



STEEL

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1QFY09 Results Review

Private Circulation Only

Malaysia Steel Works (KL)

BUY
Price Target
Maintain
RM0.94
RM1.09

Stock Profile/Statistics

	MSW MK Equity
Bloomberg Ticker	KLCI
Issued Share Capital (m)	1041.24
Market Capitalisation (RMm)	194.67
52 week H L Price (RM)	182.99
Average Volume (3m) '000	1.46 0.50
YTD Returns (%)	389.66
Net gearing (x)	0.30
Altman Z-Score	0.52
ROCE/WACC	2.32
Beta (x)	1.28
Book Value/share (RM)	1.35
	2.21

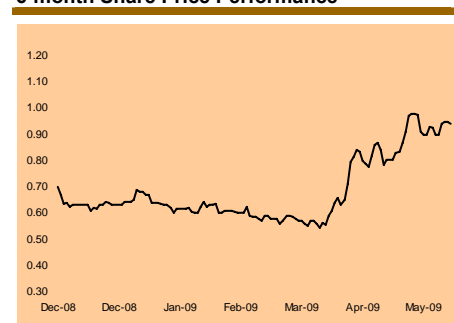
Major Shareholders (%)

Soon Seng Company	30.90
LTH	10.00

Share Performance (%)

Month	Absolute	Relative
1m	13.10	11.06
3m	62.39	37.45
6m	46.15	11.70
12m	-29.09	-16.17

6-month Share Price Performance



First-Ever Quarterly Loss

While we are disappointed with Malaysia Steel Works' (Masteel) first ever quarterly loss since listing, we reiterate our BUY recommendation on the back of a potentially sharp recovery in the steel industry as the stimulus packages launched worldwide may boost long steel requirements. We are maintaining our view that FY09 would be a washout year for local steel mills before profits normalise in FY10, and thus maintain our original estimates. Our 12-month target price of RM1.09 is derived from a combination of 5x FY10 EPS and 0.46x FY10 NTA/share.

First loss making quarter. While the 1Q net loss of RM30.4m was disappointing and below our and consensus estimates, it came as no surprise as we had already projected for a negative position in 1H and a small profit for FY09. With steel demand continuing to deteriorate, Masteel's plant only managed to operate off-peak in the past few months, thus squeezing the already thin profit margin. Also, being the only local steel mill that managed to avoid inventory write-downs in the past two quarters indirectly translates into higher average material costs compared with its peers, thus contributing to the 1Q loss.

Is the worst over? As the prices of steel bars continue to recover over the past weeks from their bottom at RM1,550 per tonne to RM1,900, the demand for steel products has also picked up. Considering management's track record in quickly responding to market changes, we believe it would ride on the positive changes towards the recovery path. Although we are unsure of the company's ability to return to the black in 2Q, we believe the losses will be narrower if any, and Masteel should be on track to make a comeback in 2H as well as see normal profit in FY10.

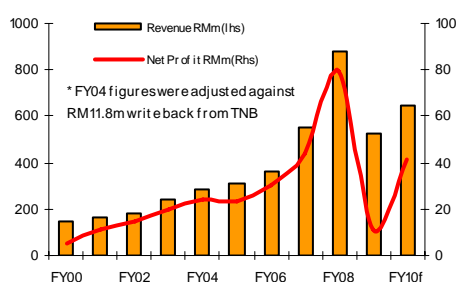
Upside justifies a BUY. Being the country's smallest steel mill, Masteel enjoys greater flexibility in responding to market changes. We are hopeful of the sector's revival, thanks to the stimulus packages launched by governments worldwide. Although nobody can be certain of the pace of recovery as the financial crisis affects almost every major economy, the recently settled 2009/10 iron ore benchmark prices may bring some measure of stability to the industry. That said, this is when being small is beautiful. As Masteel's share price still has an upside of 16.2% from our 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.

Masteel is an integrated long steel manufacturer.

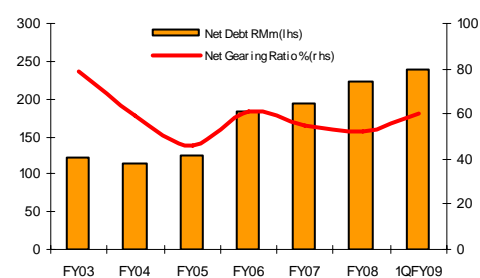
FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Total Revenue	362.2	548.0	881.2	527.7	649.7
Net Profit	30.0	44.3	79.3	11.6	41.2
% chg YoY	28.8	47.7	78.8	(85.3)	254.1
Consensus EPS (sen)	-	-	-	26.5	41.6
EPS (sen)	16.9	22.8	40.7	6.0	21.2
Gross DPS (sen)	1.6	2.3	3.3	0.8	2.8
Gross Div. Yield (%)	1.7	2.4	3.5	0.8	3.0
PER (x)	5.6	4.1	2.3	15.7	4.4
P/BV (x)	0.6	0.5	0.4	0.4	0.4
EV/EBITDA (x)	6.5	5.0	3.5	6.2	3.8
ROE (%)	10.5	13.5	20.2	2.7	9.0
ROA (%)	5.8	7.3	11.5	1.6	5.6

KEY HIGHLIGHTS

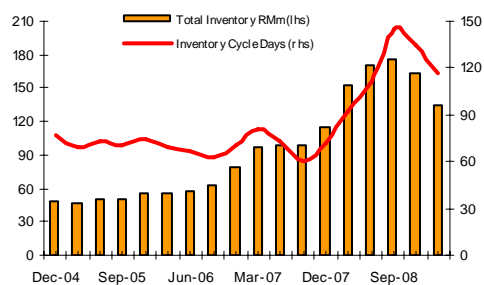
FYE Dec (RMm)	1QFY09	4QFY08	% chg	YTD FY09	YTD FY08	% chg
Turnover	130.1	161.7	-19.5%	130.1	174.4	-25.4%
EBITDA	(22.9)	13.3	-271.6%	(22.9)	27.7	-182.6%
Depreciation	(3.9)	(3.9)	-0.5%	(3.9)	(3.8)	4.2%
Net interest expense	(3.6)	(3.5)	4.4%	(3.6)	(3.4)	7.4%
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%
PBT	(30.4)	5.8	-621.1%	(30.4)	20.8	-246.7%
Tax	0.0	(0.4)	-100.0%	0.0	(1.6)	-100.0%
MI	0.0	0.0	0.0%	0.0	0.0	0.0%
Net Profit	(30.4)	5.5	-657.0%	(30.4)	19.1	-259.0%
EPS (sen)	(15.6)	2.8		(15.6)	9.8	
Gross DPS (sen)	0.0	3.3		0.0	0.0	
EBITDA margin	-17.6%	8.3%		-17.6%	15.9%	
NTA/share (RM)	2.05	2.21		2.05	1.92	

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	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)	1.6	2.3	3.3	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%

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