

28 November 2019

Ann Joo Resources Bhd

Below Expectations

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9MFY19 CNL of RM50.2m came in below expectations. We attribute the earning miss to: (i) lower average selling price, and (ii) higher-than-expected raw material and production costs. We increased our FY19E losses to RM66m and slashed our FY20E earnings from profit to losses of RM11m. Maintain UP with a lower TP of RM0.850 (from RM1.10) based on forward P/BV of 0.42x pegged to FY20E BV/share.

Below expectations. Excluding one-off overhead cost for plant's temporary shutdown (RM5.1m) and allowance for inventories written down (RM54.9m), Ann Joo recorded 9MFY19 CNL of RM50.2m which came in below our and consensus expectations. This was mainly due to: (i) lower average selling price of rebar steel (from RM2,100 to RM1,780) caused by oversupply issue, and (ii) higher-than-expected raw material cost as the cost of sales was still reflecting the iron ore price in 2QFY19 due to time-lag effect, despite the recent drop in iron ore price from its peak at USD120 to USD93 at end of September-2019. No dividend was announced, as expected.

Results' highlight. YoY, 9MFY19 CNL widened drastically to RM50.2m compared to CNP of RM124.6m in 9MFY18 mainly due to: (i) lower average selling price caused by oversupply of steel in the domestic market, (ii) higher iron ore price since Jan 2019 resulting from supply disruption, despite price dropping to USD90 from USD120 (highest in July 2019) but the benefit of the lower cost will only kick in earliest in 4QFY19, and (iii) higher fuel and production costs. QoQ, 3QFY19 CNL increased to RM32.3m compared to RM11.1m in 2QFY19 for the same reason mentioned.

Outlook. Overall, we remain cautious with its prospects as we expect lower ASP for rebar steel, distressed by oversupply of steel products and softer domestic demand despite the revival of selected mega projects as the progress remains slow. However, we expect the benefit of lower raw material cost such as iron ore and scrap metal to pick up in near future due to time-lag effect. Besides, we are encouraged by the group's strategy to actively pursue export opportunities, which may help in cushioning the negative impact from slower domestic demand and gaining tax incentive from increasing export. On the other hand, the JV between ANNJOO and SSTEEL is still in progress as scheduled, with targeted completion by 1HCY20.

Earnings cut. We further increased our losses estimate for FY19E to RM66m and slashed our FY20E earnings from profit to losses of RM11m by lowering our average selling price and EBIT margin assumptions in view of the competitive environment and challenging selling price outlook.

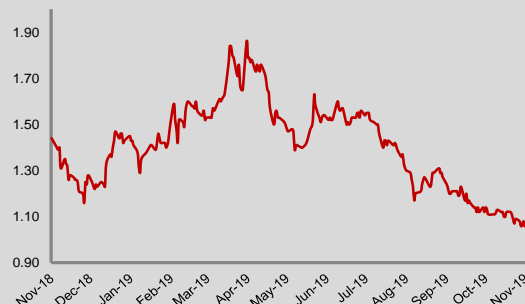
Maintain UP with a lowered TP of RM0.850 (from RM1.10) based on lower forward P/BV of 0.42x (at minus 1SD) pegged to FY20E BV/share of RM2.01, which we believe is justified due to: (i) depressed ASP of rebar steel, and (ii) weaker domestic and international demand.

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.

UNDERPERFORM ↔

Price : RM1.01
Target Price : RM0.850 ↓

Share Price Performance



KLCI 1,587.18
YTD KLCI chg -6.1%
YTD stock price chg -19.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK EQUITY
Market Cap (RM m)	523.6
Shares Outstanding	518.4
52-week range (H)	1.88
52-week range (L)	0.99
3-mth avg daily vol:	482,554
Free Float	29%
Beta	1.4

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2322	2100	2185
EBIT	160	-71	23
PBT	150	-169	-14
Net Profit (NP)	150	-121	-11
Core NP	127	-66	-11
Consensus (CNP)	N.A.	-5.4	44.3
Earnings Revision	N.A.	110%	N.M.
Core EPS (sen)	23.5	-12.3	-2.0
Core EPS growth %	-38	-132	-84
NDPS (sen)	12.3	0.0	0.0
BV/Share (RM)	2.46	2.23	2.01
Core PER (x)	4.3	N.A.	N.A.
Price/BV (x)	0.4	0.5	0.5
Net Gearing (x)	0.73	0.99	1.18
Dividend Yield (%)	12.2	0	0



