Mercury Securities Sdn Bhd

RESULTS REPORT

31 Jul 2013

YKGI Holdings Berhad		**Market Price:**	RM0.39
		Market Capitalisation:	RM130.5m
		Board:	Main Market
Recommendation:	HOLD	**Sector:**	Industrial Products
Target Price:	RM0.435	**Stock Code/Name:**	7020 / YUNKONG

Analyst: *Edmund Tham*

KEY FINANCIALS

Key Stock Statistics	2013E
Earnings/Share (sen)	4.0
P/E Ratio (x)	9.9
Dividend/Share (sen)	1.5
NTA/Share (RM)	0.69
Book Value/Share (RM)	0.69
Issued Capital (mil shares)	334.7
52-weeks share price (RM)	0.13 – 0.52
Major Shareholders:	% (est)
.Dato' Dr Hii Wi Sing	27.3
. Marubeni-Itochu Steel Inc	26.8

**RM0.50 par value*

Ratios Analysis	2010	2011	2012	2013E
Book Value/Sh. (RM)	0.77	0.70	0.64	0.69
Earnings/Sh. (sen)	4.3	**-8.0**	**-6.8**	4.0
Dividend/Sh. (sen)	1.5	0.0	0.0	1.5
Div. Payout Ratio (%)	26.6	0.0	0.0	28.4
P/E Ratio (x)	9.1	n.m.	n.m.	9.9
P/Book Value (x)	0.51	0.55	0.61	0.69
Dividend Yield (%)	3.5	0.0	0.0	3.8
ROE (%)	5.6	n.m.	n.m.	5.6
Net Gearing (or Cash)(x)	1.62	1.81	1.80	0.98

**Dividend figures reflect those for ordinary shares only*
#2010-2012 per share data adjusted for bonus issue

P&L Analysis (RM mil)	2010	2011	2012	2013E
Year end: Dec 31				
Revenue	466.4	422.9	461.7	548.2
Operating Profit(Loss)	30.8	**-8.1**	**-5.0**	36.7
Depreciation	(18.9)	(20.2)	(18.8)	(18.4)
Interest Expenses	(13.5)	(14.7)	(15.7)	(16.0)
Pre-tax Profit (PBT)	17.3	**-24.5**	**-22.0**	18.7
Effective Tax Rate (%)	27.5	n.m.	n.m.	23.9
Net Profit after Tax	9.6	**-18.0**	**-15.2**	13.2
Operating Margin (%)	6.6	-1.9	-1.1	6.7
PBT Margin (%)	3.7	-5.8	-4.8	3.4
Net Margin (%)	2.0	-4.2	-3.3	2.4

**2013 figures are our estimates;*
**n.m.=not meaningful, due to negative earnings*

PERFORMANCE – 2Q/FY13

2Q/ 30 Jun	2Q13	2Q12	yoy %	1Q13	qoq%
Rev (RMm)	136.5	125.2	9.1	139.1	(1.9)
EBIT#(RMm)	7.7	2.3	230.7	5.7	36.4
NPAT*(RMm)	4.4	**(1.6)**	379.6	2.0	113.4
EPS (sen)^	1.3	**(0.5)**	379.6	0.6	113.4

6M/ 30 Jun	6M/FY13	6M/FY12	yoy %
Rev (RMm)	275.6	221.7	24.3
EBIT#(RMm)	13.4	2.7	401.0
NPAT*(RMm)	6.4	**(3.7)**	271.9
EPS (sen)^	1.9	**(1.1)**	271.9

#EBIT (earnings before interest, tax & other income)
**NPATMI (net profit after tax & minority interest) or net loss (NLATMI)*
^based on share base of 334.7 million

"Q2 results – within expectations"

YKGI's 2Q/FY13 (quarter ended 30th June 2013) results came in within our earlier expectations. This is the group's **second consecutive quarter in the black.** As such, it seems ever more likely that for full-year FY13, YKGI would record profits, unlike the losses incurred during FY11 and FY12.

"Higher volumes and margins"

During 2Q/FY13, YKGI recorded revenue of RM136.5 million and NPATMI of RM4.4 million. These figures were 9.1% and 379.6% better y-o-y, respectively. The better performance reflected both higher sales volume and better margins. The average selling prices of YKGI's steel products were generally higher than before.

OUTLOOK/CORP. UPDATES

"Generally positive outlook"

The revenue, cost and demand situation is quite alright for YKGI now. The group is no longer facing **high raw material prices**, **rampant import of cheap steel products** and **depressed ASPs** (average selling prices) for its steel products.

"Trade measures do matter"

From time to time, the local steel industry generally faces an influx of imports, uncertainty of supply and volatility of prices of raw materials, and in prices of finished steel products. These issues have affected the group in the past. Currently, the government has implemented few trade measures to create a sustainable environment for a competitive iron and steel industry.

