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Equity Beat

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2QFY10 results

Lion Industries Corp Berhad

Stronger profit contribution from associate companies

***Upgrade to BUY (from* NEUTRAL)**

***Increased* Target Price (TP): RM2.10 (from RM1.70)**

- **2Q10 net profit of RM83.4m was higher by 19.7% compared to 1Q10.**
- **6M10 net profit of RM153.2m accounted for 73.5% of forecast and 64% of consensus full FY10 estimates.**
- **Lower revenue due to decline in selling prices for steel products was offset by stronger contribution from associate companies and lower finance cost.**
- **For 6M10, share of profit from associate companies was by higher by 154.1%yoy to RM86.5m (vs RM34m in 6M09).**
- **We are upgrading our call on the stock to BUY (from NEUTRAL) with target price increased from RM1.70 to RM2.10 based on 6 times PER on FY10 EPS.**

STOCK INFO

Price (25 Feb 09)	RM1.65	KLCI	1,270.78
Issued shares (mil)	713.395 m	Bursa / Bloomberg	4235 / LLB MK
Par Value (RM)	1.00	Board / Sector	Main/ Industrial Products
Market cap. (RM'm)	1,177.10	Syariah Compliant	Yes
Price over NA (x)	0.42		
52-wk price Range	RM0.57-RM1.84	Major Shareholders	
Beta (against KLCI) (x)	2.51	Lion Corp Berhad	25.31%
3-mth Avg Daily Vol	3.35M	Megasteel S/B	11.84%
3-mth Avg Daily Value	5.52M	Lion Diversified Hldgs Bhd	5.15%

Lower selling prices in 2Q10. The prices for 4Q09 were lower compared to 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 June. 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 than in 4Q09.

As a result of the lower selling prices in domestic and international markets for its steel products in 2Q10, group recorded lower revenue from the steel segment. We believe that the market condition for the steel industry is still volatile. The spread between billet and scraps has been flat despite of an increase in raw material prices.

Many markets have idle capacity for steel production. We believe that even though global capacity utilisation has increased, many markets have idle capacity for producing steel. Additionally, competition between suppliers has been intense.

Higher share of profit from associate companies in 2Q10. Excluding the high contribution from totalling RM86.5m, net profit after tax for 6M10 was within our forecast.

Parent company, Lion Corporation Berhad still in red for 6M10. Lion Corporation Berhad, which holds direct shareholdings of 25.3% in Lion Industries recorded a net loss of RM191.7m in 6M10 compared to a net loss of

FYE 30 June	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	6,940.2	4,571.9	4,533.6	5,995.1
EBIT (RM'm)	898.9	10.3	311.8	474.9
Pretax Profit (RM'm)	893.6	(364.2)	327.8	429.9
Net Profit (RM'm)	844.2	(276.8)	24.8	322.4
EPS (sen)	119.0	(38.8)	35.0	45.0
EPS growth (%)	291.0	NM	-	55.2
PER (x)	1.4	NM	4.8	3.7
Net DPS (sen)	0.8	0.8	0.8	0.8
Net Dividend Yield (%)	0.5	0.5	0.5	0.5

Source: Company, Forecasts by MIDFR

RM155.2m in 6M09. This was due to lower selling prices of Hot Rolled Coil (HRC) for both domestic and international markets despite recording higher sales volume as well as loss on dilution of RM286.8 m arising from the disposal of 102m Lion Industries Corporation Berhad shares. We believe that the recovery of flat products would still be slow compared to long steel products due to slower recovery demand of the automobiles, consumer products, household appliances and shipbuilding industries.

Forecast. We have adjusted our EPS forecast for FY10 from 29 sen to 35 sen to account for higher contribution from associate companies.

Valuation. We upgrade our call on the stock from NEUTRAL to BUY with an increased target price of RM2.10 (from RM1.70), pegged at 6 times PER due to the stronger than expected 6M10 results. The target forward PER is equivalent to the average of the stock's 5 year historical PER.

We believe that the steel sector has stabilised compared to that in 2008 but the price hike due to raw material prices will not be sustainable due to intense competition among suppliers, many markets still have idle steel production capacity, end-users demand growing but gradually and that a more robust real demand will be required apart from restocking activities to support higher steel prices.

