

Malaysia Steel Works (MSW MK)

Basic Materials - Iron & Steel

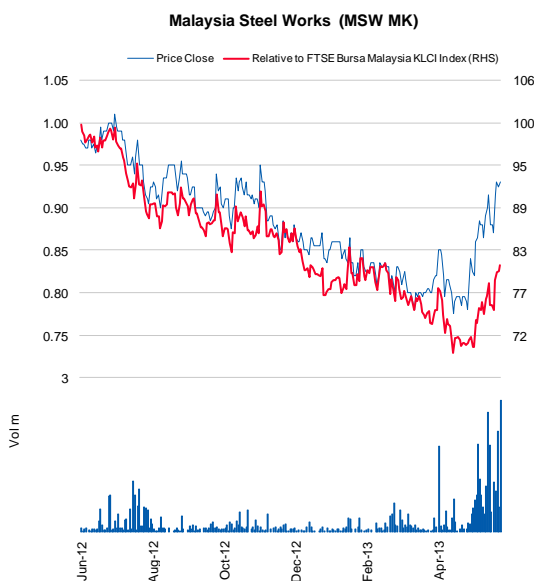
Market Cap: USD65.4m

Trading Buy (maintained)

Target Price: MYR1.08

Price: MYR0.93

Slightly Better In 1QFY13

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.33m/0.11m
Cons. Upside (%)	-3.2
Upside (%)	16.4
52-wk Price low/high (MYR)	0.78 - 1.01
Free float (%)	50
Shareholders (%)	
TYT Resources	30.9
Lembaga Tabung Haji	5.1

Shariah compliant

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Though MSW's earnings of MYR3.6m in 1QFY13 were no cause for excitement, the market may regard it as an early indication of a possible turnaround in the local steel industry. We believe the rollout of mega-projects in the country may gather steam and lift steel demand, while new infrastructure and housing projects could boost market sentiment. In view of that, and investors' escalating risk appetite towards high beta sectors, maintain Trading BUY, with a FV of MYR1.08.

- ◆ **1Q earnings failed to excite.** Malaysia Steel Works (MSW)' 1Q net profit of MYR3.6m represents a turnaround from the losses in the preceding year and a q-o-q improvement of 11.1%, although the numbers account for only 9% of consensus and 10% of our estimates. The satisfactory 1Q can be attributed to the price of scrap metal, which is lower compared to the relatively stable steel bar prices in the domestic market. However, sales were lackluster during the period as contractors took long holidays during the Chinese New Year.
- ◆ **A possibly brighter 2H.** In our last sector update on 20 May, we had revised up our earnings forecasts for MSW. Undeniably, our projection of a turnaround is nothing to shout about, judging from the degree of improvement in the company's earnings. We reckon the sector's performance in 1H was partly impacted by the general elections, which cooled the implementation of most mega-projects. With the polls now over and Barisan Nasional retains control of the Federal Government, implementation of these projects may certainly regain momentum.
- ◆ **Reiterate Trading BUY.** That said, a possible improvement in 2H and the turnaround in 1QFY13 could pique investors' interest. The market's risk appetite toward cyclically high beta stocks further prompts us to keep our Trading BUY recommendation on MSW. Our FV of MYR1.08 is based on 0.4x FY14 P/B, or the mean of the stock's historical trading range. We also make no changes to our original projections.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	1,005	1,253	1,312	1,283	1,316
Reported net profit (MYRm)	28.1	24.4	24.3	34.7	36.6
Recurring net profit (MYRm)	28.1	24.4	24.3	34.7	36.6
Recurring net profit growth (%)	na	(13.3)	(0.0)	42.7	5.2
Core EPS (MYR)	0.14	0.12	0.11	0.16	0.17
DPS (MYR)	0.01	0.01	0.01	0.01	0.02
Dividend Yield (%)	1.5	1.1	1.1	1.5	1.6
Core P/E (x)	6.71	8.05	8.19	5.83	5.55
Return on average equity (%)	6.3	5.0	4.7	6.4	6.4
P/B (x)	0.41	0.39	0.39	0.36	0.34
P/CF (x)	5.62	9.08	7.03	4.43	2.69
EV/EBITDA (x)	6.43	7.27	7.40	6.35	5.78
Net debt to equity (%)	43.8	49.4	44.8	48.7	47.3
Our vs consensus EPS (%)				(0.4)	8.2

