OSK Investment Banking Wealth Management Trading

MALAYSIA EQUITY
Investment Research
Daily

Sector Update

Steel

Ng Sem Guan, CFA
+60 (3) 9207 7678
semguan.ng@my.oskgroup.com

Jerry Lee
+60 (3) 9207 7622
jerry.lee@my.oskgroup.com

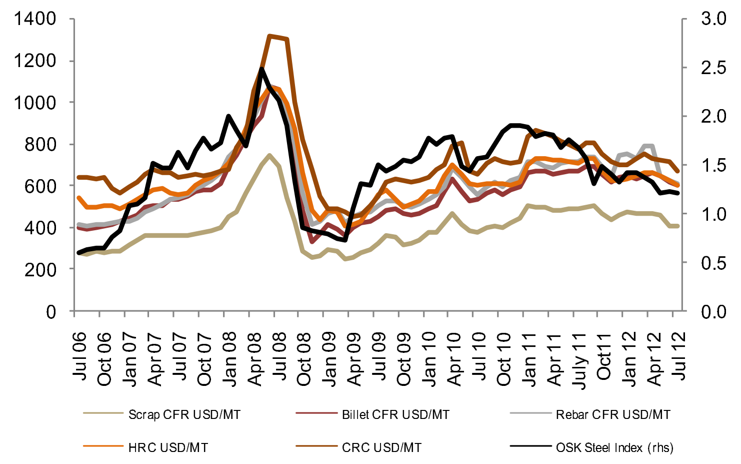
NEUTRAL

Encountering More Bumps

While there may be some relief from steel mills' potentially better 2QCY12 results, scrap and steel prices have sunk deeper than expected at the onset of summer. Local steel bar prices remain firm but we see downward pressure from weaker demand during the Ramadan month. Malaysia's steel industry was in the spotlight when the government appointed Boston Consulting Group to study the plight of steel players but the execution of the proposal is key. There is also growing interest in greenfield flat steel production to replace imports but a learning curve can be expected. Elsewhere, we keeping a keen eye on the probe on steel wire rods dumping, which may benefit most local long steel makers should a duty be introduced. We maintain NEUTRAL on Malaysia's steel industry but with a more bearish tone as steel mills appear to be heading for a bumpy ride.

Outlook one of gloom. The prices of various steel products recovered in 2QCY12 as we had projected, but we are not overly excited since this was a relatively small increase during a seasonal peak period. Furthermore, scrap metal prices have subsequently dropped about 15% at only the beginning of summer, thus clouding the outlook for steel demand. While scrap metal prices have returned to above USD400 a tonne after a short spell below that level while domestic steel price - particularly steel bars - remain firm, we expect steel bars to soon come under selling pressure as international prices are sliding and construction activities, and in turn steel demand, shift into low gear during the Ramadan month.

Figure 1: Movement of prices of steel products



Source: Steel Business Briefing

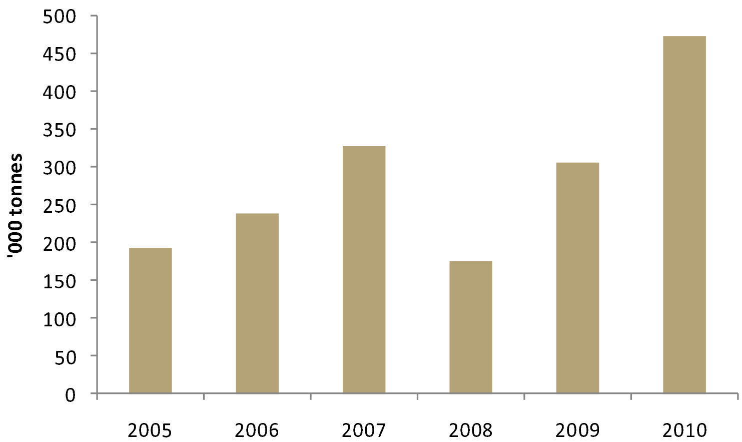
Hope remains just hope. We suspect that the market is still holding high hopes on the rollout of projects under the Government's Economic Transformation Programme (ETP) to spur steel demand. This is despite the risks inherent in the actual implementation of such projects. Furthermore, with the next General Election possibly being held anytime from now till early next year, the focus may have shifted to the polls rather than the actual implementation of the proposed ETP projects. With the market is likely to be disappointed again in 2H12, we now expect the construction works momentum to pick up only in 2013.

