

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

## Corporate News Flash

# Malaysia Steel Works (KL)

## Seals Half-a-Billion Trafigura Deal

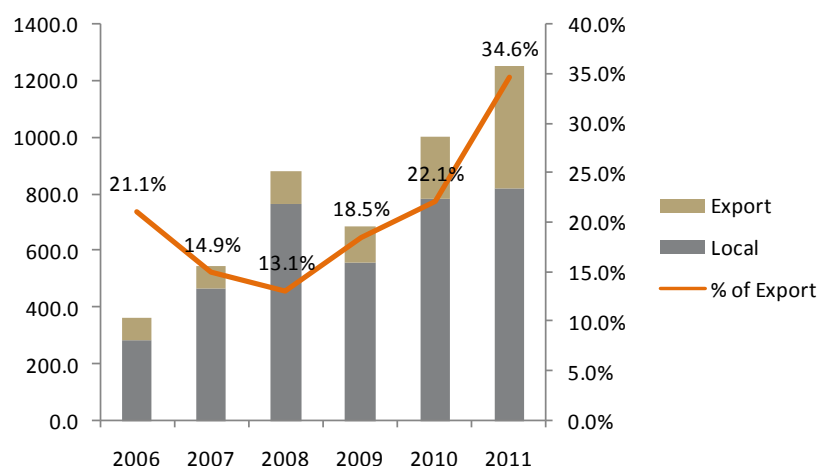
### THE BUZZ

Malaysia Steel Works (KL) (Masteel) yesterday signed an off-take agreement with Amsterdam-based Trafigura Pte Ltd to supply 270,000 tonnes of steel bars and steel billets worth RM500m over a period of three years. The agreement was inked by Masteel managing director Datuk Seri Tai Hean Leng, and Trafigura managing director Dominic Watters. The signing was witnessed by Deputy International Trade and Industry Minister, Datuk Jacob Dungau Sagan.

### OUR TAKE

**Applause for off-take agreement.** Masteel, the smallest integrated long steel manufacturer in Malaysia, focuses on the supply of steel bars to the domestic market. However, its export sales have increased from a mere RM76.4m in FY06 to RM434.3m, or 34.6% of total turnover in FY11, propelled mainly by Masteel's first off-take agreement with Stencor Australia Pty Ltd signed in Oct 2009 for the export of RM120m worth of steel bars to Australia. The latest RM500m off-take agreement, expected to kick off from 2H12, is certainly timely as it can potentially boost the company's exports, particularly in the short to medium term, amid persistently sluggish demand in the domestic steel market. New trade partner Trafigura is the world's third largest independent oil trader and the second largest independent trader of non-ferrous concentrates. Given Masteel's size and Trafigura's experience in metals, this deal works in the former's favour in expanding its export reach.

**Figure 1: Masteel's revenue and export sales**



Source: Company Data, OSK

## STEEL

## NEUTRAL ↔

Fair Value **RM1.03**

Previous **RM1.03**

Price **RM1.00**

Shariah Compliant **YES**

**Timely to take up new capacity.** Masteel has been expanding its production capacity, with its upstream production poised to grow by 50,000 tonnes to 600,000 tonnes next year. The company is also investing about RM95m to construct a new 150,000-tonne downstream factory near its existing upstream meltshop in Bukit Raja in Klang. The construction of the plant, which will raise its capacity to 500,000 tonnes per year (tpy) from 2014, is expected to start in 2H2012 for completion in about 18 months. While we remain cautious on the gloomy outlook for the steel industry, we think steel demand may pick up after Malaysia's next General Election, which must be held before March 2013, with many Economic Transformation (ETP) projects expected to take off subsequently. Therefore, the off-take agreement will not only compensate for the short-term sluggishness in the local market but will also enable Masteel to optimize the utilization of its new production capacity, while waiting for domestic steel demand to pick up.

**Maintain NEUTRAL.** Despite the fact that the price of local steel bars is holding up well, we are wary that the recent sharp plunge in steel scrap price – which has consolidated at USD450 but recently slid to USD400 a tonne – may eventually cast a gloom over the steel market, and in turn adversely affect the prices of locally finished steel products. Furthermore, the latest off-take agreement only represents 15% of Masteel's annual sales while the actual margin is subject to the volatility in international steel prices. As such, we prefer to maintain our NEUTRAL recommendation on Masteel, at a fair value of RM1.03, based on a 0.41x FY12 BV, or -0.5 standard deviation of the stock's historical trading range.

**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

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

Distribution in Singapore

This research report produced by OSK Research Sdn Bhd is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with, this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd ("DMG").

All Rights Reserved. No part of this publication may be used or re-produced without expressed permission from OSK Research.

Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur

Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

**OSK RESEARCH SDN. BHD. (206591-V)**

*(A wholly-owned subsidiary of OSK Investment Bank Berhad)*

Kuala Lumpur	Hong Kong	Singapore
<b>Malaysia Research Office</b> OSK Research Sdn. Bhd. 6 <sup>th</sup> Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	<b>OSK Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>DMG &amp; Partners Securities Pte. Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
<b>PT OSK Nusadana Securities Indonesia</b> Plaza CIMB Niaga, 14 <sup>th</sup> Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	<b>OSK (China) Investment Advisory Co. Ltd.</b> Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	<b>OSK Indochina Securities Limited</b> 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		
<b>OSK Securities (Thailand) PCL</b> 10 <sup>th</sup> Floor, Sathorn Square Office Tower, 98, North Sathorn Road, Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		