



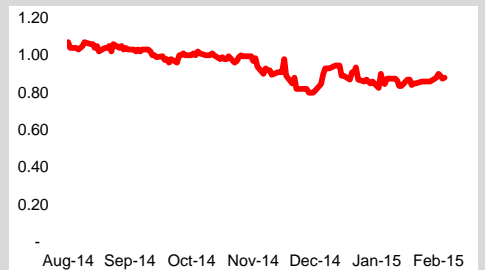
**DESCRIPTION**

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

12-Month Target Price RM1.10  
Current Price RM0.880  
Expected Return 37.5%

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

**SHARE PRICE CHART**



52 Week Range (RM) 0.80-1.12  
3-Month Average Vol ('000) 180.8

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	6.1	-9.8	-19.0
Relative Returns	-3.3	-10.3	-18.6

**KEY STOCK DATA**

Market Capitalisation (RM m) 210.3  
No. of Shares (m) 237.7

**MAJOR SHAREHOLDERS**

	%
Dato' Sri Tai Hean Leng	30.9
Raya Rekajaya S/B	3.9
Kemajuan Rekacekap S/B	3.0

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**Dragged By Unrealised FX Loss**

Malaysia Steel Works (Masteel) reported a core net profit of RM24.2m for FY14 after stripping out RM7.5m in unrealized foreign exchange losses. The results surpassed our and consensus forecasts by 13% and 5% respectively. Surprisingly, no dividend was declared for the quarter. We upgrade Masteel from neutral to **Outperform** with an unchanged TP of RM1.10 given the more than 37% potential upside to our target price which is an inexpensive 10x multiple to FY15 EPS.

- **4QFY14 revenue (QoQ: +8.3%, YoY: +11.4%).** The Group's topline improved to RM392.1m driven by higher sales volume.
- **4QFY14 core net profit jumped to RM13.1m.** The company would have made RM13.1m compared to RM3.6m last year after stripping out foreign exchange losses. Pre-tax margin increased slightly from 1.1% to 1.6%. We believe the higher earnings margin is attributed to lower scrap metal cost (YoY: -23%, QoQ: -9.3%), which has fallen at a larger pace than steel prices (YoY: -18%, QoQ: -3.8%).
- **Prospects.** Management guided that its bar sales volume will increase 10% for the 1H upon the commissioning of the new rolling mill in 2Q. Meanwhile, earnings margin is expected to improve in the coming quarters attributed to i) continued decline in scrap prices, ii) the 5.8% reduction in electricity tariffs from March till June 2015, iii) higher production volume, iv) suspension of natural gas price revision by the government and v) Chinese steel imports bottoming out. Meanwhile, the company does not see any material impact from the impending imposition of GST on the company's products.
- **Update on the rail project.** The Ministry of Transportation will speed up the reviewing and updating process of the project and recommend its re-tabling to the Economic Council by this year.
- **Outperform.** We upgrade our call from neutral to outperform with an unchanged TP of RM1.10. Current share price is also trading at a 64% discount to its current book value of RM2.44.

**KEY FINANCIAL SUMMARY (RM m)**

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F	CAGR
Revenue	1,375.4	1,451.9	1,615.3	1,761.3	1,834.3	7.5%
Gross Profit	47.8	52.7	44.6	50.2	54.0	3.1%
Pre-tax Profit	30.7	28.1	27.4	32.4	35.7	3.9%
Core Net Profit	27.0	24.2	25.7	30.4	33.5	5.6%
EPS (Sen)	11.3	10.1	10.8	12.7	14.1	3.9%
P/E (x)	7.7	8.7	8.1	6.9	6.2	
DPS (Sen)	1.0	0.0	1.2	1.4	1.6	
Dividend Yield (%)	0.7	0.0	1.2	1.4	1.6	

