



MALAYSIA STEEL WORKS (KL) BERHAD

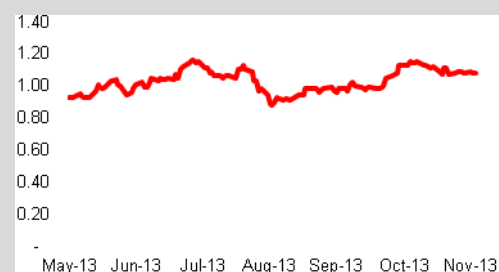
Outperform

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	RM1.07
Expected Return	27.1%
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)	894.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-6.2	21.8	17.0
Relative Returns	-6.8	12.4	13.2

KEY STOCK DATA

Market Capitalisation (RMm)	234.9
No. of Shares (m)	219.5

MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	33.8
Raya Rekajaya S/B	3.9
Kemajuan Rekacekap S/B	3.0

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Led By Positive Construction Demand

Malaysia Steel Works (Masteel) reported a net profit of RM23.4m for 9MFY13, which broadly came in within our and consensus projections. Riding on the encouraging construction industry, which is expected to grow by 9.6% as well as the major development, namely, RM80bn MRT project, RM5.7bn for the development and upgrading of the rural infrastructure as well as the group's strategic location in Klang Valley, we believe it will bode well for the company's prospects going forward. Meanwhile, no dividend was declared for the quarter. We maintain our **Outperform** call on Masteel with an unchanged TP of RM1.36.

- **3QFY13 revenue (QoQ: +2.6%, YoY: +12.2%).** The group's topline was down slightly by 12%, standing at RM351.2m. The improved sales were attributed to the higher sales volume driven by stronger production capacity, which has increased from 350,000mt to 400,000mt currently. We understand that the local steel bar and steel billet prices have recently increased about 10% higher than international prices due to temporary shortage of supplies in the local industry. This allows Masteel to gain favourable steel product prices in the local market.
- **3QFY13 core earnings (QoQ: -4.9%, YoY: +38.6%).** Bolstered by the improved operating efficiency as well as favourable raw material prices, the group's earnings margin enhanced from 2.2% in 2QFY12 to 2.8% in the 3QFY13. The group is expected to generate better performance in the last quarter after securing an additional RM20m steel bar supply contract for the Klang Valley Mass Rapid Transit project, which will be fully delivered by end-Nov.
- **Concern over the electricity hike.** It was lately reported that electricity tariffs may be raised as much as 25% for heavily-subsidised industries such as steelmakers and glove manufacturers by early next year. We understand that Masteel has a tariff agreement with Tenaga Nasional Berhad regarding the electricity tariff currently. Electricity expense, which currently accounts for 7% of the group's operating cost, will likely affect the group's earnings margin upon the revision in electricity tariff.
- **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 27.1% 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)	14.1	14.1	11.0	8.4	6.9	
DPS (Sen)	0.7	1.0	1.4	1.9	2.3	
Div Yield (%)	0.6	0.9	1.4	1.8	2.2	

Source: Company, PublicInvest Research estimates

Figure 1: Results Summary

FY Dec (RM'000)	3Q13	3Q12	2Q13	QoQ chg (%)	YoY chg (%)	YTD FY13	YTD FY12	YoY chg (%)	Comments
Revenue	351.2	312.9	342.2	2.6	12.2	1,023.4	996.9	2.7	Banking on positive local construction activities and higher sales volume
Operating exp	-338.1	-302.1	-327.7	3.2	11.9	-988.6	-966.5	2.3	
Gross profit	13.1	10.8	14.5	-9.7	21.3	34.8	30.4	14.5	
Other income	2.1	0.6	0.0	-	-	2.5	2.8	-10.7	
Finance cost	-5.0	-3.9	-3.6	38.9	28.2	-12.4	-11.7	6.0	
Pre-tax profit	10.2	7.5	10.9	-6.4	36.0	24.9	21.5	15.8	
Taxation	-0.5	-0.5	-0.7	-28.6	0.0	-1.5	-0.4	-	
Net profit	9.7	7.0	10.2	-4.9	38.6	23.4	21.1	10.9	Improved margins attributed to improved plant utilisation at the group's meltshop and rolling mill
Diluted EPS (sen)	3.0	2.2	3.2	-4.9	38.6	7.2	6.5	10.9	
DPS (sen)	0.0	0.0	0.5	-	-	0.5	0.0	-	
Gross Margin (%)	3.7	3.5	4.2	-	-	3.4	3.0	-	
Pre-tax Margin (%)	2.9	2.4	3.2	-	-	2.4	2.2	-	
Net Margin (%)	2.8	2.2	3.0	-	-	2.3	2.1	-	

Source: Company, PublicInvest Research

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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