Event | Initiation | Preview | Results | **Strategy** | Update

Iron & Steel

Overweight

The Going To Get Better

Macro	◆◆
Risks	◆◆◆
Growth	◆◆
Value	◆◆

Steel stocks have gained 18.3% since our last sector upgrade, but are still lagging behind the broad market. We believe earnings may recover as the rollout of mega projects gathers steam while new infrastructure and PR1MA housing projects boost market sentiment. We also see policies favoring the local steel industry post-BCG study. Together with news of M&As and an imminent iron ore deal may resurface, we are still OVERWEIGHT on Malaysia's steel sector.

- **Steel earnings may rebound.** Our newly-revised numbers indicate that steel players may significantly turn around although their absolute profit will remain unexciting and visibility low. Nonetheless, we think any turnaround should pique investor interest, especially since the local stock market is running short of investment ideals, especially with key index and blue chip counters mostly trading at their historical highs.

- **Infrastructure spending a main driver.** We are heartened by the number of projects currently in progress vs those which nearing completion or were recently handed over. Barisan Nasional (BN)'s renewed mandate may quicken the speed of project implementation. It also pledged to continue with the Economic Transformation Programme and upgrade infrastructure. A recent StarBiz speculated the construction of MRT Line 2 may proceed as planned. BN has committed to build one million affordable homes, which may offset any slowdown in private development.

- **Future roadmap to be more favourable.** Last year, the Ministry of International Trade and Industry (MITI) hired Boston Consulting Group (BCG) to undertake a study on the local steel sector's woes. This led to MITI revoking the duty exemption on 18 grades of imported steel. We believe this is just the start of measures to protect the local steel industry. The Government also slapped an anti-dumping duty on wire rods for five years, which brought some relief to local producers. We also think they may be some good news pending from the Malaysian Steel Council.

- **Iron ore deals & M&As heat up.** As BN has retained control of the federal government and the state of Terengganu, talk of iron ore deals may resurface. We think **Perwaja (TRADING BUY/FV MYR0.60)** and Eastern Steel SB (55%-owned by **HTVB (TRADING BUY/FV MYR0.59)** are frontrunners for mining rights, especially since a new plant and furnace are to be commissioned soon. We also understand **Lion Industries (BUY/FV MYR1.49)** is still in talks to sell its steel assets.

Company Name	Last	Target	P/E (X) FY13F	P/B (x) FY13F	Yield (%) FY13F	Rating
Ann Joo	1.33	1.91	16.2	0.7	2.5	T. BUY
CSC Steel	1.41	1.76	12.5	0.7	3.6	T. BUY
Hiap Teck Venture	0.53	0.59	29.4	0.5	0.7	T. BUY
Kinsteel	0.36	0.53	36.0	0.7	0.0	T. BUY
Lion Industries	1.10	1.49	15.3	0.2	0.9	BUY
Masteel	0.865	1.14	5.2	0.3	2.5	T. BUY
Perwaja	0.46	0.60	25.6	0.6	0.0	T. BUY
Southern Steel	1.68	2.13	19.5	0.8	3.4	T. BUY

Source: Company Data, RHB Estimates

Ng Sem Guan, CFA +603 9207 7678
ng.sem.guan@rhbgroup.com

Jerry Lee 603 9207 7622
jerry.lee@rhbgroup.com

Table of Contents

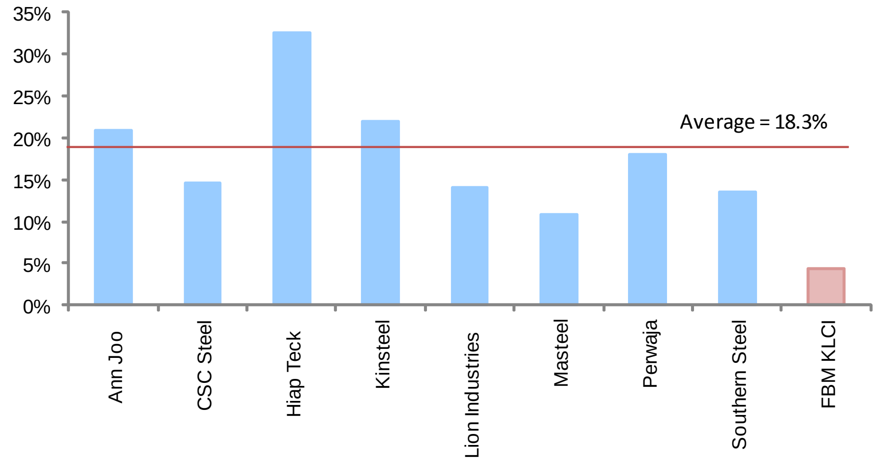
Cut-Throat Valuation In Focus	3
Results Likely To Improve	5
Infrastructure Spending To Drive Local Steel Demand	6
Positive On BCG's Roadmap For The Malaysian Steel Industry	8
Iron Ore Rush "Steel" In Play?	10
Lion Group's Disposal Of Steel Assets Still On The Drawing Board	12

