

# Malaysia Steel Works (MSW MK)

Basic Materials - Metals

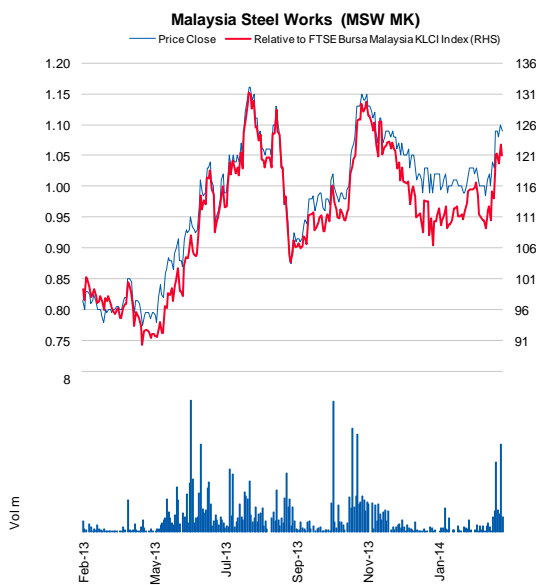
Market Cap: USD73.6m

**Neutral** (Maintained)

Target Price: MYR1.10

Price: MYR1.09

## FY13 Results Improving – Could Be Better

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	0.38m/0.12m
Cons. Upside (%)	0.0
Upside (%)	1.4
52-wk Price low/high (MYR)	0.78 - 1.16
Free float (%)	35
Shareholders (%)	
TYT Resources	30.9
Lembaga Tabung Haji	5.1

Shariah compliant

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While MSW's FY13 profit missed our and street estimates, a possibly decent FY14 is prompting us to raise our forecasts. However, as investors may continue to shy away from steel stocks, we keep our NEUTRAL call on the company. Our book-based FV, at 0.41x FY14 P/BV – the mean of its historical trading range, nudges up slightly to MYR1.10 (from MYR1.07) post our upward earnings revision.

- ◆ **FY13 results below estimates.** Malaysia Steel Works (MSW)' FY13 net profit of MYR28.8m was below of our and street estimates. While revenue was almost flat q-o-q, earnings was down 44.4%. Meanwhile, we suspect that MSW's production costs may have been higher, with the strengthening MYR possibly translating into higher raw material costs.
- ◆ **Possible recovery in FY14 despite higher power tariffs.** While concerns centre on the 18.8% increase in electricity tariffs implemented on 1 Jan 2014, we believe that the price of steel may stabilise. Furthermore, raw material costs may also be lower following the weaker scrap prices, thereby improving MSW's margins moving into 2014. Apart from that, the construction of various mega infrastructure projects, as well as ongoing property development activities, are expected to keep steel demand buoyant. Therefore, we have revised upwards MSW's FY14/15 earnings by 110.2%/35.6% to MYR32.2m/35.3m respectively.
- ◆ **Maintain NEUTRAL.** Meanwhile, we are keeping a close eye on MSW's proposed Iskandar Malaysia rail project, as the first-of-a-kind project for the company and the high capex needed may increase its gearing if it is given the green light. The final approval from the Government on the rail project is still pending. Separately, investors continue to shy away from steel counters due to their prolonged dismal performance. Thus, we maintain our NEUTRAL recommendation on MSW. However, as we have raised our profit estimates, our FV is accordingly nudged upwards marginally to MYR1.10 (from MYR1.07). This is based on 0.41x FY14 P/BV, or the mean of the stock's 5-year historical trading range.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	1,253	1,312	1,375	1,377	1,410
Reported net profit (MYRm)	24.4	24.3	7.3	32.2	35.3
Recurring net profit (MYRm)	24.4	24.3	7.3	32.2	35.3
Recurring net profit growth (%)	(13.3)	(0.0)	(70.2)	342.7	9.9
Recurring EPS (MYR)	0.12	0.11	0.03	0.14	0.16
DPS (MYR)	0.01	0.01	0.01	0.02	0.02
Recurring P/E (x)	9.4	9.6	33.0	7.5	6.8
P/B (x)	0.46	0.45	0.44	0.41	0.39
P/CF (x)	10.6	8.2	5.2	9.4	17.3
Dividend Yield (%)	0.9	0.9	0.5	2.0	2.2
EV/EBITDA (x)	7.8	7.9	10.2	6.8	6.6
Return on average equity (%)	5.0	4.7	1.3	5.6	5.9
Net debt to equity (%)	49.4	44.8	41.2	48.7	51.2
Our vs consensus EPS (%)				72.4	101.5