Source: Company data, RHB Estimates

Figure 1: Results table

FYE Dec 31	1QFY13	4QFY12	% chg	YTD FY13	YTD FY12	% chg	Comments
Turnover	330.0	315.2	4.7%	330.0	339.9	-2.9%	Flattish topline as laclustre steel demand during Lunar New Year holiday
EBITDA	12.4	10.9	13.4%	12.4	3.1	305.6%	
Depreciation	-5.2	-5.2	-0.2%	-5.2	-5.7	-9.5%	
Net interest expense	-3.7	-3.6	5.1%	-3.7	-3.5	6.2%	
Associates	0.0	0.0	-50.0%	0.0	0.0	-45.5%	
PBT	3.8	3.3	12.8%	3.8	-4.9	177.4%	
Tax	-0.2	-0.2	48.7%	-0.2	0.0	n.m.	
MI	0.0	0.0	0.0%	0.0	0.0	0.0%	
Net Profit	3.6	3.2	11.1%	3.6	-4.9	172.7%	Improved profitability yet result still short of our and street expectation
EPS (sen)	1.7	1.5		1.7	-2.3		
Gross DPS (sen)	0.0	0.0		0.0	0.0		No interim dividend proposed by the board
EBITDA margin	3.8%	3.5%		3.8%	0.9%		
NTA/share (MYR)	2.43	2.41		2.43	2.35		

Source: Company Data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	1,005	1,253	1,312	1,283	1,316
Cost of sales	(913)	(1,171)	(1,237)	(1,177)	(1,205)
Gross profit	92	83	75	106	111
Gen & admin expenses	(37)	(27)	(19)	(35)	(37)
Selling expenses	(12)	(16)	(20)	(18)	(19)
Operating profit	43	40	36	53	56
Operating EBITDA	61	61	58	75	83
Depreciation of fixed assets	(18)	(21)	(22)	(21)	(27)
Operating EBIT	43	40	36	53	56
Net income from investments	(0)	(0)	(0)	-	-
Other recurring income	2	1	4	1	1
Interest income	-	-	0	-	-
Interest expense	(15)	(16)	(16)	(18)	(19)
Pre-tax profit	30	25	25	37	38
Taxation	(2)	(1)	(1)	(2)	(2)
Profit after tax & minorities	28	24	24	35	37
Reported net profit	28	24	24	35	37
Recurring net profit	28	24	24	35	37

Source: Company data, RHB Estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	43	40	36	53	56
Depreciation & amortisation	18	21	22	21	27
Change in working capital	(21)	(27)	(16)	(28)	(7)
Other operating cash flow	(4)	(10)	(28)	(17)	(18)
Operating cash flow	35	23	15	30	58
Interest received	-	-	(0)	-	-
Interest paid	-	-	15	18	19
Tax paid	(2)	(2)	(2)	(2)	(2)
Cash flow from operations	34	22	28	46	75
Capex	(48)	(55)	(11)	(60)	(60)
Other investing cash flow	0	0	0	-	-
Cash flow from investing activities	(47)	(55)	(11)	(60)	(60)
Dividends paid	(2)	(3)	(4)	(3)	(4)
Proceeds from issue of shares	35	-	6	-	-
Increase in debt	(27)	32	(3)	20	20
Other financing cash flow	(0)	(1)	-	(18)	(19)
Cash flow from financing activities	6	29	(1)	(1)	(3)
Cash at beginning of period	44	36	32	48	32
Total cash generated	(8)	(4)	16	(16)	13
Implied cash at end of period	36	32	48	32	45

Source: Company data, RHB Estimates

Financial Exhibits

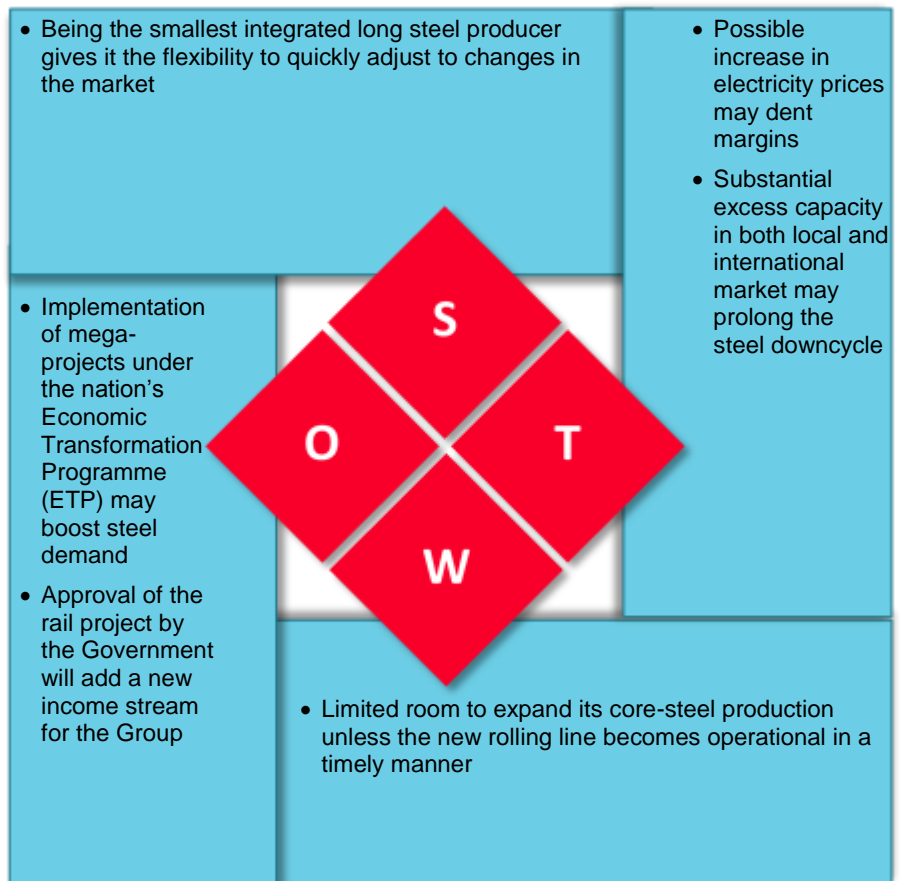
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	36	32	48	32	45
Inventories	148	161	181	214	218
Accounts receivable	180	203	229	217	222
Other current assets	2	3	4	4	4
Total current assets	366	398	462	466	489
Total investments	8	8	8	8	8
Tangible fixed assets	436	470	460	499	532
Total other assets	4	-	-	-	-
Total non-current assets	448	478	468	507	540
Total assets	814	877	930	973	1,028
Short-term debt	159	224	248	268	288
Accounts payable	89	98	120	112	114
Other current liabilities	0	-	-	-	-
Total current liabilities	249	322	369	380	403
Total long-term debt	86	54	35	35	35
Total non-current liabilities	86	54	35	35	35
Total liabilities	335	377	404	416	438
Share capital	105	105	109	109	109
Retained earnings reserve	271	292	344	375	408
Other reserves	102	102	73	73	73
Shareholders' equity	479	500	526	557	590
Total equity	479	500	526	557	590
Total liabilities & equity	814	877	930	973	1,028

