

Corporate Highlights



RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Results Note

01 March 2013

Malaysian Steel Works

FY12/12 Net Profit Eases 2%

Share Price : RM0.82
Fair Value : RM0.91
Recom : **Neutral**
(Maintained)

Table 1 : Investment Statistics (Masteel; Code: 7075)

Bloomberg: MSW MK

FYE	Net				PER	C. EPS *	P/NTA	Net		
	Revenue (RMm)	Profit (RMm)	EPS (sen)	Growth (%)				Gearing (x)	ROE (%)	NDY (%)
2012a	1,312.2	23.9	11.3	-2.3	7.4	-	0.3	0.5	5.7	1.2
2013f	1,353.1	34.7	16.5	45.7	5.0	21.0	0.3	0.4	6.3	1.2
2014f	1,380.1	36.6	17.4	5.7	4.8	-	0.3	0.4	6.2	1.2
2015f	1,402.8	43.2	20.5	17.9	4.0	-	0.3	0.3	6.9	1.2

Main Market Listing / Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

- Missed expectations.** FY12/12 net profit missed expectations by 11-18%. We believe the key variances against our forecast came from lower-than-expected selling prices achieved and higher-than-expected production cost. FY12/12 net profit eased 2% largely due to lower selling prices achieved as well as higher production cost.
- Expanding capacity.** To capitalise on growing local demand for billets and steel bars, Masteel is planned to expand its capacity by 9% to 600k tonne per year (from 550k tonne per year) for its billet mill and 55% to 550k tonne per year (from 350k tonne per year) for its steel bar plant. The new capacity is expected to come onstream by end-2013.
- Risks.** These include: (1) Stronger-than-expected recovery in global steel consumption and hence steel product prices; and (2) Lower-than-expected input costs.
- Earnings forecasts.** FY12/13-14 net profit forecasts are cut by 7-27%, having lowered our selling price assumption.
- Maintain Neutral.** The global outlook for the steel sector in 2013 is likely to remain challenging due to the excess capacity and weak recovery in demand but we believe the steel industry is near to the bottom of the cycle. Accelerating output cuts, massive destocking activities coupled with recently announced pro-growth policy in China will provide a strong support for international steel prices. However, the near-term outlook for Europe is gloomier with falling demand while production cuts are sticky to the downside due to intervention by governments. Locally, steel consumption will be sustained by large-scale infrastructure projects under ETP and stable growth for automotive and manufacturing (particularly electrical goods) sectors. Fair value is RM0.91 based on 0.35x tangible book value of RM2.70, in line with its historical average during downcycles.

RHBRI	Vs. Consensus
✓	Above In Line Below ✓

Issued Capital (m shares)	216.4
Market Cap (RM m)	177.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.79-1.14

Major Shareholders:	(%)
TY Resources	30.9
Lembaga Tabung Haji	5.1

FYE Dec	FY13	FY14	FY15
EPS Revision (%)	-27	-7	n.a
Var to Cons (%)	-21	-	n.a

PE Band



Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2011 12M	2012 12M	% YoY Chg	Observations/ Comments
Turnover	1,253.4	1,312.2	4.7	Mainly driven by higher sales volumes but slightly offset by lower selling prices achieved.
Operating profit	39.2	36.1	-7.9	Dragged down by lower selling priced achieved and higher production cost.
Other Income	2.2	3.8	75.2	
Net interest income	-16.5	-15.5	-5.9	
Pretax profit	24.9	24.4	-1.9	
Taxation	-0.5	-0.6	1.6	
Net profit	24.4	23.9	-2.0	Dragged down by lower selling prices achieved and higher production cost.
EPS (sen)	11.6	11.3	-2.3	
Operating margin (%)	3.1	2.8	-0.4pt	Mainly due to the lower selling prices achieved and higher production cost.
Pretax margin (%)	2.0	1.9	-0.1pt	
Net profit margin (%)	1.9	1.8	-0.1pt	
Effective tax rate (%)	2.2	2.3	0.1pt	

Sources: Company

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2012 1Q	2012 2Q	2012 3Q	2012 4Q	%QoQ Chg	Observations/ Comments
Turnover	339.92	344.1	312.9	315.2	0.7	Driven by higher sales volumes.
Operating profit	-2.6	22.2	10.8	5.7	-47.1	Dragged down by lower selling prices.
Other Income	1.30	0.9	0.6	1.0	77.5	
Net interest income	-3.5	-4.2	-3.9	-3.9	0.2	
Pretax profit	-4.9	18.9	7.6	2.9	-61.8	Dragged down by lower selling prices achieved.
Taxation	0	0.1	-0.5	-0.2	-70.3	
Net profit	-4.9	19.0	7.0	2.7	-61.2	Mitigated by lower tax expense.
EPS (sen)	-2.32	9.0	3.3	1.3	-61.4	
Operating margin (%)	-0.8	6.5	3.5	1.8	-1.6	Dragged down by lower selling prices achieved.
Pretax margin (%)	-1.4	5.5	2.4	0.9	-1.5	
Net profit margin (%)	-1.4	5.5	2.3	0.9	-1.4	
Effective tax rate (%)	0.0	0.6	6.8	5.3	-1.5	

Sources: Company

Table 4: Earnings Forecasts

FYE Dec (RMm)	FY12A	FY13F	FY14F	FY15F
Turnover	1,312.2	1,353.1	1,380.1	1,402.8
Turnover growth (%)	4.7	3.1	2.0	1.6
EBITDA	61.9	72.8	74.3	80.9
EBITDA margin (%)	4.7	5.4	5.4	5.8
Depreciation	-21.8	-21.1	-21.7	-22.7
Net interest income	-15.6	-15.2	-14.0	-12.8
Pretax profit	24.4	36.5	38.6	45.5
Taxation	-0.6	-1.8	-1.9	-2.3
Net profit	23.9	34.7	36.6	43.2

Source: Company data, RHBRI estimates

Table 5: Forecast Assumptions

FYE Dec	FY13F	FY14F	FY14F
Production Volume (tonnes p.a.)			
Billet	600,000	650,000	650,000
Bars	500,000	600,000	600,000
Utilisation Rate (%)			
Billet	100	100	100
Bars	97.0	82.5	83.3

Sources: RHBRI estimates

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Stock 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

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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