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## FY09 Results Review

# Malaysia Steel Works (KL)

## Numbers Spot On

**BUY** ↔

**Target** RM1.45  
**Previous Price** RM1.45  
**Price** RM1.10

### STEEL

Masteel is an integrated long steel manufacturer.

### Stock Statistics

	MSW MK
Bloomberg Ticker	MSW MK
Share Capital (m)	194.67
Market Cap (RMm)	212.19
52 week H L Price (RM)	1.18  0.53
3mth Avg Vol ('000)	283.7
YTD Returns	10.1
Beta (x)	1.30

### Major Shareholders (%)

Soon Seng Company SB	29.4
Lembaga Tabung Haji	10.0
Rosly Bin Aziz	5.1

### Share Performance (%)

Month	Absolute	Relative
1m	-0.9	0.8
3m	10.0	9.4
6m	15.8	5.4
12m	88.3	27.3

### 6-month Share Price Performance



Malaysia Steel Works (Masteel)'s FY09 net loss of RM8.5m was well within our forecast but short of street estimates. The pullback in China's steel prices since August 2009 has shaken market sentiment and led to margins erosion in 4Q. Nonetheless, we remain bullish on the near term outlook as most prices are heading north again and there is room for more upside. Given Masteel's track record, we reiterate our BUY recommendation with a 12-month target price of RM1.45. The fair value is derived from a combination of 6x FY10 EPS and 0.59x FY10 NTA/share.

**Within expectation.** That the sharp pullback in China's local steel prices since August 2009 has shaken market sentiment and caused a 20.7% q-o-q profit contraction to RM10.6m in 4Q was no surprise to us. On a full-year basis, Masteel's FY09 net loss of RM8.5m was almost spot-on with our projection despite being below street estimates. While local steel prices remained flat during the reporting quarter, our market sources suggest that taking the cue from the international market, suppliers were offering larger discounts, which led to weaker performance. The fall in selling prices also dampened procurement sentiment as the price downtrend caused traders to hold back on orders in anticipation of steel prices dropping further.

**All set for the next surge.** Prices of all major raw materials have been on an uptrend over the last two months driven by improved global demand and partly due to the spell of extreme winter. While raw material prices have eased by 5% to 10% recently, we expect steel prices to go by 10% to 15% in the next few months on the resumption of private and public construction activities post Chinese New Year celebration and stocking up by traders in anticipation of a price increase. Already, most of the world's major millers have announced higher average selling prices (ASP) for March and April 2010. There are also rumors of a few Chinese steel mills accepting a 40% increase in new iron ore benchmark pricing. As steel prices perk up, we recently made major upward revisions by some 25% y-o-y across the board in our key ASP assumptions. Meanwhile, we do not see any major surprises in 1Q given the potential time lag but are generally optimistic on 1HFY10.

**Reiterate BUY.** As we are upbeat on the near term financial performance and Masteel's management maintaining its good track record despite being the country's smallest integrated mills, we are keeping our BUY recommendation. Our target price of RM1.45 is derived from a blended valuation of 0.59x NTA/share, or +1 standard deviation from the +1 standard deviation of its historical trading band and 6x PER based on FY10 numbers.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	548.0	881.2	687.3	809.5	825.7
Net Profit	44.3	79.3	-8.5	48.3	50.8
% chg y-o-y	47.7	78.8	-110.7	-670.4	5.3
Consensus	-	-	-1.7	44.2	-
EPS (sen)	22.8	40.7	-4.4	24.8	26.1
DPS (sen)	2.3	3.3	0.0	0.0	0.0
Dividend yield (%)	2.1	3.0	0.0	0.0	0.0
ROE (%)	13.5	20.2	-2.0	10.9	10.3
ROA (%)	7.3	11.5	-1.1	6.1	6.0
PER (x)	4.8	2.7	-25.3	4.4	4.2
BV/share (RM)	1.83	2.21	2.14	2.39	2.66
P/BV (x)	0.6	0.5	0.5	0.5	0.4
EV/ EBITDA (x)	5.5	3.8	20.0	4.7	4.1

**Results Table (RMm)**

<b>FYE Dec</b>	<b>4Q09</b>	<b>3Q09</b>	<b>Q-o-Q chg</b>	<b>FY09</b>	<b>FY08</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	191.7	195.7	-2.1%	687.3	881.2	-22.0%	Lower ASP and shipments resulted in revenue contraction
EBITDA	17.5	20.8	-15.8%	21.1	115.3	-81.7%	Lower ASP compared with relatively stagnant scrap metal cost eroded margins
Depreciation	-4.2	-4.1	2.6%	-16.2	-15.1	7.1%	
Net interest expense	-3.4	-3.4	1.6%	-14.1	-13.8	2.0%	
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	10.6	13.4	-20.5%	-8.4	85.7	-109.9%	Lower ASP compared to relatively stagnant scrap metal cost led to lower PBT q-o-q
Tax	0.0	0.0	0.0%	0.0	-6.4	-99.7%	
MI	0.0	0.0	0.0%	0.0	0.0	0.0%	
Net profit	10.6	13.4	-20.7%	-8.5	79.3	-110.7%	Lower ASP compared to relatively stagnant scrap metal cost resulted in lower profit q-o-q
EPS (sen)	5.4	6.9		-4.3	40.7		
DPS (sen)	0.0	0.0		0.0	3.3		No dividend declared
EBITDA margin	9.1%	10.6%		3.1%	13.1%		Margin was impacted by lower ASP against relatively stagnant scrap metal cost
NTA/share (RM)	2.14	2.09		2.14	2.21		

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>
Turnover	548.0	881.2	687.3	809.5	825.7
EBITDA	74.9	115.4	21.8	80.9	82.5
Depreciation	-13.0	-15.1	-16.2	-14.2	-15.2
Net Interest Income	-15.7	-14.6	-14.1	-18.5	-16.6
Associate	0.0	0.0	0.0	0.0	0.0
PBT	46.2	85.7	-8.4	48.2	50.7
Net Profit	44.3	79.3	-8.5	48.3	50.8
EPS (sen)	22.8	40.7	-4.4	24.8	26.1
DPS (sen)	2.3	3.3	0.0	0.0	0.0
<b>Margin</b>					
EBITDA (%)	13.7	13.1	3.2	10.0	10.0
PBT (%)	8.4	9.7	-1.2	6.0	6.1
Net Profit (%)	8.1	9.0	-1.2	6.0	6.2
<b>ROE</b>	13.5	20.2	-2.0	10.9	10.3
<b>ROA</b>	7.3	11.5	-1.1	6.1	6.0
<b>Balance Sheet</b>					
Fixed Assets	386.1	408.4	431.9	362.2	370.0
Current Assets	260.1	326.1	317.3	476.8	499.9
Total Assets	646.3	734.5	749.2	838.9	869.9
Current Liabilities	182.7	191.2	214.9	276.3	273.4
Net Current Assets	77.5	134.9	102.4	200.5	226.5
LT Liabilities	108.2	113.0	117.4	97.4	78.4
Shareholders Funds	355.4	430.3	416.9	465.3	518.1
Net Gearing (%)	54.8	51.9	53.0	36.0	24.3

**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 (NR):** Stock is not within regular research coverage

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