Source: Company data, RHB Estimates

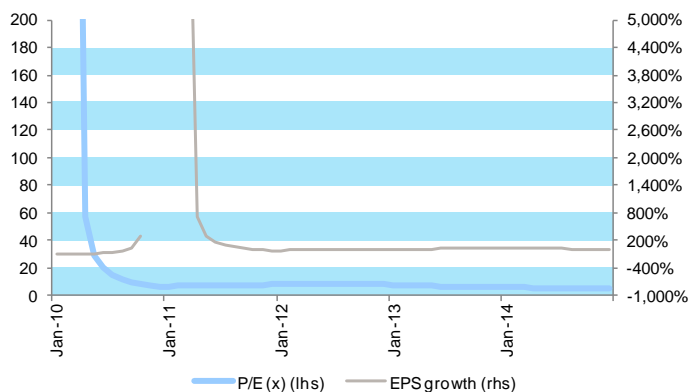
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	46.2	24.7	4.7	(2.2)	2.6
Operating profit growth (%)	772.7	(7.6)	(8.0)	45.9	5.8
Net profit growth (%)	0.0	(13.3)	(0.0)	42.7	5.2
EPS growth (%)	0.0	(16.6)	(1.7)	40.4	5.2
Bv per share growth (%)	6.0	4.5	1.7	5.9	5.9
Operating margin (%)	4.3	3.2	2.8	4.1	4.3
Net profit margin (%)	2.8	1.9	1.9	2.7	2.8
Return on average assets (%)	3.6	2.9	2.7	3.7	3.7
Return on average equity (%)	6.3	5.0	4.7	6.4	6.4
Net debt to equity (%)	43.8	49.4	44.8	48.7	47.3
DPS	0.01	0.01	0.01	0.01	0.02
Recurrent cash flow per share	0.17	0.10	0.13	0.21	0.35

Source: Company data, RHB Estimates

SWOT Analysis

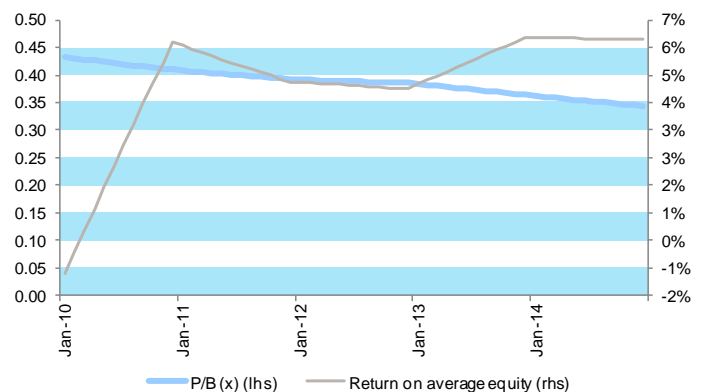


P/E (x) vs EPS growth



Source: Company data, RHB Estimates

P/BV (x) vs ROAE



Source: Company data, RHB Estimates

Company Profile

Malaysia Steel Works (KL) is an integrated steel manufacturer with a focus on the long products.

RHB 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
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Not Rated: Stock is not within regular research coverage

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