

29 August 2019

# Ann Joo Resources Bhd

## 1H19 Below Expectation

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**1H19 CNL of RM17.9m came in below expectation. We attribute the earning miss to: (i) lower average selling price, and (ii) higher-than-expected raw material and production costs. We slashed our FY19E from profit to loss and FY20E earnings by 68%. Maintain UP with a lower TP of RM1.10 based on Fwd. PBV of 0.5x pegged to FY20E BV/share.**

**1H19 below expectations.** Excluding one-off overhead cost for plant's temporary shutdown (RM5.0m) and allowance for inventories written down (RM22.5m), Ann Joo recorded 1H19 CNL of RM17.9m which came in below our and consensus expectations. This was mainly due to lower average selling price of rebar steel (from RM2,150 to RM2,025) caused by oversupply of steel, higher-than-expected raw material cost mainly from iron ore (from USD76/DMTU to USD109/DMTU) resulting from supply disruption, higher-than-expected fuel and production costs due to scheduled Blast Furnace shutdown in June 2019 where during this period the company had to switch to 100% scrap metal production, and hence was not able to enjoy the cost benefit from its hybrid structure. No dividend was announced, as expected.

**Results highlight. YoY,** 1H19 CNL widened drastically to RM17.9m compared to CNP of RM84.5 in 1H18 mainly due to: (i) higher raw material cost mainly from iron ore price which increased by c.43% (during Jan-June 2019), (ii) higher fuel and production costs resulting from temporary shutdown of Blast Furnace for relining purpose, which reversed EBIT margin by 12ppt to losses. The increase in costs was partly offset by the slight increase in revenue (by 1%) attributable to higher export tonnage and higher tax credit earned from increased export tonnage and deferred tax recognised arising from business loss of subsidiary. **QoQ,** 2Q19 poor performance with CNL of RM11.1m was due to similar reasons above.

**Outlook.** Overall, we remain cautious with the its prospects as we expect lower ASP of rebar steel, distressed by oversupply of steel products and softer domestic demand despite the revival of selected mega projects. Moreover, impact from higher iron ore price may continue to impact earnings in the coming quarter despite the recent drop in iron ore price. The benefit of lower iron ore price will only be seen in the fourth quarter due to time lag in between production and purchases of raw material. 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 gain tax incentive from increasing export. Furthermore, the relining exercise carried out in June 2019 could further improve the production efficiency which will benefit the company in the long run.

**Earnings cut.** We slashed our FY19E earnings from profit to losses after increasing the raw material cost and lower the EBIT margin assumption in view of higher input and production cost. As for FY20E earnings, we cut it by 68%, also based on slightly lower EBIT margin as well.

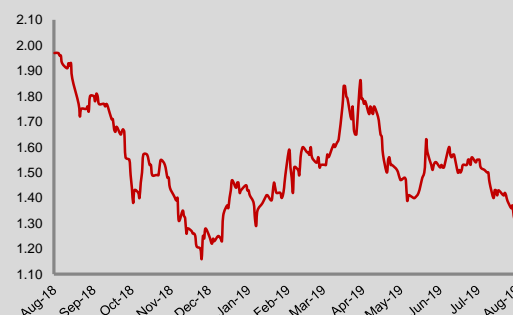
**Maintain UP with a lowered TP of RM1.10 (from RM1.15)** based on unchanged Fwd. PBV of 0.5x pegged to FY20E BV/share of RM2.20, which we believe is justified due: to (i) depressed APS of rebar steel, (ii) weaker domestic and international demand, and (iii) higher input costs.

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

## UNDERPERFORM ↔

**Price :** RM1.23  
**Target Price :** RM1.10 ↓

### Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	-1.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK EQUITY
Market Cap (RM m)	637.6
Shares Outstanding	518.4
52-week range (H)	2.00
52-week range (L)	1.15
3-mth avg daily vol:	553,830
Free Float	39%
Beta	1.5

### 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	1872	2106
EBIT	160	-7	43
PBT	150	-43	6
<b>Net Profit (NP)</b>	<b>150</b>	<b>-31</b>	<b>4</b>
<b>Core NP</b>	<b>127</b>	<b>-31</b>	<b>4</b>
Consensus (CNP)	N.A.	38.7	70.1
Earnings Revision	N.A.	N.M.	-68%
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)	5.2	N.A.	147.9
Price/BV (x)	0.5	0.5	0.6
Net Gearing (x)	0.73	0.77	1.00
Dividend Yield (%)	10.0%	0%	0%

