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| MediaTitle  | The Edge CEO Morning Brief                        |            |             |
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| PR Value    | RM 42,786   |            |             |
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## An unprecedentedly bad earnings season seen ahead

BY WONG EE LIN  
theedgemarkets.com

KUALA LUMPUR (Aug 4): The earnings figures for the second quarter ended June 30, 2020 (2Q20), which companies are due to release this month, would be ones that are unprecedentedly bad, given the sudden halt in economic activities during the quarter.

Analysts concurred that 2Q20 would see the full brunt of the Movement Control Order (MCO), no thanks to the Covid-19 pandemic that plagued the globe.

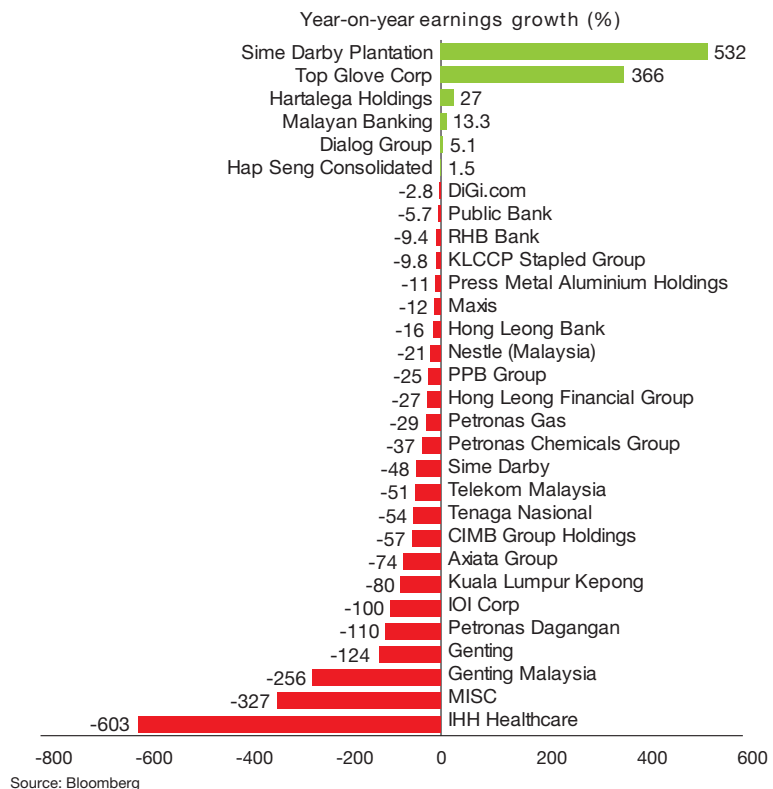
Malaysian government imposed the MCO on March 18, 2020, and it lasted for eight weeks. This was then followed by the Conditional Movement Control Order starting on May 4, followed by the Recovery Movement Control Order on June 10, which will continue until Aug 31.

The unprecedented scenario has stumped investment analysts, some of whom admitted it is tough to pinpoint exactly how bad the companies performed in 2Q20. Notably, among the top 30 companies on Bursa Malaysia in terms of market value, only six managed to post earnings growth for 1Q20.

For 2Q20, the general rule of thumb is that companies are expected to have lost nearly two months' worth of revenue, except for utility companies, such as Tenaga Nasional Bhd, and the telcos. Besides that, glove makers are expected to turn in decent profits.

MIDF strategy head Kifni Kamarudin said both revenue and profit figures for 2Q20 are expected to be bad. In fact,

### Sluggish earnings growth was apparent among KL Component stocks in 1Q20



he thinks it will likely be the worst quarterly results season seen in the history of the local bourse.

"In anticipation, the consensus 2020 earnings estimate for the FBM KLCI has been slashed from 96 points earlier this year to about 76 points recently," he said.

Notwithstanding that, he believes there may be room for further cuts in the forward earnings as the implied 15% year-on-year (y-o-y) contraction for the current year seems mild in comparison with the nearly 20% y-o-y decline seen during the global financial crisis in 2008.

Asked if current share prices have already priced in the worst-case scenario, Kifni noted that the FBM KLCI is now trading at a forward price-earnings ratio of nearly 21 times, well above its historical mean of 17.5 times.

"In this regard, the market seems to assume a swift earnings recovery going forward," he commented. "At current prices, perhaps buoyed by the deluge of liquidity, equity investors are looking at the glass half-full rather than half-empty," Kifni added.

JUMP TO PAGE 4

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#### FROM PAGE 2

However, given Bank Negara Malaysia's sentiment in its latest Monetary Policy Committee statement, which noted that precautionary behaviour among households and businesses could affect the macro recovery, he reckoned that the anticipated earnings recovery may not be as swift.

