

25 February 2020

# Ann Joo Resources Bhd

## FY19 Below Expectations

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**FY19 CNL of RM128.0m came in below expectations. We attribute the earning miss to: (i) lower average selling price, and (ii) higher-than-expected raw material costs. We maintain our FY20E earnings and introduce FY21E CNL of RM10m. Maintain UP with unchanged TP of RM0.850 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), reversal of accruals (RM38.0m) and allowance for inventories written down (RM4.3m), Ann Joo recorded FY19 CNL of RM128.0m which came in below our and consensus expectations. This was mainly due to: (i) lower average selling price of rebar steel caused by oversupply issue, and (ii) higher-than-expected raw material cost. No dividend was announced, as expected.

**Results' highlight.** YoY, FY19 recorded CNL of RM128.0m compared to CNP of 126.6m a year ago mainly due to: (i) lower average selling price caused by oversupply of steel in domestic market, (ii) lower sale tonnage in domestic market, and (iii) higher iron ore price in FY2019 caused by supply disruption. QoQ, 4QFY19 CNL further deteriorated to RM77.8m (+141%) compared to RM32.3m in the preceding quarter largely due to depressed margin caused by lower average selling price despite increased export tonnage.

**Outlook.** Overall, we remain cautious with its prospects as we expect depressed 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 believe the normalisation of raw materials cost will help to improve products margin. Moreover, 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 company is at the stage of concluding the due diligence process for the JV with SSTEEL, and the management expect to complete the JV activity by 2HCY20.

**Earnings revision.** Post result, we maintain our FY20E earnings forecast and introduce our FY21E revenue of RM2,282m and CNL of RM10m which is based on lower raw material costs in view of iron ore supply resumption.

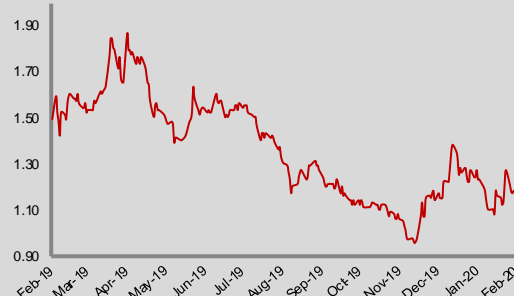
**Maintain UP with unchanged TP of RM0.850** based on lower forward P/BV of 0.42x (at minus 1SD) pegged to FY20E BV/share of RM2.01, which we believe is justified due to: (i) depressed ASP of rebar steel, and (ii) weaker domestic and international demand.

**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 : RM1.12  
Target Price : RM0.850 ↔

### Share Price Performance



KLCI	1,490.06
YTD KLCI chg	-6.2%
YTD stock price chg	-8.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AJR MK Equity
Market Cap (RM m)	604.3
Shares Outstanding	539.6
52-week range (H)	1.88
52-week range (L)	0.95
3-mth avg daily vol:	1,059,352
Free Float	32%
Beta	1.6

### 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	2185	2282
EBIT	-113	23	46
PBT	-161	-14	-14
<b>Net Profit (NP)</b>	<b>-89</b>	<b>-11</b>	<b>-10</b>
<b>Core NP</b>	<b>-128</b>	<b>-11</b>	<b>-10</b>
Consensus (CNP)	N.A.	29	N.A.
Earnings Revision	N.A.	0%	N.A.
Core EPS (sen)	-23.6	-2.0	-1.9
Core EPS growth %	-162	-92	-2
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	2.24	2.01	2.00
Core PER (x)	-4.8	-57.3	-58.4
Price/BV (x)	0.5	0.6	0.6
Net Gearing (x)	0.81	1.29	1.21
Dividend Yield (%)	0	0	0

