

2QFY15 RESULTS UPDATE

21 September 2015

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Price : RM0.44

Market Capitalization : RM134.8 mln

Market : Main Market

Sector : Industrial Products

Bursa / Bloomberg Code: 5232 / LEFU MK

Recommendation : Buy

LFB: 2QFY15 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY15	1QFY15	% chg	2QFY14	% chg	1HFY15	1HFY14	% chg
Turnover	116.9	140.3	-16.7%	131.7	-11.2%	257.3	243.1	5.8%
Operating profit	7.3	11.2	-34.9%	12.6	-42.0%	18.6	20.1	-7.6%
Finance costs	(2.2)	(2.1)		(1.6)		(4.2)	(3.2)	
Pre-tax profit	5.2	9.2	-43.8%	11.0	-53.1%	14.4	16.9	-15.2%
Tax	(1.4)	(2.6)		(2.8)		(3.9)	(4.5)	
Net profit	3.8	6.6	-42.9%	8.2	-53.6%	10.4	12.4	-16.2%
EPS (sen) - basic	1.2	2.1	-43.0%	2.6	-53.6%	3.4	4.0	-16.2%
Op. profit margin	6.3%	8.0%		9.6%		7.2%	8.3%	
Pre-tax margin	4.4%	6.5%		8.4%		5.6%	7.0%	
Net profit margin	3.2%	4.7%		6.2%		4.1%	5.1%	
Net Assets/share (RM)	0.73							

2QFY15 Results Review

- Following a record turnover performance in 1QFY15, LFB's fortune reversed in 2QFY15 with turnover and net profit falling 11.2% and 53.6% y-o-y. The RM3.8 mln quarterly net profit in 2QFY15 was the lowest achieved since its listing in June 2013. The worse-than-expected results pulled 1HFY15 net earnings down 16.2% y-o-y, reaching only 36% of our FY15 estimate.
- We reckon the weakened consumer spending amidst the domestic economic slowdown has finally caught up with the Group, affecting its sales and profitability. For the quarter review, turnover declined 16.7% q-o-q due to lower tonnage sales from both its trading and steel processing divisions. Reduced average selling price of trading products also contributed to the lower topline. PBT, meanwhile fell by a greater magnitude of 43.8% on profit margin compression.
- For the cumulative period, 1HFY15 revenue was still up 5.8% y-o-y despite the weak 2QFY15, mainly supported by the record turnover achieved in 1QFY15. Nevertheless, PBT was 15.2% lower y-o-y, affected by gross profit margin erosion, higher opex and higher financing cost. According to management, the Group experienced an overall decline of 6% in average selling price, while increase in director and staff costs, depreciation and rental expenses are amongst the reasons for the rise in opex. On the financing side, the jump in interest cost was in line with the higher amount of purchases made during the period under review.

	Y-o-Y		
	1HFY15	1HFY14	% Chg
Revenue			
Trading	93.9	94.9	-1.0%
Processing	163.1	148.0	10.2%
Others*	0.2	0.2	-3.6%
Group	257.3	243.1	5.8%
Gross profit			
Trading	10.1	11.1	-9.1%
Processing	23.9	22.6	5.7%
Others	0.0	0.1	-48.0%
Group	34.1	33.8	0.8%
GP margin			
Trading	10.8%	11.7%	
Processing	14.7%	15.3%	
Others	12.2%	22.6%	
Group	13.2%	13.9%	

*refers to trading of specialized steel materials

- Net gearing remained at 0.7x as at end-June 2015. As with in the past, more than 95% of the borrowings are trade financing in nature and as such, we are not overly concerned on the net gearing level. LFB's balance sheet is also backed by a net assets/share of 73 sen.
- In view of the weaker-than-expected 1HFY15 results, and having considered the effect from the economic slowdown on LFB's business, we have now toned down our sanguinity on its near term prospect. Reflecting this, we have trimmed our FY15 net profit estimate by 13% to RM25.2 mln after factoring in lower gross profit margin and higher opex.
- No dividend was declared for the quarter under review.

Recommendation

We maintain our **Buy** recommendation on LFB but lower our fair value to **69 sen** (from 75 sen) following our earnings revision. We continue to use a blended approach of 0.8x BV and 10x PER on FY15 earnings. In spite of the lower profitability, we are still positive on the Group's longer term prospects. Overall, it is still generating topline growth (as at 1HFY15) albeit at a slower pace, and remains relatively profitable, in contrast to some other steel players which are making operating losses as of the June quarter performance. We opine LFB would be able to ride out the economic storm under its experienced and hands-on management. Valuation also remains attractive at FY15 PER of 5.4x. We expect the Group to maintain its annual 3 sen dividend payout and this would translate into an attractive dividend yield of 6.9%.

Per Share Data

FYE Dec	FY13	FY14	FY15
Book Value (RM)	0.65	0.72	0.77
Cash Flow (sen)	11.1	10.8	10.2
Earnings (sen)	9.0	8.9	8.1
Net Dividend (sen)	3.0	3.0	3.0
Payout Ratio (%)	36.1%	33.8%	37.0%
PER (x)	4.8	4.9	5.4
P/Cash Flow (x)	3.9	4.0	4.3
P/Book Value (x)	0.7	0.6	0.6
Dividend Yield (%)	6.9%	6.9%	6.9%
ROE (%)	13.9%	12.3%	10.5%
Net gearing (x)	0.6	0.6	0.7

P&L Summary

FYE Dec (RM mln)	FY12	FY13	FY14	FY15f
Revenue	437.2	455.3	489.2	511.5
Operating profit	38.9	42.2	44.1	41.5
Net Int Exp	(5.5)	(6.8)	(6.7)	(6.6)
Pre-tax Profit	33.4	35.4	37.4	34.9
Eff. Tax Rate	27.9%	27.1%	26.3%	28.0%
Net Profit	24.1	25.8	27.5	25.2
Op. Profit Margin (%)	8.9%	9.3%	9.0%	8.1%
Pre-tax Margin (%)	7.6%	7.8%	7.6%	6.8%
Net Margin (%)	5.5%	5.7%	5.6%	4.9%

LFB's last 12-month share price chart



Source: Bloomberg

RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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