

02 March 2015

Malaysia Steel Works

Above Expectations

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- Period**
 - 4Q14/FY14
- Actual vs. Expectations**
 - FY14 core net profit (CNP) of RM32.1m came in above our and consensus expectation at 116.1% and 140.1% of full-year estimates, respectively. We derived the CNP after excluding one-off items namely: (i) unrealised foreign exchange loss of RM8.2m, (ii) provision for impairment of stock of RM0.2m, and (iii) reversal of doubtful debts of RM0.1m.
 - The positive variance was due to: (i) higher-than-expected sales volume, and (ii) higher sales margin. We believe the reduction in raw material prices is mainly attributed to the below-than-expected decline in scrap prices.
- Dividends**
 - **Slightly below expectations.** No dividend declared this quarter. Cumulatively, it declared 1.0 sen DPS, slightly lower than our forecast of 1.3 sen.
- Key Result Highlights**
 - **4Q14 CNP rose by 172.1% QoQ and 4.5% YoY**, respectively, driven by higher sales volume and higher margin and absence of plant maintenance. We believe that the higher margin was contributed by lower raw material costs i.e. decline in scrap prices (-6.1% QoQ, -23.3% YoY).
- Outlook**
 - **Challenging in the near-medium-term** due to the absence of anti-dumping trade actions by the government. We reaffirm our view that the absence of remedies from the government to curb the rising import activities of steel products could lead to: (i) declining local steel players' market share, and (ii) depressed steel prices.
 - We also believe that the booming construction activities in the local market may not help the local steel industry to fully recover if the oversupply situation in major global producers (e.g. China and South Korea) persists.
- Change to Forecasts**
 - Despite the above-than-expected results, we opt to be conservative for now by maintaining our FY15E NP (RM35.0m). We also introduce our FY16E earnings of RM42.2m, implying 20.9% growth. Our forecasts are based on the assumption of steel rebar price of RM1,900/MT-RM2,052/MT in FY15-16E.
- Rating**

Maintain MARKET PERFORM
- Valuation**
 - While we remain concerned on the steel industry fundamentals due to the absence of anti-dumping trade actions by the government, we still like the fact that MASTEEL is upgrading its plant to achieve better efficiency and hence higher margins.
 - All in, we reiterate our TP at RM0.92 based on unchanged ascribed FY15E PBV of 0.33x. The PBV of 0.33x reflects MASTEEL's -1.0SD valuation.
- Risks to Our Call**
 - Lower-than-expected steel prices.
 - Higher-than-expected raw material and electricity costs.

MARKET PERFORM ↔

Price: RM0.88
Target Price: RM0.92 ↔

Share Price Performance



KLCI	1,821.21
YTD KLCI chg	3.4%
YTD stock price chg	-5.4%

Stock Information

Bloomberg Ticker	MSW MK Equity
Market Cap (RM m)	210.3
Issued shares	239.0
52-week range (H)	1.12
52-week range (L)	0.80
3-mth avg daily vol:	180,761
Free Float	60%
Beta	1.1

Major Shareholders

TYE RESOURCES SDN BH	30.2%
NG BENG HOO	5.3%
LEMBAGA TABUNG HAJI	4.7%

Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	1,452	1,570	1,871
EBIT	45	54	54
PBT	28	37	44
Net Profit (NP)	16	35	42
Core NP*	32	35	42
Consensus (NP)	23	33	36
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	14.2	15.4	18.6
Core EPS growth (%)	4.5	8.9	20.9
NDPS (sen)	1.0	1.7	2.1
BVPS (RM)	2.55	2.69	2.85
Core PER	6.2	5.7	4.7
Price/NTA (x)	0.3	0.3	0.3
Net Gearing (x)	0.5	0.5	0.5
Net Dvd Yield (%)	1.1	1.9	2.4

* Core net profit excludes foreign exchange gain/loss, provision for impairment of stock and reversal of doubtful debts

