

01 July 2020

Ann Joo Resources Bhd

1QFY20 Below Expectations

By Lim Chin Pei | limcp@kenanga.com.my

1QFY20 CNL of RM17.6m came in below expectations. We attribute the earning miss to: (i) lower-than-expected sales tonnage, and (ii) lower-than-expected manufacturing margin. Post result, we increased our FY20E and FY21E losses to RM60m and RM13m, respectively. Downgrade to UP with lower TP of RM0.550 (from RM0.580) based on forward P/BV of 0.26x (from 0.29x) pegged to FY20E BV/share.

Below expectations. Excluding one-off overhead cost for plant's temporary shutdown (RM5.2m) and allowance for inventories written down (RM7.4m), Ann Joo recorded 1QFY20 CNL of RM17.6m which came in below our and consensus expectations. This was mainly due to: (i) lower-than-expected sales tonnage, and (ii) lower-than-expected manufacturing margin. No dividend was announced, as expected.

Results' highlight. YoY, 3MFY20 recorded wider losses of RM17.6m compared to RM6.9m a year ago mainly due to: (i) lower sales tonnage for both domestic and export market as the business was partly affected by unexpected change in government and business closure due to implementation of MCO, and (ii) lower average selling price of various steel products. QoQ, the first quarter registered lower losses by 77% compared to RM77.8m in the preceding quarter largely due to: (i) rebound in average selling price from RM1,889/MT in 4QFY19 to RM2,046 in 1QFY20, and (ii) improvement in margin thanks to lower raw material cost since last quarter, despite lower sales tonnage in 1QFY20 compared to 4QFY19.

Outlook. Overall, we remain cautious with its prospects as we expect oversupply issue and softer domestic demand to continue to impact the steel industry, despite seeing some rebound in ASP lately. Besides, manufacturing margin could be further distressed by increased iron ore prices due to global supply chain disruption from Brazil and Australia influenced by Covid-19 outbreak. However, 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. Moving forward, the company will focus on optimising operational efficiency and reducing cost to remain responsive to uncertain market changes.

Earnings revision. Post result, we increased our FY20E/FY21E losses to RM60m/RM13m, respectively, after adjusting our sales and margin assumptions in view of business disruption during MCO, depressed ASP and higher raw material cost due to supply disruption caused by outbreak of Covid-19.

Downgraded to UP with lower TP of RM0.550 (from RM0.580) based on Fwd P/BV of 0.26x (from 0.29x) pegged to FY20E BV/share, which is at -2SD level, 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 : RM0.720
Target Price : RM0.550 ↓

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg -41.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK EQUITY
Market Cap (RM m)	388.5
Shares Outstanding	539.6
52-week range (H)	1.61
52-week range (L)	0.42
3-mth avg daily vol:	3,988,615
Free Float	32%
Beta	1.8

Major Shareholders

Ann Joo Corp Sdn Bhd	35.0%
Lim Seng Chee & Sons Sdn Bhd	12.9%
LSQ & Sons Sdn Bhd	11.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	2221	1989	2235
EBIT	-122	-38	40
PBT	-162	-81	-17
Net Profit (NP)	-90	-60	-13
Core NP	-128	-60	-13
Consensus (CNP)	N.A.	-66	-18
Earnings Revision	N.A.	-464%	-29%
Core EPS (sen)	-23.7	-11.1	-2.4
Core EPS growth %	-162	-53	-78
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	2.23	2.11	2.08
Core PER (x)	N.A.	N.A.	N.A.
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.81	0.66	0.64
Dividend Yield (%)	0	0	0



01 July 2020

Result Highlight

FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Turnover	445.7	603.7	-26%	538.1	-17%
EBIT	-11.4	-106.6	-89%	0.4	N.M.
Interest inc/(exp)	-10.5	-6.6	59%	-11.6	-9%
Associates/JV	0.0	0.0	N.M.	0.0	N.M.
Exceptional items	-12.6	97.2	N.M.	0.0	N.M.
Forex gain/(loss)	-0.3	0.1	N.M.	0.3	N.M.
Pretax profit/(loss)	-34.9	-16.0	118%	-10.9	219%
Taxation	4.3	35.5	-88%	4.3	0%
Profit/(loss) after tax	-30.6	19.5	N.M.	-6.6	363%
Minority interest	0.0	0.0	N.M.	0.0	N.M.
PATAMI	-30.6	19.5	N.M.	-6.6	363%
Core PATAMI	-17.6	-77.8	-77%	-6.9	156%
DPS (sen)	0.0	0.0		0.0	
EBIT margin	-3%	-18%		0%	
Pretax margin	-8%	-3%		-2%	
NP margin	-8%	-3%		-2%	
CNP margin	-4%	-13%		-1%	
EPS (sen)	-5.7	3.6		-1.2	
Core EPS(sen)	-3.3	-14.4		-1.3	
BV/share (RM)	2.2	2.2		2.5	
Net gearing (x)	0.9	0.8		0.8	
Effective tax	12%	222%		40%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Segment Revenue					
Manufacturing	183.0	331.7	-45%	231.5	-21%
Trading	262.1	271.4	-3%	306.1	-14%
Others	0.6	0.6	1%	0.6	7%
Total	445.7	603.7	-26%	538.1	-17%
Segment EBIT					
Manufacturing	-29.8	2.9	-1138%	-11.2	166%
Trading	5.8	5.5	5%	6.9	-16%
Others	-0.9	-10.2	-91%	2.2	N.M.
Adjustments	0.6	-6.2	-110%	2.8	-78%
Total	-24.3	-8.1	202%	0.7	-N.M.
EBIT margins					
Manufacturing Margin	-16%	1%		-5%	
Trading Margin	2%	2%		2%	

Source: Company, Kenanga Research

01 July 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
BUILDING MATERIALS UNDER COVERAGE																	
ANN JOO RESOURCES BHD	0.720	388.5	Y	12/2020	-10.4%	12.4%	-146.9%	-121.7%	N.A.	N.A.	N.A.	0.3	0.3	-5.1%	0.0%	0.550	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.53	18,292.6	Y	12/2020	-17.1%	28.5%	-24.4%	74.0%	26.9	32.2	19.9	5.0	4.7	10.3%	0.8%	4.45	MP
UNITED U-LI CORP BHD	0.350	76.2	Y	12/2020	-5.3%	3.0%	-80.0%	66.7%	N.A.	175.0	175.0	0.3	0.3	0.1%	0.0%	0.250	UP
WHITE HORSE BHD	0.690	157.1	Y	12/2020	-5.4%	3.9%	-182.8%	-177.4%	N.A.	N.A.	N.A.	0.2	0.3	-8.6%	0.0%	0.740	MP
Simple Average					-9.5%	11.9%	-108.5%	-39.6%	26.9	103.6	97.5	1.5	1.4	-0.8%	0.2%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

01 July 2020

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: E-mail: research@kenanga.com.my

