

30 November 2021

# Ann Joo Resources Bhd

## 9MFY21 Within Expectations

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**9MFY21 CNP of RM226m met expectations despite accounting for 86% of full-year estimates as we anticipate a weak 4Q amidst declining steel prices and higher average raw material costs as it plays catch up. In view of the current steel price downtrend (which may last longer than expected), we opt to switch our valuation methodology for ANNJOO to an asset based method (PBV) from an earning base method as our FY22E profit projections may not be a reliable valuation yardstick. On a Fwd. PBV of 0.75x, we lower our TP to RM1.70 and maintain MP.**

**Within expectations.** 3QFY21 CNP of RM69m led 9MFY21 to RM226m, accounting for 86% each of our/consensus full-year estimate. We deem this set of earnings as within expectations as we are anticipating a weaker 4QFY21 in tandem with (i) the declining steel prices and (ii) raw material cost continuing to play catch up which would shrink manufacturing and trading margins. No dividends as expected.

**Results' highlights.** QoQ, despite higher ASP of RM3.2k/tonne (+4.6% QoQ), 3QFY21 CNP of RM69m decreased 17% on lower revenue as the quarter saw lower export volumes to China as (i) Annjoo had sold most of its export-grade inventories in 2Q and did not manage to rebuild inventory fast enough in 3Q given the FMCO lockdowns, and (ii) management decided to hold back exports in September given the highly volatile prices. Meanwhile, 9MFY21 CNP of RM157m swung back to the black YoY against 9MFY20 CNL of RM71m mainly on higher steel prices of RM2,965/tonne vs RM2,089/tonne (+42%).

**A mixed and highly uncertain outlook for steel.** With the recent housing market crisis in China, prospect for property demand in China is likely to wane and this would indirectly affect the prices for long steel products. Case in point, China's long steel prices seen a sharp drop in October 2021. However, on the supply side, China's long-term policy to achieve carbon neutrality by 2060 would contribute to a tighter supply in the mid-long term which means steel prices would be somewhat supported. All in, we believe steel prices would likely see downward pressure in the short term but stabilise thereafter. We believe the uptrend seen over the past year has ended and steel prices would not be able to surpass peak prices seen in early May 2021 - also because it is in the Chinese government's interest to keep a lid on commodity prices in order to keep inflation levels in check.

**No change to earnings backed by FY21E/FY22E ASP of RM3,100/RM3,000 per tonne.**

**Switching our valuation methodology.** Given the downtrend in steel prices currently which suggest QoQ decline in profitability coupled with the mixed outlook for steel prices, we believe our FY22E profit projections may not be a reliable yardstick to derive valuations for the group. Consequently, we opt to switch our valuation methodology from an earning-based method (PER) to an asset-based method (i.e. PBV). We derive a new 0.75x PBV valuation (from 9x Fwd. PER) to the group pegged to 0.5SD below 5-year mean to reflect potential impairment in inventories if the current downtrend in steel prices becomes overly steep. **Hence, we lower TP to RM1.70 (from RM2.20) and maintain MP.** Note, back in 2018, Annjoo's Fwd. PBV valuation fell from a peak of 1.6x to a low of 0.5x when steel prices came off then.

## MARKET PERFORM ↔

Price : RM1.84  
Target Price : RM1.70 ↓

### Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	17.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK EQUITY
Market Cap (RM m)	998.6
Shares Outstanding	542.7
52-week range (H)	3.18
52-week range (L)	0.86
3-mth avg daily vol:	3,836,681
Free Float	30%
Beta	1.7

### Major Shareholders

Ann Joo Corp Sdn Bhd	34.8%
Lim Seng Chee & Sons Sdn Bhd	14.0%
LSQ & Sons Sdn Bhd	11.1%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1891	2779	2891
EBIT	-35	370	243
PBT	-74	330	203
<b>Net Profit (NP)</b>	<b>-100</b>	<b>262</b>	<b>154</b>
<b>Core NP</b>	<b>-54</b>	<b>262</b>	<b>154</b>
Consensus (CNP)	-108	259	191
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	-8.6	41.8	24.6
Core EPS growth %	-58	585	-41
NDPS (sen)	0.0	10.5	6.1
BV/Share (RM)	1.76	2.07	2.26
Core PER (x)	-21.4	4.4	7.5
Price/BV (x)	1.0	0.9	0.8
Net Gearing (x)	0.87	0.94	0.79
Dividend Yield (%)	0	5.7	3.3

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**Upside risks to our call include:** (i) higher-than-expected steel prices, and (ii) lower-than-expected raw material costs.