25 February 2020

<b>Result Highlight</b>								
<b>FYE Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY</b>
<b>Turnover</b>	<b>603.7</b>	<b>505.3</b>	<b>19%</b>	<b>675.7</b>	<b>-11%</b>	<b>2,221.4</b>	<b>2,322.1</b>	<b>-4%</b>
<b>EBIT</b>	<b>-106.6</b>	<b>-43.8</b>	<b>143%</b>	<b>-25.5</b>	<b>318%</b>	<b>-163.0</b>	<b>160.4</b>	<b>-202%</b>
Interest inc/(exp)	-6.6	-5.7	16%	-4.9	36%	-37.1	-33.5	11%
Associates/JV	0.0	0.0	-100%	0.0	-100%	0.0	0.0	-100%
Exceptional items	97.2	-32.7	-397%	25.2	286%	37.1	25.2	47%
Forex gain/(loss)	0.1	-0.1	-341%	5.9	-98%	1.0	-2.2	-145%
<b>Pretax profit/(loss)</b>	<b>-16.0</b>	<b>-82.3</b>	<b>-81%</b>	<b>0.7</b>	<b>-2452%</b>	<b>-162.0</b>	<b>149.9</b>	<b>-208%</b>
Taxation	35.5	17.3	105%	32.3	10%	72.1	-0.4	N.M.
<b>Profit/(loss) after tax</b>	<b>19.5</b>	<b>-65.0</b>	<b>-130%</b>	<b>33.0</b>	<b>-41%</b>	<b>-89.9</b>	<b>149.5</b>	<b>-160%</b>
Minority interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>PATAMI</b>	<b>19.5</b>	<b>-65.0</b>	<b>-130%</b>	<b>33.0</b>	<b>-41%</b>	<b>-89.9</b>	<b>149.5</b>	<b>-160%</b>
<b>Core PATAMI</b>	<b>-77.8</b>	<b>-32.3</b>	<b>141%</b>	<b>1.9</b>	<b>-4165%</b>	<b>-128.0</b>	<b>126.5</b>	<b>-201%</b>
DPS (sen)	0.0	0.0		0.0		0.0	12.0	
EBIT margin	-18%	-9%		-4%		-7%	7%	
Pretax margin	-3%	-16%		0%		-7%	6%	
NP margin	-3%	-16%		0%		-7%	6%	
CNP margin	-13%	-6%		0%		-6%	5%	
EPS (sen)	3.6	-12.1		6.2		-16.7	28.1	
Core EPS(sen)	-14.4	-6.0		0.4		-23.7	23.8	
BV/share (RM)	2.2	2.2		2.5		2.2	2.5	
Net gearing (x)	0.8	0.9		0.7		0.8	0.7	
Effective tax	222%	21%		-4755%		45%	0%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY</b>
<b>Segment Revenue</b>								
Manufacturing	331.7	206.8	60%	338.1	-2%	1,060.2	1,180.1	-10%
Trading	271.4	298.3	-9%	337.3	-20%	1,159.0	1,141.3	2%
Others	0.6	0.6	7%	0.3	74%	2.3	0.7	229%
Total	603.7	505.6	19%	675.7	-11%	2,221.4	2,322.1	-4%
<b>Segment EBIT</b>								
Manufacturing	2.9	-84.3	-103%	-0.3	-1030%	-133.9	157.4	-185%
Trading	5.5	4.4	25%	3.1	79%	20.2	15.4	32%
Others	-10.2	1.5	-789%	6.7	-252%	-4.1	12.5	-133%
Adjustments	-6.2	5.5	-213%	851.5	-101%	-3.5	852.0	-100%
Total	-8.1	-72.9	-89%	861.0	-101%	-121.3	1,037.3	-112%
<b>EBIT margins</b>								
Manufacturing Margin	1%	-41%		0%		-13%	13%	
Trading Margin	2%	1%		1%		2%	1%	

Source: Company, Kenanga Research

25 February 2020

## Peer Comparison

Name	Last Price	Market	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				Cap (RM'm)	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	1.12	604.3	Y	12/2020	-1.6%	4.4%	-1154.5%	-110.0%	N.A.	N.A.	N.A.	0.5	0.6	-1.0%	0%	0.850	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.88	19,706.0	Y	12/2020	-10.3%	27.5%	25.4%	44.8%	29.0	34.7	21.5	5.4	4.9	16.7%	1.3%	5.50	OP
UNITED U-LI CORP BHD	0.485	105.6	Y	12/2019	-21.6%	-9.6%	-157.9%	550.0%	27.9	N.A.	255.3	0.4	0.4	-0.8%	0%	0.400	UP
WHITE HORSE BHD	0.990	225.5	Y	12/2019	-14.7%	0.8%	-57.1%	-95.8%	N.A.	N.A.	N.A.	0.3	0.4	-6.3%	0%	0.950	UP
<b>Simple Average</b>					<b>-12.0%</b>	<b>5.8%</b>	<b>-336.0%</b>	<b>97.2%</b>	<b>28.4</b>	<b>34.7</b>	<b>138.4</b>	<b>1.6</b>	<b>1.5</b>	<b>2.1%</b>	<b>1.3%</b>		

Source: Bloomberg, Kenanga Research

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25 February 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.**

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