



MALAYSIA STEEL WORKS (KL)

Neutral

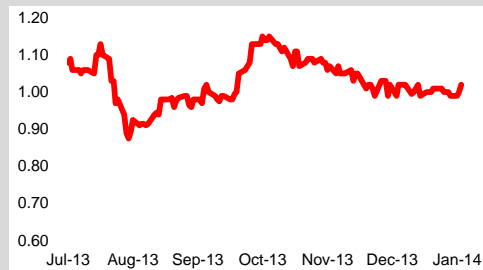
DESCRIPTION

One of the smallest steelmakers that only produces billets and steel bars

12-Month Target Price	RM1.08
Current Price	RM1.03
Expected Return	+4.9%

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

SHARE PRICE CHART



52 Week Range (RM)	0.77-1.19
3-Month Average Vol ('000)	438.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	-11.3	-7.6
Relative Returns	9.1	-8.0	-6.7

KEY STOCK DATA

Market Capitalisation (RM m)	228.2
No. of Shares (m)	221.5

MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	34.4
Raya Rekajaya S/B	3.9
Kemajuan Rekacekap S/B	3.0

Key Highlights From Meeting

We recently had a meeting with Masteel's management and came away with a firmer picture on the company's outlook for this year. Despite being hit by the electricity tariff hike, management is trying its best to minimize the impact by passing on the additional cost to consumers. Pending further clarification from the management, we are keeping our **Neutral** recommendation on Masteel with an unchanged target price of RM1.08.

- **Little consolation.** Management is currently in discussions with its consumers over the possibility of passing on the additional cost incurred. Our current earnings forecast for FY14-FY15 is based on the assumption that there is no cost pass through, which will see its earnings drop by 49%-51%. Nevertheless, any positive response from the discussion could spark some earnings surprise for the company, which should at the very least partly help offset some of these additional costs.
- **Capex guidance.** The company is looking to expand its Bukit Raja meltshop to 700,000 mt from 650,000 mt last year. Meanwhile, it is also increasing its rolling mill from 400,000mt to 450,000mt, which will bump up its sales by about 14% this year assuming steel bar prices remain steady at current levels ~RM2,000/mt. Total allocated capex for this year is around RM50m-60m, which will see its net gearing increase to 0.6x from 0.5x by end-2014.
- **Preview on upcoming 4QFY13 results.** We project that the company will post a net profit of RM8m-9m for the final quarter, which would also see an increase of 30% YoY growth for FY13 net profits. We also expect a final DPS of 0.9sen to be announced, making up a full-year dividend payout of 15% for FY13.
- **No further update on Metropolitan Commuter Network (MCN) project in Iskandar Malaysia.** Management is still in the midst of talks with the Ministry of Transport on the MCN project and could likely drag on for another six months.

KEY FINANCIAL SUMMARY (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%
Gross Profit	40.8	40.2	49.1	34.4	43.2	1.1%
Pre-tax Profit	24.8	24.9	32.8	18.0	26.8	1.6%
Core Net Profit	24.3	24.3	31.1	17.1	25.5	0.9%
EPS (Sen)	7.5	7.5	9.6	5.3	7.9	0.9%
P/E (x)	13.7	13.7	10.7	19.5	13.1	
DPS (Sen)	0.7	1.0	1.4	0.8	1.2	
Dividend Yield (%)	0.6	1.0	1.4	0.8	1.1	

Source: Company, PublicInvest Research estimates

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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 Operating Profit	82.7	75.1	87.8	78.9	92.7
Operating Expenses	40.8	40.2	49.1	34.4	43.2
Finance Cost	-16.0	-15.3	-16.4	-16.4	-16.4
Pre-tax Profit	24.8	24.9	32.8	18.0	26.8
Income Tax	-0.5	-0.6	-1.6	-0.9	-1.3
Effective Tax Rate (%)	2.0	2.4	5.0	5.0	5.0
Core Net Profit	24.3	24.3	31.1	17.1	25.5

Growth (%)

Revenue	24.7	4.7	4.6	14.4	10.6
Gross Operating Profit	-9.3	-1.5	22.2	-30.0	25.7
Core Net Profit	-13.5	0.0	28.0	-45.1	49.0

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	22.5	23.0
Other current assets	366.6	407.0	424.0	487.8	538.3
Total Assets	888.6	929.8	980.8	1,015.5	1,051.9
ST Borrowings	236.4	248.3	268.3	268.3	268.3
LT Borrowings	54.3	35.4	35.4	35.4	35.4
Payables	98.0	120.2	124.8	144.9	159.7
Total Liabilities	388.7	403.9	428.5	448.6	463.4
Shareholders' Equity	499.9	525.9	552.3	566.9	588.5
Total Equity and Liabilities	888.6	929.8	980.8	1,015.5	1,051.9

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	1.8
NTA Per Share (Sen)	1.5	1.6	1.7	1.8	1.8
EPS (sen)	7.5	7.5	9.6	5.3	7.9
DPS (sen)	0.7	1.0	1.4	0.8	1.2
Payout Ratio (%)	8.6	13.2	15.0	15.0	15.0
ROA (%)	2.7	2.6	3.2	1.7	2.4
ROE (%)	4.9	4.6	5.6	3.0	4.3

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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