Cut Throat Valuation In Focus

Sentiment on steel stocks perks up post-GE13. In our sector update on 6 May, we noted that BN's victory in the recently-concluded general election may not change the basic materials sector's outlook overnight but may boost the interest of investors in search for thematic high beta plays. The steel counters under our universe have gained an average of 18.3% vs the FBM KLCI's mere 4.4% (refer to Figure 1). As a result, we now examine whether the recent share price run-up may have pushed up the valuations of steel companies to more reasonable levels.

- Steel stocks have gained on average 18.3% in past two weeks, compared to the FBM KLCI's 4.4%.

Figure 1: Steel stocks' performance post-GE13



Source: Bloomberg, RHB estimates

"Steel" underperforming against broad market. In relative and absolute terms, most steel counters may have performed better than FBM KLCI in the shorter term (ie. three months). However, they have generally lagged behind the broad market on six-month and one-year bases. Similarly, most counters were still depressed compared to their absolute prices six months and one year ago (refer to Figure 2).

- Steel counters were underperformers on six-month and one-year bases

Figure 2: Share price performance of steel counters

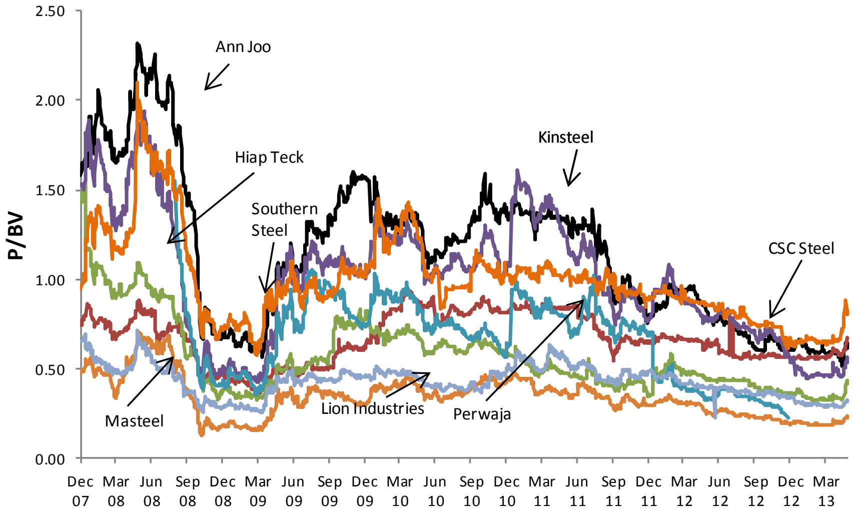
Company	Relative Performance			Absolute Performance		
	3 Mths	6 Mths	1 Year	3 Mths	6 Mths	1 Year
Ann Joo Resources	(3.7)	(12.8)	(36.0)	5.6	(5.0)	(26.1)
CSC Steel	6.3	7.9	(3.1)	16.5	17.5	11.9
Hiap Teck Venture	22.4	(0.7)	(17.3)	34.2	8.2	(4.5)
Kinsteel	9.4	(9.5)	(26.6)	20.0	(1.4)	(15.3)
Lion Industries Corporation	7.9	(2.9)	(16.4)	18.3	5.8	(3.5)
Malaysia Steel Works (KL)	(5.0)	(9.2)	(24.3)	4.2	(1.1)	(12.6)
Perwaja	7.6	(16.4)	(30.7)	17.9	(8.9)	(20.0)
Southern Steel	10.2	(8.2)	(21.3)	20.9	0.0	(9.2)

