

Cement: Neutral

(unchanged)

Steel: Overweight

(from Neutral)

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Building Materials

Chasing high-beta plays

Prefer steel to cement. While LMC's valuation is at its historical peak, we think its 3.6-4.2% net dividend yield will support its share price. As for the steel stocks, we believe the earnings turn-around story will re-rate the stocks. We are keeping LMC at a HOLD (unchanged TP: MYR9.60) but upgrading AJR and Kinsteel to BUYs with new TPs of MYR2.10 (from MYR1.26) and MYR0.58 (from MYR0.32). Both AJR and Kinsteel are our top picks in the building materials sector.

Cement: Fairly valued. We are neutral on LMC as LMC's near-term sales volume is capped by its capacity constraint and keen competition from a new player Hume. Though the company may embark on a capacity expansion, we think the expansion may take at least two years to complete. However, its net dividend yield of 3.6-4.2% will support the share price. Additionally, we see earnings downside risk to street's estimates if the cement ASP competition persists into 2H13.

Steel: Strong turnaround in 1Q13? Taking cue from Southern Steel's strong turnaround in 1Q13, we think Ann Joo (4Q12: MYR9m net profit) and Kinsteel (MYR2m net loss) will report positive earnings on lower raw material costs (both ASPs and volumes were flattish QoQ). Going forward, we expect results to get better for Ann Joo while Kinsteel may face margin erosion from the impending gas hike (+19%).

Steel: Offers more catalysts... We think catalysts will come from: (i) the award of the iron ore concession to Kinsteel's 37%-owned Perwaja, which market has yet to impute for. In the longer-term, we think the benefits of the iron ore mine should outweigh the gas hike. Upon the commissioning of its pelletizing plant (using local iron ore as feed materials), Kinsteel's production cost could be the lowest in Malaysia;

... and (ii) a more effective protection measure for the construction steel industry. In Feb 2013, the government has slapped an anti-dumping import duty for wire rods but it fails to tackle on the two biggest Chinese exporters into Malaysia. We understand that a petition for greater protection measure is still ongoing and a favorable result will be an added boost to the sector.

Valuations. We maintain LMC as a HOLD with unchanged TP of MYR9.60 (21x 2014 PER). As for the steel players, we are attaching their mid-cycle P/B valuations: (i) AJR: new TP of MYR2.10 (from MYR1.26) on 1x P/B (from 0.6x); and (ii) Kinsteel: new TP of MYR0.58 (from MYR0.32) on 1x P/B (from 0.4x). We also see trading opportunity for the other construction steel players, particularly Lion Industries (NR) as a laggard play; its P/B of 0.3x is below the sector's average. Other laggards for a trade are MTD ACPI and Quality Concrete.

Building materials – Peer Valuation Summary

Stock	Rec	Shr px (RM)	Mkt cap (RMm)	TP (RM)	PER (x) CY13E	PER (x) CY14E	P/B (x) CY13E	Div yld CY13E	Div yld CY14E	YTD perf CY13E	12M Perf CY13E
LMC	HOLD	11.06	9,397.6	9.60	25.1	22.9	3.0	4.1	4.2	14.1	55.5
Ann Joo (AJR)	BUY	1.35	675.9	2.10	10.9	9.4	0.6	0.9	1.1	6.1	(20.5)
Kinsteel	BUY	0.38	395.8	0.58	13.4	9.5	0.7	-	-	31.7	(6.0)
Lion Industries*	NR	1.13	810.8	NR	9.6	7.4	0.2	1.3	1.5	14.1	(2.6)