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<b>Result Highlight</b>								
<b>FYE Dec (RM'm)</b>	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>Turnover</b>	<b>574.3</b>	<b>538.1</b>	<b>7%</b>	<b>509.6</b>	<b>13%</b>	<b>1,112.4</b>	<b>1,098.7</b>	<b>1%</b>
<b>EBIT</b>	<b>-13.0</b>	<b>0.4</b>	<b>-3128%</b>	<b>45.5</b>	<b>-128%</b>	<b>-12.5</b>	<b>132.1</b>	<b>-109%</b>
Interest inc/(exp)	-13.1	-11.6	13%	-9.5	38%	-24.7	-17.7	40%
Associates/JV	0.0	0.0	0%	0.0	N.M.	0.0	0.0	0%
Exceptional items	-27.3	0.0	N.M.	0.0	N.M.	-27.3	0.0	N.M.
Forex gain/(loss)	0.6	0.3	141%	-6.7	-110%	0.9	-2.4	-138%
<b>Pretax profit/(loss)</b>	<b>-52.8</b>	<b>-10.9</b>	<b>383%</b>	<b>29.3</b>	<b>-280%</b>	<b>-63.7</b>	<b>112.0</b>	<b>-157%</b>
Taxation	15.0	4.3	247%	-8.6	-274%	19.3	-29.9	-165%
Deferred tax	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>Profit/(loss) after tax</b>	<b>-37.8</b>	<b>-6.6</b>	<b>472%</b>	<b>20.7</b>	<b>-282%</b>	<b>-44.3</b>	<b>82.1</b>	<b>-154%</b>
Minority interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>PATAMI</b>	<b>-37.8</b>	<b>-6.6</b>	<b>472%</b>	<b>20.7</b>	<b>-282%</b>	<b>-44.3</b>	<b>82.1</b>	<b>-154%</b>
<b>Core PATAMI</b>	<b>-11.1</b>	<b>-6.9</b>	<b>61%</b>	<b>27.4</b>	<b>-140%</b>	<b>-17.9</b>	<b>84.5</b>	<b>-121%</b>
DPS (sen)	0.0	0.0		0.0		0.0	6.0	
EBIT margin	-2%	0%		9%		-1%	12%	
Pretax margin	-9%	-2%		6%		-6%	10%	
NP margin	-9%	-2%		6%		-6%	10%	
CNP margin	-2%	-1%		5%		-2%	8%	
EPS (sen)	-7.0	-1.2		3.7		-8.2	14.7	
Core EPS(sen)	-2.1	-1.3		4.9		-3.3	15.1	
BV/share (RM)	2.3	2.5		2.3		2.3	2.3	
Net gearing (x)	0.8	0.8		0.7		0.8	0.7	
Effective tax	28%	40%		29%		30%	27%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Dec (RM'm)</b>	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>Segment Revenue</b>								
Manufacturing	290.1	231.5	25%	270.2	7%	521.6	583.3	-11%
Trading	283.3	306.1	-7%	239.4	18%	589.4	515.2	14%
Others	0.6	0.6	0%	0.0	2832%	1.1	0.2	518%
Total	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>Segment EBIT</b>								
Manufacturing	-41.4	-11.2	269%	35.1	-218%	-52.6	113.6	-146%
Trading	3.5	6.9	-50%	1.2	195%	10.4	11.3	-8%
Others	2.4	2.2	6%	2.1	14%	4.6	4.0	15%
Adjustments	-5.5	2.8	-301%	-0.2	2340%	-2.8	-0.2	1391%
Total	-41.0	0.7	-5996%	38.2	-208%	-40.3	128.8	-131%
<b>EBIT margins</b>								
Manufacturing Margin	-14%	-5%		13%		-10%	19%	
Trading Margin	1%	2%		0%		2%	2%	

Source: Company, Kenanga Research

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## 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 (RM)	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.		
<b>BUILDING MATERIALS UNDER COVERAGE</b>																	
ANN JOO RESOURCES BHD	1.23	637.6	Y	12/2019	-19.4%	12.5%	-124.9%	702.4%	5.2	N.A.	147.9	0.5	0.5	-2.4%	0.0%	1.10	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.83	19,503.8	Y	12/2019	-1.5%	10.4%	-16.5%	61.5%	28.7	34.3	21.3	5.8	5.3	15.4%	0.9%	5.50	OP
UNITED U-LI CORP BHD	0.485	105.6	Y	12/2019	-21.6%	-9.6%	-158.8%	543.1%	28.5	N.A.	24.3	0.4	0.4	-0.8%	0.0%	0.400	UP
WHITE HORSE BHD	1.17	267.0	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
<b>Simple Average</b>					<b>-13.9%</b>	<b>3.5%</b>	<b>-91.8%</b>	<b>302.1%</b>	<b>20.8</b>	<b>34.3</b>	<b>64.5</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7%</b>	<b>0.2%</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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