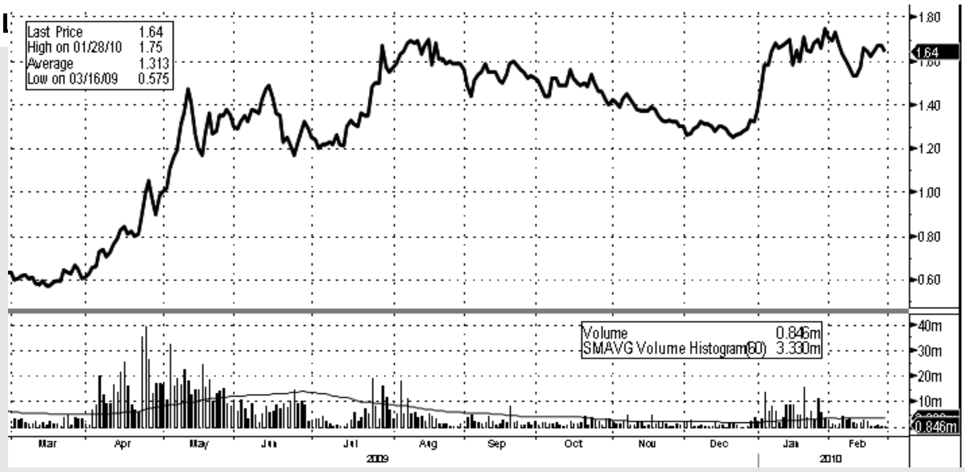
We believe that this stock is trading inexpensively against a net asset per share as at Dec 09 of RM3.97 (Ratio of current price to NA is 0.42x).

Quarterly Results						**Cumulative**		**Comments**
FY 30 June (RM'Mil)	**2Q10**	**1Q10**	**2Q09**	**%Qoq**	**%Yoy**	**6M10**	**%Yoy**	
Turnover	1,182.4	1,349.9	1,151.5	-12.4	+2.7	2,532.3	-4.7	Lower qoq due to decline in sales of steel products as well as softer demand for tyres
Operating profit	75.5	85.1	-38.8	-11.3	-294.6	160.6	-49.9	Lower qoq due to lower selling prices of steel products coupled with higher raw material cost for production of steel products.
Interest expense	22.5	24.7	28.4	-8.9	-20.8	47.2	-188.7	The group made partial redemption of BAIDs of RM90m, repayment of Lion Industries Corporation's bonds and US debts of RM5m and repayment of SCB bonds and US debts of RM3.9m.
Pre-tax profit	112.5	100.2	-122.0	12.3	-192.2	212.7	+14080.0	
Tax	-12.7	-16.1	107.4	-21.1	-111.8	-28.8	-131.4	
Net Profit	83.4	69.7	-45.9	19.7	-281.7	153.2	+147.1	
Diluted EPS (sen)	11.7	9.77	N/A	19.8	N/A	21.5	+147.1	

	2Q10	1Q10	2Q09	+/- Qoq	ppts Yoy	
Operating Margin (%)	0.1	9.8	0.1	9.8	0.1	
Pretax Margin (%)	2.1	20.1	2.1	20.1	2.1	
Net Profit Margin (%)	1.9	11.0	1.9	11.0	1.9	
Tax Rate (%)	-4.8	-76.7	-4.8	-76.7	-4.8	

Segmental (RM'Mil)	**2Q10**	**1Q10**	**2Q09**	**%Qoq**	**%Yoy**	
Revenue						
Steel	967.6	1,134.0	1,035.6	-14.7	-6.6	
Building Materials	63.2	40.8	41.4	+54.9	+52.7	
Property	9.7	6.4	7.1	+51.6	+36.6	
Tyre	134.6	147.4	50.2	-8.7	+168.1	
Operating Profit						
Steel	44.5	70.2	(34,2)			
Building Materials	0.6	1.1	(0.1)			
Property	11.7	1.6	(0.2)			
Tyre	12.1	16.7	(12.4)			
Operating Margin (%)						
Steel	4.6	6.2	-3.3			Margin fell due to lower selling prices and higher raw material cost
Building Materials	0.9	2.7	-0.2			
Property	120.6	25.0	-2.8			
Tyre	9.0	11.3	-24.7			

DAIL



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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.