



## MALAYSIA STEEL WORKS (KL) BERHAD

*Outperform*

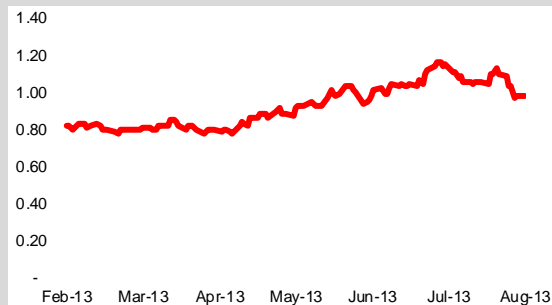
### DESCRIPTION

A Malaysian plantation company that operates in the palm oil, bio-integration, wood product manufacturing & forestation and other non-core businesses

12-Month Target Price	RM1.36
Current Price	RM0.98
Expected Return	38.7%

Market	Main
Sector	Steel
Bursa Code	5098
Bloomberg Ticket	MSW MK
Shariah-compliant	Yes

### SHARE PRICE CHART



52 Week Range (RM)	RM0.77– RM1.19
3-Month Average Vol ('000)	1,238.6

### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-15.5	11.9	18.6
Relative Returns	-10.5	14.7	15.6

### KEY STOCK DATA

Market Capitalisation (RMm)	213.2
No. of Shares (m)	217.5

### MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	33.2
Raya Rekajaya S/B	3.9
Kemajuan Rekacekap S/B	3.0

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## Iskandar Intra-City Rail Line Cancelled?

According to Business Times, the RM1bn intra-city rail line for Iskandar Malaysia in Johor as proposed by Malaysia Steel Works (Masteel) since 2009 may not be receiving the blessing from the Transport Ministry and Minister of Finance. Nevertheless, we are unperturbed by the failure of running this project as we are less keen on this project, which could potentially weaken its balance sheet in the short-term. No change to our earnings projection as we have not factored in any earnings contribution from this project. We maintain our Outperform call on Masteel with an unchanged TP of RM1.36.

- **To recap.** Partnering with KUB, the joint venture company has recently been considered a RM1bn rail transit network project in Iskandar Malaysia. Under the 60:40 JV Metropolitan Commuter Network S/B (MCN), it will build and operate a 100km intra-city commuter CRN system in Iskandar Malaysia to Woodlands, Singapore. It will use Keretapi Tanah Melayu's (KTM) existing railway track and land reserves. There will be up to 21 commuter stations in the Iskandar Malaysia region. The concession to operate the train service will be for 37 years and the group aims to breakeven after 12 or 13 years of operations. The JV company will fork out RM300m to buy 15 trains and it will also receive a 20-year RM700m soft loan from government to construct the facilities, which will take about 3 years.
- **Reasons.** The source said that the proposal was not approved by the Transport Ministry and Minister of Finance as the government wants to focus on the high-speed rail system linking Kuala Lumpur and Singapore, which will likely have a stop in Iskandar Malaysia and the Rapid Transit System from Johor Bharu to Woodlands.
- **Maintaining outperform call.** We are retaining our call on Masteel with an outperform rating and target price of RM1.36 based on a conservative 10x FY14 diluted EPS, which implies a 38.7% potential upside.

### KEY FORECAST TABLE (RM m)

FYE Dec (RM m)	2011A	2012A	2013F	2014F	2015F	CAGR
Revenue	1,253.3	1,312.1	1,372.0	1,569.9	1,736.3	6.7%
Operating Profit	40.8	40.2	49.1	59.1	68.6	10.9%
Pre-tax Profit	24.8	24.9	32.8	42.7	52.2	16.1%
Net Profit	24.3	24.3	31.1	40.6	49.6	15.3%
EPS (sen)	7.5	7.5	9.6	12.6	15.4	15.3%
Core EPS (sen)	8.2	8.2	10.3	13.2	16.0	
Core P/E (x)	13.0	13.0	10.2	7.8	6.4	
DPS (Sen)	0.7	1.0	1.4	1.9	2.3	
Div Yield (%)	0.7	1.0	1.5	1.9	2.4	

Source: Company, PublicInvest Research estimates

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	1,253.3	1,312.1	1,372.0	1,569.9	1,736.3
Gross Profit	<b>82.7</b>	<b>75.1</b>	<b>87.8</b>	<b>103.6</b>	<b>118.1</b>
EBIT	40.8	40.2	49.1	59.1	68.6
Finance cost	-16.0	-15.3	-16.4	-16.4	-16.4
<b>Pre-tax Profit</b>	<b>24.8</b>	<b>24.9</b>	<b>32.8</b>	<b>42.7</b>	<b>52.2</b>
Income Tax	-0.5	-0.6	-1.6	-2.1	-2.6
Effective Tax Rate (%)	2.0	2.4	5.0	5.0	5.0
<b>Net Profit</b>	<b>24.3</b>	<b>24.3</b>	<b>31.1</b>	<b>40.6</b>	<b>49.6</b>
<b>Growth</b>					
Revenue (%)	24.7	4.7	4.6	14.4	10.6
Gross Operating Profit (%)	-9.3	-1.5	22.2	20.2	16.1
Net Profit	-13.5	0.0	28.0	30.3	22.3

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Fixed assets	470.3	460.1	511.3	497.1	482.6
Other long-term assets	8.0	8.0	8.0	8.0	8.0
Cash at bank	43.7	54.7	37.5	43.7	64.7
Other current assets	366.6	407.0	424.0	484.2	534.6
<b>Total Assets</b>	<b>888.6</b>	<b>929.8</b>	<b>980.8</b>	<b>1,033.0</b>	<b>1,089.9</b>
Short-term borrowings	236.4	248.3	268.3	268.3	268.3
Long-term borrowings	54.3	35.4	35.4	35.4	35.4
Payables	98.0	120.2	124.8	142.5	157.2
<b>Total Liabilities</b>	<b>388.7</b>	<b>403.9</b>	<b>428.5</b>	<b>446.2</b>	<b>460.9</b>
Shareholders' Equity	499.9	525.9	552.3	586.8	629.0
<b>Total Equity and Liabilities</b>	<b>888.6</b>	<b>929.8</b>	<b>980.8</b>	<b>1,033.0</b>	<b>1,089.9</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2011A	2012A	2013F	2014F	2015F
Book Value Per Share	1.5	1.6	1.7	1.8	1.9
NTA Per Share	1.5	1.6	1.7	1.8	1.9
EPS (Sen)	7.5	7.5	9.6	12.6	15.4
DPS (Sen)	0.7	1.0	1.4	1.9	2.3
Payout Ratio (%)	8.6	13.2	15.0	15.0	15.0
ROA (%)	2.7	2.6	3.2	3.9	4.6
ROE (%)	4.9	4.6	5.6	6.9	7.9

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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### **Published and printed by:**

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