

Ann Joo Resources Berhad

TP: RM3.15 (+25.0%)
Still in Good Shape
Last Traded: RM2.52
BUY

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Results Review

- ANNJOO's IQ18 core profit of RM60.3mn came in within expectations, accounting for 26.7% and 26.6% of ours and consensus full-year estimates.
- YoY, IQ18 core profit declined 17.7% to RM60.3mn despite an 18.0% increase in revenue to RM589.1mn. This was mainly due to exceptional high profit margin in IQ17, resulting from a surge in steel prices and lower carrying cost of inventory. Meanwhile, the higher revenue was largely contributed by improvement in sales volume and higher steel prices.
- QoQ, the core profit surged 11.4% despite lower revenue of 3.5%. The higher core profit was largely attributed to improved margin thanks to higher selling prices and continuous productivity improvement program whereas the lower revenue was due to lower export sales.
- The group's net gearing position eased slightly to 0.58x from 0.64x a quarter ago.

Briefing Highlights:

- China is still committed with its supply side reform by targeting to reduce another 30mn mt of capacity in 2018. Recap, total of 115mn mt of steel production capacity has been removed since 2016.
- The implementation of steel tariff under Section 232 by US Government on steel imports may not have significant impact on global trade since the main countries that export to US have already been given exemption. Nevertheless, given that the local steel mills in US may ramp up the steel production as a result of the steel tariff, the scrap price may face upward pressure in long run as US is currently the largest scrap exporter in the world.
- The high electrode price is expected to continue to hurt Electric-Arc-Furnace players as it may require 2-3 years to resolve the imbalanced supply and demand.
- Management believes that the infrastructure expenditure will continue to be the key economic driver to Malaysia even under the new government. However, the construction sector may face temporary hiccup due to uncertainties arising from new government policies.

Impact

- Maintain our FY18 to FY20 earnings forecast. Adjustment is made on the share base after updating the number of redeemable convertible cumulative preference share.

Share Information

Bloomberg Code	AJR MK
Bursa	ANNJOO
Stock Code	6556
Listing	Main Market
Share Cap (mn)	558.7
Market Cap (RMmn)	1469.3
52-wk Hi/Lo (RM)	3.98/2.39
12-mth Avg Daily Vol ('000 shrs)	1097.3
Estimated Free Float (%)	31.1
Beta	1.18
Major Shareholders (%)	

AnnJoo Corp Sdn Bhd - 34.84

Lim Seng Chee & Sons Sdn- 12.96

LSQ & Sons Sdn Bhd - 11.22

Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	225.6	240.4
Consensus	226.8	251.7
TA's / Consensus (%)	99.5	95.5
Previous Rating	Buy (Maintained)	

Financial Indicators

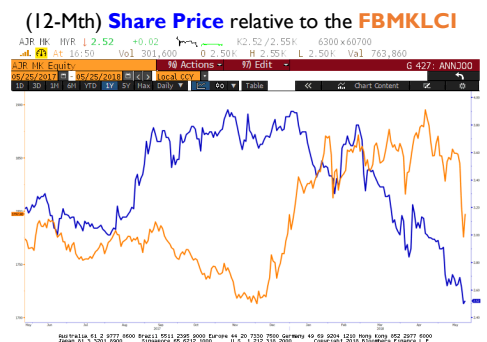
	FY18	FY19
Net Debt / Equity (%)	51.8	41.1
CFPS (sen)	(1.7)	(1.3)
Price / CFPS (x)	(150.5)	(195.1)
ROA (%)	9.2	9.7
NTA/Share (RM)	2.4	2.6
Price/NTA (x)	1.0	1.0

Scorecard

	% of FY18	
vs. TA	26.7	Within
vs. Consensus	26.6	Within

Share Performance (%)

Price Change	ANNJOO	FBM KLCI
1 mth	(14.6)	(3.5)
3 mth	(32.8)	(3.2)
6 mth	(32.6)	4.8
12 mth	(21.3)	1.4



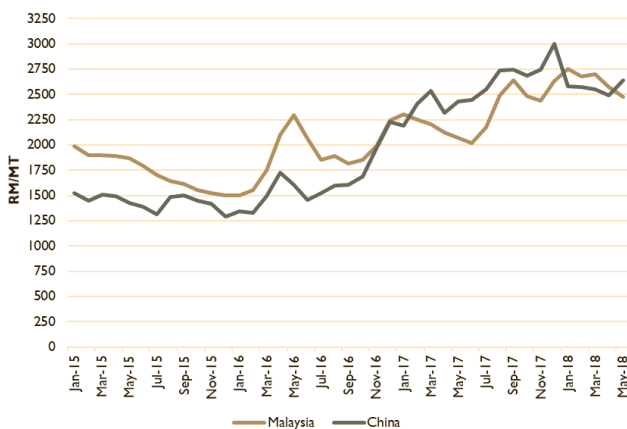
Outlook

- We expect softer domestic demand in 2Q18 due to seasonal factors such as traditional fasting month and Hari Raya in June.
- We believe domestic steel price may face downward pressure due to weaker demand resulted from potential delay of implementation of large-scale government projects that may subject to review by the new government. In addition, potential new entry of supply from Alliance Steel may further increase the price competition.
- The demand for building materials may pick up subsequently once the new government completes its re-prioritisation of infrastructure projects.