Source: Company, PublicInvest Research estimates

**Figure 1: Results Summary**

<b>FY Dec (RM'm)</b>	<b>4Q14</b>	<b>4Q13</b>	<b>3Q14</b>	<b>QoQ chg (%)</b>	<b>YoY chg (%)</b>	<b>YTD FY14</b>	<b>YTD FY13</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Revenue	392.1	351.9	362.1	8.3	11.4	1,451.9	1,375.4	5.6	Driven by higher sales volume
Operating exp	-372.3	-345.0	-352.8	5.5	7.9	-	-	4.9	
<b>Gross profit</b>	<b>19.8</b>	<b>6.9</b>	<b>9.3</b>	<b>112.9</b>	<b>187.0</b>	<b>52.7</b>	<b>41.8</b>	<b>26.1</b>	
Other expenses	-8.5	0.0	-1.9	-	-	-10.5	0.0	-	
Other income	0.0	-0.2	0.0	-	-	2.5	2.2	13.6	
Interest income	0.0	0.0	0.0	-	-	0.2	0.2	-	
Finance cost	-5.0	-2.7	-3.7	35.1	85.2	-16.4	-15.1	8.6	
Share of results of associated company	-0.2	0.0	-0.2	0.0	#DIV/0!	-0.4	0.0	#DIV/0!	
<b>Pre-tax profit</b>	<b>6.1</b>	<b>4.0</b>	<b>3.5</b>	<b>74.3</b>	<b>52.5</b>	<b>28.1</b>	<b>29.1</b>	<b>-3.4</b>	
Taxation	-1.6	-0.4	-9.5	-83.2	300.0	-12.3	-1.9	-	
<b>Net profit</b>	<b>4.5</b>	<b>3.6</b>	<b>-5.8</b>	<b>-177.6</b>	<b>25.0</b>	<b>15.8</b>	<b>27.2</b>	<b>-41.9</b>	
Core net profit	12.2	3.6	-5.8	-310.3	238.9	24.2	27.2	-11.0	After stripping unrealised FX loss of RM7.5m
Diluted EPS (sen)	1.4	1.1	-1.8	-177.6	25.0	4.9	8.4	-41.9	
DPS (sen)	0.0	0.0	0.0	-	-	0.0	0.0	-	No dividend was proposed for the quarter
Gross Margin (%)	5.0	2.0	2.6	-	-	3.6	3.0	-	
Pre-tax Margin (%)	1.6	1.1	1.0	-	-	1.9	2.1	-	
Net Margin (%)	1.1	1.0	-1.6	-	-	1.1	2.0	-	

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Revenue	1,375.4	1,451.9	1,615.3	1,761.3	1,834.3
Gross Profit	75.1	52.7	81.1	90.5	100.4
Finance Cost	-15.1	-16.4	-16.7	-17.2	-17.8
Others	2.5	-7.4	0.0	0.0	0.0
Pre-tax Profit	28.9	28.1	22.7	27.4	32.4
Income Tax	-1.9	-12.3	-1.4	-1.7	-2.0
Effective Tax Rate (%)	2.4	43.7	6.1	6.1	6.1
Core Net Profit	27.0	24.2	25.7	30.4	33.5
<b>Growth (%)</b>					
Revenue	4.7	5.5	11.3	9.6	9.0
Gross Profit	-1.5	-29.8	-10.7	13.2	12.6
Core Net Profit	0.0	-10.3	-62.6	20.5	18.5

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Fixed assets	460.1	536.7	518.9	505.2	491.3
Other long-term assets	8.0	8.9	8.0	8.0	8.0
Cash at Bank	54.7	31.2	37.7	53.6	72.8
Other current assets	407.0	509.8	498.8	546.0	594.7
<b>Total Assets</b>	<b>929.8</b>	<b>1,086.6</b>	<b>1,063.4</b>	<b>1,112.9</b>	<b>1,166.8</b>
ST Borrowings	248.3	278.7	264.0	264.0	264.0
LT Borrowings	35.4	34.5	45.2	55.2	65.2
Payables	120.2	186.9	185.4	202.9	221.1
<b>Total Liabilities</b>	<b>403.9</b>	<b>509.8</b>	<b>494.6</b>	<b>522.1</b>	<b>550.3</b>
Shareholders' Equity	525.9	576.8	568.8	590.7	616.5
<b>Total Equity and Liabilities</b>	<b>929.8</b>	<b>1,086.6</b>	<b>1,063.4</b>	<b>1,112.9</b>	<b>1,166.8</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2013A	2014A	2015F	2016F	2017F
Book Value Per Share	1.6	2.4	1.8	1.8	1.9
NTA Per Share (Sen)	1.6	2.4	1.8	1.8	1.9
EPS (sen)	11.3	10.1	8.0	9.4	10.4
DPS (sen)	1.0	0.0	1.2	1.4	1.6
Payout Ratio (%)	17.7	0.0	15.0	15.0	15.0
ROA (%)	2.6	1.4	2.0	2.3	2.6
ROE (%)	4.6	2.7	3.7	4.3	4.9

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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