Source: Bloomberg, RHB estimates

Sticking to P/BV in volatile times. Although we expect the steel mills' financials to improve this year, their earnings visibility remains poor. Therefore, a P/E-based valuation is likely to ignore the huge tangible investments made by steel players. To better value steel stocks, we continue to scrutinize their historical P/B trends for a benchmark based on standard deviation. This approach will provide better guidance in identifying the trough for a company's share price, especially during a down-cycle, as a historical band demonstrates what investors are willing to pay during dismal times compared to when companies are in a recovery phase. This approach also takes into account the capital-intensive nature of the steel industry.

- Most steel stocks are still trading at distressed P/B valuations, near their 2008 lows.

Figure 3: Historical P/BV trading range for local steel mills



Source: Bloomberg, RHB estimates

P/B valuations still distressed. Despite the recent recovery in their share prices, we noticed most of the steel mills in Malaysia continued to trade at distressed P/B valuations - almost near the 2008 levels when the collapse of Lehman Brothers sparked off a global recession. The poor results and weak fundamentals over the prolonged period also pulled down the trading ranges of the respective steel counters. Therefore, even after the recent run-up, the valuations of steel stocks are still below mean levels, at their respective book-based trading ranges. In our previous sector report two weeks ago, we last valued Malaysian steel companies at -0.5 to -1 SD of their historical trading ranges. With more positive news in the pipeline, we now think it is justifiable to value steel stocks at their respective mean levels, except for selected counters, which we will still value at -0.5 SD of their historical trading ranges.

Figure 4: P/B valuations of local steel mills

Stock	P/BV Trading Range			Implied P/B FV (MYR)			RHB FV (MYR)		Last Close	Upside (%)
	-1 STD	-0.5 STD	Mean	@-1 STD	@-0.5 STD	@ Mean	Old	New		
Ann Joo	0.71	0.90	1.09	1.51	1.91	2.31	1.55	1.91	1.33	44%
CSC Steel	0.68	0.75	0.82	1.46	1.61	1.76	1.72	1.76	1.41	25%
Hiap Teck Venture	0.37	0.45	0.52	0.42	0.51	0.59	0.49	0.59	0.53	11%
Kinsteel	0.66	0.81	0.96	0.36	0.45	0.53	0.42	0.53	0.36	47%
Lion Industries	0.22	0.27	0.33	1.00	1.25	1.49	1.24	1.49	1.1	36%
Masteel	0.31	0.35	0.40	0.87	1.00	1.14	0.93	1.14	0.865	31%
Perwaja	0.47	0.60	0.72	0.40	0.50	0.60	0.52	0.60	0.46	31%
Southern Steel	0.75	0.87	0.98	1.63	1.88	2.13	1.75	2.13	1.68	27%

Source: RHB estimates

Steel stocks may be darlings of investors with higher risk appetite. While the sector's fundamentals are still volatile (which we will elaborate on in the following section of this report), there are still good thematic plays in this cyclically high-beta segment. However, since steel stocks are purely laggard plays not backed by solid fundamentals, any run-up in their share prices may be the result of tactical trading. Thus, we are keeping TRADING BUY recommendations on all the stocks, except Lion Industries, which is still a BUY.

Results Likely To Improve

A rebound may be in the offing. Due to a more positive market outlook and our internal resource reallocation, we decided to relook at our estimates. We realize most of our existing projections may have been too conservative and thus, decided to bump up most of our projections (refer to Figure 5), mainly via upward adjustments of Average Selling Prices (ASP). We think this is justifiable, since most of the local steel mills now supply to the domestic market, which enjoy a 5% to 10% local premium as the export market remains lackluster.

- We have revised up most of our projections for steel mills' earnings for the next two years.