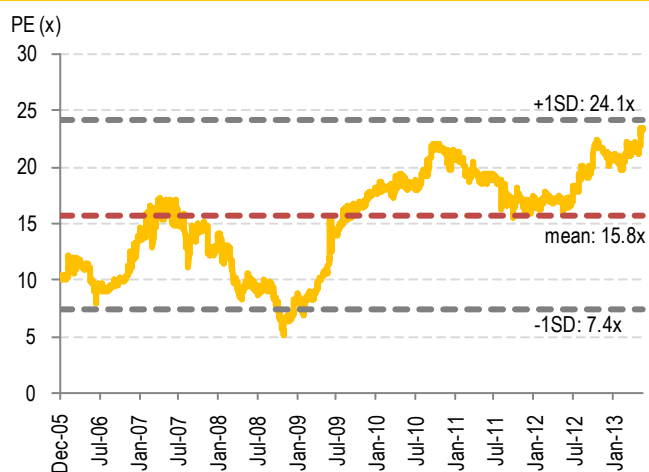
*Consensus, Source: Bloomberg, Maybank KE

Building materials (not under Maybank-KE's coverage) – Peer Valuation Summary

Stock	Rec	Shr px (RM)	Mkt cap (RMm)	TP (RM)	PER (x) CY13E	PER (x) CY14E	P/B (x) 2012/2013	Div yld CY13E	Div yld CY14E	YTD perf CY13E	12M Perf CY13E
Cement											
Tasek	NR	15.90	1,926.2	NR	20.1	19.6	2.1	3.8	3.8	23.4	95.3
Steel - construction											
Lion Industries	NR	1.13	810.8	NR	9.6	7.4	0.2	1.3	1.5	14.1	(2.6)
Masteel	NR	0.88	191.4	NR	5.5	5.7	0.4	2.3	2.2	4.8	(9.3)
Perwaja	NR	0.52	288.4	NR	28.6	19.8	0.7	NA	NA	28.8	(10.4)
Southern Steel	NR	1.66	696.2	NR	19.6	9.2	0.8	3.6	5.3	27.7	(9.3)
Average					15.8	10.5	0.5	2.4	3.0	18.8	(7.9)
Steel - flat											
CSC Steel	NR	1.42	528.2	NR	12.3	10.5	0.7	4.9	4.9	19.3	10.1
Hiap Teck Venture	NR	0.55	389.5	NR	18.6	14.9	0.5	1.1	1.4	23.6	(3.5)
Average					15.5	12.7	0.6	3.0	3.2	21.5	3.3

