



## MALAYSIA STEEL WORKS (KL)

*Outperform*

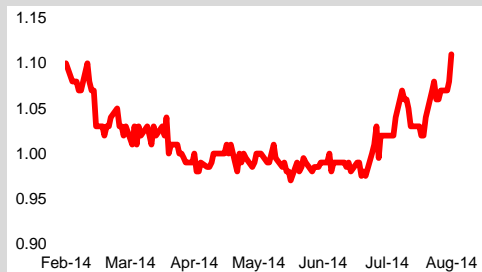
### DESCRIPTION

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

**12-Month Target Price** RM1.26  
**Current Price** RM1.11  
**Expected Return** +13.5%

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

### SHARE PRICE CHART



**52 Week Range (RM)** 0.83-1.16  
**3-Month Average Vol ('000)** 1,169.9

### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	5.9	10.2	-0.8
Relative Returns	9.1	11.8	-0.4

### KEY STOCK DATA

**Market Capitalisation (RM m)** 252.4  
**No. of Shares (m)** 227.4

### 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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## Steady Earnings

Malaysia Steel Works (Masteel) reported a net profit of RM17.4m for 1HFY14 which was in line with our earnings forecasts, but exceeded consensus forecasts by 11%. We expect a strong double-digit earnings growth this year, banking on the enhanced capacity and steady local steel product prices despite the challenging environment in the industry. 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.

- **2Q revenue (QoQ: +6.6%, YoY: +5.2%).** The group's topline was up by 5.2% YoY to RM359.9m, 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 robust construction activities such as MRT and commercial and residential projects despite softening in world market prices.
- **2Q net profit (QoQ: +36.5%, YoY: +1.0%).** Despite the electricity tariff hike this year, the company managed to maintain its earnings margin at 2.8%, a slight drop from last year. This is mainly attributable to the i) cost efficiency, ii) higher utilization and productivity, iii) partial cost pass through to consumers and iv) lower raw material costs.
- **Update on intercity rail project in Johor.** Despite a recent media source quoting that the RM1.23bn Iskandar commuter rail project proposal had been turned down by the government, management clarified that it has not received any notification or information from the authorities indicating as such. On the contrary, Masteel indicated that it has actually received the green light yesterday from the Johor state government to proceed with the rail transit network project in the Iskandar Development Region, to which it will now proceed with procuring the necessary approvals from the relevant Federal Government agencies.
- **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

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	27.0	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)	14.7	13.3	11.1	9.5	8.2	
DPS (Sen)	1.5	1.0	1.5	1.8	2.0	
Dividend Yield (%)	1.2	0.6	1.4	1.6	1.8	

Source: Company, PublicInvest Research estimates

**Figure 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>2Q14</u>	<u>2Q13</u>	<u>1Q14</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>YTD FY14</u>	<u>YTD FY13</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	359.9	342.2	337.7	6.6	5.2	697.6	672.3	3.8	Backed by higher sales volume and strong steel bar selling prices
Operating exp	-346.3	-327.7	-327.6	5.7	5.7	-674.0	-650.5	3.6	
<b>Gross profit</b>	<b>13.6</b>	<b>14.5</b>	<b>10.1</b>	<b>34.7</b>	<b>-6.2</b>	<b>23.6</b>	<b>21.8</b>	<b>8.3</b>	
Other income	0.7	0.0	1.7	-	-	2.4	0.3	700.0	
Finance cost	-3.6	-3.6	-4.0	-10.0	0.0	-7.6	-7.4	2.7	
<b>Pre-tax profit</b>	<b>10.7</b>	<b>10.9</b>	<b>7.8</b>	<b>37.2</b>	<b>-1.8</b>	<b>18.4</b>	<b>14.7</b>	<b>25.2</b>	
Taxation	-0.6	-0.7	-0.4	50.0	-14.3	-1.0	-0.9	-	
<b>Net profit</b>	<b>10.1</b>	<b>10.2</b>	<b>7.4</b>	<b>36.5</b>	<b>-1.0</b>	<b>17.4</b>	<b>13.8</b>	<b>26.1</b>	Earnings remained steady for 2QFY14
Diluted EPS (sen)	3.1	3.2	2.3	36.5	-1.0	5.4	4.3	26.1	No dividend was declared for the quarter
DPS (sen)	0.0	0.0	0.0	-	-			-	
Gross Margin (%)	3.8	4.2	3.0	-	-	3.4	3.2	-	
Pre-tax Margin (%)	3.0	3.2	2.3	-	-	2.6	2.2	-	
Net Margin (%)	2.8	3.0	2.2	-	-	2.5	2.1	-	

Source: Company, PublicInvest Research

## 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
<b>Gross Profit</b>	<b>75.1</b>	<b>45.7</b>	<b>92.9</b>	<b>103.4</b>	<b>114.5</b>
Operating Expenses	40.2	47.8	51.2	57.5	64.3
Finance Cost	-15.3	-17.2	-16.7	-17.2	-17.8
<b>Pre-tax Profit</b>	<b>24.9</b>	<b>30.7</b>	<b>34.5</b>	<b>40.3</b>	<b>46.5</b>
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
<b>Core Net Profit</b>	<b>24.3</b>	<b>28.8</b>	<b>32.4</b>	<b>37.8</b>	<b>43.7</b>
<b>Growth (%)</b>					
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
<b>Total Assets</b>	<b>929.8</b>	<b>1,014.9</b>	<b>1,071.2</b>	<b>1,130.9</b>	<b>1,195.9</b>
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
<b>Total Liabilities</b>	<b>403.9</b>	<b>459.8</b>	<b>493.0</b>	<b>520.4</b>	<b>548.4</b>
Shareholders' Equity	525.9	555.0	578.2	610.5	647.5
<b>Total Equity and Liabilities</b>	<b>929.8</b>	<b>1,014.9</b>	<b>1,071.2</b>	<b>1,130.9</b>	<b>1,195.9</b>

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

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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