Boston Consulting to set new path for local steel industry? Boston Consulting Group (BCG) has been hired by the International Trade and Industry Ministry (MITI) to undertake an in-depth study on the current plight faced by players in the country's steel sector. The outcome of the study, which is believed was submitted to MITI recently, is envisaged to assist the government in formulating an effective mechanism to settle the mounting issues and challenges in the sector's upstream and downstream segments. We understand the study will cover various aspects, ranging from competitiveness to a possible review of Malaysia's existing steel policy as well as the export and import duties, in view of the influx of cheaper foreign steel goods into Malaysia.

Execution is key. We welcome BCG's study, which is supposed to make proposals to MITI and map out measures to address the increasing number of petitions from the upstream and downstream steel players. We understand that BCG has proposed that the government considered strengthening its policy on steel imports for re-exports, assessing the licence manufacturing warehouse status, and reassess the zero import duty on foreign finished products and steel grades not locally produced in Malaysia as there have been growing concerns over steel imports into Malaysia. Other than that, much of the study focused on the flat steel segment. However, initial checks with our market intelligence indicate that most of BCG's recommendations were merely a compilation of policies announced or proposed earlier by MITI but with a clearer definition and target timeframe for execution.

Probe on steel wire rods dumping. The BCG study aside, MITI had recently received a petition from domestic producers alleging that imports of steel wire rods originating in or exported from Taiwan, China, Indonesia, South Korea and Turkey were being brought into Malaysia at much lower prices than those offered in those countries' respective domestic markets. MITI is initiating preliminary investigations on such imports from these countries and will study the feasibility of imposing anti-dumping duty on steel wire rod imports. Meanwhile, the import of wire rods jumped substantially to 474,561 tonnes in 2010, based on data compiled by the South East Asia Iron and Steel Institute (refer to Figure 2). We are not entirely surprised by the steel manufacturers' petition as they have expressed several complaints of late. We also learned that the major competition is from China, whose manufacturers have made use of the 9% Value Added Tax (VAT) refund on exports of boron-added steel. Nonetheless, the wire rods imported into Malaysia have only minimal boron content, which does not change the characteristic of the material, which is ultimately still similar to regular carbon steel.

Figure 2: Malaysia's imports of wire rods from 2005 to 2010

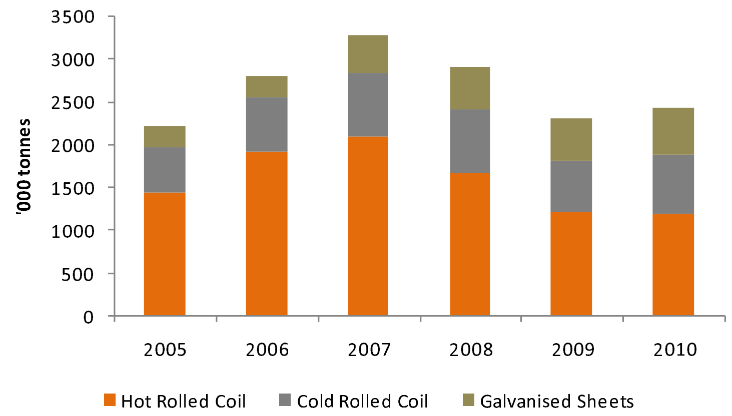


Source: SEASI

All eyes on investigation. In accordance with the Countervailing and Anti-Dumping Duties Act 1993 and its related regulations, preliminary determination will be made within 120 days from the date of initiation. If the final determination is affirmative, the Government might impose an anti-dumping duty at a rate that would rectify the situation. We understand from our sources that the competition from imported wire rods have resulted in local manufacturers pricing the products at around RM2,100 a tonne compared to the price of steel bars of RM2,300 a tonne, although wire rods are normally priced at a premium in the international market. While we think local steel prices may come under pressure as we enter the Ramadan month and take another month or two before the government makes the final decision, the imposition of any anti dumping duty may bring cheer to local wire rods manufacturers like Lion Industries, Southern Steel, Kinsteel and Ann Joo.

