PETALING JAYA: Analysts who were disappointed by the third-quarter reporting season say that there could be gradual improvement ahead.

Hong Leong Investment Bank (HLIB) Research said this is based on five observations: percentage of stocks that disappointed has declined; percentage of stocks that surprised on the upside has increased; number of sectors that disappointed declined; earnings per share growth revision was not as drastic as before and earnings revision ratio has improved.

PublicInvest Research, meanwhile, said that weakened consumption spending had a telling effect this time round.

“While we had anticipated that the worst could have been over in the last reporting quarter given the relatively large number of earnings misses, ours and consensus alike, we saw more of the same this current Q3 period,” it said.

The research house pointed out that the property, gaming and consumer sectors saw the most variances among sectors under coverage.

“The weak sentiment in the property market took a greater toll than anticipated while cost pressures post the Goods and Services Tax implementation took a greater bite off consumer-related stocks,” it said.

PublicInvest Research said the plantation sector saw the most number of upward adjustments to account for its higher crude palm oil price assumptions for 2016 and 2017. The glove sector also saw changes to account for higher utilisation rates, which it had previously underestimated.

On the notable downward revisions, it said the property sector took the biggest hit on lower billing assumptions as the down cycle is hitting closer to home than initially expected.

“The oil and gas sector, despite seeing some cuts in the previous quarter, was also subjected to further reductions to account for slower work flows going forward,” it added.

PublicInvest Research is maintaining the FBM KLCI’s year-end target at 1,740 points, as the current round of earnings cuts have no significant bearing on valuations yet again.

It said that there remain reasons for investors to invest in Malaysia, even though it is a little more challenging to find attractive investment ideas and themes.

For instance, the research house said, the weakening ringgit is benefiting exporters and provides an added incentive for foreign investors to reenter the equity market.

“The earnings picture should be steadier in the coming financial quarters as economic conditions and the currency stabilise. We anticipate a higher year-end close to 2016 than what we are seeing for 2015,” it said.

PublicInvest Research continues to advocate a trading-oriented stance in the interim, though any pronounced market weakness should be taken as accumulation opportunities particularly in the property and banking sectors for the longer term.

HLIB Research, meanwhile, has maintained three focus themes: big caps which have attractive valuation (Axiata Group Bhd, IJM Corp Bhd, Malayan Banking Bhd and Tenaga Nasional Bhd); the nth Malaysia Plan which has high earnings growth visibility (UEM Edgenta Bhd, IJM Corp Bhd, Mitrajaya Holdings Bhd and Sarawak Cable Bhd) and the Trans-Pacific Partnership Agreement beneficiaries (Westports Holdings Bhd).