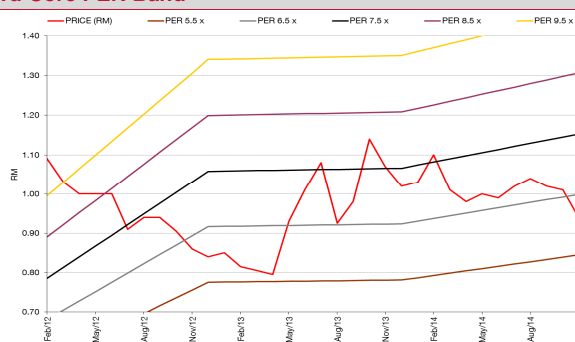
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Result Highlight

Y/E : Dec (RM'm)	4Q FY14	3Q FY14	QoQ Chg	4Q FY13	YoY Chg	FY14	FY13	YoY Chg
Turnover	392.2	362.1	8.3%	352.0	11.4%	1,451.9	1,375.4	5.6%
EBITDA	16.9	13.0	30.2%	16.4	3.3%	67.1	65.8	2.0%
EBIT	11.3	7.4	53.1%	10.5	7.5%	44.7	44.2	1.3%
Interest income / (expense)	-5.0	-3.7	32.8%	-4.7	6.1%	-16.2	-15.1	7.3%
Income from Associates	-0.2	-0.2	-10.2%	0.0	n.m.	-0.4	-0.1	401.3%
Pretax profit	6.4	3.7	73.9%	5.8	8.6%	28.5	29.0	-1.9%
Taxation	-1.7	-9.6	-82.5%	-0.4	296.9%	-12.3	-1.9	533.6%
Profit after tax	4.5	-6.1	n.m.	5.4	-16.4%	15.8	27.0	-41.5%
Core Net Profit (NP)	12.8	4.7	172.1%	3.2	294.9%	32.1	30.7	4.5%
Core EPS (sen)	5.7	2.1	168.3%	1.5	280.6%	14.2	14.1	0.7%
DPS (sen)	0.0	0.0	n.m.	0.5	-100.0%	1.0	0.0	n.m.
EBITDA margin	4.3%	3.6%		4.7%		4.6%	4.8%	
EBIT margin	2.9%	2.0%		3.0%		3.1%	3.2%	
Pretax margin	1.6%	1.0%		1.7%		2.0%	2.1%	
Effective tax rate	26.3%	261.8%		7.2%		43.2%	6.7%	

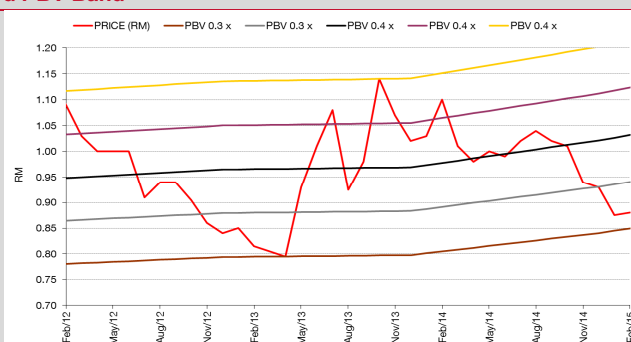
Source: Company, Kenanga Research

Fwd Core PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

Company Name	Price (27- Feb- 2015)	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)	FY14A	FY15F				FY16F	(%)	(%)				
CORE COVERAGE															
ANN JOO RESOURCES BHD	1.05	526	14.0	13.1	12.2	4.3%	3.5%	0.5	37.4	40.2	43.2	7%	7%	1.08	UNDERPERFORM MARKET
MALAYSIA STEEL WORKS KL BHD	0.88	210	6.2	5.7	4.7	1.9%	5.6%	0.3	32.1	34.9	42.2	9%	21%	0.92	PERFORM
LAFARGE MALAYSIA BHD	10.10	8,582	33.4	24.7	23.2	4.0%	8.2%	2.7	257.1	348.0	369.3	35%	6%	8.20	UNDERPERFORM
PRESS METAL BERHAD	3.01	3,892	8.2	8.9	7.5	5.0%	16.7%	1.2	313.5	381.1	450.4	22%	18%	5.18	OUTPERFORM

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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