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# Finding winners amid the noise

Billy Toh
/
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**Selected companies that performed well during 1Q**

| NAME | PRICE (RM) | P/E (X) | NET PROFIT (LATEST QUARTER) (RM MIL) | Y-O-Y CHANGE (%) | REVENUE (LATEST QUARTER) (RM MIL) | Y-O-Y CHANGE (%) |
|---|---|---|---|---|---|---|
| Malaysia Airports Holdings Bhd | 8.55 | 26.71 | 444.60 | 591.63 | 1,215.80 | 11.20 |
| Lay Hong Bhd | 0.945 | 15.37 | 10.99 | 96.76 | 224.62 | 29.37 |
| Hartalega Holdings Bhd | 6.13 | 46.02 | 116.65 | 30.44 | 616.84 | 17.05 |
| Dialog Group Bhd | 3.24 | 36.4 | 118.84 | 25.88 | 867.37 | -5.06 |
| Hong Leong Bank Bhd | 19 | 15.59 | 690.03 | 21.16 | 2,124.08 | 9.89 |
| Hong Leong Financial Group Bhd | 18.56 | 12.41 | 502.56 | 20.01 | 2,300.55 | 10.51 |
| CAB Cakaran Corp Bhd | 0.935 | 8.73 | 11.50 | 15.88 | 424.90 | 21.72 |
| Inari Amertron Bhd | 2.37 | 27.95 | 55.17 | 7.81 | 325.83 | 18.90 |
| Velesto Energy Bhd | 0.265 | NA | 5.02 | Turn profitable | 121.76 | 63.93 |
| Tan Chong Motor Holdings Bhd | 1.75 | NA | 4.25 | Turn profitable | 1,034.62 | 3.91 |

**Corporate performances**

| | Versus AmBank Research | | | Versus consensus | | |
|---|---|---|---|---|---|---|
| | Above (%) | Within (%) | Below (%) | Above (%) | Within (%) | Below (%) |
| **Overall (%)** | **10** | **57** | **33** | **10** | **47** | **43** |
| Auto | 63 | 38 | 0 | 63 | 25 | 13 |
| Financial services | 17 | 83 | 0 | 17 | 83 | 0 |
| Construction | 0 | 55 | 45 | 0 | 45 | 55 |
| Consumer | 0 | 67 | 33 | 0 | 40 | 60 |
| Gaming | 20 | 80 | 0 | 20 | 40 | 40 |
| Healthcare | 0 | 100 | 0 | 0 | 100 | 0 |
| Media | 25 | 75 | 0 | 25 | 50 | 25 |
| Oil & gas | 13 | 75 | 13 | 13 | 50 | 38 |
| Plantation | 0 | 13 | 88 | 0 | 0 | 100 |
| Infrastructure | 0 | 50 | 50 | 0 | 50 | 50 |
| Power | 0 | 100 | 0 | 0 | 100 | 0 |
| Property | 0 | 22 | 78 | 0 | 22 | 78 |
| Technology | 0 | 60 | 40 | 0 | 60 | 40 |
| Telcos | 0 | 75 | 25 | 0 | 75 | 25 |
| Timber | 0 | 0 | 100 | 0 | 0 | 100 |
| Transport/logistics | 25 | 25 | 50 | 25 | 25 | 50 |
| Manufacturing | 10 | 60 | 30 | 10 | 50 | 40 |
| Building materials | 0 | 33 | 67 | 0 | 33 | 67 |
| REIT | 0 | 100 | 0 | 0 | 100 | 0 |

Source: AmInvestment Bank, Bloomberg



KUALA LUMPUR: Amid the noises on the local and external fronts that have sent stocks into a tailspin, coupled with a disappointing reporting season, there are still companies that have managed to eke out growth along with some investing themes worth considering.

The Edge Financial Daily looks at some of these companies that manage to eke out growth and surprise the market despite the uncertainties facing investors under a new government since the Pakatan Harapan won the 14th general election, upsetting incumbent Barisan Nasional for the first time since independence from Britain more than six decades ago.

The turnaround stories

Velesto Energy Bhd, formerly known as UMW Oil & Gas Corp Bhd, is among the turnaround stories seen during the latest financial results. The group recorded a net profit of RM5 million in its first quarter of financial year 2018 (1QFY18) ended March 31, 2018 compared to a net loss of RM104.1 million a year ago.

According to Hong Leong Investment Bank research analyst Yip Kah Ming, Velesto's rig utilisation rates improved from 26% in 1QFY17 to 65% in 1QFY18 on the back of stabilisation of crude oil prices due to production cuts by Opec.

"We understand that utilisation rates in 2QFY18 are somewhat similar to the current level. Rig utilisation rates are expected to increase in 2HFY18 (second half of FY18) with two rigs expected to be mobilised from 3QFY18 onwards," Yip said.

He maintains a "buy" recommendation on Velesto with an unchanged target price of 39 sen based on 1 times price-to-book multiple pegged at its FY18 book value per share.

