

Hits and mostly misses in 1H16

STOCKS in Malaysia had a roller-coaster ride over the first half of the year (1H16) as the market reacted to concerns about ringgit depreciation, oil price declines, possible interest rate hike by the US Federal Reserve, the health of the Chinese economy and risks of a global recession. Malaysian companies' 1H16 profits also disappointed, leading to further earnings cuts. The benchmark FBM KLCI lost about 6% of its value to 1,600.92 in 21 days in January as investors were unnerved by steep falls in Chinese equity markets. The index has somewhat recovered since then, moving to 1,727.99 points on April 15 and closed at 1,668.40 last Friday. As the market enters 2H16, **Meena Lakshana** and **Yimie Yong** took a look at how the 10 stock picks *The Edge Financial Daily* featured on Jan 4 fared in 1H16 and whether the analysts' views remain unchanged.

Sunway Construction Group Bhd



SUNWAY Construction Group Bhd (SunCon), which was seen as the best proxy to the construction sector this year underpinned by a strong infrastructure pipeline, had seen its share price climb 21% this year to close at RM1.65 last Friday, with a market capitalisation of RM2.13 billion. Its strong outstanding order book of RM5 billion, which translates into 2.6 times of its revenue in the financial year ended Dec 31, 2015, and expectations of more public infrastructure projects to be rolled out are keeping SunCon on TA Securities' list of stock picks, with a target price of RM1.80.

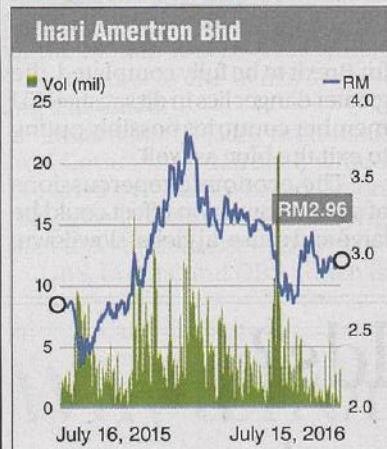
In a recent report, TA Securities expects SunCon to win as much as RM2.5 billion worth of jobs this year. This is supported by internal construction jobs of RM500 million to RM800 million a year (from Sunway Group) as bedrock orders. The research firm also pointed to SunCon's cash-rich balance sheet. The group has a net cash position of 23 sen per share.

With the current net cash position and limited capital expenditure requirement, there is a potential upside to its dividend payout going forward, said TA Securities. "Based on its minimum dividend payout of 35%, we expect SunCon to offer reasonable dividend yield of about 3%."

However, SunCon's earnings did not fare well in the first quarter ended March 31, 2016, falling 15.5% to RM29.06 million. Its reve-

nue shed 14.5% to RM424.5 million due to lower billings as some of the projects had reached or were near their completion stage.

Inari Amertron Bhd



YEAR to date, Inari Amertron Bhd's share price had slipped 18% to close at RM2.96 last Friday, with a market capitalisation of RM2.83 billion. The stock has been trading in a 52-week range of RM2.24 to RM3.96.

In a note to clients on May 18, CIMB Equity Research analyst Mohd Shanaz Noor Azam blamed the stock's decline on weak sentiment across the sector following the decline in Apple's iPhone production and the strengthening of the ringgit against the US dollar.

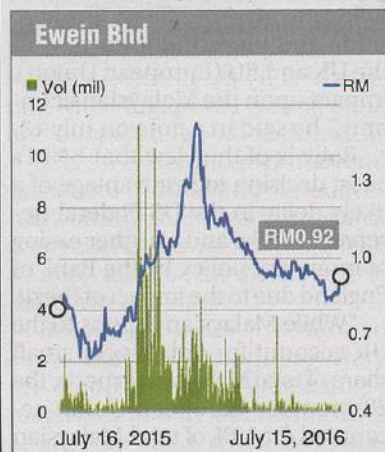
He believed Inari's fundamentals remain intact given that its key customer, Broadcom, expects radio frequency content in smartphones to grow by more than 20% per year over the next three years. "Moreover, Inari is also diversifying its earnings stream with its latest venture into China, following an investment in PCL Technologies." The research firm, which still counts Inari as its top pick in the semiconductor sector, is maintaining its "add" call on Inari, but with a lower target price of RM3.15 from RM3.65 previously.

"We expect Inari to show stronger earnings growth in the fourth financial quarter ended June 30, 2016, driven by recovery in industry demand on the back of new smart-

phone launches in 2H16. Therefore, we believe Inari is still on track for another year of record profits in FY16," said Mohd Shanaz.

TA Securities technology analyst Paul Yap told *The Edge Financial Daily* that a major smartphone launch in 2H16, Inari's ramp-up of capacity to 680 testers by September and a weak ringgit, which the research firm forecasts to slip to RM4.20 by year end, are expected to boost Inari's performance in 2H16.

Ewein Bhd



YEAR-on-year, Ewein Bhd has kept its earnings growth momentum going this year. Mercury Securities research head Edmund Tham said the Penang-based property developer has been posting consistent earnings over the past few quarters. Indeed, Ewein's growth numbers have been impressive, mainly driven by its property development business.

"Purely based on recent results, its fundamentals are intact. It (earnings growth) looks sustainable," he told *The Edge Financial Daily*.

For the first quarter ended March 31, 2016, Ewein posted a 514% increase in net profit to RM4.17 million on the back of a 108.23% jump in revenue to RM20.24 million, mainly due to recognition of profits from its City of Dreams project in Penang. Ewein is jointly developing the RM800 million condominium project in Bandar Tanjung Pinang with Consortium Zenith BUCG Sdn Bhd.