Source: Company data, RHB estimates

Figure 1: MSW's results table

FYE Dec (MYRm)	4Q12	3Q13	4Q13	q-o-q (%)	y-o-y (%)	FY12	FY13	y-o-y (%)	Comments
<b>Revenue</b>	<b>315.2</b>	<b>351.2</b>	<b>352.0</b>	<b>0.2</b>	<b>11.7</b>	<b>1,312.2</b>	<b>1,375.4</b>	<b>4.8</b>	Higher sales translates to marginal increase in revenue in 4Q
<b>EBITDA</b>	<b>10.9</b>	<b>18.5</b>	<b>15.5</b>	<b>(16.3)</b>	<b>41.3</b>	<b>58.1</b>	<b>66.0</b>	<b>13.6</b>	Increase in production costs trims the EBITA on a q-o-q basis
<i>EBITDA margin (%)</i>	3.5	5.3	4.4			4.4	4.8		
Depreciation	(5.2)	(5.4)	(5.9)	9.4	13.8	(21.8)	(21.6)	(0.9)	
<b>EBIT</b>	<b>5.8</b>	<b>13.1</b>	<b>9.6</b>	<b>(26.8)</b>	<b>65.9</b>	<b>36.3</b>	<b>44.3</b>	<b>22.3</b>	
<i>EBIT margin (%)</i>	1.8	3.7	2.7			2.8	3.2		
Interest expenses	(3.6)	(5.0)	(4.8)	(4.8)	33.7	(15.3)	(17.2)	12.4	
Interest income	0.0	0.0	0.1	248.0	#DIV/0!	0.0	0.2	#DIV/0!	
Associates	(0.0)	0.0	(0.0)	(2,700.0)	116.7	(0.1)	(0.1)	12.0	
EI/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
<b>Pretax profit</b>	<b>3.3</b>	<b>10.3</b>	<b>5.8</b>	<b>(43.3)</b>	<b>73.9</b>	<b>24.9</b>	<b>30.7</b>	<b>23.4</b>	
<i>Pretax margin (%)</i>	1.1	2.9	1.7			1.9	2.2		
Tax	(0.2)	(0.6)	(0.4)	(25.6)	177.0	(0.6)	(1.9)	249.5	
<i>Effective tax rate (%)</i>	(4.5)	(5.5)	(7.2)			(2.2)	(6.3)		
Minority interest	0.0	0.0	0.0	#DIV/0!	#DIV/0!	0.0	0.0	#DIV/0!	
<b>Net profit</b>	<b>3.2</b>	<b>9.7</b>	<b>5.4</b>	<b>(44.4)</b>	<b>69.0</b>	<b>24.3</b>	<b>28.8</b>	<b>18.2</b>	
<b>Core profit</b>	<b>3.2</b>	<b>9.7</b>	<b>5.4</b>	<b>(44.4)</b>	<b>69.0</b>	<b>24.3</b>	<b>28.8</b>	<b>18.2</b>	Results were below of our and street estimates
<i>Net margin (%)</i>	1.0	2.8	1.5			1.9	2.1		

