

4QFY14 RESULTS UPDATE

11 March 2015

Leon Fuat Berhad

Price : RM0.515

Market Capitalization : RM159.7 mln

Market : Main Market

Sector : Industrial Products

Bursa / Bloomberg Code: 5232 / LEFU MK

Recommendation : Buy

LFB: 4QFY14 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY14	3QFY14	% chg	4QFY13	% chg	FY14	FY13	% chg
Turnover	124.4	121.7	2.3%	112.1	11.0%	489.2	455.3	7.5%
Operating profit	11.1	12.9	-13.3%	11.4	-2.3%	44.1	42.2	4.6%
Finance costs	(2.0)	(1.5)		(1.7)		(6.7)	(6.8)	
Pre-tax profit	9.1	11.4	-19.8%	9.7	-6.3%	37.4	35.4	5.8%
Tax	(2.4)	(3.0)		(2.5)		(9.8)	(9.6)	
Net profit	6.7	8.4	-20.1%	7.2	-7.3%	27.5	25.8	6.9%
EPS (sen) - basic	2.2	2.7	-20.3%	2.3	-7.3%	8.9	9.0	-1.4%
Op. profit margin	9.0%	10.6%		10.2%		9.0%	9.3%	
Pre-tax margin	7.3%	9.3%		8.7%		7.6%	7.8%	
Net profit margin	5.4%	6.9%		6.5%		5.6%	5.7%	
Net Assets/share (RM)	0.72							

4QFY14 Results Review

- LFB closed the year on a decent note with FY14 turnover and net income growing modestly at 7.5% and 6.9% y-o-y to RM489.2 mln and RM27.5 mln respectively. The results were within our expectations with the earnings coming in at 100% of our estimate.

	Y-o-Y		
	FY14	FY13	% Chg
Revenue			
Trading	192.1	179.1	7.3%
Processing	296.7	275.6	7.7%
Others*	0.4	0.5	-28.0%
Group	489.2	455.3	7.5%
Gross profit			
Trading	22.9	26.0	-12.2%
Processing	47.1	39.9	18.0%
Others	0.1	0.1	-6.5%
Group	70.0	66.0	6.1%
GP margin			
Trading	11.9%	14.5%	
Processing	15.9%	14.5%	
Others	22.3%	17.2%	
Group	14.3%	14.5%	

*refers to trading of specialized steel materials

- Revenue-wise, both LFB's core divisions of trading and steel processing recorded similar growth rate in excess of 7% y-o-y in FY14, buoyed by a 38.3% and 10.4% y-o-y sales tonnage increase in the respective divisions.

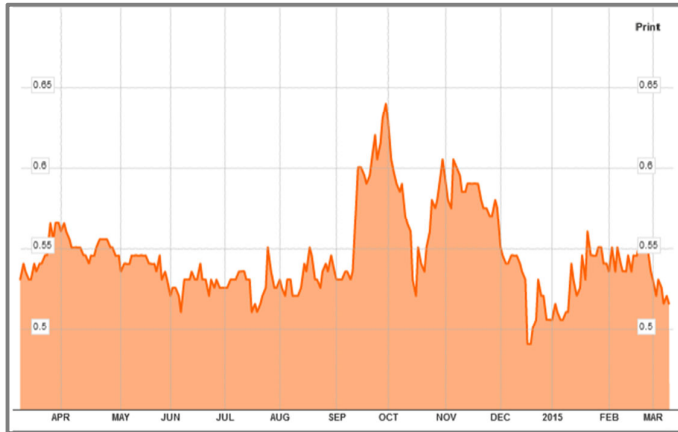
- Gross profit (GP) however, grew at a slower pace of 6.1% y-o-y due to profit margin compression suffered at its trading business. According to management, the erosion of its trading GP margin from 14.5% in FY13 to 11.9% in FY14 was caused by the double whammy of lower average selling price and higher raw materials cost. The drop, fortunately, was more than offset by the increase in GP from the steel processing business.
- The Group's opex in FY14 rose 10.3% y-o-y which outpaced the 7.5% y-o-y growth in turnover. The higher expenses were attributed a number of factors that include increase in director and staff costs, rental expenses, utility expenses, transportation costs as well as a small impairment loss on receivables and bad debt written off. On balance, FY14 net profit still expanded by 6.9% y-o-y with net profit margin relatively stable at 5.6% vs. 5.7% a year ago.
- Net gearing stood at 0.6x at as end-December 2014, supported by a BV/share of 72 sen. Cash flow-wise, it generated a positive net operating cash flow of RM6.3 mln in FY14 vs. a net outflow of RM14.8 mln in FY13.
- We maintain our FY15 earnings estimate of RM29.0 mln which projects a 5.2% y-o-y growth. We believe this is achievable in spite of the challenges in the current operating environment, underpinned by the sustained demand growth for LFB's products, particularly the steel processing division. We understand the Group will continue to focus its efforts on growing its value-added steel processing business, which we believe would put LFB in a more niche market by comparison to its peers. Overall, management has thus far delivered consistent earnings growth on a slow and steady basis, unlike its other peers in the industry which experienced more volatile swings in the earnings along with the changes in the commodity prices.
- No dividend was declared for the quarter under review.

Recommendation

We maintain our **Buy** recommendation on LFB with an unchanged fair value of **75 sen**, which is derived from using a blended approach of 0.8x BV and 10x PER on FY15 earnings. We like LFB for its consistent earnings delivery track record, steady earnings growth and hands-on management. LFB's prospective valuation, at 5.5x FY15 PER remains undemanding in our opinion, and is supported by an attractive projected 5.8% net dividend yield. We believe the stock is underappreciated by investors due to the neutral and at times, negative outlook on the steel industry, and hence, is not in favour with investors. Moreover, LFB's small market capitalization and illiquid trading volume could also be the deterring factors for larger institutional investors.

Per Share Data				P&L Summary				
FYE Dec	FY13	FY14	FY15	FYE Dec (RM mln)	FY12	FY13	FY14	FY15f
Book Value (RM)	0.65	0.72	0.78	Revenue	437.2	455.3	489.2	511.5
Cash Flow (sen)	11.1	10.8	11.4	Operating profit	38.9	42.2	44.1	46.3
Earnings (sen)	9.0	8.9	9.3	Net Int Exp	(5.5)	(6.8)	(6.7)	(6.6)
Net Dividend (sen)	3.0	3.0	3.0	Pre-tax Profit	33.4	35.4	37.4	39.7
Payout Ratio (%)	36.1%	33.8%	32.1%	Eff. Tax Rate	27.9%	27.1%	26.3%	27.0%
PER (x)	5.7	5.8	5.5	Net Profit	24.1	25.8	27.5	29.0
P/Cash Flow (x)	4.7	4.8	4.5	Op. Profit Margin (%)	8.9%	9.3%	9.0%	9.1%
P/Book Value (x)	0.8	0.7	0.7	Pre-tax Margin (%)	7.6%	7.8%	7.6%	7.8%
Dividend Yield (%)	5.8%	5.8%	5.8%	Net Margin (%)	5.5%	5.7%	5.6%	5.7%
ROE (%)	13.9%	12.3%	11.9%					
Net gearing (x)	0.6	0.6	0.6					

LFB's last 12-month share price chart



Source: Bloomberg

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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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