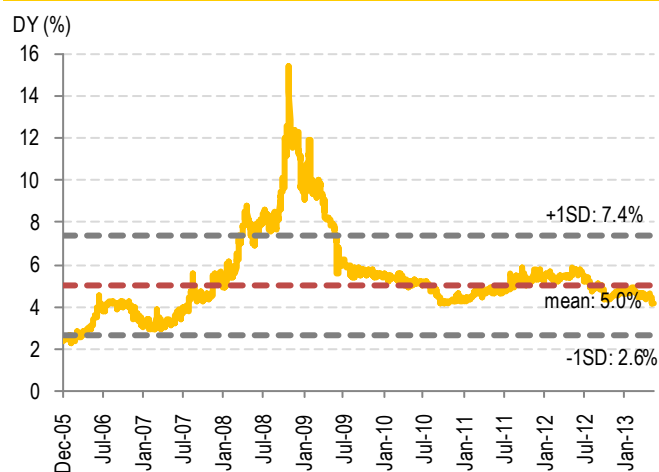
Source: Bloomberg, Maybank KE

LMC: One-year forward rolling PER



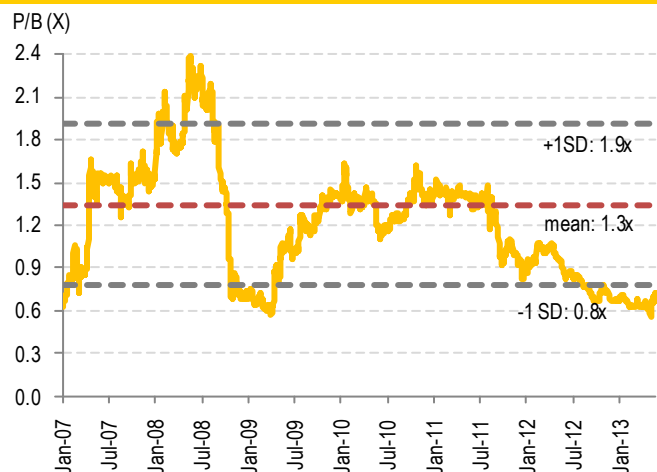
Source: Bloomberg, Maybank KE

LMC: One-year forward rolling dividend yield



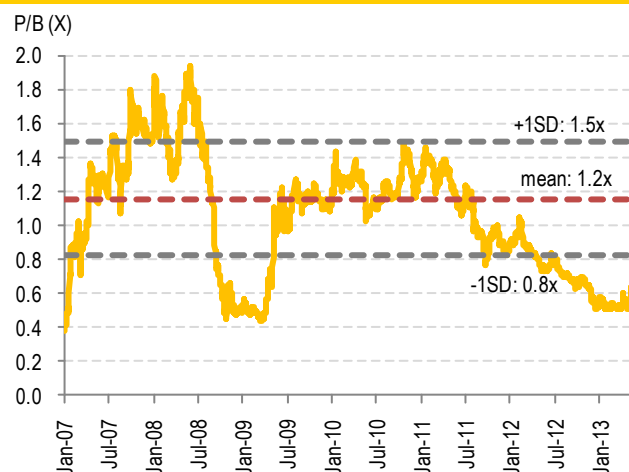
Source: Bloomberg, Maybank KE

AJR: One-year forward rolling P/B



Source: Bloomberg, Maybank KE

Kinsteel: One-year forward rolling P/B

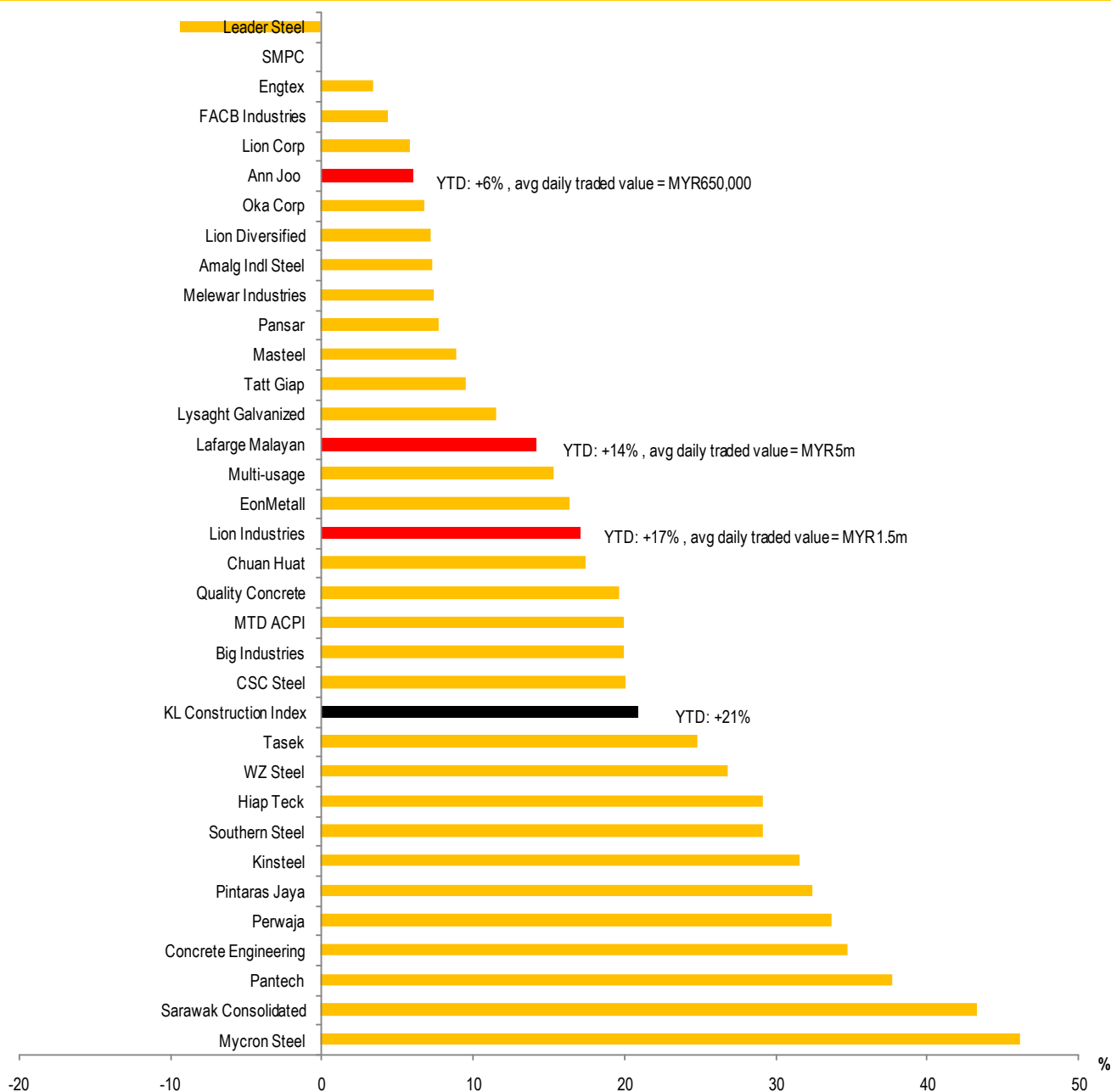


Source: Bloomberg, Maybank KE

Screening the laggard plays

Laggards: LMC, Lion Industries, AJR. From our screening of 35 building material stocks, 24 underperformed the KL Construction Index YTD. However, as we look for better liquidity of more than MYR1m daily traded value, only two stocks fit our investible laggard plays: LMC (HOLD, TP MYR9.60) and Lion Industries (NR). Our further screening for laggards with more than MYR600,000 daily traded value generates one name: AJR (BUY, TP MYR2.10).

Building materials: YTD share price performance; Investible laggards (MYR600,000-1m daily traded value) are LMC, Lion Industries, AJR, FACB Industries

