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Analysts bullish over earnings season

Companies expected to deliver stellar results amid a V-shaped recovery

By Jonathan Kwok

Stock market analysts expect a neat set of numbers from locally listed companies as they post their 2009 full-year results over the next few weeks.

Most are predicting healthy profits across the board - likely to lead to some upgrades of their forecasts for earnings of these firms further down the track.

One major reason for this is the improved corporate climate, as well as the cost-cutting measures that firms have undertaken during the recession.

'We expect the earnings results to be spectacular. Given how sharp the recovery has been, this will translate into stronger earnings for companies. Some also took steps last year to contain costs. Thus, we expect surprises on the upside,' said Dr Chua Hak Bin, Citigroup's head of Singapore research.

The earnings season for companies with a Dec 31 financial year-end gets into full swing next week. Conglomerate Keppel Corp, its unit Keppel Land, Cambridge Industrial Trust and massage chair firm Osim are all due to unveil their full-year report cards.

But investors will get a foretaste with results from telco M1, Mapletree Logistics, CapitaMall Trust and Ascott Reit due out this week.

StarHub, DBS Group Holdings and Neptune Orient Lines are due to release their figures early next month.

Credit Suisse's head of Singapore equity Sean Quek said: 'Consensus earnings' upgrades have helped trigger share price performance in 2009... We expect this trend to continue into 2010, on a more positive outlook on top-line growth and margin.'

For his part, Mr Ken Tai, a senior technical strategist at Kim Eng, said: 'I think companies will perform better in 2009 than they did in 2008. A lot of companies should be out of the woods, and should be back into profitable territory. The profits should be quite a high level now, and the market is expecting a good set of results.'

The initial signs from companies that have already released their earnings have also been encouraging to say the least.

For instance, ornamental fish group Qian Hu posted an 8.3 per cent rise in full-year net profit to $6.54 million for the year ended Dec 31.

In general, analysts and fund managers expect similar good news from other companies, with most sectors getting a lift from the recovery.

'We don't expect any surprises on the downside from any industry,' said Dr Chua. 'A broad range of sectors will benefit from the recovery.'

The banking sector is expected to deliver some healthy returns. Dr Chua noted: 'The banks will be posting impressive results. This is due to the normalisation of provisions for bad debts and non-performing loans, which had been stepped up at the peak of the crisis.'

The oil, gas and commodities sectors are also likely to do well, thanks to the upswing in commodity prices - being pulled up by the recovering global economy .

'With oil having reached US$83 per barrel, we may see oil and gas stocks outperform their peers,' said Mr Tai. 'Since commodities' firms earn on margin, the current environment and the rising prices should also benefit commodities firms.'

The property and marine sectors are not expected to be left out of the party either. Mr Tai said: 'The marine industry should do well because the demand for vessels and off-shore infrastructure like oil rigs still saw an increase last year.

'For their part, many property developers have managed to unload and sell off their properties on hand. This was because of renewed demand for properties since last year... the property sector will do well and fall within our expectations.'

Even the less-than-impressive estimated economic output figures for the fourth quarter of last year are not dampening bullishness. The economy is estimated to have shrunk 6.8 per cent in the fourth quarter - a sharp reversal from the buoyant growth of the preceding two quarters, but analysts do not think it will have a negative impact on the earnings season.

'If you take out the biomedical sector, which is not reflected in the stock market, the economy actually did quite well. For instance, the services improved over the previous quarter,' said Dr Chua.

The figures, released on Jan 4, showed that weakness in the volatile biomedical sector in the fourth quarter led to a 38.4 per cent quarter-on-quarter plunge in the key manufacturing sector. However, the key services sector, which covers tourism and financial services, was up 7.2 per cent quarter-on-quarter, while construction climbed 4.3 per cent.

Whether the companies actually deliver to expectations remains to be seen.

Looking ahead, earnings recovery is also expected for the first and second quarters of this year. Mr Terence Wong, co-head of research at DMG Securities, said: 'It's not totally blue skies, but earnings will grow for the first and second quarters because the base was set so low last year. I don't think that major things will go wrong.'

jonkwok@sph.com.sg