More new kids on the HRC block? Last month, Maegma Steel HRC SB launched its Maegma project and signed a Gas Sales Agreement (GSA) with Petroliam Nasional Bhd. This is for its integrated steel mill to be built in Tanjung Hantu, Lumut, Perak, for commencement of operation by June 2015. The company will be investing RM4.5bn in the first phase to build the plant, which would have the capacity to produce some 1.5m tonnes per year (tpy) of thin metal sheets, or Hot Roll Coils (HRC). Maegma Steel is a private company linked to Tunku Datuk Yaakob Tunku Abdullah. Meanwhile, The Edge Weekly reported over the weekend that Southern Steel may join the ranks of those seeking to build flat-steel plants in the country. The plan is said to have a brand new compact strip production line (CSP), or thin slab caster, plus hot strip mill and skin pass mill, integrated into its existing steel-making process. Elsewhere, Hiap Tech Venture via 55%-owned Eastern Steel SB is also investing a mini blast furnace (BF) that comes with a slab caster, which is expected to be ready by end-2013.

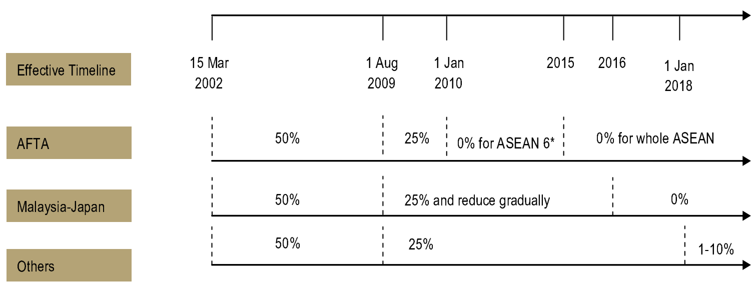
Figure 3: Malaysia's imports of flat steel from 2005 to 2010



Source: SEASI

Opportunities for flat steel, but not quite. We reckon that Malaysia imported an average 1.6m tonnes of HRC, 657,000 tonnes of Cold Rolled Coil (CRC) and 411,000 tonnes Galvanised Coils from 2005 to 2010 (see Figure 3), representing a significant market for local HRCs. However, the implementation of the Malaysia-Japan Free Trade Agreement (FTA) will see the abolishment of duty on flat steel products from Japan from 2016, while those from other countries will drop to 1%-10% from 2018 onwards (please see Figure 4). This will pose a challenge to local flat steel producers, who will face head-on competition from the anticipated imports, on top of undergoing the learning curve in operating their new plants.

Figure 4: Malaysian import duty on flat steel products



**Note: ASEAN 6 stands for Malaysia, Thailand, Singapore, Brunei, Philippines and Indonesia*
Source: MISIF, MITI, OSK

EARNINGS AND RECOMMENDATIONS

2012 to be another challenging year. Steel prices usually weaken towards the summer season in the Northern Hemisphere but the recent drop in scrap and steel prices is irregular as it was sharper and occurred earlier. Steel scrap prices have recovered after briefly dropping below USD400 a tonne but the ASPs of steel products were still under pressure in the international market, particularly in China. We remain cautious on the outlook for the steel industry, especially since steel demand is only projected to pick up after the conclusion of Malaysia's next General Election, which may then see ETP projects eventually take shape. As such, we expect 2012 to be another troubled year for steel mills. Meanwhile, we expect a general improvement on the upcoming quarter's results as steel prices improved q-o-q although the results are likely to lack spark. We also prefer to keep our original earnings projections pending the actual results by the end of August.