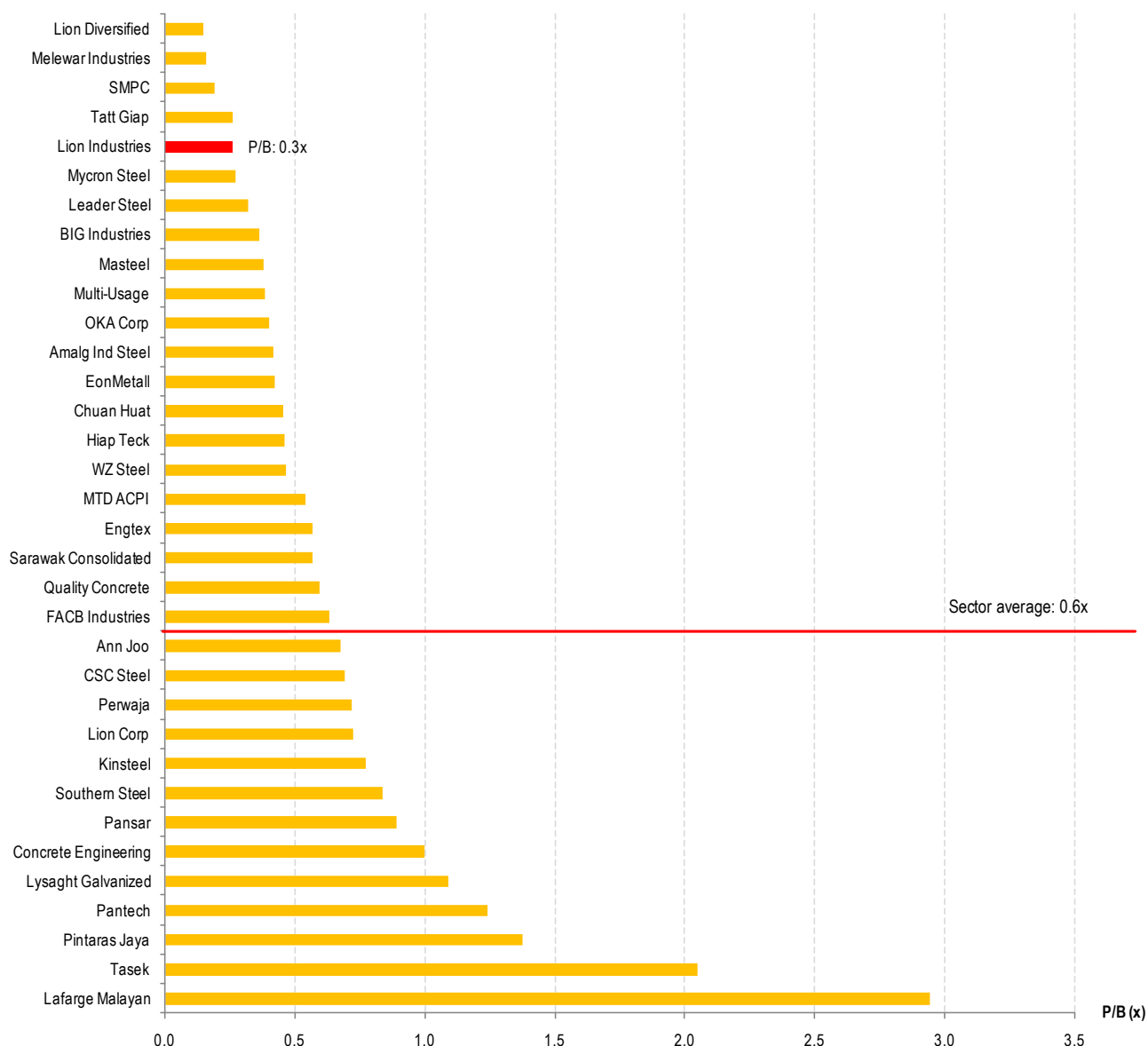


Source: Bloomberg, Maybank KE

Deep value at Lion Industries. Among the investible building material stocks on liquidity criteria, Lion Industries (NR) stands out the most due to its significantly low FY6/13 P/B of 0.3x. Lion Industries is a construction steel-based conglomerate, with interests in retailing (through 17%-associate Parkson (NR)) and timber (through 73%-subsidiary Lion Forest (NR)). It is the largest construction steel manufacturer in Malaysia with an estimated 30% market share in steel bars.

Apart from being a laggard with a fairly high liquidity, we also like Lion Industries for two key reasons: (i) 3QFY6/13 results will be released on 30th May and we expect a strong earnings turnaround (2QFY6/13: MYR7m net loss) on margin recovery; and (ii) market has avoided the stock in the past due to the messy cross-holdings within the larger Lion Group, but we think the ongoing group restructuring effort may change the landscape of the Group. We understand that the Lion Group is still in negotiation with a potential foreign buyer for a big stake in its steel units which will see fresh capital injected into the Group and untangles the cross-holdings. However, pricing could be a deal killer.

