

8 October 2019

Ann Joo Resource Bhd

A JV with Another Steel Giant

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ANNJOO has inked a MoU with Southern Steel Bhd to form a joint venture company comprising the long product steel manufacturing business of both parties in order to promote business efficacy and obtain synergies benefits. No changes in FY19E/FY20E CNL/CNP. Maintain UP with TP of RM1.10.

Forming a joint venture. Yesterday, ANNJOO inked a memorandum of understanding (MoU) to form a strategic alliance with Southern Steel Bhd (SSTEEL) by establishing a joint venture company (JV Co). Under the MoU, ANNJOO will sell its entire equity interest in Ann Joo Integrated Steel Sdn Bhd, Ann Joo Steel Berhad and Saga Makmur Industri Sdn Bhd to the JV Co for a total consideration of RM907.5m. On the other hand, SSTEEL will dispose its interest in 4 subsidiaries, (which are Southern Steel Rod Sdn Bhd, Southern Steel Mesh Sdn Bhd, Southern PC Steel Sdn Bhd and Danstil Sdn Bhd), steel billets and steel bar manufacturing, sales and trading of SSTEEL, as well as certain parcels of SSTEEL's lands to the JV for RM742.5m. The sale consideration will be settled via shares issued from JV Co, therefore ANNJOO will be holding 55% shares of the JV Co while SSTEEL will hold the remaining 45% interest. In short, the transaction will not involve any cash consideration and hence reserve the financial strength of both parties. On top of that, the announcement also highlighted that the management intend to list the JV Co on Bursa Securities as soon as the company achieve the profit track record requirements.

Positive synergies. Through the formation of the JV, ANNJOO could integrate into the downstream industrial grade wire rod product which SSTEEL has been doing, while on the other hand, SSTEEL could utilise billet products from ANNJOO to replace imported billets. Besides, the management expect the combined capacity for both iron making and crude steel making to increase to 0.5m MT and 2.3m MT, respectively. On the longer term, management also seek to explore additional synergy by tying up other operations within both parties to further enhance the value of both companies.

Earnings contribution after 1HCY20. Management targets to complete the corporate exercise by 1HCY20, implying that earnings contribution would only start to kick in after that. Hence, we are not overly excited for the near term. However, we acknowledged that the forming of the joint venture between the two parties will bring in positive operational synergies such as cost saving, improved operational efficiency, economies of scale and expertise from both parties.

No change to FY19-20E CNL/CNP. We do not change our earnings estimate for now as the development is only at MoU stage. If it materialises, the JV earnings will impact only after 1H 2020. However, we note the significant impact to Ann Joo if the JV materialises given that Southern Steel had been a loss maker in the last 3 quarters ending its latest financial year ending June with a net loss of RM119m. The immediate impact on 2H20 could be negative if the environment does not pick up. We shall update our forecasts once we get clarity on management's plans on turning around the business.

Maintain UNDERPERFORM for now with unchanged Target Price of RM1.10 based on Fwd. PBV of 0.5x pegged to FY20E BV/share of RM2.20, implying -0.5SD valuation basis. Overall, we are positive on the long-term prospect of the joint venture as it creates positive synergies between both companies in terms of efficiency, expanding product range and market share. However, we are concerned over the impact of macro factors toward the steel demand such as slower global growth which has restricted private spending, as well as uncertainty in government's future policy. As such, we believe the valuation is justifiable due to such weaker macro factors.

UNDERPERFORM ↔

Price : RM1.17
Target Price : RM1.10 ↔

Share Price Performance



KLCI 1,559.00
YTD KLCI chg -7.8%
YTD stock price chg -6.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK EQUITY
Market Cap (RM m)	606.5
Shares Outstanding	518.4
52-week range (H)	1.88
52-week range (L)	1.14
3-mth avg daily vol:	473,652
Free Float	29%
Beta	1.4

Major Shareholders

Ann Joo Corp Sdn Bhd	36.4%
Lim Seng Chee & Sons	13.4%
LSQ & Sons Sdn Bhd	11.6%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	2322	1872	2106
EBIT	160	-7	43
PBT	150	-43	6
Net Profit (NP)	150	-31	4
Core Net Profit*	127	-31	4
Consensus (NP)	N.A.	-6	47
Earnings Revision	N.A.	N.A.	N.A.
Core EPS (sen)	23.5	-5.8	0.8
Core EPS growth (%)	-38	-115	-114
NDPS (sen)	12.3	0.0	0.0
BV/Share (RM)	2.46	2.40	2.20
Core PER (x)	5.0	N.A.	140.7
Price/BV (x)	0.5	0.5	0.5
Gearing (x)	0.73	0.77	1.00
Net. Div Yield (%)	10.5	0	0

*Core Net Profit refers to RNI

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Risks to our call include: (i) higher-than-expected steel prices, (ii) higher-than-expected steel demand, and (iii) lower-than-expected raw material costs.

