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midf RESEARCH

Equity Beat

01 March 2010

4QFY09 results

Ann Joo Resources Berhad

Weighed down by seasonal factor

Maintain **NEUTRAL**

Unchanged **Target Price (TP): RM2.80**

- **4Q09 net profit after tax of RM22.8m was lower by 50% than the preceding quarter.**
- **In 4Q09, average selling steel prices was lower and margin fell to 10.8% (vs. 14.0% in 3Q09).**
- **12M09 net profit after tax of RM31.6m was lower by 77.3% compared to 12M08 due to lower average selling prices of steel products.**
- **12M09 net profit after tax accounted for 70% of our forecast and 51% of consensus estimates.**
- **We are reaffirming our NEUTRAL call on the stock with an unchanged target price of RM2.80 based on 8 times PER on FY10 EPS.**

STOCK INFO

Price (25 Feb 10)	RM2.80	KLCI	1270.78
Issued shares (mil)	522.707	Bursa / Bloomberg	6556 / AJR MK
Par Value (RM)	1.00	Board / Sector	Main/ Industrial Products
Market cap. (RM'm)	1,463.57	Syariah Compliant	Yes
Price over NA (x)	1.55		
52-wk price Range	RM1.02 - RM3.35	Major Shareholders	
Beta (against KLCI) (x)	1.64	Ann Joo Corp Sdn Bhd	62.21%
3-mth Avg Daily Vol	0.34M	Ann Joo Resources	3.83%
3-mth Avg Daily Value	0.94M	Lim Seng Chee	1.13%

Sales tonnage down and lower steel prices in 4Q09. Export tonnages declined in 4Q09 due to seasonal factor while steel prices in 4Q09 were weaker than that in 3Q09.

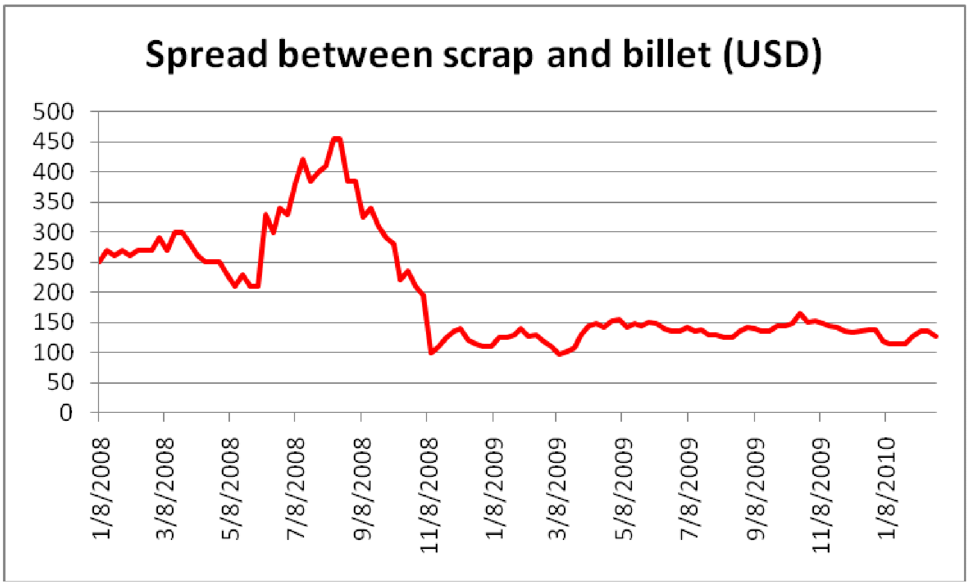
As at end of Dec 09, East Asia import prices for billets and rebars were USD472.5 and USD515 respectively compared to USD495 and USD522.5 in Sept 09. However, steel prices in Jan and Feb 10 moved higher as results of cost pressures. Higher raw material prices (iron ore and scraps) pushed prices for billets and rebars higher in 4Q09.

Inventory of stock higher in 4Q09. Stock level in 4Q09 rose to RM881.9m vs. RM689.2m but still lower than that in 4Q08 by 11.2%. Management indicated that the group will employ an effective procurement and inventory management strategy to respond to swift changes in market condition.

