Weak earnings, slowing economy weigh on blue chips

KUALA LUMPUR (NewsRise) - Shares of Malaysia's blue chips, ranging from telecommunications to plantations, after reporting a broad-based decline in January-March earnings are likely to remain weak in the months ahead amid a slowing economy.

The aggregate reported earnings of the 30 constituents of the benchmark FTSE Bursa Malaysia KLCI index totalled 11.81 billion ringgit ($2.91 billion) in the first three months of the year, down 15% on-year and 20% lower on-quarter, according to data from MIDF Amanah Investment Bank.

Analysts and investors say there is little reason to expect any immediate strong rally in Malaysian equities, noting that first-quarter earnings season had been disappointing with cyclical sectors such as automotive and banking taking the brunt of the sluggish global and domestic economic growth.

"It's one of the worst result seasons outside of a recession that I've seen," said Gan Eng Peng, head of equities at Affin Hwang Capital Asset Management. "Forward guidance has been weak, so given the mediocre earnings catalyst, we see limited upside for the market."

The KLCI has shed more than 2% so far this year. Foreign investors have sold Malaysian shares for the sixth consecutive week through May 3 - the longest selling streak since September 2015 - with the top two banks Malayan Banking and CIMB Group suffering the biggest outflows last week. In May alone, foreigners dumped Malaysian shares worth 3.5 billion ringgit.

Banks in Malaysia have been battling declines in net interest margins amid concerns over asset quality, while telecom operators--dominated by Axiata Group, Maxis, and DiGi.Com--face escalating price wars while lingering effects of extreme dry weather have weighed on plantation companies' output.

Automobile sales dropped about 22% between January and March, according to data from the Malaysian Automotive Association, weighing on shares of companies including DRB-Hicom.

"A broad-based earnings growth story is still missing and market valuation remains a major deterrent for further upside," said Kenanga Investment Bank head of research Chan Ken Yew. "We reckon that the just-concluded results reporting season has further reinforced [that] expectation."

Still, there are some bright spots. Although growth will unlikely pick up in the near term, net interest margins has stabilized and banks are trading below their historical valuations, said AllianceDBS Research analyst Bernard Ching.

He raised banks to Overweight rating but kept telecom and automotive sectors as Underweight. "Weak corporate earnings prospect will remain the Achilles heel of Malaysian equities," he added.