Figure 5: Earnings revisions for local steel mills

Company	FY13F			FY14F		
	Old	New	Change	Old	New	Change
Ann Joo Resources	31.4	42.9	36.6%	61.7	63.3	2.6%
CSC Steel^	32.7	42.9	31.2%	41.3	48.3	16.9%
Hiap Teck Venture	12.8	12.8	0.0%	22.8	22.8	0.0%
Kinsteel	9.4	9.4	0.0%	16.9	25.3	49.7%
Lion Industries Corporation	28.8	51.4	78.5%	52.9	96.2	81.9%
Malaysia Steel Works (KL)	34.7	34.7	0.0%	36.6	40.2	9.8%
Perwaja	9.9	9.9	0.0%	14.6	40.0	174.0%
Southern Steel	31.0	35.4	14.2%	55.0	64.3	16.9%

^ CSC Steel upgrade in via our last result revisew on 14 May 2013

Source: RHB estimates

Absolute numbers unexciting but magnitude is sizeable. Undeniably, our projection of a turnaround is nothing to shout about, judging from the absolute improvement in profits. We reckon the sector's performance in 1H was partly impacted by the general election, which cooled down the implementation of most mega-projects. That said, the quantum of the recovery is enormous – at an average of 143.7% y-o-y in FY13 and 99.4% y-o-y for FY14 (refer to Figure 6). We believe this type of turnaround is attention-grabbing, especially when the stock market is currently short of investment ideals, and key index and blue chip counters are mostly trading at their historical highs.

Figure 6: Earnings recovery trend of local steel mills

Company	Net Profit (MYRm)				Net Profit y-o-y (%)		
	FY11	FY12	FY13f	FY14f	FY12	FY13f	FY14f
Ann Joo Resources	61.2	-19.5	42.9	63.3	-131.8%	320.4%	47.4%
CSC Steel^	29.6	28.0	42.9	48.3	-5.3%	53.3%	12.6%
Hiap Teck Venture	27.4	16.6	12.8	22.8	-39.6%	-22.6%	77.4%
Kinsteel	-261.4	-102.6	9.4	25.3	60.7%	109.2%	169.1%
Lion Industries Corporation	232.1	-38.2	51.4	96.2	-116.5%	234.5%	87.1%
Malaysia Steel Works (KL)	28.1	23.9	34.7	40.2	-14.9%	45.2%	15.9%
Perwaja	-63.5	-212.1	9.9	40.0	-234.0%	104.7%	304.0%
Southern Steel^	210.1	8.7	35.4	64.3	-95.8%	304.9%	81.6%

^ Southern Steel's FY11 number is based on 18 months as change of FYE

Source: Company Data, RHB estimates

Infrastructure Spending To Fuel Local Steel Demand

Global macro economy improves. The US macroeconomic indicators over the last few months have surpassed expectations as job creation picked up strongly while the housing sector is seeing a flicker of hope and consumption growth is relatively resilient. Meanwhile, the indicators for manufacturing and services have also improved moderately. In Asia, Chinese industrial production grew by 9.3% y-o-y in April. While this fell short of the market expectations of 9.5%, it was an improvement from March's 8.9% figure.

…but global steel outlook remains dismal. China's purchasing managers' index (PMI) for the steel industry rebounded 0.5 ppt from March to 45.1 in April. However, this was the second month in a row that the figure was below 50, showing a contraction. Quarterly results have been coming out and, with Tata announcing a USD1.6bn writedown, Despite the ever-rising crude steel production, iron ore prices have slipped over the last month with steelmakers preferring to depend on contracts and dip into the dockside market, rather than committing to raw material on the spot market. The Platts IODEX assessment for 62% Fe material CFR North China fell below USD130 a tonne, down by around USD15 m-o-m.

Better prospects for long steel market in SEA. Although bearish on the global steel market, we believe that South-East Asia's (SEA) steel market may hold up better than in other parts of the world. The new capacity that has come on stream in the past few years was mainly for flat steel as most steel millers, especially those in China, sought to move up the value chain. This led to excess capacity in this market segment. We still expect some Government pump-priming efforts via fixed asset investments that can prop up the demand for steel, especially for long steel products, although the quantum of the stimulus this time may be smaller than those deployed during the last crisis in 2008.

Long list of new projects may boost market sentiment. On the local front, various Government "mega" projects to be rolled out under the ETP will boost Malaysia's steel demand, particularly long steel products. With the general election now over and BN retaining control of the Federal Government, the implementation of those mega-projects may certainly gain momentum. These projects include the Mass Rail Transit (MRT) Line 1, the expansion of existing power plants, Tun Razak Exchange and other key projects. We also expect more public-private partnerships and ETP projects to get off the ground this year. Comparing the small number of projects nearing completion and the long list in progress currently (refer Figure 7), we believe investors may be amazed with the number of development projects that may boost construction activities in the country and hence the need for building materials, particularly steel and cement. Already, the robust flow of projects has helped keep local steel prices relatively stronger than international spot prices.

