

Company Update

Private Circulation Only

STEEL

Malaysia Steel Works (KL) **BUY** **Maintain**
Price **RM0.91**
Target **RM1.09**

Small, But Perfect Size During Downturn**Stock Profile/Statistics**

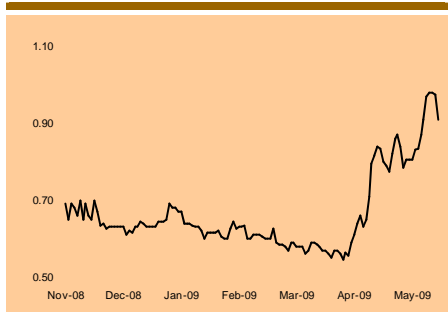
	MSW MK Equity
Bloomberg Ticker	1011.99
KLCI	194.67
Issued Share Capital (m)	177.15
Market Capitalisation (RMm)	1.59 0.50
52 week H L Price (RM)	351.49
Average Volume (3m) '000	0.27
YTD Returns (%)	0.52
Net gearing (x)	2.32
Altman Z-Score	1.36
ROCE/WACC	1.36
Beta (x)	2.21
Book Value/share (RM)	

Major Shareholders (%)

Soon Seng Company SB	29.4
Lembaga Tabung Haji	9.0
Rosly Bin Aziz	5.1

Share Performance (%)

Month	Absolute	Relative
1m	22.64	5.23
3m	59.84	34.12
6m	40.29	14.90
12m	-30.66	-26.13

6-month Share Price Performance

We are impressed with Malaysia Steel Works' (Masteel) capability in managing its inventory during the down-cycle and are comfortable with the company's small steelmaking operation. Although the recent rally has pushed up the company's share price, Masteel's latest 12-month target of RM1.09 still offers an upside of 19.7%, which justifies our BUY recommendation. The fair value is derived from 5x FY10 EPS and 0.46x FY10 NTA/share.

Quick in responding to market changes. We are impressed with the management's ability to identify changes in the steel cycle and to speedily liquidate its high cost inventory at the initial stage of the downtrend. The quick response has spared the company from the 2HCY08 industry-wide impairment. The fact that Masteel is among the smallest integrated mills and is prudent in keeping its inventory cycle short also helped in getting the stocks liquidated easily. The prudent inventory management also helped the company to fully enjoy the up-cycle and make a record profit of RM79.3m in FY08.

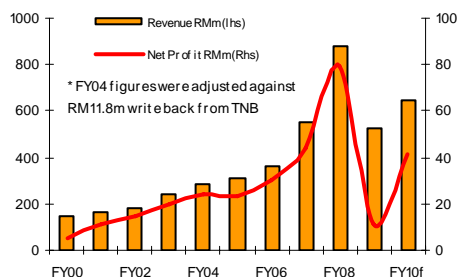
Possible small loss in 1H before turning around. With the steel demand continues to deteriorate, Masteel's steel plant only managed to operate off-peak in the past few months, which squeezed the already thin profit margin. Therefore, we expect the company to slip into the red in the next quarter or two before returning to the black from 2HFY09. Therefore, FY09 is a marginal profit of RM11.6m or 67.9% lower than our original estimates. As we are making no changes to our earlier expectation of the company returning to normal profit, the FY10 numbers are only 1.7% lower than our earlier estimates.