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Result Highlight								
FYE Dec (RM m)	3Q19	2Q19	QoQ	3Q18	YoY	9M19	9M18	YoY
Turnover	505.3	574.3	-12%	547.7	-8%	1,617.7	1,646.4	-2%
EBIT	-43.8	-13.0	238%	53.9	-181%	-56.3	186.0	N.M.
Interest inc/(exp)	-5.7	-13.1	-56%	-10.9	-47%	-30.5	-28.6	7%
Associates/JV	0.0	0.0	-300%	0.0	N.A.	0.0	0.0	-100%
Exceptional items	-32.7	-27.3	20%	0.0	N.A.	-60.0	0.0	N.A.
Forex gain/(loss)	-0.1	0.6	-108%	-5.7	-99%	0.9	-8.1	-111%
Pretax profit/(loss)	-82.3	-52.8	56%	37.2	-321%	-146.0	149.3	N.M.
Taxation	17.3	15.0	15%	-2.9	-706%	36.6	-32.7	N.M.
Deferred tax	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Profit/(loss) after tax	-65.0	-37.8	72%	34.4	-289%	-109.4	116.5	N.M.
Minority interest	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
PATAMI	-65.0	-37.8	72%	34.4	-289%	-109.4	116.5	N.M.
Core PATAMI	-32.3	-11.1	191%	40.1	-180%	-50.2	124.6	N.M.
DPS (sen)	0.0	0.0		0.0		0.0	6.0	
EBIT margin	-9%	-2%		10%		-3%	11%	
Pretax margin	-16%	-9%		7%		-9%	9%	
NP margin	-16%	-9%		7%		-9%	9%	
CNP margin	-6%	-2%		7%		-3%	8%	
EPS (sen)	-12.1	-7.0		6.4		-20.3	21.7	
Core EPS(sen)	-6.0	-2.1		7.5		-9.3	23.2	
BV/share (RM)	2.2	2.3		2.4		2.2	2.4	
Net gearing (x)	0.9	0.8		0.8		0.9	0.8	
Effective tax	21%	28%		8%		25%	22%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	3Q19	2Q19	QoQ	3Q18	YoY	9M19	9M18	YoY
Segment Revenue								
Manufacturing	206.8	290.1	-29%	258.7	-20%	728.4	842.0	-13%
Trading	298.3	283.3	5%	288.8	3%	887.6	804.0	10%
Others	0.6	0.6	-1%	0.2	233%	1.7	0.3	381%
Total	505.6	574.0	-12%	547.7	-8%	1,617.7	1,646.4	-2%
Segment EBIT								
Manufacturing	-84.3	-41.4	104%	44.1	-291%	-136.8	157.7	-187%
Trading	4.4	3.5	26%	1.0	339%	14.8	12.3	20%
Others	1.5	2.4	-38%	1.8	-17%	6.1	5.8	5%
Adjustments	5.5	-5.5	-199%	0.7	737%	2.7	0.5	475%
Total	-72.9	-41.0	78%	47.6	-253%	-113.3	176.3	-164%
EBIT margins								
Manufacturing Margin	-41%	-14%		17%		-19%	19%	
Trading Margin	1%	1%		0%		2%	2%	

Source: Company, 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.		
BUILDING MATERIALS UNDER COVERAGE																	
ANN JOO RESOURCES BHD	1.01	523.6	Y	12/2019	-9.6%	4.0%	-152.3%	-623.0%	4.3	N.A.	N.A.	0.4	0.5	-9.6%	0.0%	0.850	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.80	19,382.9	Y	12/2019	-1.5%	10.4%	-16.5%	61.5%	28.5	34.1	21.1	5.8	5.2	15.4%	0.9%	5.50	OP
UNITED U-LI CORP BHD	0.505	110.0	Y	12/2019	-21.6%	-9.6%	-158.8%	543.1%	29.7	N.A.	25.3	0.4	0.4	-0.8%	0.0%	0.400	UP
WHITE HORSE BHD	1.06	241.6	Y	12/2019	-14.7%	0.8%	-57.2%	-95.8%	N.A.	N.A.	N.A.	0.4	0.4	-6.3%	0.0%	0.950	UP
Simple Average	1.01	523.6	Y	12/2019	-11.8%	1.4%	-96.2%	-28.5%	20.8	34.1	23.2	1.7	1.6	-0.3%	0.2%		

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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