

02 March 2015 | 2QFY15 Results Review

Lion Industries Corporation Bhd

Operating environment remains challenging

Maintain NEUTRAL

Adjusted Target Price (TP): RM0.46
(previously RM0.60)

INVESTMENT HIGHLIGHTS

- The Group's Steel Division recorded a lower loss of -RM15.9m in 2QFY15 as compared to -RM27.9m in the preceding quarter. Cumulatively for 1HFY15, its Steel Division reported losses of RM43.9m.
- The Group's 4QFY14 earnings were impacted by exceptional items to the tune of RM75.9m.
- For 1HFY15, the Group's reported cumulative earnings stood at -RM98.8m (-3.5%yoy). Adjusting the exceptional items, net profit for 1HFY15 was -RM22.9m.
- In view that the stock price has already traded substantially below its BVPS, we maintain our NEUTRAL call with an adjusted TP of RM0.46 (previously RM0.60) based on SOP valuation.

Steel Division reported a lower operating loss of -RM15.9m in 2QFY15 as compared to -RM27.9m in 1QFY15. Lion Industries Corporation (LICB) reported a higher revenue of RM805.5m (+3.4%qoq). This was contributed by higher sales of its Steel and Property Division. The Group's profit from operations (EBIT) in 4QFY14 improved to -RM10m (+51.9%qoq) with lower losses by its Steel Division.

Building Materials and Property Development Division recorded improved profits from operations of RM2.5m and RM5.9m respectively in 2QFY15 (1QFY15: RM2.3m and RM5.6m respectively).

Cumulatively for full 1HFY15, its Steel Division's recorded lower losses from operations of -RM43.9m (+28.6%yoy). This was due to 2 months shut down of its HBI plant in Labuan as its ship loader system was damaged in 1HFY14.

For 1HFY15, Group reported slightly higher losses of RM98.8m which included the impact of exceptional items to the tune of RM75.9m. The Group's revenue for 1HFY15 declined by -24%yoy to RM1.6b while operating losses was narrower at -RM30.6m contributed largely by lower losses of its Steel Division without the HBI plant shutdown as in 1HFY14 as well as profits recorded by its Property Division.

For 1HFY14, the Group reported exceptional items which included: i) impairment losses on quoted and unquoted investments of RM5.9m, and ii) a one-off settlement of legal claims by UNP Plywood Sdn Bhd against its former subsidiary company, Sabah Forest Industries Sdn Bhd of RM70m. Excluding these exceptional items, cumulative losses after tax will be lower at -RM22.9m for 1HFY15.

RETURN STATS	
Price (27 Feb 2015)	RM0.47
Target Price	RM0.46
Expected Share Price Return	-2.1%
Expected Dividend Yield	+2.1%
Expected Total Return	0.0%

STOCK INFO	
KLCI	1,821.21
Bursa / Bloomberg	4235/LLB MK
Board / Sector	Main/Steel
Syariah Compliant	Yes
Issued shares (mil)	717.9
Par Value (RM)	1.00
Market cap. (RM'm)	330.2
Price over NA	0.19x
52-wk price Range	RM0.46-RM0.84
Beta (against KLCI)	1.17
3-mth Avg Daily Vol	0.44m
3-mth Avg Daily Value	RM0.21m
Major Shareholders	
Tan Sri Cheng Heng Jem	36.8%
Dynamic Horizon Sdn Bhd	10.4%

INVESTMENT STATISTICS


FYE June	FY12	FY13	FY14	FY15F
Revenue (RM'm)	5,544.1	4,767.2	4,548.0	3,581.5
EBIT (RM'm)	26.9	-15.6	-46.8	-84.5
Pre-tax Profit (RM'm)	-12.8	-31.9	-572.1	-68.1
Net Profit (RM'm)	-38.2	-35.1	-502.8	-55.5
EPS (sen)	-5.3	-4.9	-70.1	-7.7
EPS growth (%)	n.a	n.a	n.a	n.a
PER(x)	n.m	n.m	n.m	n.m
Net Dividend (sen)	1.0	1.0	-	1.0
Net Dividend Yield (%)	2.1	2.1	-	2.1

Steel prices remained weak with the continuation of dumping of cheaper steel products by China's mills. Global overcapacity of steel production remains a concern. Dumping of cheaper products continued to be rampant and selling prices of steel bars and wire rods continue to weak while key raw materials, iron ore and scrap prices continued to decline.

VAT rebate for China exports of boron added steel has been cancelled and China mills are now shifting focus to export of chromium added steels products which enjoy VAT rebate and circumvent export duty in China. The chromium added steel products are expected to be dumped into our local market effective Mar'15. Hence, dumping of China's mills steel products will continue and is likely to put downward pressure of the selling prices of steel products. Margins of steel players are likely to be further narrowed.

