

Malaysia Steel Works

Rolling Out More Capacity

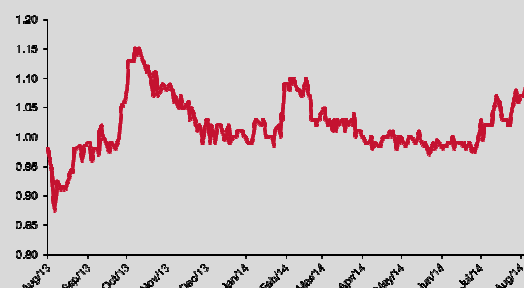
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OUTPERFORM ↔

Price: RM1.11
Target Price: RM1.22 ↑

- Period** ■ 2Q14/1H14
- Actual vs. Expectations** ■ Malaysia Steel Works (Masteel) recorded 1H14 core net profit (CNP)* of RM14.5m which came in within consensus expectations but above our expectations; at 52% and 59% of full year estimates, respectively.
- Dividends** ■ No dividend was declared for the current quarter, as expected. For FY14E we expect to see total dividends of 1.4 sen per share implying 1.3% dividend yield.
- Key Result Highlights** ■ **YoY**, 1H14 CNP improved 6.3% to RM14.5m due to better volume sales and better operating margin (from 3.3% to 3.7% YoY) thanks to favourable scrap prices.
■ **QoQ**, CNP jumped 59.2% on improved sales volume due to increased construction activity versus the previous quarter. Coupled with better scrap prices, margin also improved from 3.5% to 4.0%.
- Outlook** ■ Masteel's sales volume should be supported by good construction demand in the Klang Valley and its manufacturing capacity expansions. Masteel plans to increase billet manufacturing capacity to 700k metric ton (MT)/year (+27%) by FY15E and its rolling capacity to 650k MT/year (+19-22% yearly) by FY16E.
- Change to Forecasts** ■ FY14E-FY15E CNP estimates are increased by 26%-14% to RM30.7m-RM36.1m, respectively, due to higher steel price assumption of RM1775-RM1920/MT (previously RM1735-RM1880/MT) and lower scrap price assumption of RM380-RM440/MT (previously RM420-RM470/MT).
- Rating** **Maintain OUTPERFORM**
Short-term upside is favourable due to Masteel's stellar revenue growth potential and the improving steel industry outlook. We also note that Masteel is currently trading at 0.39x PBV which is its 3-year historical average PBV. Long-term catalyst should come from potential trade remedies on excessive Chinese steel imports that have artificially depressed prices. We believe the move should materialise by late-2014 or early-2015.
- Valuation** ■ TP is increased to RM1.22 (from RM1.14 previously) as we upgrade our valuation to 0.43x PBV (from 0.41x PBV previously) and roll over our base year to FY15E. The 0.43x PBV reflects a higher +1.0SD premium (from +0.5SD previously) due to Masteel's improved earnings visibility. We expect better revenue growth of 9.5%-20.6% in FY14E-FY15E versus 4.8% in FY13 due to significant capacity expansion.
- Risks to Our Call** ■ Lower-than-expected steel prices.
■ Higher-than-expected raw material and electricity costs.

Share Price Performance



KLCI	1,872.38
YTD KLCI chg	0.3%
YTD stock price chg	8.8%

Stock Information

Bloomberg Ticker	MSW MK Equity
Market Cap (RM m)	252.4
Issued shares	227.4
52-week range (H)	1.16
52-week range (L)	0.83
3-mth avg daily vol:	1,169,870
Free Float	58%
Beta	1.3

Major Shareholders

TYE RESOURCES SDN BH	31.4%
NG BENG HOO	5.5%
LEMBAGA TABUNG HAJI	4.9%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	1,375	1,506	1,816
EBIT	44	49	55
PBT	29	32	37
Net Profit (NP)	27	31	36
Core NP*	31	31	36
Consensus (NP)		28	35
Earnings Revision	-	+26%	+14%
Core EPS (sen)	14.1	14.1	16.6
Core EPS growth (%)	49.2	0.1	17.6
NDPS (sen)	1.0	1.4	1.6
BVPS (RM)	2.5	2.7	2.8
Core PER	7.4	7.4	6.3
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	1.0	1.3	1.5