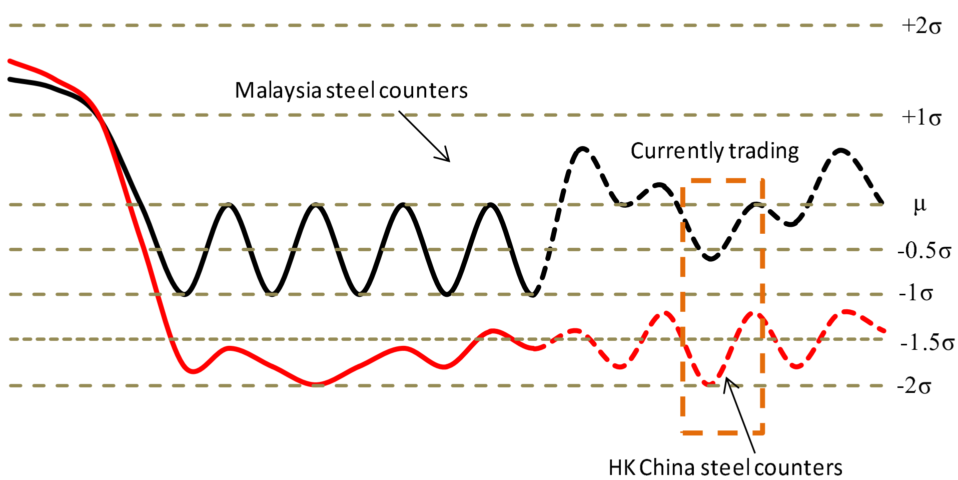
Figure 5: Bearish earnings estimates for steel companies

			FY12f		FY13f				
Company	1QCY12	YTD CY12	OSK	Consensus	OSK	Consensus	2QCY11	1HCY11	FY11/CY11
Ann Joo Resources	-1.0	-1.0	77.0	89.3	97.2	126.8	32.7	75.0	61.7
CSC Steel	5.6	5.6	43.1	39.1	52.8	48.1	6.4	30.4	29.6
Hiap Teck Venture	1.6	16.4	24.9	28.0	32.6	36.8	1.6	9.7	9.7
Kinsteel	10.3	10.3	42.0	40.4	83.4	64.1	-6.5	-10.0	-121.6
Lion Industries	1.7	40.2	75.4	75.4	135.9	122.0	10.9	38.5	38.5
Malaysia Steel Works	-4.9	-4.9	25.4	28.5	49.5	47.5	15.5	21.7	24.5
Perwaja	16.2	16.2	48.8	44.1	135.5	92.2	-14.6	-38.9	-238.2
Southern Steel	-25.2	-14.6	-4.1	4.0	89.3	80.7	-5.5	10.5	10.5

Source: Bloomberg, OSK Estimates

"Steel" rich valuations imply downside risk. We have been valuing Malaysian steel companies at the base of -0.5 standard deviation of their 5-year historical trading ranges as the steel industry outlook is obviously worse than that for the broader market. Although the share prices of the respective steel companies have remained almost stagnant since our last sector review, we reckon they are trading at relatively rich valuations versus their China peers, which are mostly trading at -2 standard deviations, or near their respective historical lows. Furthermore, we expect more patchy earnings entering 3QCY12 as the recent drop in scrap metal and steel prices may potentially create a negative mismatch between the higher raw material costs (existing inventory) and lower steel prices. Therefore, we reckon that steel mills now warrant a lower valuation, and hence revise downward our valuation range for steel mills by a notch from -0.5 to -1 standard deviation of their respective historical trading bands.

Figure 6: P/BV analysis for Malaysia and Hong Kong-listed steel stocks



Source: Bloomberg, OSK Estimates

Share prices may take the cue from decelerating steel prices. We have been adopting a statistical approach to gauge share price direction in the past as our correlation tests on OSK's steel companies indexed against the prices of steel-related products (comprising scrap metal, billets to steel bars) show a strong correlation of above 0.8x (refer Figure 1). As such, steel prices have indeed been a good indicator for the share price movements of Malaysian steel counters. All said, steel prices are likely to take another hit, especially since the Ramadan month has started, which will in turn lead to slower construction activities and steel demand as well as their selling prices in 3QCY12. This scenario hints of the potential downside risk for Malaysian steel counters.

Figure 7: Snapshot of investment recommendations

Stock	Ticker	Fair Value (RM) Old	Fair Value (RM) New	Valuation Method	Earnings Estimate FY1	Earnings Estimate FY2	Rating
Ann Joo	AJR MK	1.60	1.49	0.70x FY12 BV	77.0	97.2	SELL
CSC Steel	CSCS MK	1.33	1.16	0.56x FY12 BV	43.1	52.8	NEUTRAL
Hiap Teck Venture	HTVB MK	0.73	0.55	0.36x FY12 BV+10% iron ore DCF value	37.5	42.8	NEUTRAL
Kinsteel	KSB MK	0.49	0.42	0.63x FY12 BV	42.0	83.4	NEUTRAL
Lion Industries	LLB MK	1.41	1.16	0.26x FY12 BV	75.4	135.9	NEUTRAL
Masteel	MSW MK	1.03	0.83	0.33x FY12 BV	25.4	49.5	SELL
Perwaja	PERH MK	1.24	1.13	0.5x FY12 BV+10% iron ore DCF value	48.8	135.5	T.BUY
Southern Steel	SSB MK	1.82	1.73	0.81x FY12 BV	-4.1	89.3	NEUTRAL