Challenging operating environment remains. We understand that petition to MITI for trade remedies against the anti dumping of steel bars by China Mills was unsuccessful. No anti-dumping duties have been imposed on the imports of steel bars. Meanwhile, the recent electricity tariff rebate of 2.25 sen/kwh from 1st Mar 2015 to 30 June 2015 under the FCPT mechanism with a review of every 6 months is likely to marginally benefit the Group's production cost.

Forecast for FY15 revised lower after factoring in lower average selling prices. Our net loss forecast has been raised to -RM55.5m from -RM29.5m previously as we factor in lower average selling prices.

Maintain NEUTRAL. Based on sum-of-parts valuation, we derive a TP for LICB of RM0.46 (previously RM0.60) based on sum-of-parts valuation. The adjustment is based on the changes in the market capitalisation of its subsidiary company and associate companies at the current share prices and after deduction of net debt at Group level. 

Sum-of-parts Valuation

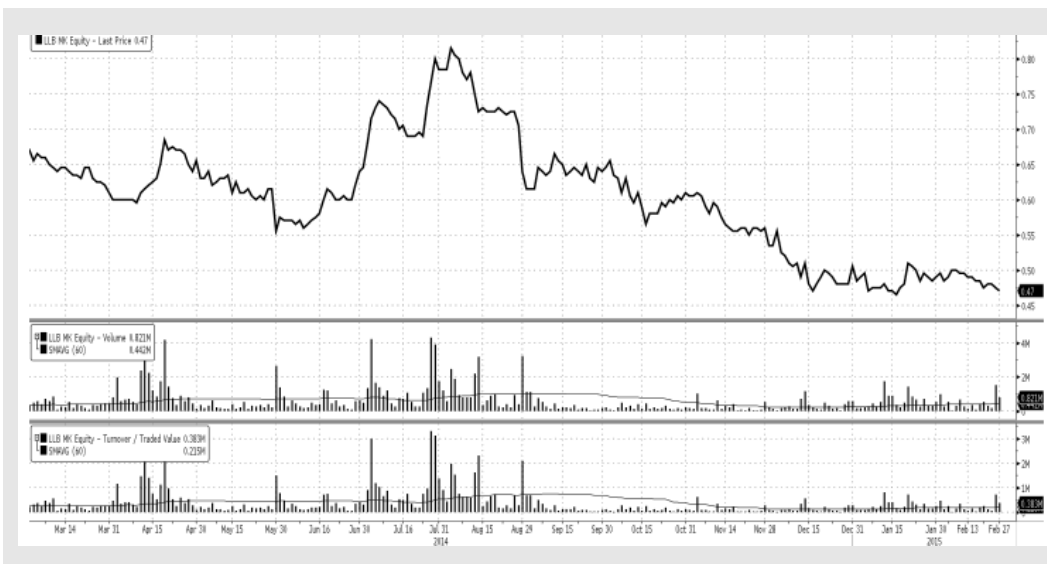
	Stake	Method	Value (RM'm)
Steel Division	100%	FY15 PER of 5x*	-
Lion Forest Industries	72%	Current market price	132.6
Lion Diversified Holdings Bhd	21%	Current market price	33.6
Parkson Holdings Bhd	17%	Current market price	408.6
Sub Total			574.8
(-) Net Debt			245.6
SOP			329.2
No of Shares			717.9
SOP/shares			0.46

2QFY15 Results Summary

FYE June (RM m)	Quarterly results*					Cumulative results*	
	2QFY14	1QFY15	2QFY15	%YoY	%QoQ	1HFY15	%Yoy
Revenue	1,045.8	779.2	805.5	-23.0%	+3.4%	1,584.70	-24.4%
EBIT	-3.8	-20.7	-10.0	-162.2%	+51.9%	-30.6	+48.2%
Shares of profit from associates and jointly controlled entities	13.3	5.5	23.6	+77.4%	+329.7%	29.1	+3.9%
Pre-tax profit	-42.5	-28.0	-73.3	-72.5%	-161.5%	-101.4	-2.4%
Tax	1.0	-2.8	-11.8	-1342.1%	-321.4%	-14.6	-624.3%
Net Profit	-41.1	-31.9	-85.1	-107.1%	-166.5%	-98.8	-3.5%
EPS (sen)	(7.6)	1.2	(4.5)	-41.0%	-469.4%	-70.1	1357.8%
				+/- ppts	+/- ppts		+/- ppts
EBIT margin (%)	-0.36%	-2.7%	-1.2%	-0.9%	+1.4%	-1.9%	+0.9%
Pre-tax margin (%)	-4.1%	-3.6%	-9.1%	-5.0%	-5.5%	-6.4%	-1.7%

*As reported

DAILY PRICE CHART



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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 <i>rise</i> 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 <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	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.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.