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Poorer performance for KLCI with 5% loss

by FUNDSUPERMART TEAM

THE local stockmarket key index barometer, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), posted poorer performance for the quarter ended September 2015 with a 5% loss.

FBM KLCI's earnings were revised downward by -3.2% in the third-quarter of 2015 (3Q15), mainly led by financials and consumer discretionary sectors. Financial sector, the largest weighted sector of the FBM KLCI, continued to see a downward revision in its 2015 earnings estimates (-5.1%).

Most of the companies in the sector suffered a slash in their 2015 earnings estimates, with AMMB Holdings Bhd and RHB Capital Bhd being downgraded the most.

Both of the financials giants saw their 2015 earnings being revised downward by -11.8% and -10.5% respectively.

A sluggish outlook on the financial sector has triggered several earnings downgrades this year, with an expectation of a tepid loan growth, tightening credit standards and a slowing economic growth to weigh on the sector's bottom line.

On the other hand, the downward earnings revision for the consumer discretionary sector was broad-based, led by a 28.2% downward earnings revision for UMW Holdings Bhd.

The downward revision of the company's 2015 earnings estimates reflected analysts' pessimistic view on the company's automotive sales volume growth (Toyota cars) amid aggressive sales campaigns and new launches by competitors, challenging operating environment (increased input cost from the US dollar appreciation) as well as waning consumer sentiment surrounding the implementation of the Goods and Services Tax.

The company has also subsequently revised its sales target for Toyota cars from 100,000 units to 90,000 units for 2015.

As for earnings results, 26 out of 30 (87%) companies on FBM KLCI have reported their earnings for 3Q15 as of Nov 26, 2015. Despite earnings have been consistently revised downward this year, earnings for 3Q15 continued to disappoint, registering a -18.3% earnings surprise on aggregate.

The major drags on FBM KLCI's earnings results were from the utilities and industrial sectors, which saw both of these sectors' reported earnings coming in significantly lower than the consensus forecasts, resulting in a -49.7% and -23.1% earnings surprise respectively over the quarter.

The poor earnings results for the utilities sector were primarily caused by Tenaga Nasional Bhd's foreign-exchange translation loss of RM733.5 million over the quarter. A -33.75% earnings surprise for the conglomerate giant — Sime Darby Bhd was the major cause of disappointment for the industrial sector.

Earnings for Sime Darby were mainly dragged down by weaker plantation earnings due to lower crude palm oil prices and poor performance in industrial and property segments amid weak industry fundamentals over the quarter.

While earnings downgrades have started to ease, we opined that the possibility for an upward earnings revision remains low in the near term given that there are limited catalysts to drive earnings higher.

That said, consecutive earnings downgrades this year have resulted a low earnings base for 2015, which should be supportive for earnings growth (estimated 10.4% in 2016) moving forward.

In terms of economy, Malaysia could still expand at the range of 4% to 5% growth target as outlined in the Budget 2016, underpinned by positive developments in investments activities and infrastructure spending.

With these positive factors in mind, we continue to maintain a constructive view on Malaysian equities.