



MALAYSIA STEEL WORKS (KL) BERHAD

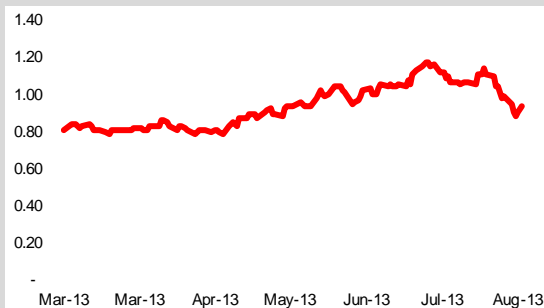
Outperform

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	RM 1.36
Current Price	RM0.925
Expected Return	47%
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) 1,256.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-19.4	-3.3	10.3
Relative Returns	-13.4	2.7	7.6

KEY STOCK DATA

Market Capitalisation (RMm)	201.2
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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Stronger Expectations For 2H

Malaysia Steel Works (Masteel) reported a net profit of RM13.7m for 1HFY13, which broadly came in within our and consensus projections. Given that more Economic Transformation Programme projects should be implemented after the recently concluded General Elections, we believe domestic demand for steel bars in the 2H will be stronger, which will bode well for the steel industry. Meanwhile, a first interim dividend of 0.5sen was declared and will be payable on 11 Oct. We maintain our Outperform call on Masteel with an unchanged TP of RM1.36.

- **2Q earnings lower.** The group's topline was down slightly by 0.6%, standing at RM342.2m. However, earnings fell from RM18.9m in 2QFY12 to RM10.2m. Net profit margin was down from 5.5% to 3.0%, mainly due to lower selling steel bar prices while scrap metal cost remained consistently high during the quarter.
- **Rail transit network project in Iskandar Malaysia still on?** Recent sources have cited that the rail transit network project in Iskandar Malaysia has been scrapped due to duplication with high-speed rail system and Gemas-Johor Bharu double-tracking projects. However, management has clarified that they have not received notification from the respective government ministries with regard to the cancellation. Based on the latest announcement, management is currently in talks with banks to arrange funding on the RM1bn project.
- **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 47% potential upside.

KEY FORECAST TABLE (RM m)

FYE Dec	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)	12.3	12.3	9.6	7.4	6.0	
DPS (Sen)	0.7	1.0	1.4	1.9	2.3	
Div Yield (%)	0.7	1.1	1.6	2.0	2.5	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

FY Dec (RM m)	2Q13	2Q12	1Q13	Q-o-Q chg (%)	Y-o-Y chg (%)	YTD FY13	YTD FY12	Y-o-Y chg (%)	Comments
Revenue	342.2	344.1	330.0	3.7	-0.6	672.2	684.0	-1.7	
Operating exp	-327.7	-321.9	-322.8	1.5	1.8	-650.5	-664.5	-2.1	
Gross profit	14.5	22.2	7.2	>100	-34.7	21.7	19.5	11.3	
Other income	0.0	0.9	0.3	-	-	0.3	2.3	-87.0	
Finance cost	-3.6	-4.3	-3.8	-5.3	-16.3	-7.4	-7.8	-5.1	
Pre-tax profit	10.9	18.8	3.7	>100	-42.0	14.6	14.0	4.3	
Taxation	-0.7	0.1	-0.2	>100	>100	-0.9	0.1	-	
Net profit	10.2	18.9	3.5	191.4	-46.0	13.7	14.1	-2.8	Y-o-Y lower due to higher scrap metal cost and lower selling price for the quarter
EPS (sen)	3.2	5.9	1.1	191.4	-46.0	4.2	4.4	-2.8	
DPS (sen)	0.5	0.0	0.0	-	-	0.5	0.0	-	Ex-date: 13 Sept 2013
Gross Margin (%)	4.2	6.5	2.2	-	-	3.2	2.9	-	
Pre-tax Margin (%)	3.2	5.5	1.1	-	-	2.2	2.0	-	
Net Margin (%)	3.0	5.5	1.1	-	-	2.0	2.1	-	

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	82.7	75.1	87.8	103.6	118.1
EBIT	40.8	40.2	49.1	59.1	68.6
Finance cost	-16.0	-15.3	-16.4	-16.4	-16.4
Pre-tax Profit	24.8	24.9	32.8	42.7	52.2
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
Net Profit	24.3	24.3	31.1	40.6	49.6
Growth					
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
Total Assets	888.6	929.8	980.8	1,033.0	1,089.9
Short-term borrowings	236.4	248.3	268.3	203.3	203.3
Long-term borrowings	54.3	35.4	35.4	100.4	100.4
Payables	98.0	120.2	124.8	142.5	157.2
Total Liabilities	388.7	403.9	428.5	446.2	460.9
Shareholders' Equity	499.9	525.9	552.3	586.8	629.0
Total Equity and Liabilities	888.6	929.8	980.8	1,033.0	1,089.9

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

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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