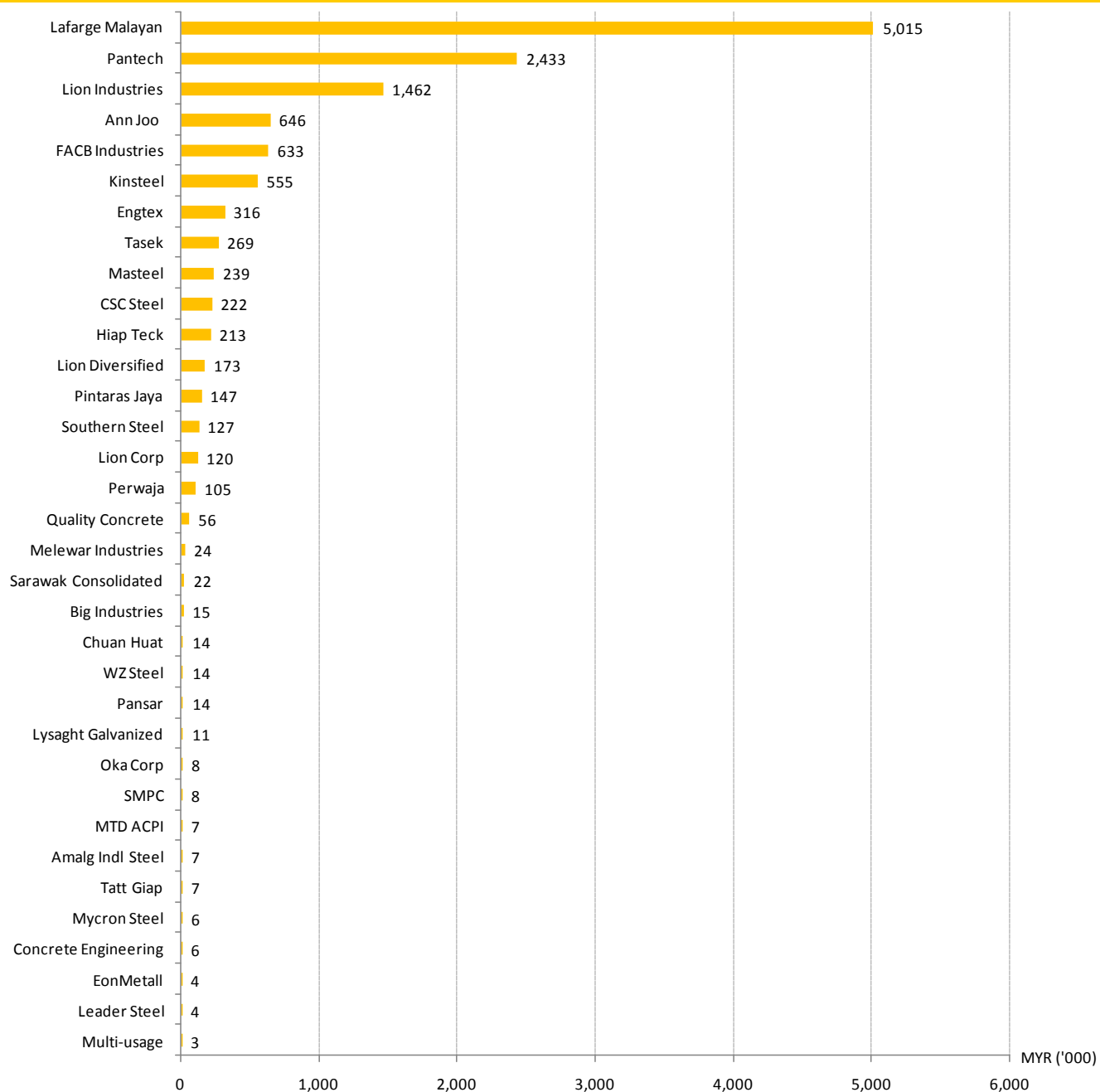
Building materials: P/BV comparison; Lion Industries is significantly undervalued at P/B of 0.3x



Source: Bloomberg, Maybank KE

Other laggards. For investors who are unfazed by liquidity, our screening based on just share price under-performance and below industry's average P/B criterias show some other stocks which could be worth a trade: Lion Diversified (+7% YTD, 0.1x P/B), Melewar Industries (+7% YTD, 0.2x P/B), MTD ACPI (+20% YTD, 0.5x P/B), Engtex (+4% YTD, 0.6x P/B) and Quality Concrete (+20% YTD, 0.6x P/B), amongst others. These stocks are however not under our research radar.