Source: Company data, RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Total turnover	1,253	1,312	1,375	1,377	1,410
Cost of sales	(1,171)	(1,237)	(1,351)	(1,270)	(2,000)
<b>Gross profit</b>	<b>83</b>	<b>75</b>	<b>24</b>	<b>107</b>	<b>(590)</b>
Gen & admin expenses	(27)	(19)	-	(37)	666
Selling expenses	(16)	(20)	-	(19)	(20)
Other operating costs	-	-	(0)	-	-
<b>Operating profit</b>	<b>40</b>	<b>36</b>	<b>24</b>	<b>51</b>	<b>56</b>
Operating EBITDA	61	58	45	77	84
Depreciation of fixed assets	(21)	(22)	(22)	(27)	(28)
<b>Operating EBIT</b>	<b>40</b>	<b>36</b>	<b>24</b>	<b>51</b>	<b>56</b>
Net income from investments	(0)	(0)	0	-	-
Other recurring income	1	4	2	1	1
Interest income	-	0	0	-	-
Interest expense	(16)	(16)	(17)	(18)	(20)
<b>Pre-tax profit</b>	<b>25</b>	<b>25</b>	<b>9</b>	<b>34</b>	<b>37</b>
Taxation	(1)	(1)	(2)	(2)	(2)
<b>Profit after tax &amp; minorities</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>32</b>	<b>35</b>
<b>Reported net profit</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>32</b>	<b>35</b>
<b>Recurring net profit</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>32</b>	<b>35</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
<b>Operating profit</b>	<b>40</b>	<b>36</b>	<b>24</b>	<b>51</b>	<b>56</b>
<b>Depreciation &amp; amortisation</b>	<b>21</b>	<b>22</b>	<b>22</b>	<b>27</b>	<b>28</b>
<b>Change in working capital</b>	<b>(27)</b>	<b>(16)</b>	<b>(6)</b>	<b>(51)</b>	<b>(69)</b>
Other operating cash flow	(10)	(28)	(9)	(17)	(19)
<b>Operating cash flow</b>	<b>23</b>	<b>15</b>	<b>30</b>	<b>9</b>	<b>(4)</b>
Interest received	-	(0)	-	-	-
Interest paid	-	15	17	18	20
Tax paid	(2)	(2)	(1)	(2)	(2)
<b>Cash flow from operations</b>	<b>22</b>	<b>28</b>	<b>46</b>	<b>26</b>	<b>14</b>
Capex	(55)	(11)	(44)	(60)	(21)
Other new investments	-	-	(1)	-	-
Other investing cash flow	0	0	0	-	-
<b>Cash flow from investing activities</b>	<b>(55)</b>	<b>(11)</b>	<b>(45)</b>	<b>(60)</b>	<b>(21)</b>
Dividends paid	(3)	(4)	(2)	(3)	(4)
Proceeds from issue of shares	-	6	3	-	-
Increase in debt	32	(3)	10	20	40
Other financing cash flow	(1)	-	(0)	(18)	(20)
<b>Cash flow from financing activities</b>	<b>29</b>	<b>(1)</b>	<b>10</b>	<b>(2)</b>	<b>16</b>
Cash at beginning of period	36	32	48	60	25
<b>Total cash generated</b>	<b>(4)</b>	<b>16</b>	<b>12</b>	<b>(36)</b>	<b>9</b>
Forex effects	-	-	2	-	-
<b>Implied cash at end of period</b>	<b>32</b>	<b>48</b>	<b>62</b>	<b>25</b>	<b>34</b>

