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Second-quarter corporate results weaker than expected

PETALING JAYA: PublicInvest Research said the corporate results reported in the second quarter (Q2 2017) were weaker than expected, in contrast to the gradual improvements seen in the recent quarters.

"While that may be so, a number of disappointments are coming about as a result of delayed (but now on-track) work schedules and/or higher capacity utilisation expected in the second half of the year, hence the headline numbers looking worse than it actually is," it said in a report yesterday.

The research house said it recognises companies' struggles with higher operating costs and lower business volumes being more pronounced than expected, particularly in the consumer and media sectors.

PublicInvest noted that the seeming calm in oil and gas (O&G) stocks seen in the previous Q1 2017 reporting period proved to be a false dawn, with the sector providing the bulk of disappointments in the Q2 2017 results session.

"The slight consolation however is that a number of them will see better second halves of the financial year owing to previously delayed work schedules."

On this note, PublicInvest said the current quarter's earnings hits (above and/ or in-line) weakened to 62%:38% versus the 71%:29% as at 1QCY17, though still with a positive bias.

It highlighted that most of the downward earnings revisions were in the O&G sector, while gaming, consumer and media sectors saw revisions on account of higher operating cost.

"While construction saw some adjustments, they were predominantly non-operational in nature."

However, PublicInvest said the bulk of earnings adjustments this current quarter have no significant impact on the KLCI basket of stocks.

"Our earnings growth assumptions for 2017 and 2018 are 3.8% (1QCY17: 4.1%) and 5.6% (1QCY17: 5.4%) respectively," it added, noting its year-end 2017 index target is maintained at 1,820 points.

PublicInvest's suggested picks are Century Logistics, Serba Dinamik, LBS Bina, Chin Hin Group, Sapura Energy, VS Industry, Mega First Corporation, SCGM, Yong Tai and Hock Seng Lee.

The research house said it retained its "overweight" stance on the power, O&G and construction sectors, while suggested selective exposure in the banking and manufacturing sectors.

PublicInvest said it continues to like the power sector's defensiveness and its longer-term earnings stability, intermittent operational challenges notwithstanding.

Meanwhile, it said it anticipates greater pick-up in activity in the O&G sector in the coming year on the back of crude oil price stability, with upstream-based players to benefit more.

On the construction sector, PublicInvest said it expects the sector's news flows will continue to be positive, as regional economies step up infrastructure-related spending.

"On the cards is the RM55 billion East Coast Rail Line, RM13 billion Pan Borneo Sabah Highway and RM9 billion Gemas-Johor Baru double-track rail project, amongst others."