* Core net profit excludes Unrealised foreign exchange gain of RM1.1m and reversal of doubtful debts of RM0.1m

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Result Highlight

Y/E : Dec (RM mn)	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	360.0	337.7	6.6%	342.3	5.2%	697.7	672.3	3.8%
EBITDA	19.9	17.3	14.8%	19.7	0.8%	37.2	32.4	14.8%
EBIT	14.4	11.7	22.9%	14.5	-0.9%	26.0	22.0	18.3%
Interest income / (expense)	-3.6	-4.0	-11.1%	-3.6	-1.3%	-7.5	-7.3	2.8%
Income from Associates	0.0	0.0	-13.3%	0.0	-48.0%	0.0	0.0	-9.7%
Pretax profit	10.8	7.7	40.6%	10.9	-0.7%	18.5	14.7	26.0%
Taxation	0.7	0.4	78.5%	0.7	-5.6%	1.1	1.0	12.4%
Profit after tax	10.1	7.3	38.7%	10.1	-0.3%	17.4	13.7	27.1%
Core Net Profit (NP)	8.9	5.6	59.2%	10.1	-11.8%	14.5	13.7	6.3%
Core EPS (sen)	4.0	3.3	22.5%	4.7	-13.5%	7.9	6.3	24.8%
DPS (sen)	0.0	0.5	N.M.	0.0	N.M.	0.5	0.5	0.0%
EBITDA margin	5.5%	5.1%		5.8%		5.3%	4.8%	
EBIT margin	4.0%	3.5%		4.2%		3.7%	3.3%	
Pretax margin	3.0%	2.3%		3.2%		2.6%	2.2%	
Effective tax rate	6.4%	5.0%		6.7%		5.8%	6.5%	