Building materials: Average daily value traded (MYR '000)



Source: Bloomberg, Maybank KE

Financials of stocks under Maybank-KE's coverage

Lafarge Malayan Cement – Summary Earnings Table

FYE Dec (MYR m)	2011A	2012A	2013F	2014F	2015F
Revenue	2,552.6	2,740.1	2,789.9	2,837.8	3,006.8
EBITDA	568.5	611.7	637.8	687.6	759.0
Recurring Net Profit	317.8	349.0	374.5	411.3	464.3
Recurring Basic EPS (sen)	37.4	41.1	44.1	48.4	54.6
EPS growth (%)	7.6	9.8	7.3	9.8	12.9
DPS (sen)	34.0	37.0	40.0	46.0	47.0
BVPS (MYR)	3.66	3.73	3.77	3.79	3.87
PER	29.6	26.9	25.1	22.9	20.2
EV/EBITDA (x)	16.1	14.8	14.7	13.7	12.4
Div Yield (%)	3.1	3.3	3.6	4.2	4.2
P/BV(x)	3.0	3.0	2.9	2.9	2.9
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	10.3	11.0	11.7	12.8	14.1
ROA (%)	7.8	8.7	9.3	10.1	11.2
Consensus Net Profit (MYR m)	-	-	429.0	455.4	487.4

Source: Maybank KE

Ann Joo Resources – Summary Earnings Table

FYE Dec (MYR m)	2011A	2012A	2013F	2014F	2015F
Revenue	2,237.3	2,080.6	2,305.6	2,512.3	2,671.0
EBITDA	145.0	61.0	156.5	173.4	185.7
Recurring Net Profit	84.7	(19.1)	65.0	75.2	82.1
Recurring Basic EPS (sen)	11.7	(3.7)	12.4	14.4	15.7
EPS growth (%)	(49.1)	n.m.	n.m.	15.6	9.2
DPS (sen)	7.5	0.0	1.2	1.4	1.6
BVPS (MYR)	2.06	1.98	2.10	2.23	2.37
PER	8.3	n.m.	10.9	9.4	8.6
EV/EBITDA (x)	15.1	38.0	15.5	14.4	13.7
Div Yield (%)	5.6	0.0	0.9	1.1	1.2
P/BV(x)	0.7	0.7	0.6	0.6	0.6
Net Gearing (%)	137.5	155.5	156.7	154.5	148.3
ROE (%)	5.7	(1.8)	5.9	6.5	6.6
ROA (%)	2.2	(0.7)	2.2	2.5	2.6
Consensus Net Profit (MYR m)	-	-	48.3	77.9	83.1

Source: Maybank KE

Kinsteel – Summary Earnings Table

FYE Dec (MYR m)	2011A	2012A	2013F	2014F	2015F
Revenue	1,985.8	2,118.3	1,562.9	1,651.9	1,783.8
EBITDA	41.2	116.6	240.0	263.8	289.7
Recurring Net Profit	(86.2)	(12.6)	27.1	38.4	51.5
Recurring Basic EPS (sen)	(12.3)	(9.5)	2.8	3.8	5.1
EPS growth (%)	n.m.	n.m.	n.m.	39.0	32.4
DPS (sen)	0.0	0.0	0.0	0.0	0.0
BVPS (MYR)	0.68	0.57	0.58	0.62	0.67
PER	n.m.	n.m.	13.8	9.9	7.5
EV/EBITDA (x)	n.m.	32.3	9.3	7.7	5.9
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV(x)	0.6	0.7	0.7	0.6	0.6
Net Gearing (%)	285.2	341.3	333.4	311.8	286.8
ROE (%)	n.m.	n.m.	4.9	6.5	8.0
ROA (%)	n.m.	n.m.	0.7	1.0	1.3
Consensus Net Profit (MYR m)	-	-	37.1	48.9	48.3

Source: Maybank KE

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BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
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