♦ Long list of on-going projects versus those near completion or completed in the recent past.

Figure 7 List of major projects in Malaysia

Completed/Near Completion	On-Going	Potential New Awards
KLIA 2	LRT Extension	MRT Line 2
Penang Bridge 2	MRT Line 1 (Sungai Buloh – Kajang)	MRT Line 3
KL Sentral (Office Block)	Penang undersea tunnel / highway	100 storey Menara Merdeka
Samalaju Interim Port	PJ Sentral Garden City	Redevelopment of Sg Besi Airbase
	Samalaju Port	Redevelopment of RRI Land
	Tanjung Bin Power Plant	Langat 2 Water Treatment Plant
	Prai Power Plant	Highway DAASH/SUKE/EKVE/WCE
	Janamanjung Power Plant	
	RAPID	
	Tun Razak Exchange	
	Pahang – Selangor Water Transfer	

Source: RHB estimates

Word on new projects to boost sentiment. BN's has pledged to continue with its ETP, which may see it roll out more projects to upgrade infrastructure and develop a more reliable public transportation system. This may lift hopes that the various projects announced earlier but which have yet to be dished out to contractors may soon materialize. Last weekend, a *StarBiz* article report said the MRT Line 2 may go on as planned. The news report said feasibility studies on the second line have been completed by consultants Halcrow and the project is awaiting the go-ahead from the newly-formed Cabinet. We also hear from our market intelligence that the proposal is now scheduled to be presented to the Prime Minister sometime this week. Initial estimates peg the cost of Line 2 at MYR24.9bn as it is longer than its predecessor and will also have a longer underground section as well as more stations.

PR1MA project to make up for slowdown in private developments. As Malaysia's property market has gone through a robust few years, the new launches of private property projects these days tend to be on a smaller scale compared with the past few years. Therefore, this situation may slow down demand of building material supply to new houses by private developers moving forward. However, BN has committed to building one million affordable homes - including 500,000 PR1MA houses – which may compensate for the slowdown in demand for materials products.

Sentiments may perk up further? Although the actual number of new houses to be build under the PR1MA initiative remains uncertain, we believe the continuous news flow may help to boost market sentiment. We understand that any new projects like MRT Line 2 may also take two years before the tractors get moving at the project sites. This is because getting Cabinet approval, acquiring land and engaging with stakeholders like DBKL and the Selangor Government, alignment studies, putting the railway scheme for public display and getting public feedback, as well as addressing their complaints are time- consuming. However, this new development is certainly a sentiment booster for equity investors who are forward-looking.

Positive on new roadmap for Malaysia Steel Industry by BCG

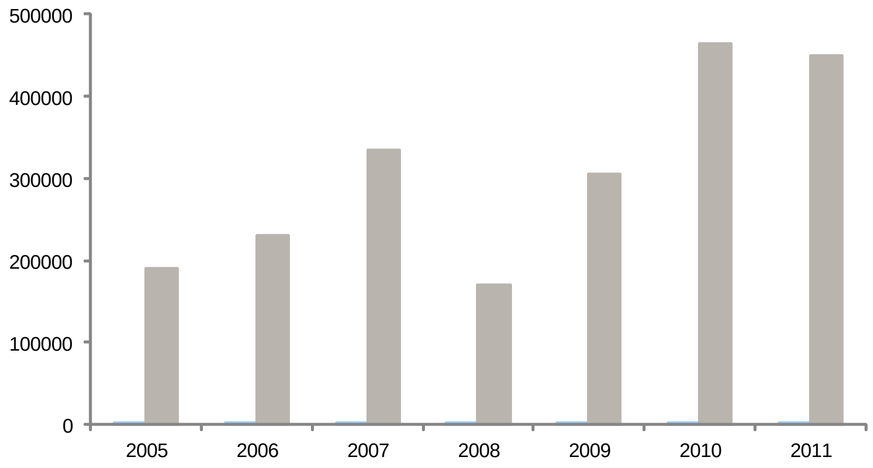
New roadmap. Boston Consulting Group (BCG) was hired by MITI to undertake an in-depth study on the current plight faced by players in the country's steel sector in 2012. The local steel sector currently contributes about 4% to the country's GDP and employs about 150,000 people. BCG has recommended three key initiatives, which are:

