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9MFY12 Results Review

Malaysia Steel Works (KL)

Floating in a Choppy Market

Malaysia Steel Works (Masteel)'s 3Q net profit plunged 62.9% q-o-q to RM7m on lacklustre sales and a mismatch of selling price/cost. Nonetheless, the cumulative 9MFY12 profit of RM21.2m was slightly above our and street estimates. Despite weak steel demand, as we do not expect any major implementation of ETP projects until after the next General Elections, we are tweaking up our FY12 estimates to account for the relatively satisfactory 3Q performance and potential minor recovery in steel prices. We are raising our FV to RM0.91 and rolling over our valuation to FY13, but maintain NEUTRAL on Masteel.

3Q in the black. Masteel's net profit slumped 62.9% q-o-q to RM7m in 3Q but was marginally above our and consensus estimates when annualized. We deem the results commendable for outshining those of larger peers. The overall weaker 3Q numbers were attributed to the steeper plunge in steel prices than the decline in its key material scrap metal costs, which resulted in a price-cost mismatch caused by the delivery lag. However, the company's stringent inventory policy helped shorten the time lag, thus allowing it to benefit from the drop in material costs and subsequently stay in the black despite a challenging quarter.

Near-term outlook still murky, but... Meanwhile, we see limited recovery in local steel prices despite a rebound in international steel prices over the past few weeks, in view of the fact that domestic long steel product prices have held steadier than international prices in the recent down cycle. Nevertheless, we are lifting our FY12 earnings estimates by 15.5% on expectation of a slight q-o-q improvement in 4Q profit, but keeping our FY13 forecasts almost unchanged.

Slow progress on train project. The company is also busy with the proposed JV with KUB to supply and operate a 106.5km rail transit network linking Johor Bahru in Malaysia and Woodlands in Singapore. This being a new venture, the process of obtaining approvals from the various Government agencies may take some time. Hence, we have not incorporated any contribution from this project.

Maintain NEUTRAL. Currently, local steel counters are trading at some premium to their regional peers, as some investors may have held on to their shares on expectations that the new projects under the Economic Transformation Programme (ETP) could potentially spur steel demand. However, the medium-term outlook for the steel industry remains challenging, more so as the negotiation with the Government on the proposed rail project is likely to be a long drawn-out process. Therefore, maintain NEUTRAL on Masteel but with a higher FV of RM0.91, as we raise our earnings projection and roll over our book-based valuation to FY13.

NEUTRAL ↔

Fair Value **RM0.91**
Previous Price **RM0.83**
Price **RM0.86**

STEEL

Masteel is an integrated long steel manufacturer.

Stock Statistics

Bloomberg Ticker	MSW MK
Share Capital (m)	218.0
Market Cap	187.5
52 week H L Price	1.21 0.84
3mth Avg Vol (000)	89.3
YTD Returns	-25.9
Beta (x)	1.00

Shariah Compliant YES

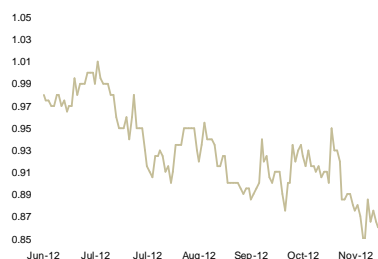
Major Shareholders (%)

TYT Resources SB	30.9
Lembaga Tabung Haji	5.1

Share Performance (%)

Month	Absolute	Relative
1m	-3.9	-2.8
3m	-7.5	-6.1
6m	-12.2	-14.3
12m	-16.3	-29.6

6-month Share Price Performance



FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Total Revenue	687.3	1004.8	1253.4	1298.8	1369.3
Net Profit	-8.5	28.1	24.4	29.3	50.1
% chg Y-o-Y	-110.7	-431.8	-13.3	20.4	70.8
Consensus Net Profit	-	-	-	27.5	48.1
EPS (sen)	-4.4	13.3	11.6	13.9	23.8
Gross DPS (sen)	1.00	1.35	1.00	2.9	5.0
Gross Div. Yield (%)	1.1	1.5	1.1	3.4	5.7
ROE (%)	-2.0	6.3	5.0	5.7	9.0
ROA (%)	-1.1	3.6	2.9	3.3	5.4
PER (x)	-20.1	6.6	7.6	6.3	3.7
Bv/share	2.14	2.27	2.37	2.51	2.75
P/BV (x)	0.4	0.4	0.4	0.3	0.3
EV/EBITDA (x)	18.6	6.1	6.7	6.8	4.8

Results Table (RMm)

FYE Dec	3QFY12	2QFY12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Turnover	312.9	344.1	-9.1%	997.0	916.7	8.8%	Lacklustre sales translated to lower revenue
EBITDA	14.1	30.0	-53.1%	47.2	66.0	-28.5%	
Depreciation	-5.3	-5.7	-7.2%	-16.7	-15.6	7.0%	
Net interest expense	-4.0	-4.1	-1.6%	-11.7	-11.8	-0.5%	
Associates	0.0	0.0	-50.0%	0.0	0.0	n.m.	
PBT	7.6	18.9	-60.0%	21.6	39.6	-45.6%	
Tax	-0.5	0.1	-574.1%	-0.4	-1.8	-77.1%	
MI	0.0	0.0	n.m.	0.0	0.0	n.m.	
Net Profit	7.0	19.0	-62.9%	21.2	37.9	-44.1%	9M earnings were ahead of street and consensus estimates
EPS (sen)	3.3	9.0		10.0	18.0		
Gross DPS (sen)	1.0	0.0		1.0	0.0		Board has declared an interim single-tier dividend of 1.00 sen per share.
EBITDA margin	4.5%	8.7%		4.7%	7.2%		
NTA/share (RM)	2.46	2.43		2.46	2.44		

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	687.3	1004.8	1253.4	1298.8	1369.3
EBITDA	21.8	62.8	62.2	67.5	89.0
Depreciation	-16.2	-17.8	-21.3	-20.2	-21.1
Net Interest Income	-14.1	-15.0	-16.0	-16.4	-15.2
Associate	0.0	0.0	0.0	0.0	0.0
PBT	-8.4	30.0	24.9	30.9	52.7
Net Profit	-8.5	28.1	24.4	29.3	50.1
EPS (sen)	-4.4	13.3	11.6	13.9	23.8
GDPS (sen)	1.0	1.4	1.0	2.9	5.0
Margin					
EBITDA	3.2	6.2	5.0	5.2	6.5
PBT	-1.2	3.0	2.0	2.4	3.9
Net Profit	-1.2	2.8	1.9	2.3	3.7
ROE	-2.0	6.3	5.0	5.7	9.0
ROA	-1.1	3.6	2.9	3.3	5.4
Balance Sheet					
Fixed Assets	431.9	448.3	478.3	478.2	477.1
Current Assets	317.3	365.5	398.2	424.9	460.5
Total Assets	749.2	813.8	876.6	903.1	937.5
Current Liabilities	214.9	248.8	322.4	319.6	303.9
Net Current Assets	102.4	116.8	75.8	105.3	156.5
LT Liabilities	117.4	86.5	54.3	54.3	54.3
Shareholders Funds	416.9	478.6	499.9	529.2	579.3
Net Gearing (%)	53.0	41.2	47.0	52.0	41.4

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