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Corporate News Flash

Malaysia Steel Works (KL)

RM120m Export Contract

STEEL

BUY ↔
Target
Previous
Price

RM1.20
RM1.20
RM1.02

THE BUZZ

Malaysia Steel Works (KL) (Masteel) today signed an off-take agreement with Stemcor Australia Pty Ltd for the export of RM120m worth of steel bars to Australia. Stemcor is the world's leading independent international steel trading organization. (*Bursa Malaysia*)

OUR TAKE

Expand overseas presence. Masteel, the smallest integrated long steel manufacturer in Malaysia, is focused on supplying steel bars to the domestic market. Exports contribution only represents less than 10% of group revenue and is limited to semi-finished steel, namely billets. The deal marks a milestone for the company in venturing into the huge export market.

A sentiment booster. We understand from management that the contract is to supply RM120m worth of steel bars to Stemcor Australia Pty Ltd over a period of two years. Assuming an Average Selling Price (ASP) of RM2,000 per tonne, this represents the supply of 30,000 tonnes of steel bars per annum. As the amount only represents approximately 12% of the total projected sales volume for the next two financial years, the quantity has been factored into our earnings estimate. Nevertheless, our market sources reveal that as the Australian market normally offers better margins compared with the domestic market, the new contract may add optimism to our profit projection and immediate share price performance.

Reiterate BUY. While we do not expect any earnings surprises from the announcement, we continue to think Masteel is a potential beneficiary of the stimulus packages announced globally. Since the lag impact of high price bars and wire rods transacted in May and June 2009 will certainly work in favor of the company's upcoming 3Q numbers, we maintain our BUY recommendation on Masteel with 12-month target price of RM1.20. The fair value is derived from 6x FY10 EPS and 0.46x FY10 NTA/share.

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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