<b>Result Highlight</b>								
<b>FYE Dec (RM m)</b>	<b>3Q21</b>	<b>2Q21</b>	<b>QoQ</b>	<b>3Q20</b>	<b>YoY</b>	<b>9M21</b>	<b>9M20</b>	<b>YoY</b>
<b>Turnover</b>	<b>405.7</b>	<b>674.1</b>	-40%	<b>560.2</b>	-28%	<b>1,656.5</b>	<b>1,351.8</b>	23%
EBITDA	55.4	122.2	-55%	24.9	123%	281.7	24.7	1039%
Depreciation	14.7	-14.8	n.a.	-14.3	n.a.	-15.0	-43.1	-65%
<b>EBIT</b>	<b>70.1</b>	<b>107.3</b>	-35%	<b>12.5</b>	459%	<b>266.8</b>	<b>-54.1</b>	n.a.
Interest inc/(exp)	-7.0	-7.1	-1%	-9.3	-24%	-21.5	-30.9	-31%
Associates/JV	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	-0.6	n.a.	0.0	0.9	-100%
<b>Pretax profit</b>	<b>63.1</b>	<b>100.2</b>	-37%	<b>2.6</b>	2321%	<b>245.3</b>	<b>-84.2</b>	n.a.
Taxation	6.0	-16.5	n.a.	-21.5	n.a.	-18.9	-22.0	-14%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Profit after tax</b>	<b>69.1</b>	<b>83.7</b>	-17%	<b>-18.9</b>	n.a.	<b>226.4</b>	<b>-106.2</b>	n.a.
Minority interest	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>PATAMI</b>	<b>69.1</b>	<b>83.7</b>	-17%	<b>-18.9</b>	n.a.	<b>226.4</b>	<b>-106.2</b>	n.a.
Exceptional items	0.0	0.0	n.a.	2.0	-100%	0.0	-35.8	n.a.
<b>Core PATAMI</b>	<b>69.1</b>	<b>83.7</b>	-17%	<b>-20.2</b>	n.a.	<b>226.4</b>	<b>-71.3</b>	n.a.
DPS (sen)	-6.0	6.0		0.0		0.0	0.0	
EBIT margin	17%	16%		2%		16%	-4%	
Pretax margin	16%	15%		0%		15%	-6%	
NP margin	16%	15%		0%		15%	-6%	
CNP margin	17%	12%		-4%		14%	-5%	
EPS (sen)	12.8	15.5		-3.5		41.9	-19.7	
Core EPS(sen)	12.8	15.5		-3.8		41.9	-13.2	
BV/share (RM)	2.4	2.3		2.0		2.4	2.0	
Net gearing (x)	0.7	0.7		0.9		0.7	0.9	
Effective tax	-10%	16%		826%		8%	-26%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>External Revenue</b>	<b>3Q21</b>	<b>2Q21</b>	<b>QoQ</b>	<b>3Q20</b>	<b>YoY</b>	<b>9M21</b>	<b>9M20</b>	<b>YoY</b>
Manufacturing	175.9	444.4	-60%	277.6	-37%	858.1	653.8	31%
Trading	229.2	229.1	0%	282.0	-19%	796.6	696.2	14%
Others	0.6	0.6	-3%	0.6	-2%	1.8	1.7	6%
Elimination	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Total</b>	<b>405.7</b>	<b>674.1</b>	-40%	<b>560.2</b>	-28%	<b>1,656.5</b>	<b>1,351.8</b>	23%
<b>EBIT Segmentation</b>								
Manufacturing	43.0	71.1	-40%	-12.7	n.a.	167.5	-91.5	n.a.
Trading	26.7	33.6	-20%	8.0	233%	95.0	17.4	446%
Others	-0.4	0.9	-143%	15.3	-103%	1.7	17.4	-90%
Elimination	-0.7	0.9	-174%	-0.3	161%	-0.8	0.3	-422%
<b>Total</b>	<b>68.7</b>	<b>106.5</b>	-36%	<b>10.4</b>	562%	<b>263.4</b>	<b>-56.5</b>	n.a.
<b>EBIT margins</b>								
Manufacturing	24%	16%		-5%		20%	-14%	
Trading	12%	15%		3%		12%	2%	
<b>Total</b>	<b>17%</b>	<b>16%</b>		<b>2%</b>		<b>16%</b>	<b>-4%</b>	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<b><u>BUILDING MATERIALS UNDER COVERAGE</u></b>													
ANN JOO RESOURCES BHD	1.84	998.6	Y	12/2021	N.A.	4.4	7.5	0.8	0.9	22.7%	5.7%	1.70	MP
PRESS METAL ALUMINUM BHD	5.23	42,238.6	Y	12/2021	31.0	37.2	23.0	10.3	9.3	25.7%	0.4%	6.96	OP
UNITED U-LI CORPORATION BHD	1.32	287.5	Y	12/2021	50.8	7.0	7.1	1.0	1.0	14.3%	4.2%	1.85	OP
<b>Simple Average</b>					<b>40.9</b>	<b>16.2</b>	<b>12.5</b>	<b>4.1</b>	<b>3.7</b>	<b>20.9%</b>	<b>3.4%</b>		

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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