- Providing advantaged access to local raw materials such as iron ore,
- Enforcing trade remedies and standards, ie strengthen safety net and improve importation processes, and
- Enhancing the overall industry capabilities via the formation of a Malaysia Steel Council (MSC), a mechanism that will close the critical gaps in the industry, and an independent body such as the Malaysian Steel Institute, which is vested with the authority to enforce standard

No more duty exemption on 18 grades of imported steel. MITI removed the duty exemption on 18 grades of steel imports effective 1 Feb 2013. The affected steel products may include a wide range of hot rolled coils (HRC) produced by Megasteel SB, the country's sole local HRC maker. However, there is no change to duty exemption on steel products if: i) they are used in the production of finished goods for exports; ii) they are not produced locally; and iii) they are used to produce finished products that are not yet produced locally.

Start of a protectionist trend? The latest Government measures means that local HRC consumers will need to buy all their requirements from local producers, except in the case of inavailability of certain grades. That said, cold rolled coil (CRC) players will have to procure more input, ie HRC, from Megasteel SB (at present, on average local CRC players procure about half of their requirements from Megasteel and import the remaining half). This is negative to local CRC players as the products HRC sources from Megasteel are typically priced at a premium to international prices. In addition, there have been problems such as inconsistency in the quality of HRC sourced from Megasteel as produce mainly from scrap metal. However, if we read the latest measures as a start of a protectionist trend (that means the import restriction will eventually apply also to finished products of local downstream players, ie CRC, coated steel and welded steel pipes, etc), then the latest development may have a positive implication on downstream players over the longer term.

Figure 8 Imports of wire rods in Malaysia



Source: MISIF, RHB estimates

Imposition of anti-dumping duty on wire rods. The Government carried out anti-dumping investigations on 25 June 2012 based on a petition filed by Amsteel Mills SB (a subsidiary of Lion Industries) on behalf of the domestic steel wire rod industry. Following the completion of its investigation into the imports of the commodity, the Government had imposed anti-dumping duties on steel wire rods from selected companies in China, Taiwan, South Korea and Indonesia. The duties, ranging from 9.04% to 25.2%, will be effective for five years from 20 Feb 2013.

Local wire rods makers have reason to cheer. The imports of wire rods jumped significantly to above 450,000 tonnes in 2010, based on data compiled by the Malaysia Iron and Steel Federation (MISIF). We also understand from our sources that the competition from imported wire rods has resulted in local manufacturers pricing their products below those of steel bars, which normally sell at a discount. The imposition of anti-dumping duty may certainly stop the imports of wire rods from these countries and bring cheer to local wire rods manufacturers like Lion Industries, Southern Steel, Kinsteel and Ann Joo.

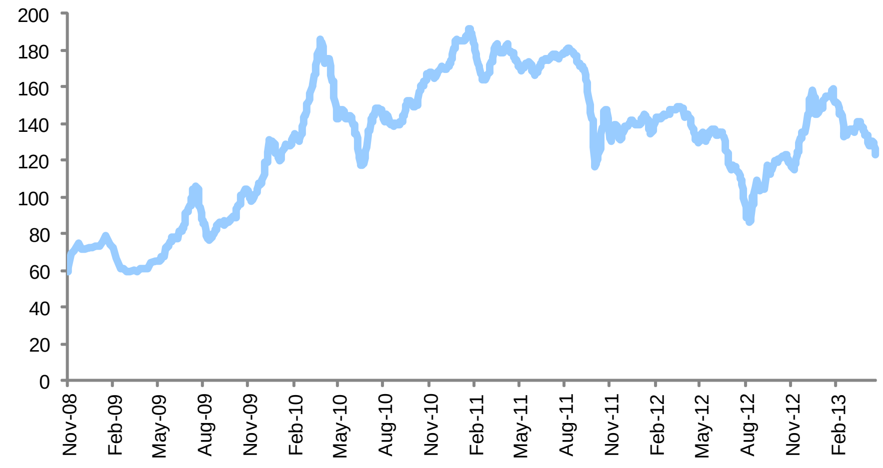
More works in progress? Although MITI has acted on some of the BCG's recommendations, we understand the Government has set up a Malaysia Steel Council (MSC), a technical committee and five working groups (WGs), to address the proposals for the steel sector's roadmap. WG 1 is to seek solutions to Megasteel's woes, WG2 covers access to key inputs (including price mechanism), WG 3 relates to the steel industry's capabilities, WG 4 covers standards and imports, while WG 5 will look at trade remedies. Although we think the study is merely a compilation of policies announced or proposed earlier by MITI, a clearer definition and target timeframe for execution will be good for the overall sector. The implementation of any new proposals from the council, which will comprise representatives from local steel mills, will certainly benefit the industry.