Source: Company data, RHB estimates

## Financial Exhibits

Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	32	48	60	25	34
Inventories	161	181	221	230	365
Accounts receivable	203	229	240	232	238
Other current assets	3	4	3	3	3
<b>Total current assets</b>	<b>398</b>	<b>462</b>	<b>524</b>	<b>489</b>	<b>639</b>
Total investments	8	8	9	9	9
Tangible fixed assets	470	460	482	516	509
Total non-current assets	478	468	491	525	518
<b>Total assets</b>	<b>877</b>	<b>930</b>	<b>1,015</b>	<b>1,014</b>	<b>1,156</b>
Short-term debt	224	248	264	284	324
Accounts payable	98	120	171	121	191
<b>Total current liabilities</b>	<b>322</b>	<b>369</b>	<b>435</b>	<b>405</b>	<b>515</b>
Total long-term debt	54	35	25	25	25
<b>Total non-current liabilities</b>	<b>54</b>	<b>35</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Total liabilities</b>	<b>377</b>	<b>404</b>	<b>460</b>	<b>430</b>	<b>541</b>
Share capital	105	109	111	111	111
Retained earnings reserve	292	344	372	401	432
Other reserves	102	73	72	72	72
<b>Shareholders' equity</b>	<b>500</b>	<b>526</b>	<b>555</b>	<b>584</b>	<b>616</b>
<b>Total equity</b>	<b>500</b>	<b>526</b>	<b>555</b>	<b>584</b>	<b>616</b>
<b>Total liabilities &amp; equity</b>	<b>877</b>	<b>930</b>	<b>1,015</b>	<b>1,014</b>	<b>1,156</b>

Source: Company data, RHB estimates

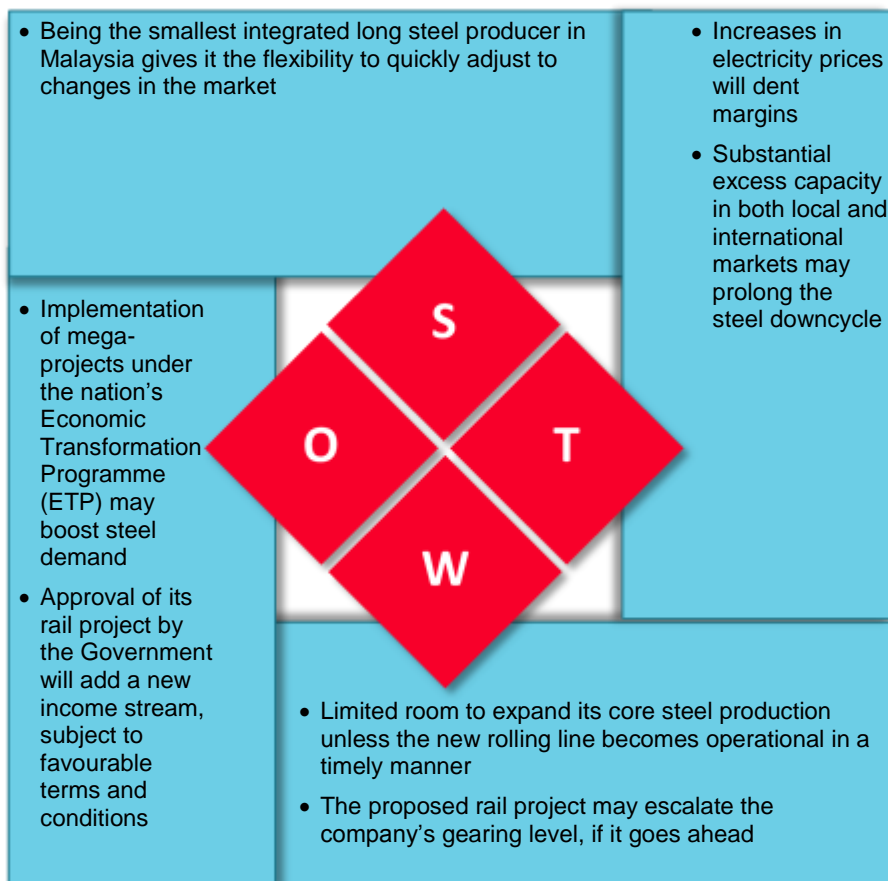
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	24.7	4.7	4.8	0.1	2.4
Operating profit growth (%)	(7.6)	(8.0)	(35.2)	114.5	10.1
Net profit growth (%)	(13.3)	(0.0)	(70.2)	342.7	9.9
EPS growth (%)	(16.6)	(1.7)	(70.9)	338.7	9.9
Bv per share growth (%)	4.5	1.7	3.6	5.2	5.4
Operating margin (%)	3.2	2.8	1.7	3.7	4.0
Net profit margin (%)	1.9	1.9	0.5	2.3	2.5
Return on average assets (%)	2.9	2.7	0.7	3.2	3.3
Return on average equity (%)	5.0	4.7	1.3	5.6	5.9
Net debt to equity (%)	49.4	44.8	41.2	48.7	51.2
DPS	0.01	0.01	0.01	0.02	0.02
Recurrent cash flow per share	0.10	0.13	0.21	0.12	0.06