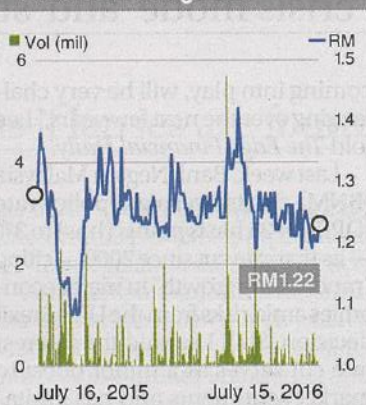
However, Ewein's share price movement does not reflect the earnings growth. Year to date, the stock had tumbled 28% from RM1.28 on Dec 31, 2015 to close at 92 sen last Friday, valuing it at RM204.12 million.

Sasbadi Holdings Bhd

DESPITE being in a business often seen as recession-proof, educational publisher Sasbadi Holdings Bhd saw its quarterly net profit fall for the first time since its listing on the Main Market of Bursa Malaysia in July 2014, in the second financial quarter ended Feb 29, 2016 (2QFY16).

Its net profit dropped 20% to RM6.64 million compared with RM8.34 million in 2QFY15, even though revenue rose 5% to RM33.86 million from RM32.11 million. It

Sasbadi Holdings Bhd



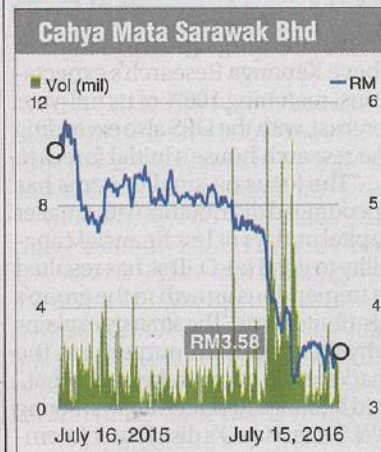
blamed the decrease in net profit on higher resources used for the textbook tender participation.

In spite of the slightly tepid results, Hong Leong Investment Bank Research continues to like Sasbadi due to its strong annual free cash flow, high growth rate, its innovativeness in creating products that cater to technology-savvy youth and unique education exposure, which is closely linked to the country's education system.

In a report on June 20, its analyst Mardhiah Omar reiterated a "buy" call on Sasbadi, with a target price of RM1.55, implying a potential 21% upside to its closing price of RM1.22 last Friday.

However, Mardhiah said its earnings forecast for FY16 has been slightly reduced by 4% as the research firm believes that the group would be slightly affected by the weak purchasing power and tough business environment. "Hence, we are expecting a softer 2H16 for the group."

Cahaya Mata Sarawak Bhd



CAHYA Mata Sarawak Bhd (CMS), touted as one of the best proxies for the mega projects in Sarawak, reported disappointing net profit in the first quarter ended March 31, 2016 (1QFY16). Its earnings plunged 98% to RM1.05 million, as revenue fell by 29% year-on-year and due to lower profit margin as well as share of substantial losses in associates.

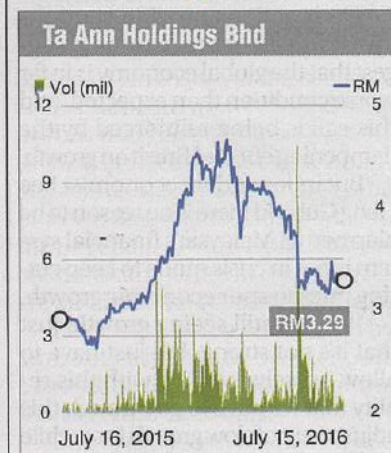
RHB Research, which had a "buy" call on CMS, has downgraded the stock to "neutral" as it cuts its earnings forecast for FY16 and FY17 by 14.8% and 7.6% respectively and lowers its target price (TP) to RM4.80 from RM5.86 initially. The TP still offers a 34% potential up-

side from last Friday's closing price of RM3.58. Year to date, however, CMS has lost almost 30% of its value from RM5.09 on Dec 31, 2015.

In a report dated April 14, the research firm said CMS' subscription to RM110 million convertible preference shares in OM Materials (Sarawak) Sdn Bhd suggested that the latter's business environment may be more challenging than RHB Research had initially projected.

It continues to like CMS as the best proxy to the rapid development activities in Sarawak. "We believe its medium- to longer-term outlook remains bright and CMS could make a comeback as soon as 2H16," RHB Research added.

Ta Ann Holdings Bhd



TA ANN Holdings Bhd, with its attractive dividend yield, high-growth businesses and undemanding valuation, is a top pick in 2016 for analysts. However, its first-quarter earnings were less than impressive, coming in below expectations of Kenanga Research plantation analyst Voon Yee Ping and consensus, meeting only 11% and 9% of their core net profit estimates respectively.

For the three months ended March 31, 2016 (1QFY16), Ta Ann posted a 53.7% decline in net profit to RM12.55 million on the back of a 1.6% decline in revenue to RM218.53 million.

In a note to clients on May 20, Voon said the company posted weak results in 1QFY16 due a 16% year-on-year (y-o-y) and an 8% y-o-y decline to US\$221 (RM871) per cu m and US\$469 per cu m in log and plywood prices respectively, compounded by weaker production volume (logs and plywood declined 33% and 14% respectively).

When contacted, Voon said Ta Ann's share price was also impacted by the stronger ringgit at the start of the year and its weaker production volumes. Year to date, the share price had declined by 20% to close at RM3.29 last Friday, with a market capitalisation of RM1.46 billion.

However, Voon is optimistic about Ta Ann moving forward as the ringgit has weakened since then and timber prices are expected to pick up. The ringgit closed at 3.9457 to the US dollar last Friday.

"The first quarter was the worst for the year [in terms of timber prices], but with the weakening ringgit and