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Company Update

Malaysia Steel Works (KL)

Small, But Armed With a Track Record

Despite being the smallest integrated long steel player, Malaysia Steel Works' (Masteel) superb track record and deft management of its inventory during the down-cycle impress us. With the much improved outlook, we are raising our FY10 earnings by 17.2% to RM48.3m and upgrade our P/NTA valuation to +1 standard deviation of its historical trading band but retain our PER valuation at 6x FY10 EPS. Maintain BUY recommendation with higher fair value of RM1.45.

A niche player. Masteel is Malaysia's smallest integrated long steel manufacturer with a meltshop near Port Klang with capacity of 450,000 tonnes per year (tpy) and operates a 350,000 tpy rolling mill in Petaling Jaya. Given its low overheads, the company has been able to ride through various steel cycles. It also produces niche products that command better margins amid less intense competition since there are no economies of scale to achieve as with the big mills. It is continuously upgrading exercises to improve overall efficiency and increase capacity. Together with those investments and a better steel industry outlook, we are projecting better profit margins and revising upwards our net profit estimate for FY10 to RM48.3m, or 17.2% higher, than original estimates.

Ramping up export contribution. The company recently signed an off-take agreement with Stemcor Australia Pty Ltd to export RM120m worth of steel bars to Australia over two years. While this only involves supply of 30,000 tonnes of steel bars per annum, or approximately 12% of the total projected sales volume for the next two financial years, it is a milestone for Masteel as it is venturing into the huge export market. As we gather from our market sources that the Australian market usually offers better margins compared with the domestic market, the new contract adds optimism to our profit projection.

Reiterate BUY. The fact that Masteel is among the smallest integrated mills and is prudent in keeping its inventory cycle short helped when it came to liquidating the stocks during the down-cycle. While the company was not spared the recent downturn and is likely to record a loss of RM10.3m in FY09 - its first ever yearly loss since listing - the quantum remains marginal compared to the company's record profit in 2008 despite the short up-cycle only in the first half of the year. Impressed with management's capability, we decided to raise Masteel's P/NTA valuation up a notch to +1 standard deviation from a mean of its historical trading band but retain our PER valuation at 6x FY10 EPS. From this, we derive a new target price of RM1.45, which offers a x% upside potential. Hence our BUY call is maintained.

BUY ↔

Target **RM1.45**
Previous **RM1.20**
Price **RM1.16**

STEEL

Masteel is an integrated long steel manufacturer.

Stock Statistics

Bloomberg Ticker	MSW MK
Share Capital (m)	194.67
Market Cap (RMm)	0.23
52 week H L Price (RM)	1.18 0.53
3mth Avg Vol ('000)	438.4
YTD Returns	17.2
Beta (x)	1.28

Major Shareholders (%)

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

Share Performance (%)

Month	Absolute	Relative
1m	17.5	16.5
3m	18.8	17.2
6m	21.9	6.9
12m	85.8	26.1

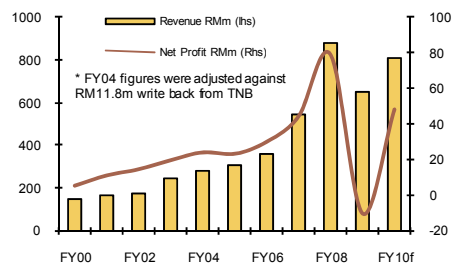
6-month Share Price Performance



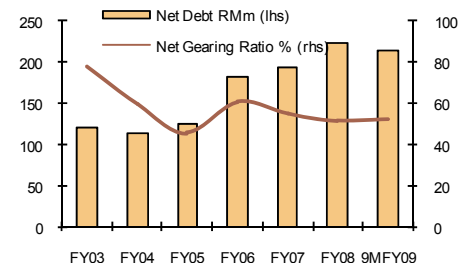
FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Revenue	362.2	548.0	881.2	647.0	809.5
Net Profit	30.0	44.3	79.3	-10.3	48.3
% chg y-o-y	28.8	47.7	78.8	-113.0	-568.5
Consensus	-	-	-	17.2	41.4
EPS (sen)	16.9	22.8	40.7	-5.3	24.8
DPS (sen)	1.6	2.3	3.3	0.0	3.3
Dividend yield (%)	1.4	2.0	2.9	0.0	2.9
ROE (%)	10.5	13.5	20.2	-2.4	10.9
ROA (%)	5.8	7.3	11.5	-1.4	6.2
PER (x)	6.7	5.0	2.8	-21.5	4.6
BV/share (RM)	1.70	1.83	2.21	2.16	2.38
P/BV (x)	0.7	0.6	0.5	0.5	0.5
EV/ EBITDA (x)	7.2	5.6	3.9	18.2	4.7

APPENDIX – MALAYSIA STEEL WORKS (KL)

Figure 34: Masteel's financial performance Figure 35: Masteel's debt level

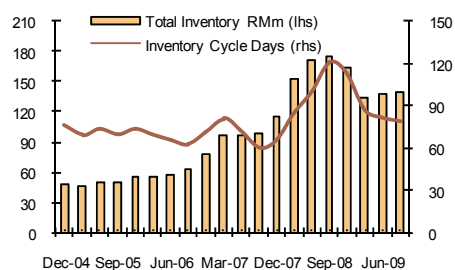


Source: Company Data, OSK Research Estimates



Source: Company Data

Figure 36: Masteel's inventory level



Source: Company Data, OSK Research Estimates

Figure 37: Masteel's historical P/NTA



Source: OSK Research Estimates

Figure 38: Masteel's Valuation Matrix

FY10 NTA		\$2.38	PER									
FY10 EPS		\$0.25	5	6	7	8	9	10	11	12		
P/NTA	1 STD	0.59	\$1.33	\$1.45	\$1.57	\$1.70	\$1.82	\$1.95	\$2.07	\$2.19		
	Mean	0.46	\$1.17	\$1.29	\$1.42	\$1.54	\$1.66	\$1.79	\$1.91	\$2.04		
	-1 STD	0.33	\$1.01	\$1.13	\$1.26	\$1.38	\$1.51	\$1.63	\$1.75	\$1.88		

Source: OSK Research Estimates

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	362.2	548.0	881.2	647.0	809.5
EBITDA	56.7	74.9	115.4	20.4	82.3
Depreciation	-12.3	-13.0	-15.1	-14.9	-13.9
Net Interest Income	-14.4	-15.7	-14.6	-16.7	-16.2
Associate	0.0	0.0	0.0	0.0	0.0
PBT	30.0	46.2	85.7	-11.1	52.2
Net Profit	30.0	44.3	79.3	-10.3	48.3
EPS (sen)	16.9	22.8	40.7	-5.3	24.8
DPS (sen)	1.6	2.3	3.3	0.0	3.3
Margin					
EBITDA	15.7	13.7	13.1	3.2	10.2
PBT	8.3	8.4	9.7	-1.7	6.4
Net Profit	8.3	8.1	9.0	-1.6	6.0
ROE	10.5	13.5	20.2	-2.4	10.9
ROA	5.8	7.3	11.5	-1.4	6.2
Balance Sheet					
Fixed Assets	366.2	386.1	408.4	348.0	354.2
Current Assets	201.7	260.1	326.1	390.9	456.3
Total Assets	567.9	646.3	734.5	739.0	810.5
Current Liabilities	212.8	182.7	191.2	226.0	274.0
Net Current Assets	-11.1	77.5	134.9	165.0	182.3