to recover given the high number of work-related clusters," PublicInvest stated.

A combination of supply and demand disruptions is expected to dampen the index in the near term with the emergence of stronger Covid-19 variants (Beta, Delta and Lambda).

AmInvestment Bank Research (AmInvest) head of equity research Joshua Ng commented the FBM KLCI component stocks delivered a set of 2Q21 results that had yet to show meaningful improvement sequentially.

He views this as due to the reintroduction of various pandemic restrictions against a backdrop of surging Covid-19 infections which weighed on corporate financial performance.

According to Ng, six FBM KLCI component stocks, namely, CIMB Group Holdings Bhd (lower operating expenditure), Sime Darby Group Bhd (stronger vehicle and heavy equipment sales), Sime Darby Plantation Bhd (higher crude palm oil prices), IHH Healthcare Bhd (Covid-19-related patients and effective cost-saving initiatives), Petronas Chemicals Group Bhd (higher product prices) and Tenaga Nasional Bhd (lower repair and maintenance costs) beat projections.

On the other hand, four FBM KLCI component stocks under its coverage were missed, namely, MR DIY Group (M) Bhd (pandemic restrictions and delays in expansion plans), PPB Group Bhd (weak performance from grains and agribusiness and Wilmar International), Dialog Group Bhd (pandemic restrictions weighed down project execution) and Petronas Gas Bhd (higher operating cost stemming from pandemic restrictions).

AmInvest's top buy reflects names that are likely to benefit from the recovery of the domestic and global economies, namely Malayan Banking Bhd, Tenaga Nasional, CIMB Group, Telekom Malaysia Bhd, RHB Bank Bhd, Westports Holdings Bhd, Astro Malaysia Bhd, ATA IMS Bhd, Hibiscus Petroleum Bhd and Perak Transit Bhd.

The firm also maintained its end-2021 FBM KLCI target of 1,695 points based on 16 times of 2021 forward-earnings projection.

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