Iron Ore Rush Still On?

Iron ore mining - a lucrative business in Malaysia. Local iron ore mining in general uses the simple open pit method. We understand from our industry sources that iron ore can be outsourced at less than USD10 a tonne of iron fine extracted. Most of the mines operate via concession-type arrangements, whereby a royalty of USD10 to USD20 is charged by the licence holder of the mine. Including crushing cost, the cost of transporting from the mine to the steel plant and the yield loss of not more than USD20 a tonne, the total production cost of local iron ore fine is not more than USD60 a tonne. While iron ore price has since weakened to the present below USD130 a tonne, the mining business remains a lucrative one in Malaysia.

- All in, the cost to extract iron ore in Malaysia is generally less than USD60 a tonne; thus it remains lucrative despite lower iron ore prices.

Figure 9 The Steel Index 62% Fe CNF North China iron ore



Source: The Steel index, RHB estimates

Talks remain hopeful. We are waiting with bated breath for the official award of any iron ore mining concession as these are still pending. Meanwhile, Terengganu Menteri Besar (MB) Datuk Seri Ahmad Said had said that Eastern Steel SB (55% owned by Hiap Teck Venture or HTVB) and Perwaja will each be awarded concessions in Bukit Besi to mine for Grade A iron ore until it is depleted. The MB said this in Dec 2011 during the official ground-breaking ceremony of Eastern Steel's BF plant in Kemaman. Other developments in the iron ore mining business in Malaysia include Tatt Giap Group, a steel service centre, buying 60% of iron-ore miner Buminox SB for RM3.6m last year. Buminox has been granted exclusive rights to carry out iron ore mining operations over a parcel of state land in Rompin, Pahang. Separately, a *StarBiz* report said early last year that condom maker, Takaso Resources, is set to diversify into the mining sector with Terengganu-state owned Golden Pharos. Sources familiar with the deal said Golden Pharos, which is 61.2%-owned by Terengganu Inc SB, was likely to collaborate with Takaso to obtain a state-related iron mining project.

Bukit Besi still in the spotlight. The Terengganu MB was quoted by the press earlier as saying that the state Minerals and Geoscience Department (JMG) was conducting a six-month study on the viability of reopening the iron mine at Bukit Besi. Iron ore mining began in Bukit Besi area since 1916. It is natural for some to think that Bukit Besi may have run out of iron ore reserves after decades of extensive mining. Nonetheless, we believe that iron ore is still in abundance in the area as the mine was closed in the 70s owing to the global economy downturn, followed by a crash in commodity prices.

Is now the right time to give out mining rights? The awarding of concession-type contracts is extremely sensitive, particularly when an election is just around the corner. That said, with the general election now over and BN retaining control of the Federal Government, we suspect time may have come for the Government to officially awards those outstanding mining rights. The PM has pledged on behalf of the Federal Government to encourage states with iron ore and coal reserves to allocate more land of economic size to local steel manufacturers to undertake commercial mining to enhance their steelmaking operations. Since BN also managed to retain simple majority control in Terengganu state, this may suggest a seamless continuity in mining right awards in Bukit Besi.

Who Stands To Benefit?