TA Securities analyst Abel Goon told The Edge Financial Daily in an email exchange that the outlook for Velesto is expected to improve further as the management continues its cost rationalisation and utilisation increases.

“I believe the 2Q utilisation should be about 70% to 80% while 2H utilisation will likely surpass 90%,” Goon said.

Tan Chong Motor Holdings Bhd, a franchise holder of Nissan in Malaysia and some other countries in the region, also returned to the black during its 1QFY18 ended March 31, 2018 with a net profit of RM4.25 million compared to a net loss of RM35.3 million in 1QFY17.

Maybank IB Research analyst Ivan Yap viewed the results as a positive surprise as the automotive player finally turned around after two years of losses.

He noted that the better performance was mainly due to the ringgit’s strength and a better sales mix.

“Looking ahead, with new model launches [such as Serena S Hybrid] to boost sales and persistent ringgit strength to contain imported costs, we have turned more upbeat about Tan Chong’s earnings to recover, lifting expected earnings for FY18, FY19 and FY20 by 55%, 16% and 4% respectively,” Yap added, saying that further earnings recovery in the sequential quarters should draw some interest back to the stock.

Brian Yeoh, an analyst at Affin Hwang Investment Bank, also told The Edge Financial Daily that the tax holiday period with the abolishment of the goods and services tax on June 1 is a temporary sales boost for the automotive sector.

The turnaround stories for both Velesto and Tan Chong are also in line with the recovery seen in the sectors both the companies are involved in. The oil and gas industry, which has been hurt by the plunge in oil price, is starting to see more activities as oil price stays above US$70 (RM278.60) per barrel.

Similarly, the automotive industry, which has seen declining sales for a while now, is expected to see recovery as consumer sentiment continues on its path to recovery. Both sectors are also less affected by changes in government policies under Pakatan.

Inari a favourite

Inari Amertron Bhd continued to see better earnings in its 3QFY18 ended March 31, 2018 despite a stronger ringgit, recording a net profit growth of 7.8% to RM55.2 million from RM51.2 million a year ago while revenue jumped by 18.9% to RM325.8 million.

Maybank IB Research’s Yap has Inari as his top pick in the semiconductor sector. It was also featured as one of AmBank Research’s top buys in its latest strategy report last Friday.

Affin Hwang’s analyst Kevin Low also maintains his “buy” call on Inari with a 12-month target price (TP) of RM2.80. The counter is his top pick for the sector as well as in the Malaysian stock market.

“Inari remains our top sector pick and a country pick. We like [the] management’s growth plans, which go beyond its RF (radio frequency) assembly and testing business and should on their own see exciting prospects with the completion of new floor space capacity at plant P13B-1,” Low said.

He added that there could be positive earnings revisions with expected stronger 4QFY18 results.

New kids surpass expectations

Malaysia Airports Holdings Bhd (MAHB), Dialog Group Bhd and Hartalega Holdings Bhd, which will be added to the FBM KLCI list on June 18 after the latest review last Thursday, all recorded double-digit growth in their bottom lines during the quarter ended March 2018.

MAHB’s net profit of RM444.6 million in its 1QFY18 was a positive surprise to the market, driven mainly by unrealised gain on the fair value of investment in GMR Hyderabad International Airport Ltd amounting to RM258.4 million.

“MAHB’s 1QFY18 results were above market’s and our expectations. Core net profit jumped 101% year-on-year (y-o-y) to RM146 million in 1QFY18, driven by stronger revenue growth, outpacing the increase in operating expenses.

"Revenue increased 11% y-o-y to RM1.22 billion, driven by passenger growth of 3.4% y-o-y in Malaysia and 18.2% in Turkey. Net profit of RM445 million exceeded consensus full-year forecast of RM384 million and comprised 74% of our previous estimate of RM600 million. It jumped 5.8-fold y-o-y on a net exceptional gain of RM299 million and better operating performance," Affin Hwang analyst Loong Chee Wei noted after the announcement of its results.

Nonetheless, Loong said that the uncertainties in the proposed regulated asset base (RAB) framework will likely continue to dampen sentiment on the stock. RAB is an initiative by the Malaysian Aviation Commission to regulate airports in the country.

Similar to Loong, Mohshin Aziz from Maybank IB Research pointed out that the 1QFY18 results were above expectations and that MAHB benefited from the higher international passenger composition that pays three to five times higher passenger service charge (PSC) and is entitled to buy duty-free items.

"In addition, the equalisation of PSC for international passengers at klia2 from RM50 to RM73 also helped raise unit revenues. There are some airlines which are defiant and paying the old PSC rate of RM50 but MAHB has escalated this to a court hearing," he said in his report on May 30.

While the outlook is viewed positively, Mohshin highlighted that the impending quality of service measure, due to begin in the third quarter of this year, is still a risk to be monitored.