Source: OSK, Company

NEUTRAL, but tinged with a bearish tone. We are revisiting our valuations for the respective steel companies under our radar as we are revising down our valuation parameters for Malaysia's steel sector. The Fair Values for the respective steel stocks are mostly lower, but these largely represent limited downside, which still justify our NEUTRAL recommendation. However, we continue to like Perwaja as it will benefit from the favourable spread from its iron-making and iron ore mining operations, which may come in timely to cushion the recent drop in steel prices. This reinforces our Trading BUY recommendation. Meanwhile, we are cautious on Ann Joo's new mini blast furnace (BF), which may experience a gestation period, especially being the first of its kind in the country, while Masteel's new Fair Value implies a potential downside. Hence we downgrade both to SELL. Overall, we re-reiterate our NEUTRAL stance for Malaysia's steel sector as we see limited movement in steel prices as some quarters may hold on to their shares on expectations of ETP projects spurring demand in spite of steel companies' disappointing financial results.

Stock	Ticker	Closing RM	FV (RM)	Mkt Cap (RM m)	Volume	PER(x) FY1	PER(x) FY2	FY0 ROE%	FY1 DY%	Rel. Performance (%) 1-mth	Rel. Performance (%) 3-mth	Rel. Performance (%) 12-mth	P/BV (x)	Rating
Ann Joo	AJR MK	1.61	1.49	841.6	570300	11.2	8.9	5.8	6.6	-8.11	-20.09	-43.69	0.78	SELL
CSC Steel	CSCS MK	1.20	1.16	456.0	90400	10.6	8.7	3.8	5.5	-10.71	-14.70	-28.52	0.58	NEUTRAL
Hiap Teck Venture	HTVB MK	0.56	0.550	396.1	86900	10.6	9.3	4.2	1.3	-5.25	-9.26	-34.19	0.43	NEUTRAL
Kinsteel	KSB MK	0.43	0.42	446.0	257000	10.6	5.3	-30.2	0.0	-6.25	-9.14	-44.01	0.63	NEUTRAL
Lion Industries	LLB MK	1.17	1.16	840.0	242700	11.3	6.3	3.9	4.5	-7.38	-17.53	-35.33	0.26	NEUTRAL
Masteel	MSW MK	0.95	0.83	200.2	112200	7.9	4.0	5.0	0.0	-5.80	-8.50	-26.91	2.51	SELL
Perwaja	PERH MK	0.66	1.13	366.8	82800	7.6	2.7	-30.9	0.0	-6.13	-4.19	-40.57	0.38	T.BUY
Southern Steel	SSB MK	1.86	1.73	780.1	2000	n.m.	8.7	25.7	0.0	1.44	-3.24	-15.62	0.88	NEUTRAL

COMPANY RECOMMENDATION

(1) Ann Joo Resources (AJR MK, FV: RM1.49, Downgrade to SELL)

We expect Ann Joo to experience a gestation period for its first-of-its-kind mini blast furnace (BF) in the country, Although we expect the company's steel trading division to do reasonably well and partly cushion the group's overall financial performance, the recent drop in steel prices may add pressure to its overall results in the medium term. As the high start-up costs for BF justify a slight discount in valuation compared to its peers, we are valuing the company based on -1.5 from -1 standard deviation of its historical trading range, or a 0.7x FY12 BV. We arrive at a new Fair Value of RM1.49, which implies a downside risk, especially if the results to be announced may disappoint the market. Downgrade Ann Joo to SELL.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1303.0	1831.9	2237.3	2137.3	2166.9
Net Profit	31.6	120.0	61.7	77.0	97.2
% chg y-o-y	-77.3	279.6	-48.6	24.9	26.2
Consensus	-	-	-	89.3	126.8
EPS (sen)	6.0	23.0	11.8	14.7	18.6
DPS (sen)	6.0	12.3	8.7	10.9	13.7
Dividend yield (%)	3.6	7.5	5.3	6.6	8.3
ROE (%)	3.5	12.2	5.8	7.1	8.6
ROA (%)	1.6	5.1	2.2	2.9	3.9
PER (x)	27.3	7.2	14.0	11.2	8.9
BV/share (RM)	1.74	2.03	2.06	2.12	2.21
P/BV (x)	0.9	0.8	0.8	0.78	0.7
EV/EBITDA (x)	19.2	12.0	19.4	10.3	9.2

