Headline	Another bad quarter		
MediaTitle	The Star		
Date	05 Mar 2019	Language	English
Circulation	201,943	Readership	605,829
Section	StarBiz	Page No	1
ArticleSize	600 cm²	Journalist	GANESHWARAN
PR Value	RM 96,021		

Another bad quarter

Analysts cut outlook for 2019 following sluggish 4Q18 numbers

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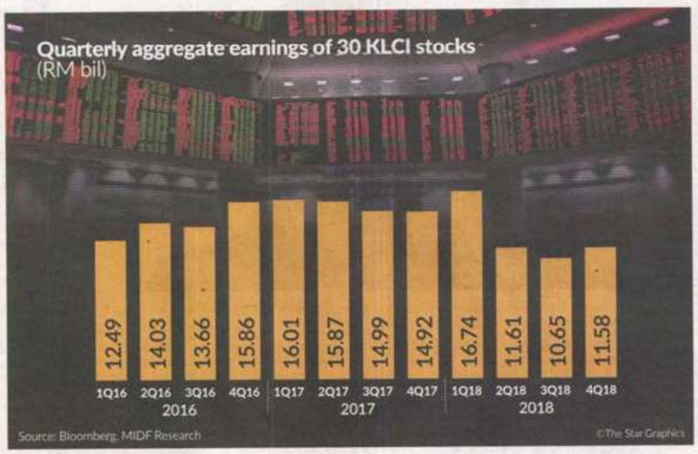

PETALING JAYA: It is only March but local equity analysts have already slashed their full-year profit forecast after Corporate Malaysia delivered yet another disappointing quarter.

Affin Hwang Capital Research, in a strategy report yesterday, called the recently concluded earnings reporting season as "among the worst" it had seen in recent years.

Analysts said huge earnings misses in the plantation, telecommunications, transport and utilities sectors during the October-December quarter dragged the market's earnings per share (EPS) growth into negative territory for 2018.

DBS Group Research said most of the large-cap companies have also been adopting a more cautious stance on the 2019 outlook, guiding for a more measured earnings growth. This has prompted the firm to revise down its earnings forecast for the year.

According to pundits, the broad-based weak corporate earnings performance in the fourth quarter of 2018 (4Q18) was mainly caused by the challenging operating environment due to local and external factors such as the United States-China trade war, rising interest rates and growth slowdown.

The FBM KLCI, the benchmark index composed of Bursa Malaysia's 30 largest companies by market capitalisation, saw its aggregate reported earnings in 4Q18 being slashed by 22.4% year-on-year (y-o-y) to RM11.58bil.

For the full-year 2018, the KLCI aggregate reported earnings fell by 18.14% y-o-y to RM50.58bil. In 2017, the total earnings of Bursa Malaysia's largest 30 stocks were RM61.79bil.

Looking ahead into the possible corporate earnings in 2019, analysts have turned more cautious following the outcome of the latest reporting season.

MIDF Research has also cut the aggregate FY19 earnings estimate of the stocks under its coverage universe by 3.9% to RM74.9bil.

In the fourth quarter, the key under-performing sectors on Bursa Malaysia were the plantation, aviation, telecommunications, utilities and property sectors, among others.

Plantation companies underwent a tough 4Q18, as the price of crude palm oil (CPO) declined to a record low, following a global supply glut. The cost of CPO production also rose in the period due to minimum wage and fertiliser costs.

Aviation players' earnings were impacted due to higher maintenance and operating expenditure in the fourth quarter, amid the increase in the jet fuel price.

Within the telecommunications sector, Maxis Bhd had an additional one-off cost of RM250mil, while Axiata Group Bhd's earnings took a hit from accelerated depreciation charges.

Axiata plunged into the red in FY18, marking its first full-year loss since its 2008 listing.

As for the utilities sector, the financial results of Tenaga Nasional Bhd (TNB) was the biggest drag, according to Affin Hwang Capital Research.

"Apart from the lower return from its regulated asset, TNB's international operation (associates) also recorded losses which management decided to write down, with around RM1bil worth of investments related to those companies.

"The decline in YTL Power International Bhd's profits also contributed to the decline in the sector earnings," it said.

Meanwhile, the construction sector was mainly dragged by significant earnings decline reported by Gamuda Bhd, IJM Corp Bhd and WCT Holdings Bhd.

"Of the 127 companies that we actively cover, only 18% reported results that were above expectations in 4Q18," it said in a note yesterday.

TA Securities Research also noted that underachievers in its coverage universe had trumped out-performers, although the other forecasts were largely in line.

"Earnings disappointed as expected but the contraction was very steep.

Despite the generally-weak earnings season, several sectors have witnessed improvements in their bottom line.

The sectors were banking, glove manufacturing, healthcare and insurance, among others.

According to MIDF Research, the overall performance of the domestic banking sector was similar to its earlier expectations.

"Earnings were impacted by net interest margin compression that stemmed from deposits competition throughout the year due to earlier expectations of the implementation of the net stable funding ratio requirement. While this compression was moderated by the overnight policy rate hike in the early parts of 2018, this boost soon normalised.

"Also affecting banks' earnings were the challenging capital market conditions, which had put pressure on non-interest income. Nevertheless, these headwinds were curbed by lower provisions (despite the implementation of MFRS 9) and lower operating expenses," it said.

On the glove sector, MIDF Research said that except for Hartalega Holdings Bhd, the earnings of glove players under its coverage were within expectations with strong growth.

"In the healthcare sector, hospital operators recorded healthy earnings in the recent concluded quarter.

"In terms of operating statistics, we note that the number of admissions for inpatients, particularly for Malaysian hospitals, was up by 4.6% y-o-y while outpatient admission increased by 2.7% y-o-y," it said.