



MALAYSIA STEEL WORKS (KL)

Outperform

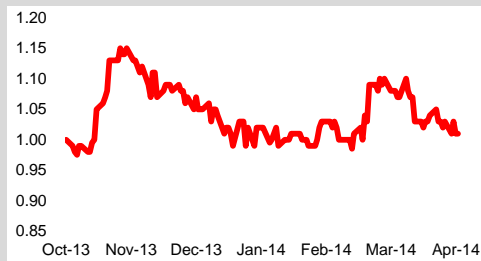
DESCRIPTION

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

12-Month Target Price	RM1.26
Current Price	RM1.03
Expected Return	+22.3%

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)	412.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-8.2	-1.0	0.0
Relative Returns	-6.0	-1.9	-3.4

KEY STOCK DATA

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

MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	29.7
Raya Rekajaya S/B	3.9
Kemajuan Rekecap S/B	3.0

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Key Takeaways From Briefing

We attended Malaysia Steel Works' (Masteel) analyst briefing yesterday and came away with more positive views on the company's prospects. Management has managed to overcome the additional expense of the recent electricity tariff hike, which could have had halved their earnings assuming there is no cost pass through. In addition, the temporary shortage of steel products domestically due to the some hiccups and restructuring exercises experienced by the steelmakers have helped stabilize steel product prices and switch the demand to Masteel. We upgrade our call on Masteel from Neutral to **Outperform** with a higher TP of RM1.26 based on a 5-year P/B average of 0.7x after fine-tuning our numbers.

- **Concern on electricity tariff hike cleared.** Management has finally come out with solution in mitigating the additional cost from electricity tariff hike, which amounts to an additional RM40/mt to the company's operating costs. 50% of it would be passed on to the consumers while efforts in improving cost efficiency, namely, sourcing for higher yield scrap metal and minimizing electricity usage coupled with the recent correction in scrap metal prices and short-term advantage over the sale of billets to its rivals due to some issues have helped the company to offset the remaining additional cost incurred.
- **Prospects.** Given the positive demand in local construction projects as well as steady steel bar prices, management has allocated RM80m to build a second rolling mill adjacent to the existing mill in Bukit Raja, Klang. Construction has started since end-Jan and is scheduled to be operational by 2Q next year. The new mill will have an initial production capacity of 100,000mt p.a. and will be expanded to 200,000mt p.a. in 2016. The improved capacity will bring additional 10% production to the local market. Meanwhile, the strong local demand for steel bars has also lowered the company's sale of billets as it requires more billets for its own steel bar production.
- **Update on the inter-city rail transit system in Iskandar Malaysia.** Management stated that it is still in negotiations with the Ministry of Transport while waiting for a minister to be appointed. In the event that the proposal is shot down, the company guided that it would only cost a minimal write-off of RM500k for the technical studies.
- **Revising to Outperform.** We are changing our call to Outperform after removing the additional cost incurred from higher electricity tariffs. We are positive on the company's earnings prospects, banking on the higher capacity coming on stream as well as steady steel bar prices in the local market.

KEY FINANCIAL SUMMARY (RM m)

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F	CAGR
Revenue	1,312.1	1,375.4	1,473.9	1,615.3	1,761.3	7.6%
Gross Profit	40.2	47.8	51.2	57.5	64.3	12.4%
Pre-tax Profit	24.9	30.7	34.5	40.3	46.5	16.9%
Core Net Profit	24.3	28.7	32.4	37.8	43.7	15.8%
EPS (Sen)	7.5	8.9	10.0	11.7	13.5	15.8%
P/E (x)	13.7	11.6	10.3	8.8	7.6	
DPS (Sen)	1.5	1.0	1.5	1.8	2.0	
Dividend Yield (%)	1.5	1.0	1.5	1.7	2.0	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Revenue	1,312.1	1,375.4	1,473.9	1,615.3	1,761.3
Gross Operating Profit	75.1	45.7	92.9	103.4	114.5
Operating Expenses	40.2	47.8	51.2	57.5	64.3
Finance Cost	-15.3	-17.2	-16.7	-17.2	-17.8
Pre-tax Profit	24.9	30.7	34.5	40.3	46.5
Income Tax	-0.6	-1.9	-2.1	-2.5	-2.8
Effective Tax Rate (%)	2.4	6.2	6.1	6.1	6.1
Core Net Profit	24.3	28.8	32.4	37.8	43.7
Growth (%)					
Revenue	4.7	4.8	7.2	9.6	9.0
Gross Operating Profit	-1.5	18.9	3.9	12.4	11.8
Core Net Profit	0.0	22.6	12.8	16.8	15.5

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Fixed assets	460.1	482.3	545.5	529.5	513.1
Other long-term assets	8.0	8.8	8.0	8.0	8.0
Cash at Bank	54.7	45.9	15.9	43.8	75.8
Other current assets	407.0	477.9	455.5	498.6	543.0
Total Assets	929.8	1,014.9	1,024.9	1,079.8	1,140.0
ST Borrowings	248.3	264.0	264.0	264.0	264.0
LT Borrowings	35.4	25.2	45.2	55.2	65.2
Payables	120.2	170.6	134.2	146.9	160.0
Total Liabilities	403.9	459.8	443.4	466.1	489.2
Shareholders' Equity	525.9	555.0	581.5	613.8	650.8
Total Equity and Liabilities	929.8	1,014.9	1,024.9	1,079.9	1,140.0

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014F	2015F	2016F
Book Value Per Share	1.6	1.7	1.8	1.9	2.0
NTA Per Share (Sen)	1.6	1.7	1.8	1.9	2.0
EPS (sen)	7.5	8.9	10.0	11.7	13.5
DPS (sen)	1.5	0.5	1.5	1.8	2.0
Payout Ratio (%)	13.2	5.6	15.0	15.0	15.0
ROA (%)	2.6	2.8	3.2	3.5	3.8
ROE (%)	4.6	5.2	5.6	6.2	6.7

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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