(2) CSC Steel (CSCS MK, FV: RM1.16, Maintain NEUTRAL)

The weakening of steel demand resulting from renewed concerns over the European debt crisis has dampened CSC Steel's bottomline on top of the prolonged inconsistency in raw material supply. While we think that until the proposals from the Boston Consulting Group may be fully implemented by MITI and may be viable, local flat steel producers like CSC Steel might still face problems in sourcing for raw materials, at least for a few quarters. We are pegging a valuation parameter of -1 from -0.5 standard deviation of the steel sector's 5-year historical range, from which we derive a new Fair Value of RM1.16, based on a 0.56x FY12 BV. Maintain NEUTRAL given the limited downside risks.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	869.9	1034.7	1206.1	1243.1	1275.7
Net Profit	91.2	69.2	29.6	43.1	52.8
% chg y-o-y	55.2	-24.1	-57.3	46.0	22.3
Consensus	-	-	-	39.1	48.1
EPS (sen)	24.0	18.2	7.8	11.4	13.9
DPS (sen)	20.0	17.3	7.0	7.6	9.3
Dividend yield (%)	14.6	12.7	5.1	5.5	6.8
ROE (%)	12.4	8.8	3.8	5.5	8.6
ROA (%)	11.0	7.9	3.4	5.1	6.0
PER (x)	5.7	7.5	17.6	12.1	9.9
BV/share (RM)	2.05	2.08	2.03	2.09	2.16
P/BV (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	1.5	1.8	4.0	3.8	1.1

(3) Hiap Teck Venture (HTVB MK, FV: RM0.55, Downgrade to NEUTRAL)

Hiap Teck's plans to venture upstream into steel making are on track but this would entail a long gestation period, with contributions only expected to kick in from 2014 onwards. The management is also revitalising HTVB's core businesses to ensure its profitability, although the adverse developments within the industry may pose an added challenge. The Terengganu MB's intention of granting Eastern Steel a mining concession to mine iron ore in Bukit Besi is certainly a major sweetener as the group may make huge investments in the state. However, we suspect that the mining operation is likely to kick off concurrent to the commissioning of its BF, which suggests that it will be a long wait before this lucrative business begins to contribute. In line with our sector-wide downward revision in valuation to -1 from -0.5 standard deviation of the historical trading range, we derive a new Fair Value of RM0.55, based on a 0.36x FY12 BV, plus a 10% iron ore DCF value.

FYE Jul (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1159.3	1065.3	1000.4	1154.8	1227.1
Net Profit	43.4	50.7	27.4	24.9	32.6
% chg y-o-y	0.0	16.9	-45.9	-9.2	30.9
Consensus	-	-	-	28.0	36.8
EPS (sen)	13.2	15.5	8.4	3.5	4.6
DPS (sen)	2.1	2.1	2.1	0.5	0.6
Dividend yield (%)	3.7	3.7	3.7	0.9	1.1
ROE (%)	7.4	8.1	4.2	3.2	3.5
ROA (%)	3.8	4.4	2.1	1.8	2.3
PER (x)	4.3	3.7	6.8	16.2	12.4
BV/share (RM)	1.8	2.0	2.0	1.28	1.33
P/BV (x)	0.3	0.3	0.3	0.4	0.4
EV/EBITDA (x)	10.5	8.6	12.0	8.6	7.8

(4) Kinsteel (KSB MK, FV: RM0.42, Maintain NEUTRAL)

