

1QFY15 RESULTS UPDATE

8 June 2015

Leon Fuat Berhad

Price : RM0.585

Market Capitalization : RM181.4 mln

Market : Main Market

Sector : Industrial Products

Bursa / Bloomberg Code: 5232 / LEFU MK

Recommendation : Buy

LFB: 1QFY15 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY15	4QFY14	% chg	1QFY14	% chg
Turnover	140.3	124.4	12.8%	111.4	26.0%
Operating profit	11.2	11.1	0.9%	7.5	50.7%
Finance costs	(2.1)	(2.0)		(1.5)	
Pre-tax profit	9.2	9.1	0.9%	5.9	55.4%
Tax	(2.6)	(2.4)		(1.6)	
Net profit	6.6	6.7	-1.1%	4.3	55.3%
EPS (sen) - basic	2.1	2.2	-0.9%	1.4	55.1%
Op. profit margin	8.0%	9.0%		6.7%	
Pre-tax margin	6.5%	7.3%		5.3%	
Net profit margin	4.7%	5.4%		3.8%	
Net Assets/share (RM)	0.74				

1QFY15 Results Review

- LFB turned in a record turnover of RM140.3 mln in 1QFY15 (+26% y-o-y), its highest since the Group got listed in June 2013. This is commendable as the sales were achieved despite concerns on the overall economic slowdown and weakening consumer spending.
- 1QFY15 net profit too, rose by a substantial 55.3% y-o-y to RM4.3 mln. We consider the results in line with our expectations despite reaching only 23% of our estimate as we anticipate stronger net profit contribution in the coming quarters. Historically, 1Q appears to be the slowest quarter.

	Y-o-Y		
	1QFY15	1QFY14	% Chg
Revenue			
Trading	50.1	41.3	21.3%
Processing	90.2	70.0	28.8%
Others*	0.1	0.1	35.2%
Group	140.3	111.4	26.0%
Gross profit			
Trading	6.4	5.2	22.0%
Processing	13.5	10.1	33.6%
Others	0.0	0.0	82.4%
Group	19.8	15.3	29.7%
GP margin			
Trading	12.7%	12.6%	
Processing	14.9%	14.4%	
Others	26.1%	19.3%	
Group	14.1%	13.7%	

*refers to trading of specialized steel materials

- Both its trading and steel processing divisions registered healthy sales tonnage growth, with segmental turnover expanding 21.3% and 28.8% y-o-y respectively, which in turn contributed to the record topline number. Gross profit margin at Group level too, inched up to 14.1% in 1QFY15 vs. 13.7% a year ago.
- Sequentially, we note that despite the 12.8% growth in turnover, net profit actually declined 1.1% and this was largely caused by increase in opex and financing cost. Higher director remuneration and staff cost, depreciation charges and rental expenses were some of the reasons behind the rise in opex.
- Net gearing increased from 0.6x in December 2014 to 0.7x in March 2015. More than 90% of the borrowings are trade financing in nature and as such, we opine the rise in net gearing would not be a concern yet for now. We noted that the Group had utilized its trade lines to purchase more raw materials during the quarter under review. LFB's balance sheet remains supported by a BV/share of 74 sen.
- We leave our FY15 earnings estimate of RM29.0 mln unchanged at this juncture. We expect better net earnings performance from the remaining quarters. The Group has thus far demonstrated resilience in chalking up growth despite the challenging business environment. We understand from management there has not been any material change in business volume since the implementation of GST effective 1 April 2015, which is good news. We believe the management is proactively managing its cost structure to remain competitive. Overall, management has consistently expanded its earnings base on a gradual 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. In the medium term, the Group may also stand benefit from the Government's spending on infrastructure projects under the 11MP.
- 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 6.3x FY15 PER remains undemanding in our opinion, and is supported by an attractive projected 5.1% net dividend yield. We believe the stock is under-appreciated 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)	6.5	6.6	6.3	Net Profit	24.1	25.8	27.5	29.0
P/Cash Flow (x)	5.3	5.4	5.1	Op. Profit Margin (%)	8.9%	9.3%	9.0%	9.1%
P/Book Value (x)	0.9	0.8	0.7	Pre-tax Margin (%)	7.6%	7.8%	7.6%	7.8%
Dividend Yield (%)	5.1%	5.1%	5.1%	Net Margin (%)	5.5%	5.7%	5.6%	5.7%
ROE (%)	13.9%	12.3%	11.9%					
Net gearing (x)	0.6	0.6	0.7					

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

DISCLAIMER

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial advice regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/cmdf-bursa-research-scheme-cbrs>

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