Dialog's net profit for its 3QFY18 grew by 25.88% to RM118.8 million from RM94.4 million in the corresponding quarter a year ago. Kenanga Research analyst Lum Joe Shen said that the group saw record quarterly earnings, backed by its top-line growth of 1% and stronger earnings before interest, taxes, depreciation and amortisation margins by 1.4 percentage points due to higher recognition of downstream contracts as well as better upstream exploration and production contributions from the higher oil price environment.

Lum reiterates his "outperform" recommendation with a higher sum-of-parts (SoP)-derived TP of RM3.70 with key catalysts being the FBM KLCI inclusion, concrete developments at Pengerang Phase 3 and further crystallisation of earnings growth.

Hartalega, which recorded 30.4% growth in its bottom line to RM116.6 million for its 4QFY18 ended March 31, 2018, was nonetheless negatively impacted by the appreciation of the ringgit.

Affin Hwang's analyst covering the stock, Ng Chi Hoong, however, pointed out that the negative impact from the foreign exchange was mitigated by a lower effective tax rate.

He noted that the management expects to be able to pass on the impact of the currency going forward, as it has already passed on higher natural gas cost, which is an indication that demand will remain robust.

Ng also highlighted the current expansion schedule will see the addition of five billion pieces or about 15%-18% of new capacity for the next two years to meet demand and given the group's utilisation rate of 90%, the new capacity is likely to be earnings-accretive.

Hong Leong outperformed peers

Both Hong Leong Financial Group Bhd (HLFG) and Hong Leong Bank Bhd (HLB) were among the best-performing financial groups during the quarter to March, reporting net profit growth of 21.16% and 20.01% to RM690 million and RM502.6 million respectively.

Affin Hwang analyst Tan Ei Leen said HLB's net profit was in line with the research house's expectation but ahead of consensus by 5.4%.

"The group's 9MFY18 (first nine months of FY18) results remain solid, underpinned by a firmer operating income (7.8% growth y-o-y, with stronger growth in non-interest income), while Bank of Chengdu's earnings contribution (16.4% of 9MFY18's profit before tax) was up 67.3% y-o-y," she said in her note after the results were announced last Wednesday.

Ng from AmBank Research also pointed out that HLFG was one of the two companies on the FBM KLCI that surprised on the upside. The other one was Sime Darby Bhd.

In comparison, Malaysia's largest bank, Malayan Banking Bhd (Maybank), recorded a net profit growth of 9.9% to RM1.87 billion while Public Bank Bhd saw a growth of 12.6% in its bottom line to RM1.41 billion during the same period. CIMB Group Holdings Bhd managed to grow its net profit by 10.6% to RM1.31 billion in the first quarter.

While earnings continued to grow for most of the banks in Malaysia in the latest financial results, a fund manager with a local asset management cautioned that a lot of the loan growth that was priced in at the beginning of the year had taken into account some of the infrastructure projects that were scrapped by Prime Minister Tun Dr Mahathir Mohamad. Among them are the Malaysia-Singapore high-speed rail and the mass rapid transit line 3.

"Without some of these projects, loan growth could be lower than expected. This has led to some negative sentiment on the sector as a whole as well," he said.

Poultry play

Lay Hong Bhd saw the net profit for its 4QFY18 ended March 31, 2018 almost double to RM10.99 million from RM5.68 million a year ago on higher contribution from integrated livestock farming segment arising from higher egg sales volume, higher quantity of processed frozen products and pasteurised liquid eggs.

According to Hong Leong Investment Bank research analyst Chye Wen Fei, the weaker performance at retail supermarket division was more than compensated by higher contribution in the integrated livestock farming segment.

Chye maintains a "buy" recommendation with an unchanged SoP-derived TP of RM1.24.

"We continue to like Lay Hong for its exciting earnings growth prospects, underpinned by its expansion plan [at the upstream segment] and tie-up with NH Foods, which allows Lay Hong to expand its market reach by leveraging on NH Foods' wide geographical network," Chye said.

Another poultry player, CAB Cakaran Corp Bhd, also saw strong double-digit growth in its latest 2QFY18 net profit, which increased 15.9% to RM11.5 million from RM9.92 million a year ago while revenue rose 21.7% to RM424.9 million. The higher revenue was achieved on the back of strong sales growth of the integrated poultry division.

Rakuten Trade has a "buy" call on CAB Cakaran with a TP of RM1.16 as the poultry player remains on its buy radar for its growth story namely the joint venture (JV) with Salim Group Indonesia.

"CAB's collaboration with Salim Group would be the next growth catalyst in Indonesia. CAB currently holds a 10% stake in the JV and has the option to increase to 30% over the next five years. The construction of a broiler and layer farm in Indonesia is expected to commence in 3QFY18 and start to contribute in 2019 targeting 4.5 million birds and three million eggs. Salim Group has 10,000 Indomaret convenience stores and 500 KFC outlets," Kenny Yee, Rakuten Trade's head of research, said in the note prior to the release of CAB's results.