We are generally positive on Kinsteel's downstream rolling mills, which typically enjoy stable albeit low margins. This aside, its 37%-owned Perwaja is also set to make positive contribution as the latter benefits from a favourable spread from its iron making operation. However, we are not pinning too much hope on this business since the implementation of various mega projects under the ETP could be delayed. We also concerned over the company's high net gearing of 2.7x as at 31 March 2012, which justifies a lower valuation than its peers. We value Kinsteel at a 0.63x FY12 BV, or -1.5 standard deviation of its 5-year historical trading range (a notch lower compare to its peer). As our lower Fair Value of RM0.42 implies a limited downside risk, we reiterate our NEUTRAL call on the stock.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1928.1	1633.5	1985.8	2414.2	2609.4
Net Profit	-12.7	-33.1	-121.6	42.0	83.4
% chg y-o-y	-139.8	-159.9	-267.5	134.5	98.5
Consensus	-	-	-	40.4	64.1
EPS (sen)	1.9	-3.5	-11.6	4.0	7.9
DPS (sen)	1.3	0.0	0.0	0.0	0.0
Dividend yield (%)	3.1	0.0	0.0	0.0	0.0
ROE (%)	-1.6	-4.2	-30.2	6.2	11.2
ROA (%)	-0.3	-0.8	-3.0	1.0	2.0
PER (x)	21.9	-12.3	-3.7	10.6	5.3
BV/share (RM)	0.85	0.81	0.63	0.67	0.75
P/BV (x)	0.5	0.5	0.7	0.63	0.6
EV/EBITDA (x)	19.0	11.7	12.7	13.7	8.0

(5) Lion Industries (LLB MK, FV: RM1.16, Downgrade to NEUTRAL)

We were earlier excited over Tan Sri Albert Cheng's move to raise his personal stake in Lion Industries although we were unsure if the insider purchase had been stirred up by the M&A. However, the weakening near term outlook for the steel sector may once again hinder the group's efforts to dispose of part of its steel assets. In line with our sector-wide downgrade on the Malaysian steel sector's valuation from -0.5 to -1 standard deviation of its 5-year historical trading range, the stock's new Fair Value is now lower at RM1.16, or a 0.26x FY12 BV. Accordingly, we downgrade Lion Industries to NEUTRAL. As any M&A would certainty unlock the value of the group's steel unit, which has now been discounted by the market, we will keep a watch out for any future developments.

FYE Jun (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	4419.3	5180.4	4948.4	5538.5	5881.7
Net Profit	-278.3	363.5	123.5	75.4	135.9
% chg y-o-y	-133.0	230.6	-66.0	-38.9	80.2
Consensus	-	-	-	75.4	122.0
EPS (sen)	-39.0	50.8	17.3	10.5	19.0
DPS (sen)	1.0	1.0	4.3	5.3	5.3
Dividend yield (%)	0.9	0.9	3.6	4.5	4.5
ROE (%)	-9.7	12.7	3.9	2.3	4.1
ROA (%)	-5.1	6.5	2.1	1.2	2.2
PER (x)	-3.0	2.3	6.9	11.3	6.3
BV/share (RM)	3.60	4.07	4.35	4.42	4.57
P/BV (x)	0.3	0.3	0.26	0.26	0.25
EV/EBITDA (x)	-4.0	1.7	4.3	4.9	3.4

(6) Masteel (MSW MK, FV: RM0.83, Downgrade to SELL)

We continue to like Malaysia Steel Works (KL) (Masteel) as it operates efficient mini-mills that are strategically located in the Klang Valley - the main catchment area of steel demand in the country. Nonetheless, the company is unlikely to totally escape the adverse effects of persistently weak global steel demand. As we bring down the sector valuation to -1 from -0.5 standard deviation of its 5-year historical trading range, we arrive at a lower Fair Value of RM0.83 for Masteel, based on a 0.33x FY12 BV. Downgrade to SELL given the potential downside risks.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	687.3	1004.8	1253.4	1128.3	1150.9
Net Profit	-8.5	42.2	24.5	25.4	49.5
% chg y-o-y	-110.7	-598.4	-41.9	3.7	94.5
Consensus	-	-	-	28.5	47.5
EPS (sen)	-4.4	20.0	11.6	12.1	23.5
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-2.0	9.4	5.0	4.9	8.9
ROA (%)	-1.1	5.4	2.9	3.0	6.0
PER (x)	-21.8	4.7	8.2	7.9	4.0
BV/share (RM)	2.14	2.27	2.37	2.51	2.76
P/BV (x)	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	19.3	5.3	7.5	6.9	4.7

