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MediaTitle	The Edge		
Date	09 Sep 2019	Language	English
Circulation	25,910	Readership	77,730
Section	Corporate	Page No	33,36
ArticleSize	1528 cm ²	Journalist	SUPRIYA
PR Value	RM 79,534		




CAPITAL

MORE MISSES THAN HITS IN 2Q2019

The second quarter was yet another disappointment with more Bursa-listed companies missing their earnings targets than hitting them. We take a look at five of the main sectors represented on the stock exchange and how they fared. See story on Page 36.

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A subdued 2Q earnings performance

BY SUPRIYA SURENDRAN

It was yet another disappointing quarter for firms listed on Bursa Malaysia, with more missing their earnings targets for the June quarter than meeting them.

This was somewhat predicted by the RAM Business Confidence Index, which surveyed 3,500 firms in Malaysia on their sentiment for the first six months of the year. The reading fell to its lowest levels of 55.1 for corporates and 51 for small and medium enterprises since the index began tracking in 2017.

And using Bloomberg data of 892 companies listed on Bursa Malaysia (excluding LEAP Market listings and new listings for the year), *The Edge* found that only 440 companies, or 49.33%, reported an improvement in their financials while 452 companies, or 50.67%, reported a decline.

We look at some of the highs and lows for the telecommunications, plantation, banking, automotive and consumer sectors for the second quarter of the year.

Telecommunications

Axiata Group Bhd, which is in the process of a proposed merger with Telenor ASA's Asian operations, returned to the black in 2QFY2019, with a net profit of RM204.09 million compared to a net loss of RM3.36 billion a year ago, driven by a better performance and discontinuation of losses related to its investments in India.

TIME dotCom Bhd saw a 42% jump in net profit in 2QFY2019 to RM92.5 million, thanks to higher sales across all core product segments and improved cost efficiencies. In an Aug 28 note on TIME, Maybank IB Research says 2QFY2019 core net profit was ahead of the research firm's expectation and that it was positively surprised by its earnings before interest, taxes, depreciation and amortisation (Ebitda) margins. However, the telco's management noted in its results call with analysts that the current Ebitda margins are likely to have peaked. Nevertheless, it remains Maybank IB Research's preferred pick among Malaysia telcos. It has a "hold" call on the stock with a target price of RM9.10. TIME's shares closed at RM9.06 last Thursday.

At Maxis Bhd, 2QFY2019 net profit fell 17% to RM397 million, hurt by lower average revenue per user (ARPU), termination of a network sharing agreement with U Mobile Sdn Bhd and higher staff costs, among others. Analysts do not see the situation improving, with 17 out of 27 of those covering Maxis calling a "sell", according to Bloomberg data.

In an Aug 5 note to investors, Affin Hwang Capital Research reiterates its "sell" call on Maxis with a target price of RM5.05, a downside of 9% to its closing price of RM5.53 last Thursday.

"At 25 times its FY2020 expected price earnings, the valuation looks rich considering its weak earnings

Highlights for the quarter (By Bloomberg sector classification)