Source: Company data, RHB estimates

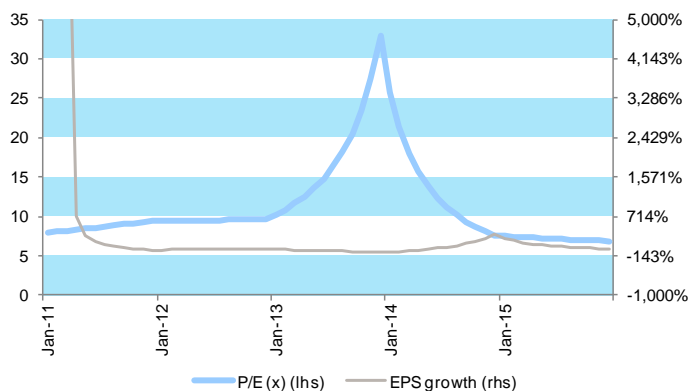
Key assumptions	Dec-11E	Dec-12E	Dec-13E	Dec-14F	Dec-15F
Capacity - electric arc furnace	550,000	600,000	650,000	700,000	700,000
Capacity - rolling	350,000	400,000	400,000	400,000	550,000
Utilisation - electric arc furnace	95%	90%	90%	90%	91%
Utilisation - rolling	100%	95%	98%	98%	88%
ASP - billets (MYR/MT)	2,000	1,850	1,750	1,800	1,750
ASP - bars/wire rods (MYR/MT)	2,300	2,150	2,100	2,150	2,150

Source: RHB estimates

## SWOT Analysis

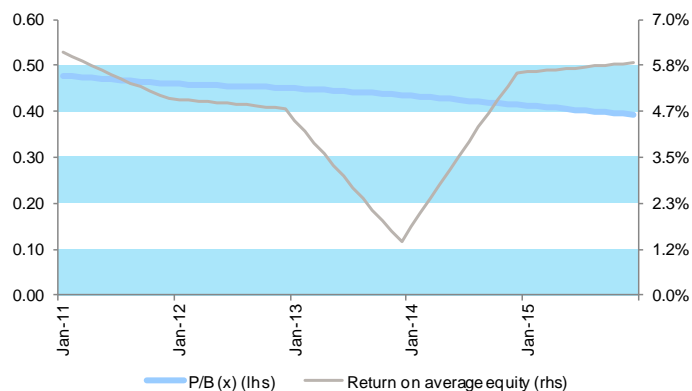


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

## Company Profile

Malaysia Steel Works (KL) is an integrated steel manufacturer with a focus on the long steel products.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-12-03	Neutral	1.07	1.07
2013-12-02	Trading Buy	1.30	1.05
2013-09-02	Trading Buy	1.08	0.91
2013-08-26	Neutral	1.08	0.94
2013-06-03	Trading Buy	1.08	0.95
2013-03-01	Neutral	0.91	0.80

Source: RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months  
**Take Profit:** Target price has been attained. Look to accumulate at lower levels  
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