Valuation

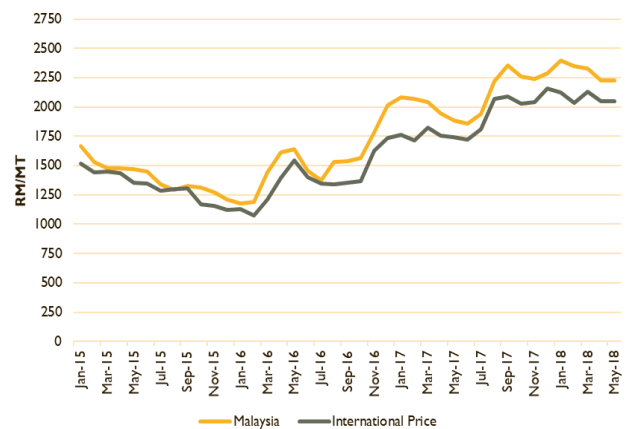
- Until better clarity is seen on the rollout and implementation of mega infrastructure projects after the change in Federal Government, we maintain the target PE multiple of 7.5x for ANNJOO, after a 2.5x discount on the previous target PE multiple of 10x.
- After revising the share base and rolling forward our valuation base year to CY19, we revise the target price from RM3.25 to **RM3.15**, based on 7.5x CY19 EPS. Maintain **BUY** call on ANNJOO given its effective cost management, which we think would enable the company to sail through the negative headwinds.

Exhibit 1: Steel Bar Price



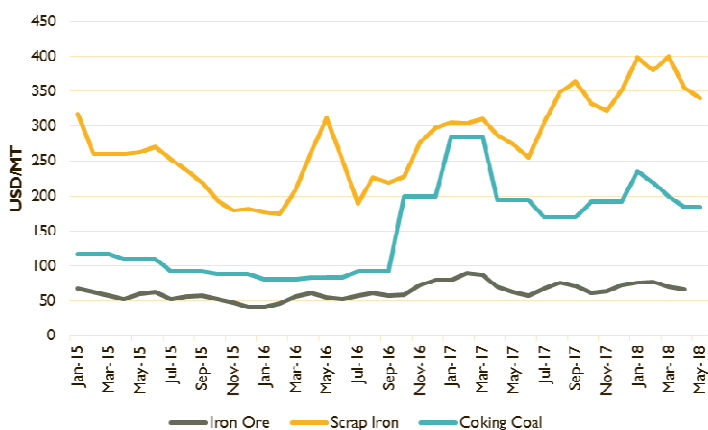
Source: MITI, Bloomberg, TA Securities

Exhibit 2: Billet Price



Source: MITI, Bloomberg, TA Securities

Exhibit 3: Price of Raw Materials



Source: Company, MITI, Bloomberg, TA Securities

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2016	2017	2018F	2019F	2020F
Revenue	1,870.1	2,195.2	2,414.4	2,544.2	2,500.2
Gross profit	364.7	418.8	446.8	471.3	442.7
EBITDA	286.2	329.7	364.6	380.3	351.9
EBITDA margin (%)	15.3	15.0	15.1	14.9	14.1
EBIT	243.4	288.4	321.0	336.6	309.3
PBT	202.1	252.9	293.0	312.3	286.6
Core PBT	207.4	249.0	293.0	312.3	286.6
PAT	166.8	205.4	225.6	240.4	220.7
Core net profit	172.0	201.5	225.6	240.4	220.7
Core EPS (sen)	34.4	39.8	40.4	42.0	37.6
PER (x)	7.3	6.3	6.2	6.0	6.7
Gross dividend (sen)	15.0	19.0	20.0	23.0	21.0
Dividend yield (%)	6.0	7.5	8.0	9.2	8.2
ROE (%)	17.2	17.6	17.4	16.8	14.0

Table 2: IQFY18 Results Analysis

FYE Dec (RMmn)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	3MFY17	3MFY18	YoY (%)
Revenue	499.2	610.1	589.1	(3.5)	18.0	499.2	589.1	18.0
Operating expenses	(393.8)	(552.4)	(504.1)	(8.7)	28.0	(393.8)	(504.1)	28.0
Other income/(expenses)	2.7	11.1	5.9	(46.6)	118.4	2.7	5.9	118.4
Finance costs	(9.4)	(8.6)	(8.2)	(4.6)	(13.0)	(9.4)	(8.2)	(13.0)
PBT	98.7	60.3	82.7	37.2	(16.2)	98.7	82.7	(16.2)
Core PBT	97.9	58.9	81.6	38.5	(16.7)	97.9	81.6	(16.7)
Income tax expense	(24.7)	(4.8)	(21.3)	347.1	(13.7)	(24.7)	(21.3)	(13.7)
Net profit	74.0	55.5	61.4	10.7	(17.0)	74.0	61.4	(17.0)
Core profit	73.3	54.1	60.3	11.4	(17.7)	73.3	60.3	(17.7)
Reported EPS (sen)	14.8	10.8	11.9	9.8	(19.6)	14.8	11.9	(19.6)
Core EPS (sen)	14.6	10.6	11.7	10.5	(20.3)	14.6	11.7	(20.3)
Dividend (sen)	0.0	13.0	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Core PBT	19.6	9.7	13.8	4.2	(5.8)	19.6	13.8	(5.8)
- Core PAT	14.7	8.9	10.2	1.4	(4.4)	14.7	10.2	(4.4)
- Effective tax rate	25.0	7.9	25.7	225.8	0.7	25.0	25.7	0.7

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Monday, May 28, 2018, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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