SECTORS(BLOOMBERG CLASSIFICATION)	TOTAL NO OF COMPANIES IN SECTOR	NO OF COMPANIES WITH IMPROVED 2Q PERFORMANCE	HIGHLIGHTS
Communication Services	26	17	1. Axiata Group Bhd returns to the black in 2Q with net profit of RM204.09 million as India losses discontinued 2. TIME dotCom 2Q net profit up 42% to RM92.5 million on improved sales, cost efficiencies
Consumer Discretionary	119	65	1. Genting Bhd 2Q net profit up 56% to RM599.68 million on higher hospitality and leisure earnings 2. DRB-Hicom returns to the black in 2Q with net profit of RM46.21 million thanks to better Proton performance
Consumer Staples	100	49	1. Boustead Plantations returns to the black with 2Q net profit of RM79.23 million aided by gain on land disposal 2. Cocoa grinder Guan Chong Bhd reports 42% increase in 2Q net profit to RM60.1 million on higher sales volume of cocoa products
Energy	33	17	1. Bumi Armada Bhd returns to the black with 2Q net profit of RM78.21 million thanks to higher FPSO contributions 2. Serba Dinamik Holdings Bhd 2Q net profit up 27% to RM130.44 million on higher operations and maintenance activities
Financials	34	21	1. Public Bank Bhd's 2Q net profit declined 4.5% to RM133 billion due to the overnight policy rate cut 2. BIMB Holdings Bhd saw a 30% jump in 2QFY2019 net profit to RM95.16 million, on growth in Islamic banking and Takaful operations
Health Care	20	10	1. IHH Healthcare Bhd 2Q net profit up 12% to RM184.99 million boosted by Amaranja Specialist Centre and Fortis Healthcare acquisitions 2. Glovemaker Kossan Rubber Industries Bhd reported a 28.6% increase in 2Q net profit to RM55.88 million on stronger demand for its products
Industrials	227	113	1. Sime Darby Bhd's net profit for 4QFY19 rose 13% to RM184 million driven mainly by its industrial and motor divisions 2. Hap Seng Consolidated Bhd's 2QFY19 net profit fell 79.8% to RM129.79 million on absence of gain on disposal of HSC Sydney Holding Ltd
Information Technology	101	47	1. VS Industry Bhd's 3Q net profit grew 43.15% to RM313.8 million on higher sales from key customers in Malaysia, lower revenue and higher depreciation charges 2. Inari Amertron Bhd's 4Q net profit down 33% to RM38.29 million on absence of disposal gain booked last year
Materials	111	46	1. Malaysia Smelting Corp Bhd's 2Q net profit tripled year on year to RM7.48 million on higher tin mining profit 2. Johore Tin Bhd's 2Q net profit more than doubles to RM9.76 million on higher profit recorded in its food and beverage segment
Real Estate	108	50	1. Sime Darby Property Bhd's 2Q net profit increases more than four-fold to RM205.26 million on higher property development contributions 2. UEM Sunrise Bhd's 2Q net profit comes in 81% lower at RM40.36 million on absence of land sales contribution seen in the corresponding period last year
UMBSES	13	5	1. Tenaga Nasional Bhd's 2Q net profit fell 9.7% year on year to RM1.12 billion, due to regulatory adjustments
Total	892	440	

outlook and competitive business environment," it says.

Plantation

With the crude palm oil (CPO) price falling to RM1,968 per tonne in 2Q2019, a 14% decline compared with the same period a year ago, it is no surprise that earnings in the plantation sector also disappointed.

Plantation companies that saw a decline in earnings included PPB Group Bhd, which saw its net profit reduce by more than half to RM159.98 million in 2Q2019 due to lower contribution from its associate Wilmar International Ltd as well as weaker profit in its core grain and agribusiness segment.

Things were not any better at Kuala Lumpur Kepong Bhd (KLK), which reported a 65% slump in net profit to RM48.62 million in its third financial quarter ended June 30, 2019, due to lower palm products prices. This led KLK to issue a profit warning for FY2019 ending Sept 30.

A one-off disposal gain helped Boustead Plantations Bhd return to the black for 2Q2019, with a net profit of RM79.23 million. The one-off gain of RM119.5 million came from the disposal of a piece of plantation land in Seberang Perai Utara.

In a Sept 4 note, PublicInvest Research says it is "neutral" on the plantation sector, with a full-year average CPO price forecast of RM2,200 per tonne. Ta Ann Holdings Bhd remains the firm's top pick, driven by its bargain valuations (trading at a forward price-earnings ratio of nine times) and a strong turnaround in its timber segment.

PublicInvest Research has an "outperform" call on Ta Ann, with a target price of RM2.98 — a 39% upside to its closing price of RM2.14 last Thursday.

Banks

It was a weak second quarter for the bellwether of banking performance, Public Bank Bhd. PBB's net profit for 2Q2019 came in 4.5% lower at RM1.33 billion, due to the negative effect of a 0.25% reduction in the overnight policy rate (OPR) in May, compared to an OPR hike in January last year.

