



MALAYSIA STEEL WORKS (KL)

Outperform

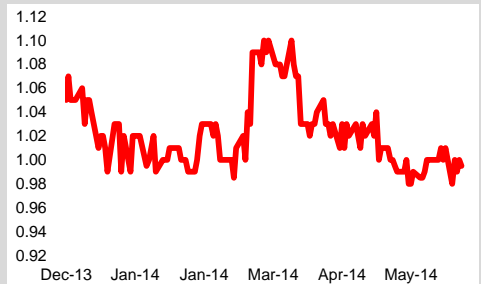
DESCRIPTION

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

12-Month Target Price	RM1.26
Current Price	RM1.00
Expected Return	+26.0%

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

SHARE PRICE CHART



52 Week Range (RM)	0.83-1.19
3-Month Average Vol ('000)	391.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	-8.7	-7.9
Relative Returns	-0.6	-11.5	-9.6

KEY STOCK DATA

Market Capitalisation (RM m)	219.3
No. of Shares (m)	221.5

MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	34.0
Raya Rekajaya S/B	3.9
Kemajuan Rekacekap S/B	3.0

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Boosted By Higher Sales Volume

Malaysia Steel Works (Masteel) reported a net profit of RM7.4m for 1QFY14, which was in line with our and consensus expectations, accounting for 23% and 25% respectively. We expect higher earnings this year as improved capacities will help push sales volumes higher while the impact of the electricity tariff hike early this year is partly cushioned by improved efficiency and cost pass-through. Meanwhile, no dividend was declared for the quarter. We reiterate our **Outperform** call on Masteel with an unchanged TP of RM1.26 based on a 5-year P/B average of 0.7x.

- **Revenue (QoQ: -4.0%, YoY: +2.3%).** The group's topline was up by 2.3% YoY to RM337.6m, the improved sales attributed to the higher volumes driven by stronger production capacity, which has increased from 350,000mt to 400,000mt as well as better local steel product prices. We understand that local steel bar prices have been remaining steady driven by the robust construction activities despite softening in world market prices.
- **Net profit (QoQ: +29.8%, YoY: +105.6%).** Bolstered by improved operating efficiencies, the group's earnings margin enhanced to 2.1% from 1.0% in 1QFY13. At present, we are guided that the company has managed to pass on 60% of the electricity tariff adjustments.
- **Guidance.** The company is currently fast-tracking the construction of its new 200,000mt p.a. rolling mill to produce premium deform bars together with the series of technical improvement being implemented at its present steel making plant in Bukit Raja, Klang. The utilization of its current production capacity is close to 80%, which is quite commendable given the state of the overall industry.
- **Outperform.** We are keeping our Outperform call with an unchanged TP of RM1.26. 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

Figure 1: Results Summary

FYE Dec (RM m)	1Q14	1Q13	4Q13	QoQ chg (%)	YoY chg (%)	YTD FY14	YTD FY13	YoY chg (%)	Comments
Revenue	337.7	330.0	351.9	-4.0	2.3	337.7	330.0	2.3	Attributed to higher sales volume
Operating exp	-327.6	-322.8	-341.1	-4.0	1.5	-327.6	-322.8	1.5	
Gross profit	10.1	7.2	10.8	-6.5	40.3	10.1	7.2	40.3	
Other income	1.7	0.3	-	-	-	1.7	0.3	466.7	
Finance cost	-4.0	-3.7	-4.7	-14.9	8.1	-4.0	-3.7	8.1	
Pre-tax profit	7.8	3.8	6.1	27.9	105.3	7.8	3.8	105.3	
Taxation	-0.4	-0.2	-0.4	0.0	100.0	-0.4	-0.2	-	
Net profit	7.4	3.6	5.7	29.8	105.6	7.4	3.6	105.6	Driven by higher sales volume and better margins
Diluted EPS (sen)	2.3	1.1	1.8	29.8	105.6	2.3	1.1	105.6	
DPS (sen)	0.0	0.0	0.0	-	-	0.5	1.5	-	No dividend was declared
Gross Margin (%)	3.0	2.2	3.1	-	-	3.0	2.2	-	
Pre-tax Margin (%)	2.3	1.2	1.7	-	-	2.3	1.2	-	
Net Margin (%)	2.2	1.1	1.6	-	-	2.2	1.1	-	

Source: Company

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	518.9	505.2	491.3
Other long-term assets	8.0	8.8	8.0	8.0	8.0
Cash at Bank	54.7	45.9	47.5	73.9	104.3
Other current assets	407.0	477.9	496.8	543.8	592.3
Total Assets	929.8	1,014.9	1,071.2	1,130.9	1,195.9
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	183.8	201.2	219.2
Total Liabilities	403.9	459.8	493.0	520.4	548.4
Shareholders' Equity	525.9	555.0	578.2	610.5	647.5
Total Equity and Liabilities	929.8	1,014.9	1,071.2	1,130.9	1,195.9

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 (%)	17.7	5.6	15.0	15.0	15.0
ROA (%)	2.6	2.8	3.0	3.3	3.7
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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