



STEEL

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FY08 Results Review

Private Circulation Only

Malaysia Steel Works (KL)

BUY
Price Target
Maintain
RM0.605
RM1.03

Stock Profile/Statistics

	MSW MK Equity
Bloomberg Ticker	895.23
KLCI	194.67
Issued Share Capital (m)	117.77
Market Capitalisation (RMm)	1.59 0.50
52 week H L Price (RM)	63.72
Average Volume (3m) '000	-0.04
YTD Returns (%)	0.55
Net gearing (x)	2.32
Altman Z-Score	1.26
ROCE/WACC	1.30
Beta (x)	1.83
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	-3.18	-3.84
3m	-6.15	-13.51
6m	-39.00	-24.84
12m	-46.88	-17.87

6-month Share Price Performance



Excellent Inventory Management

With governments around the world announcing ever increasing pump priming measures, we suspect there could be an early recovery in steel demand. We are reiterating our BUY recommendation on Malaysia Steel Works (Masteel) for achieving another record profit for FY08. However, as real demand is only expected to kick in from the second half, we are maintaining our conservative earnings estimates but revising our 12-month target price slightly upwards to RM1.03 on incorporating higher-than-expected profit attributed to shareholders for FY08. The stock's fair value is derived from a combination of 5x FY09 PER and 0.47x FY09 NTA/share.

A most pleasant surprise. While the 4Q net profit of RM5.5m was 78.8% and 67.3% lower y-o-y and q-o-q respectively, it was still impressive since Masteel's peers are mostly expected to make hefty inventory write-downs. Its FY08 net profit of RM79.3m was 42.5% above our newly-revised numbers despite being well within street estimates and our original numbers prior to the adjustment. The sparkling numbers represent a record profit year since its listing, translating into a mouth-watering valuation of only 1.5x FY08 PER.

No write-downs! Masteel managed to avoid making any write-downs for the second consecutive quarter although we had recently imputed a potential RM17.6m in provision for 4Q considering that local steel prices were marked down by a further 20% in November '08. This can be attributed to management's quick reaction in liquidating its stockpile when steel prices start to fall. 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. Being a small player, the company also enjoys cheap local scrap prices.

Conservative projection. Despite the fine showing, the tough economic environment prompts us to keep our conservative earnings estimates. We think the recent recovery in demand is fuelled mainly by replenishment orders that are not sustainable and that real improvement are likely to kick in only from 2H. The fact that governments worldwide are announcing ever bigger stimulus packages supports our view that long steel demand may surprise on the upside although actual implementation may take a while longer. We have factored in lower average selling prices and a normalised margin assumption, which is easily achievable since steel prices have been consolidating at the same level.

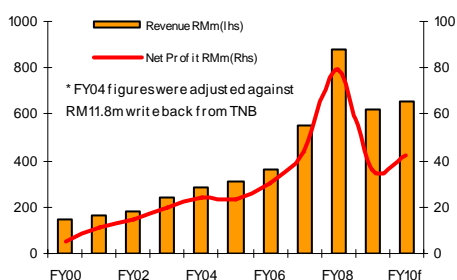
Masteel is an integrated long steel manufacturer.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Total Revenue	362.2	548.0	881.2	621.5	652.6
Net Profit	30.0	44.3	79.3	36.2	41.9
% chg YoY	28.8	47.7	78.8	(54.3)	15.7
Consensus EPS (sen)	-	-	47.5	38.0	-
EPS (sen)	16.9	22.8	40.7	18.6	21.5
Gross DPS (sen)	2.1	3.0	0.0	0.0	0.0
Gross Div. Yield (%)	3.5	5.0	0.0	0.0	0.0
PER (x)	3.6	2.7	1.5	3.3	2.8
P/BV (x)	0.4	0.3	0.3	0.3	0.2
EV/EBITDA (x)	5.3	4.2	3.0	2.9	2.4
ROE (%)	10.5	13.5	20.2	8.1	8.6
ROA (%)	5.8	7.3	11.5	4.8	5.3