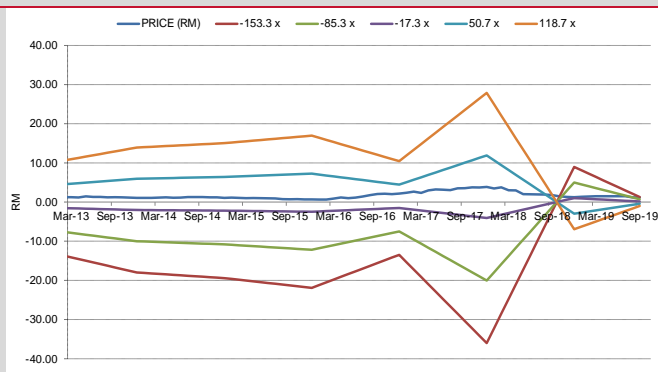
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	1870	2195	2322	1872	2106	Growth (%)					
EBITDA	291	318	203	37	88	Revenue	6%	17%	6%	-15%	12%
Depreciation	-43	-41	-43	-44	-45	EBITDA	-891%	109%	64%	12%	241%
EBIT	249	277	160	-7	43	EBIT	-407%	11%	-42%	-103%	-693%
Net Interest	-41	-36	-40	-42	-47	Pre-tax Income	-244%	25%	-41%	-117%	-114%
Associate/JCE	0	0	0	0	0	Net Income	-223%	23%	-27%	-115%	-114%
Exceptional item	-3	15	6	7	9	Core Net	-223%	23%	-38%	-115%	-114%
PBT	202	253	150	-43	6	Profitability (%)					
Taxation	-35	-47	0	11	-2	EBITDA Margin	16%	14%	9%	2%	4%
Minority Interest	0	0	0	0	0	EBIT Margin	13%	13%	7%	0%	2%
Net Profit	167	205	150	-31	4	PBT Margin	11%	12%	6%	-2%	0%
Core Net Profit	167	205	127	-31	4	Effective Tax	9%	9%	6%	-2%	0%
						ROE	9%	9%	5%	-2%	0%
						ROA	-17%	-19%	0%	-26%	-26%
						DuPont					
						Net margin (%)	9%	9%	6%	-2%	0%
						Assets Turnover	0.8	0.9	0.9	0.7	0.8
						Leverage Factor	2.2	2.0	2.0	2.1	2.3
						ROE (%)	16%	17%	11%	-2%	0%
						Leverage					
						Debt/Asset (x)	0.4	0.4	0.4	0.4	0.5
						Debt/Equity (x)	0.9	0.7	0.8	0.9	1.0
						N.Debt/(Cash)	903	788	966	998	1191
						N.Debt/Equity	0.8	0.6	0.73	0.8	1.0
						Valuations					
						Core EPS (sen)	31.0	38.1	23.5	-5.8	0.8
						GDPS (sen)	41.7	51.3	31.6	-7.9	1.1
						NDPS (sen)	13.9	19.4	12.3	0.0	0.0
						BV/share (RM)	1.98	2.27	2.46	2.40	2.20
						Core PER (x)	3.8	3.1	5.0	-20.0	140.7
						G. Div. Yield	2.8	2.3	3.7	-14.9	104.5
						N. Div. Yield (%)	12	17	11	0	0
						PBV (x)	0.59	0.51	0.48	0.49	0.53
						EV/EBITDA (x)	5.59	5.12	8.01	44.33	18.42

Balance Sheet					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	1034	1016	1014	1053	1030
Other FA	59	30	27	27	27
Inventories	831	847	1041	978	1069
Receivables	300	391	536	474	493
Other CA	42	49	13	35	62
Cash	55	57	55	124	30
Total Assets	2321	2389	2687	2690	2712
Payables	130	143	181	116	144
ST Borrowings	957	844	1021	1121	1221
Other ST	82	87	93	93	93
LT Borrowings	2	1	1	1	1
Other LT Liability	83	86	66	66	66
Minority Int.	0	0	0	0	0
Net Assets	1068	1227	1325	1293	1188
Share Capital	545	573	612	612	612
Reserves	519	651	713	681	576
S. Equity	1064	1224	1325	1293	1188

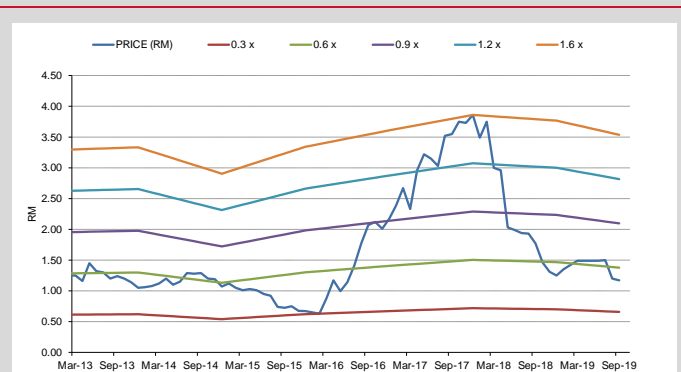
Cashflow Statement					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	333	188	-68	116	13
Investing CF	-20	-21	-42	-104	-50
Financing CF	-323	-166	100	57	-57
Net Change in	-10	1	-10	68	-93
Free Cash Flow	319	166	-100	22	-7

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																		
ANN JOO RESOURCES BHD	1.17	606.5	Y	12/2019	-19.4%	12.5%	-124.9%	702.4%	5.0	N.A.	140.7	0.5	0.5	-2.4%	0.0%	1.10	UP	
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.72	19,059.9	Y	12/2019	-1.5%	10.4%	-16.5%	61.5%	28.0	33.6	20.8	5.7	5.1	15.4%	1.0%	5.50	OP	
UNITED U-LI CORPORATION BHD	0.500	108.9	Y	12/2019	-21.6%	-9.6%	-158.8%	543.1%	29.4	N.A.	25.0	0.4	0.4	-0.8%	0.0%	0.400	UP	
WHITE HORSE BERHAD	1.14	260.0	Y	12/2019	-12.9%	0.8%	-66.8%	-98.8%	N.A.	N.A.	N.A.	0.4	0.4	-5.4%	0.0%	1.00	UP	
Simple Average					-13.9%	3.5%	-91.8%	302.1%	20.8	33.6	62.2	1.7	1.6	1.7%	0.2%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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