Gearing level higher in 4Q09. The group's gearing as at 4Q09 was 0.97x (vs. 0.81x in 3Q09). As at Dec 09, total borrowings rose to RM896m vs. RM775.3m in Sept 09. This was due to drawdown of term loan facility to finance its blast furnace project and trade facilities to stock up inventory. The group's 500,000mt blast furnace will be expected to complete by 1H10.

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	2,222.1	1,303.0	2,002.3	2,067.9
EBIT (RM'm)	127.3	53.2	298.5	345.3
Pretax Profit (RM'm)	105.1	36.3	255.7	298.2
Net Profit (RM'm)	139.4	31.6	180.9	213.4
EPS (sen)	25.6	5.5	35.0	40.8
EPS growth (%)	(20.7)	-78.7	288	16.5
PER (x)	NM	51.3	8.0	6.9
Gross DPS (sen)	12.0	6.0	12.0	12.0
Dividend Yield (%)	4.2	2.1	4.2	4.2

Source: Company, Forecasts by MIDFR



Source : Bloomberg

Cost push pressure on steel prices. The rise in raw material prices as seen presently will be likely to result in increase steel prices (semi and finished products) in the short term. However, the longer term stability or further increase in steel prices will depend on robust demand for semi and finished steel products and amount of private sector investment.

We believe that China government's attempt to prevent its economy from overheating by increasing banks reserve ratio to reduce excessive lending will affect the extent of government's spending as inflation will be keep in check to prevent asset bubbles. In addition, Vietnam, the country where billets have been mostly exported to has also been tightening its monetary policy by increasing difficulty to secure bank lending. With believe that with regional economies improving and a stronger growth expected in 2010 coupled with indication of interest rates rise to normalise rates from low levels earlier to stimulus economy and rise of inflation, government spending will be impacted.

Additionally, debt problems over in western countries (US and Europe) will likely to hamper the ability of government to spend to soften extremes of business cycle.

We believe that the market condition for the steel industry is still volatile as the market prices for steel products will still be cyclical. Spread between scraps and billets remains flat as seen from the chart above.

More idle steel capacity brought back to use. Global steel capacity utilisation fell to below 60% in Dec 08 but has improved to 71% in Dec 09. We believe that with the steel industry more stable than that in 08, more idle capacity will be brought back into use. It remains to the watchful of China's continuing efforts to close smaller steel mills to reduce its production capacity.

Valuation. We reaffirm our NEUTRAL call on the stock with an unchanged TP of RM2.80 pegged at 8x FY10 EPS. The forward target PER is equal to the stock's average historical 5-year PER. We believe that the newsflow from the stimulus spending has already been priced in.

Quarterly Results						Cumulative		Comments
FY 31 Dec (RM'Mil)	**4Q09**	**3Q09**	**4Q08**	**%Qoq**	**%Yoy**	**12M09**	**%Yoy**	
Turnover	276.4	382.2	225.4	-27.7	22.6	1,303.0	-41.4	Lower qoq due to drop in export tonnages and lower steel prices as a result of seasonal factors.
Operating profit	29.8	53.6	(323.1)	-44.4	-109.2	53.2	-53.1	
Interest expense	(4.4)	(4.8)	(8.7)	-8.3	-49.4	(24.0)	-4.7	As at Dec 09, total borrowings rose to RM896m vs. RM775.3m in Sept 09. This was due to drawdown of term loan facility to finance its blast furnace and trade facilities to stock up inventory.
Pre-tax profit	25.9	48.9	(330.3)	-47.0	-107.8	36.3	-65.4	
Tax	(2.6)	(3.2)	129.2	-18.8	-102.0	(5.5)	-118.9	Lower than statutory tax rate of 25% due to tax exemption on value of export sales.
Net Profit	22.8	45.5	(195.5)	-49.9	-111.7	31.6	-77.3%	
Diluted EPS (sen)	3.3	6.3	(25.0)	-47.6	-113.2	5.5	-73.3	
				+/-	ppts			
				Qoq	**Yoy**			
Operating Margin (%)	10.8	14.0	-143.3	-3.2	+154.1			
Pretax Margin (%)	9.4	12.8	-146.5	-3.4	+155.9			
Net Profit Margin (%)	8.2	11.9	-86.7	-3.7	+95.0			
Tax Rate (%)	-10.0	-6.5	-39.1	-3.5	+29.1			

DAILY

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.