KEY HIGHLIGHTS

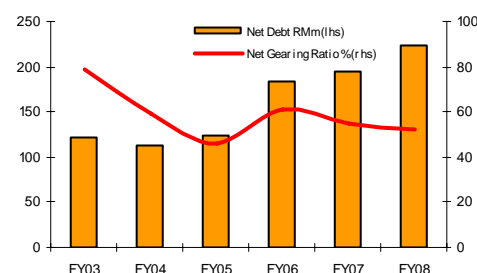
FYE Dec (RMm)	4QFY08	3QFY08	% chg	FY08	FY07	% chg
Turnover	161.7	264.3	-38.8%	881.2	548.0	60.8%
EBITDA	13.3	26.2	-49.0%	115.3	75.9	51.9%
Depreciation	(3.9)	(3.7)	4.9%	(15.1)	(13.0)	16.2%
Net interest expense	(3.5)	(3.3)	5.7%	(13.8)	(16.7)	-17.7%
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%
PBT	5.8	18.2	-67.8%	85.7	46.2	85.6%
Tax	(0.4)	(1.4)	-73.6%	(6.4)	(1.8)	248.6%
MI	0.0	0.0	0.0%	0.0	0.0	0.0%
Net Profit	5.5	16.7	-67.3%	79.3	44.3	78.8%
EPS (sen)	2.8	8.6		40.7	22.8	
Gross DPS (sen)	0.0	0.0		0.0	3.0	
EBITDA margin	8.3%	9.9%		13.1%	13.8%	
NTA/share (RM)	2.21	2.18		2.21	1.83	

Figure 1: Masteel's Financial Performance



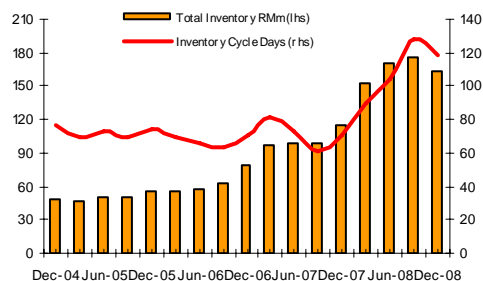
Source: Company Data, OSK Research Estimates

Figure 2: Masteel's Debt Level



Source: Company Data

Figure 3: Masteel's Inventory Level



Source: Company Data, OSK Research Estimates

Figure 4: Masteel's Historical P/NTA



Source: OSK Research Estimates

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	362.2	548.0	881.2	621.5	652.6
EBITDA	56.7	74.9	115.4	70.5	74.1
Depreciation	-12.3	-13.0	-15.1	-14.9	-13.9
Net Interest Income	-14.4	-15.7	-14.6	-16.5	-14.9
Associate	0.0	0.0	0.0	0.0	0.0
PBT	30.0	46.2	85.7	39.2	45.3
Net Profit	30.0	44.3	79.3	36.2	41.9
EPS (sen)	16.9	22.8	40.7	18.6	21.5
DPS (sen)	2.1	3.0	0.0	0.0	0.0
Margin					
EBITDA	15.7%	13.7%	13.1%	11.3%	11.3%
PBT	8.3%	8.4%	9.7%	6.3%	6.9%
Net Profit	8.3%	8.1%	9.0%	5.8%	6.4%
ROE	10.5%	13.5%	20.2%	8.1%	8.6%
ROA	5.8%	7.3%	11.5%	4.8%	5.3%
Balance Sheet					
Fixed Assets	366.2	386.1	408.4	348.0	354.2
Current Assets	201.7	260.1	326.1	420.5	446.4
Total Assets	567.9	646.3	734.5	768.5	800.6
Current Liabilities	212.8	182.7	191.2	209.0	219.2
Net Current Assets	-11.1	77.5	134.9	211.5	227.3
LT Liabilities	53.8	108.2	113.0	93.0	73.0
Shareholders Funds	301.3	355.4	430.3	466.5	508.4
Net Gearing (%)	-60.9%	-54.8%	-51.9%	-18.8%	-12.3%

OSK Research 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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