"Foreign exchange volatility concern"

Group management is carefully monitoring and managing the volatility in the currency market with the US dollar getting stronger versus the Ringgit Malaysia. The stronger US dollar will have a negative impact on the group's production cost and affects its competitiveness. The group will continue to focus on revenue, profit and cost management while the commissioning of the new "Continuous Colour Coating Line" augurs well for the group.

"Domestic demand for steel products set to grow"

Since most of YKGI's steel products are sold locally, the local steel product demand situation in Malaysia is crucial for its prospects. In tandem with the economic growth (in GDP terms), the **local building and construction sector is expected grow steadily**.

Local demand for steel products will be supported by the Malaysian government's large infrastructure and industrial projects under the 10th Malaysian Plan (10MP), Economic Transformation Programmes (ETP), NKEA (National Key Economic Areas) and also The Sarawak Corridor of Renewable Energy (SCORE). **We are not too worried about the demand for steel products** in Malaysia, as we believe the demand will pick-up during 2013 and 2014.

"Local economy still resilient"

Malaysia's official Bank Negara Malaysia (BNM) figures reflect forecasted 2013 GDP growth of around 5.0%-6.0%. The country recorded 1Q/2013 GDP growth of 4.1% and a June 2013 CPI of 1.8%. BNM has still maintained its accommodative overnight policy rate (OPR) at 3.0%. The domestic unemployment level is low at 3.3%. The external environment (particularly in the US, Japan and Europe) has remained lackluster.

"Various corporate proposals completed"

In recent months, the group completed a plethora of corporate proposals. The group has effectively **changed its name** from Yung Kong Galvanising Industries Bhd to YKGI Holdings Bhd.

YKGI has completed the **acquisition of the remaining 45.51% equity interest in Starshine Holdings S/B** (SSH) not already owned by YKGI, a **Private Placement** of new shares in YKGI, a **Restricted Issue** of up to 48,799,998 new shares to Marubeni-Itochu Steel Inc. and a **bonus issue** of both shares (1-for-10) and warrants (3-for-10).

Of the RM43.95 million raised via private placement and restricted issues, RM23.5 million has been used for the purchase of raw materials while RM1.2 million has been used to defray expenses.

In June 2013 the group had disposed off the entire share capital of its subsidiary **Integrated Coil Coating Industries S/B** (ICCI) to Tecstun (M) S/B. The performance of ICCI for the relevant period up to June 2013 has been classified under discontinued operation.

VALUATION/CONCLUSION

"Dividends for FY13 possible"

Given the losses incurred then, YKGI's management did not propose any dividends for its FY11 and FY12. As for FY13, if the full-year results are strong, it would be possible for the group to resume paying out dividends. If there would be a dividend proposed for its FY13, the payout ratio would probably be near the ratio declared for its FY10.

Thus far, YKGI (-15.2%) has **underperformed the KLCI** (+5.1%) in 2013. Market conditions have been volatile during the past year, impacted by the Arab Spring political uprisings in the Middle East/North Africa, Sovereign Debt issue in Europe, and the Debt-Ceiling & Fiscal Cliff issues in the US. As YKGI is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

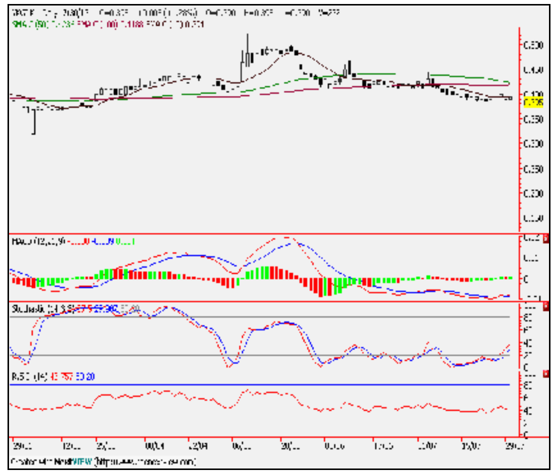
"Maintain Hold Call"

Given YKGI's uncertain earnings situation during FY11-FY12, we were previously unable to use the P/E method to determine the Target Price (TP) for its stock. However, as we now expect the group to be profitable during its FY13, we can now use P/E to determine its Target Price (TP). Based on our forecast of Yung Kong's FY13 EPS and an estimated P/E of 11 times, we set a FY13-end <u>**TP of RM0.435**.</u>

This TP approximates its market price at the date of this report. Our TP for YKGI also reflects a P/BV of 0.63 times over its FY13 BV/Share, and a Price/Sales (P/S) ratio of 0.27 times over its FY13F Sales/Share. The group's P/BV and P/S seems to be quite undemanding now, while its <u>net gearing levels appear to be lower than before</u>.

YKGI also faces other possible **routine risk factors** such as a possible slower rate of economic growth, slow implementation pace of major infrastructure projects, weak demand for steel products, competition from other producers, volatile HRC versus steel product price spread, higher operational costs, lower price of similar imported steel products, foreign exchange fluctuations, future hike in cost of fuel/utilities (oil, electricity, gas), shortage of gas supply, and slim net profit margins.

YKGI: Share Price



Source: NextView