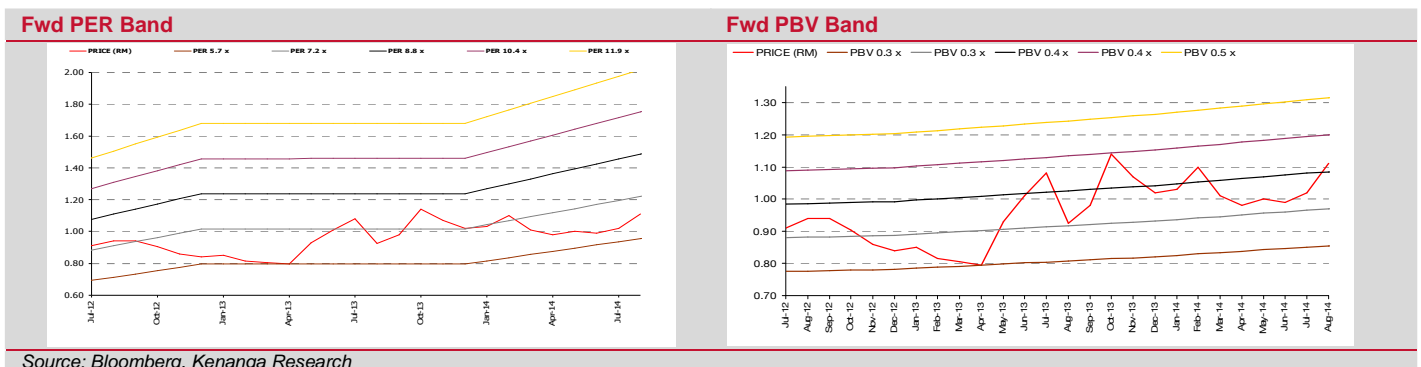
Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	1,253	1,312	1,375	1,506	1,816	Growth (%)					
EBITDA	62	62	66	72	78	Revenue	24.7	4.7	4.8	9.5	20.6
Depreciation	(21)	(22)	(22)	(23)	(24)	EBITDA	(0.9)	(0.3)	6.1	9.9	8.2
Operating Profit	41	40	44	49	55	Operating Profit	(9.0)	(1.8)	9.8	10.9	11.4
Total Financial Costs	(16)	(15)	(15)	(17)	(17)	Pre-tax Income	(17.0)	0.2	16.4	9.9	17.0
Associate	(0)	(0)	(0)	(0)	(0)	Core N. Income	(25.0)	(11.2)	49.2	0.1	17.6
PBT	25	25	29	32	37	Profitability (%)					
Taxation	(1)	(1)	(2)	(1)	(1)	EBITDA Margin	5.0	4.7	4.8	4.8	4.3
Net Profit	24	24	27	31	36	Op. Margin	3.3	3.1	3.2	3.3	3.0
Core Net Profit	23	21	31	31	36	PBT Margin	2.0	1.9	2.1	2.1	2.1
Balance Sheet						Core Net Mgn.	1.8	1.6	2.2	2.0	2.0
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	Eff. Tax Rate	2.2	2.2	6.7	3.5	3.0
Fixed Assets	470	460	482	503	523	ROE	4.6	3.9	5.5	5.3	5.9
JV & Affiliates	8	8	9	9	9	ROA	2.6	2.2	3.0	2.9	3.1
Other FA	-	-	-	-	-	DuPont Analysis					
Inventories	161	181	221	214	267	Net Margin (%)	1.8	1.6	2.2	2.0	2.0
Receivables	203	222	239	254	310	Assets T/o (x)	1.4	1.4	1.4	1.4	1.5
Other CA	3	4	3	3	3	Lev. Factor (x)	1.8	1.8	1.8	1.8	1.9
Cash	44	55	60	67	66	ROE (%)	4.6	3.9	5.5	5.3	5.9
Total Assets	889	930	1,014	1,049	1,177	Leverage					
Payables	98	120	172	148	190	Debt/Asset (x)	32.7	30.5	28.5	30.5	31.6
ST Borrowings	236	248	264	277	330	Debt/Equity (x)	58.2	54.0	52.3	55.1	60.8
Other ST Liability	-	-	-	-	-	N.Cash/(Debt)	(247.1)	(229.1)	(228.8)	(253.0)	(306.7)
LT Borrowings	54	35	25	43	43	Net Debt/Eq (x)	0.5	0.4	0.4	0.4	0.5
Other LT Liability	-	-	-	-	-	Valuations					
Net Assets	500	526	553	581	614	EPS (sen)	11.6	11.5	12.4	14.1	16.6
Share Capital	105	109	111	111	111	Core EPS (sen)	11.0	9.7	14.1	14.1	16.6
Reserves	394	417	442	470	503	NDPS (sen)	1.0	1.5	1.0	1.4	1.6
Equity	500	526	553	581	614	BVPS (RM)	2.4	2.5	2.5	2.7	2.8
Cashflow Statement						PER (x)	9.0	9.0	8.4	7.4	6.3
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	Core PER (x)	9.5	10.7	7.4	7.4	6.3
Operating CF	22	28	45	58	30	N. Div. Yld (%)	1.0	1.4	1.0	1.3	1.5
Investing CF	(55)	(11)	(44)	(44)	(44)	P/BV (x)	0.4	0.4	0.4	0.4	0.4
Financing CF	29	(1)	10	(5)	14	EV/EBITDA (x)	4.5	4.6	4.2	4.2	4.0
Change In Cash	(4)	16	10	9	(1)						
Free CF	(33)	17	1	14	(15)						

Source: Kenanga Research



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Peer Comparison

Company Name	Price (27- Aug- 2014)	Mkt Cap	Core PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			This Year Growth	Next Year Growth	Target Price	Rating
	(RM)		(RMm)	FY13/14A	FY14/15F				FY15/16F	(%)	(%)				
CORE COVERAGE															
ANN JOO RESOURCES BHD	1.34	671	18.4	17.4	13.6	3.4%	3.5%	0.6	36.5	38.5	48.7	6%	26%	1.31	OUTPERFORM
MALAYSIA STEEL WORKS KL BHD	1.11	234	7.9	7.9	6.3	1.3%	5.5%	0.4	30.7	30.7	36.1	0%	17.6%	1.22	OUTPERFORM MARKET
LAFARGE MALAYSIA BHD	10.24	8,701	23.6	21.6	19.5	4.5%	11.5%	2.7	387.5	403.2	451.0	4%	12%	9.50	PERFORM

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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