(7) Perwaja (PERH MK, FV: RM1.13, Maintain Trading BUY)

Perwaja's iron making operation benefited from the favourable spread between the drop in iron ore pellet price and the strong orders from neighbouring countries. It returned to the black in 1Q, and we expect the company to show steady improvement come 2Q. Although the recent drop in scrap price certainly narrowed its margin for Direct Reduced Iron (DRI), we hope the long-awaited iron ore mining operation may be timely in cushioning the narrowing spread at its existing operation. Perwaja is also constructing its iron ore concentration and pelletization plant, likely to be commissioned by end-2012, which is slightly behind our original projection. We are keeping our Trading BUY recommendation for Perwaja on the back of the stock's undemanding valuations amid an improving outlook for the company. Nevertheless, its fair value is lowered to RM1.13 to reflect our new valuation parameter for the steel sector, based on a 0.5x FY12 BV, or -1 standard deviation of its historical trading range, plus a 10% DCF for its potential iron ore concession.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1571.2	1436.1	1604.6	1740.7	1886.7
Net Profit	-115.5	-63.5	-238.2	48.8	135.5
% chg y-o-y	-228.2	45.0	-274.9	120.5	177.9
Consensus	-	-	-	44.1	92.2
EPS (sen)	-20.6	-11.2	-42.3	8.7	24.2
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-11.6	-7.0	-30.9	6.0	13.0
ROA (%)	-4.7	-2.5	-9.4	1.9	4.9
PER (x)	-3.2	-6.0	-1.6	7.6	2.7
BV/share (RM)	1.67	1.59	1.16	1.75	1.99
P/BV (x)	0.4	0.4	0.6	0.38	0.3
EV/EBITDA (x)	42.2	9.4	-33.7	6.5	4.1

(8) Southern Steel (SSB MK, FV: RM1.73, Maintain NEUTRAL)

The Edge Weekly reported over the weekend that Southern Steel plans to join the ranks of those seeking to build flat-steel plants in the country. The plan is said involve having a brand new compact strip production line (CSP), or known as a thin slab caster, plus hot strip mill and skin pass mill being integrated into its existing steel-making process. Although there is no formal announcement of the plan from the company, we expect it to undergo a learning curve in relation to the new plant before it starts to make meaningful contribution. Meanwhile, as the company is just as exposed to the poor industry outlook, we are NEUTRAL on Southern Steel. The company's Fair Value is revised down to RM1.73 as we incorporate our new sector valuation parameter of -1 standard deviation, or a 0.81x FY12 BV.

FYE Jun (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	3222.6	2032.5	4331.8	3099.7	3170.2
Net Profit	104.7	16.2	210.1	-4.1	89.3
% chg y-o-y	-45.4	-84.5	1196.5	-101.9	-2289.4
Consensus	-	-	-	4.0	80.7
EPS (sen)	25.4	3.9	51.1	-1.0	21.7
DPS (sen)	17.4	6.9	26.7	0.0	8.7
Dividend yield (%)	9.2	3.7	14.2	0.0	4.6
ROE (%)	14.3	2.1	25.7	-0.5	9.8
ROA (%)	5.6	0.9	10.4	-0.2	4.1
PER (x)	7.4	47.7	3.7	-189.7	8.7
BV/share (RM)	1.84	1.83	2.15	2.14	2.29
P/BV (x)	1.0	1.0	0.9	0.9	0.8
EV/EBITDA (x)	6.3	13.3	4.4	16.4	7.3

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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Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	**OSK Securities Hong Kong Ltd.** 12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	**DMG & Partners Securities Pte. Ltd.** 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211

Jakarta	Shanghai	Phnom Penh
PT OSK Nusadana Securities Indonesia Plaza CIMB Niaga, 14th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	**OSK (China) Investment Advisory Co. Ltd.** Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	**OSK Indochina Securities Limited** No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171

Bangkok

OSK Securities (Thailand) PCL
10th Floor ,Sathorn Square Office Tower,
98, North Sathorn Road,Silom,
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 862 9999
Fax : +(66) 108 0999