Maybank IB Research maintains its "hold" call on Public Bank, but trimmed its target price to RM21.70, from RM22.70 previously, as the research firm expects Public Bank's return on equity to decline to 12.7% in FY2020 from an expected 13.2% in FY2019.

The country's largest banking group, Malayan Banking Bhd, reported a marginal 0.9% decline in 2Q2019 net profit to RM1.94 billion. Only 9 out of 20 analysts covering the stock have a "buy" call on it with an average target price of RM9.42. On the flipside, the country's second smallest of eight banking groups, Affin Bank Bhd, saw its net profit for 2Q2019 more than double to RM156.03 million, mainly due to a writeback of credit impairment losses.

BIMB Holdings Bhd, which is the holding company of Bank Islam Malaysia Bhd, posted a 30% jump in net profit in 2Q2019 to RM195.16 million, thanks to growth in its Islamic banking and takaful operations.

In its strategy outlook, AllianceDBS Research says it is maintaining a "neutral" call on the banking sector, with "buy" calls on BIMB and RHB Bank Bhd.

AllianceDBS Research likes BIMB for its strong franchise in key high-yield asset segments as well as significant contributions from its insurance subsidiary, Syarikat Takaful Keluarga Malaysia Bhd.

RHB Bank continues to trade at affordable valuations while demonstrating an improving earnings profile with progressive delivery of its FIT22 initiative and a healthier loan book leading to lower credit costs.

"There is also capacity for additional dividends, with a sweetener if the group's disposal of its insurance arm materialises," the research firm says.

Automotive

DRB-Hicom Bhd was the clear winner in the automotive sector in 2Q2019, recording a net profit of RM46.21 million for the three months ended June 30, 2019, versus a net loss of RM66.59 million a year earlier. DRB-Hicom is operating a nine-month financial year in 2019 (FY2019), as the group has changed its fiscal year end from March to December. The group attributed the better performance to improved sales with Proton's various launches of facelifted models.

MBM Resources Bhd, which has a 22.6% stake in Perusahaan Otomobil Kedua Sdn Bhd (Perodua), saw its net profit for 2QFY2019 more than double to RM74.04 million, partly boosted by a one-off RM24.8 million gain on disposals.

Kenanga Research, in a Aug 22 note, maintains its "neutral" call on the automotive sector.

"We believe the absence of the one-off 2018 tax holiday will be offset by exciting new launches in 2019 and we have factored in a possible delay in the timing of new launches given the backlog of pricing approvals from the authorities (three to five months) and tepid purchasing power," the research firm says.

Kenanga's sector top pick is MBM Resources, for which it has an

"outperform" call with a target price of RM4.40, indicating an upside of 5%. Its other preferred selection is Mazda distributor Bermaz Auto Bhd, with an "outperform" call and a target price of RM3 (31% upside).

Consumer

It was a fairly decent quarter for the consumer sector, in particular retailers. AEON Co (M) Bhd doubled its net profit to RM19.45 million in 2Q2019 due to the absence of impairment losses at an associate.

Parkson Holdings Bhd also narrowed its net loss for the quarter to RM45.55 million from RM67.34 million a year ago, thanks to improvement in profit in both its operations in Malaysia and in China.

Berjaya Food Bhd, which operates the Starbucks and Kenny Rogers chains in Malaysia, registered a net profit of RM4.05 million in the three-month period ended April 30, 2019, from RM837,000 a year ago, helped by higher Starbucks revenue and lower finance costs.

Kenanga Research attributes the stronger performance for retailers seen in 2Q2019 to Hari Raya Aidilfitri sales. "Retailers usually fare the worst in 3Q due to the absence of festivities that typically spur consumer spending. We believe that investors could use this opportunity to buy into 3Q weakness while expecting better growth in 4Q from year-end and Christmas festive season sales, as well as the upcoming Visit Malaysia 2020."

The firm has an "outperform" call on Parkson, with a target price of 27 sen (26% upside). It also has an "outperform" call on Padini Holdings Bhd, with a target price of RM3.75 — an upside of 3% to its closing price of RM3.64 last Thursday.