Perwaja still a frontrunner. The first verbal confirmation of Perwaja's success in its application to mine iron ore in Bukit Besi, Terengganu came in July 2011 from the Menteri Besar after the ground-breaking commemorating the commencement of construction on the company's concentration and pelletizing plant. However, there has been no official agreement or awards being announced by Perwaja to date. As installation of Perwaja's concentration plant is at the final stage, we suspect the company is in serious need of the official awards in order to have the raw iron ore from the identified mine being concentrated in its new plant by July 2013. Thus, we suspect this may be an excellent time for Perwaja to push the Government for official award of the mining concession.

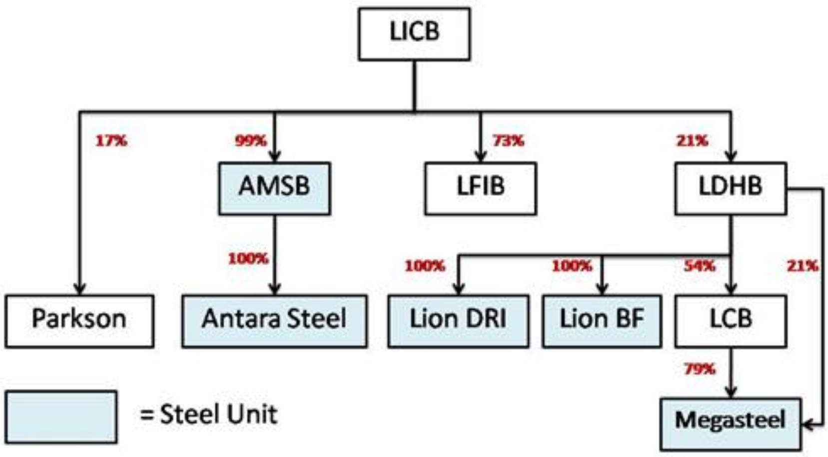
Hiap Teck another potential candidate. News of Hiap Teck securing the iron ore mining rights was first announced by the Terengganu MB during the official ground-breaking of Eastern Steel's BF plant in Kemaman, Terengganu in Dec 2011. He said Eastern Steel SB (55%-owned by Hiap Teck Venture or HTVB) and Perwaja will each be awarded 600 acres in Bukit Besi to mine for Grade A iron ore until it is depleted. We understand from our reliable sources that first phase of its blast furnace project is well in progress and commissioning is expected in December 2013. Hence HTVB has valid reason to push for the promised mine awards as feed to its new furnace.

Lion Group's Steel Assets Sale Still On The Drawing Board

Marathon negotiations. News of Lion Group liquidating its steel assets was first highlighted by the press in June 2011. However, news has gone silent with the emergence of renewed global economic concerns and weak international steel market. Meanwhile, we continue to believe that the group would be keen to part with some of its equity interest in the respective steel units, but any negotiations may be time consuming as buyers can take their time and hold out for a better deal amidst the weak industry backdrop. If the price tag is right, we do not discount the possibility of the company's board liquidating its entire or controlling stakes in those assets.

Lion group's shares at deep discount to book. Despite a small run-up in steel stocks, both Lion Industries (LICB) and Lion Diversified Holdings (LDHB) are trading at deep discounts to their respective book values (BV). As such, the share prices of both companies warrant close monitoring. We understand from market intelligence that its Management is engaged in talks with many potential buyers but the offer price remains unattractive, or some potential buyers were just looking at certain attractive assets. Nonetheless, Management is still engaged in talks with those potential buyers, and our sources said some new names are still sitting tight at the negotiation table.

Figure 10 Simplified corporate structure of Lion Industries



Source: RHB estimates

♦ Strong growth potential in licensing revenue.

Lion Industries the best pick within the group? The three listed companies under Lion Group are involved in steel making, but, only Lion Industries is under our coverage. This unit is mainly in long steel making via 99%-owned Amsteel Mills SB and Antara Steel SB. Antara Steel also operates a Hot Briquetted Iron (HBI) plant in Labuan, which is making good money from iron-making. However, other steel businesses are indirectly held through Lion Diversified Holdings (LDHB) (Not Rated)'s 100% direct stake in Lion DRI SB and Lion Blast Furnace SB (Lion BF), plus direct and indirect stakes in Megasteel SB via Lion Corporation (LCB) (Not Rated). We continue to like Lion Industries as this unit also owns a valuable 17% stake in Parkson, whose retails outlets in China and most of South-East Asia bring in decent returns.

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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