Thus, he anticipates that the market may correct in due course. MIDF has set its FBM KLCI year-end target at 1,320 points. The benchmark index closed at 1,572.61 points yesterday.

"It should be very bad. If you look at it, it (earnings) could be down at least 60% y-o-y — and that is if you assume that revenue is the same. Basically, it's saying no income for two out of three months and recovery of the businesses in the third month could be bad too," said Inter-Pacific Securities head of research Victor Wan.

Wan further stressed that an earnings drop of 60% is an optimistic scenario. The

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question is not how much earnings will drop, he noted, but rather how big the losses will be. "If you look at it, companies, such as the airlines, they are burning cash," said Wan.

Having said that, Wan is of the view that not only is it difficult to gauge the upcoming corporate earnings figures, the upcoming quarters are equally difficult to anticipate — up until the whole of next year in fact. He added that analysts are, by and large, writing off their 2020 forecasts and looking into 2021 instead.

Malacca Securities Sdn Bhd head of research Loui Low, meanwhile, highlighted that downside risks remain, given the emer-

gence of the second waves of Covid-19 in other countries. And the rising unemployment rate in the country indicates that it may not be good for fashion retailers and shopping malls, said Low.

Manufacturers, he added, are also not spared from the pandemic impact.

"But as long as the manufacturers are under essential goods, and able to recover 50%-100% of their capacity, they could be one of the brighter spots for now," said Low, adding that chemical-related companies, glove manufacturing equipment, as well as plastic manufacturers are expected to be on a better footing.

Technology counters that are involved in the electronics and devices segment are also deemed "quite sustainable" and may reveal a surprise in their earnings reports in the next two quarters. "As long as there are no Covid-19 cases in these factories, then it is positive for them [as production could continue]," Low said.

## VALUATOR

| Company(Brand)  | Mention | Tone | ROI  |
|---|---------|------|------|
| Bank Negara Malaysia (Bank Negara Malaysia)                     | 4       | 0    | RM 0 |
| Bernama - MREM (Bernama - MREM 6)                               | 3       | 0    | RM 0 |
| Bursa Malaysia Berhad (Bursa Malaysia Berhad)                   | 7       | 0    | RM 0 |
| Chemical (Chemical)   | 3       | 0    | RM 0 |
| CIMB Investment Bank Berhad (CIMB - Banking & Finance Industry) | 2       | 0    | RM 0 |
| CIMB Investment Bank Berhad (CIMB - Economy News)               | 1       | 0    | RM 0 |
| Covid- 19 - Malaysia (Covid- 19 - Malaysia)                     | 3       | 0    | RM 0 |
| Great Eastern Covid-19 (Covid-19 Malls)                         | 1       | 0    | RM 0 |
| Hong Leong Bank Berhad (Hong Leong Bank Berhad - Covid 19 -1)   | 1       | 0    | RM 0 |
| Hong Leong Group (Hong Leong Group)                             | 1       | 0    | RM 0 |
| Malacca Securities Sdn Bhd (Malacca Securities Sdn Bhd)         | 1       | 0    | RM 0 |
| Manulife Insurance (M) Bhd (Monetary Policy Committee)          | 1       | 0    | RM 0 |
| PLUS - MCO (PLUS - MCO)   | 3       | 0    | RM 0 |
| PUB - Johor River Water Works (PUB JRWW) (Immigration &         | 2       | 0    | RM 0 |
| RAM Bursa Malaysia (RAM Bursa Malaysia)                         | 5       | 0    | RM 0 |
| Randstad - Manufacturing (Industry - Manufacturing)             | 1       | 0    | RM 0 |
| Securities Commission (SC) (Bank Negara Malaysia - SC)          | 4       | 0    | RM 0 |
| Securities Commission Malaysia (Malaysia Capital Market)        | 1       | 0    | RM 0 |
| Securities Commission Malaysia (Securities)                     | 2       | 0    | RM 0 |
| Singapore Air Show (Singapore Air Show - Industry News)         | 1       | 0    | RM 0 |
| Singapore-Malaysia Relations (Singapore-Malaysia Relations -    | 1       | 0    | RM 0 |
| Sports Toto - Berjaya Corporation (Sports Toto - Berjaya        | 1       | 0    | RM 0 |
| Star Reacher - Coronavirus (Star Reacher - Coronavirus)         | 3       | 0    | RM 0 |
| Tenaga Nasional Berhad (TNB) (Tenaga Nasional )                 | 2       | 0    | RM 0 |