Upside still justifies a BUY. As the steel industry continues to be bumpy, we think Masteel being the country's smallest steel mill may enjoy greater flexibility in meeting any drastic market changes. We also remain hopeful of the possible revival of the sector, thanks to the stimulus packages launched by governments worldwide, as nobody can be sure of the pace of recovery since the financial crisis affects almost every major economy. Therefore, small may be beautiful, especially given the present uncertainties. As Masteel's share price still has a 19.7% upside from our new fair value of RM1.09 despite the recent run-up, we maintain our BUY recommendation. The target price is derived from a blended valuation of 5x FY10 EPS and 0.46x FY10 NTA/share.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Total Revenue	362.2	548.0	881.2	527.7	649.7
Net Profit	30.0	44.3	79.3	11.6	41.2
% chg YoY	28.8	47.7	78.8	(85.3)	254.1
Consensus Net Profit	-	-	-	26.5	41.6
EPS (sen)	16.9	22.8	40.7	6.0	21.2
Gross DPS (sen)	2.1	3.0	0.0	0.8	2.8
Gross Div. Yield (%)	2.3	3.3	0.0	0.9	3.1
PER (x)	5.4	4.0	2.2	15.2	4.3
P/BV (x)	0.5	0.5	0.4	0.4	0.4
EV/EBITDA (x)	6.4	5.0	3.5	6.0	3.7
ROE (%)	10.5	13.5	20.2	2.7	9.0
ROA (%)	5.8	7.3	11.5	1.6	5.6

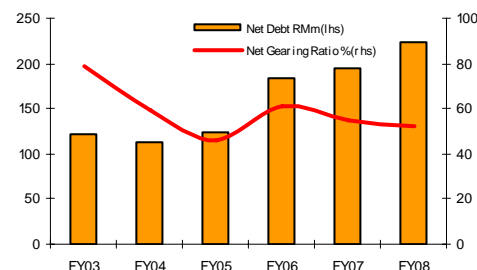
Appendix – Malaysia Steel Works (KL)

Figure 43: Masteel's Financial Performance



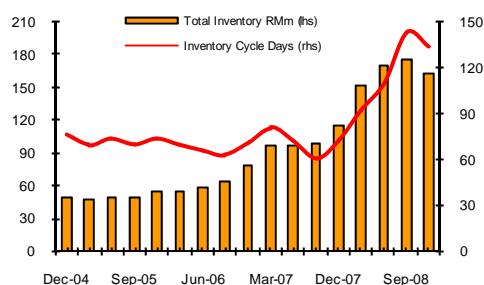
Source: Company Data, OSK Research Estimates

Figure 44: Masteel's Debt Level



Source: Company Data

Figure 45: Masteel's Inventory Level



Source: Company Data, OSK Research Estimates

Figure 46: Masteel's Historical P/NTA



Source: OSK Research Estimates

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	362.2	548.0	881.2	527.7	649.7
EBITDA	56.7	74.9	115.4	43.3	72.6
Depreciation	-12.3	-13.0	-15.1	-14.9	-13.9
Net Interest Income	-14.4	-15.7	-14.6	-15.8	-14.2
Associate	0.0	0.0	0.0	0.0	0.0
PBT	30.0	46.2	85.7	12.6	44.5
Net Profit	30.0	44.3	79.3	11.6	41.2
EPS (sen)	16.9	22.8	40.7	6.0	21.2
DPS (sen)	2.1	3.0	0.0	0.8	2.8
Margin					
EBITDA	15.7%	13.7%	13.1%	8.2%	11.2%
PBT	8.3%	8.4%	9.7%	2.4%	6.9%
Net Profit	8.3%	8.1%	9.0%	2.2%	6.3%
ROE	10.5%	13.5%	20.2%	2.7%	9.0%
ROA	5.8%	7.3%	11.5%	1.6%	5.6%
Balance Sheet					
Fixed Assets	366.2	386.1	408.4	348.0	354.2
Current Assets	201.7	260.1	326.1	365.4	415.2
Total Assets	567.9	646.3	734.5	713.4	769.4
Current Liabilities	212.8	182.7	191.2	179.6	218.5
Net Current Assets	-11.1	77.5	134.9	185.8	196.7
LT Liabilities	53.8	108.2	113.0	93.0	73.0
Shareholders Funds	301.3	355.4	430.3	440.8	477.8
Net Gearing (%)	-60.9%	-54.8%	-51.9%	-19.1%	-19.3%