



MALAYSIA STEEL WORKS (KL)

Neutral

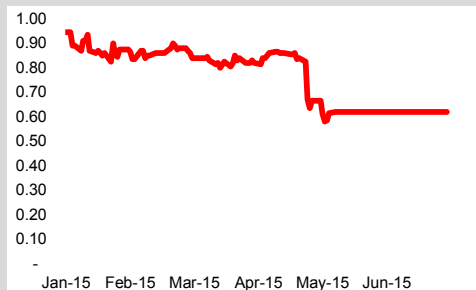
DESCRIPTION

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

12-Month Target Price	RM0.54
Current Price	RM0.62
Expected Return	-12.9%

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

SHARE PRICE CHART



52 Week Range (RM)	0.58-1.12
3-Month Average Vol ('000)	820.2

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-27.9	-27.1	-36.7
Relative Returns	-26.6	-27.0	-36.2

KEY STOCK DATA

Market Capitalisation (RM m)	151.3
No. of Shares (m)	244.0

MAJOR SHAREHOLDERS

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

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Hit By Weaker Margins

Malaysia Steel Works (Masteel) reported a loss of RM6.8m for 1QFY15 after stripping out RM3.9m in foreign exchange losses. The results, which were hit by weaker steel product prices and lower sales volume as well as an increase in operating costs, were substantially below our and market expectations. Meanwhile, a final dividend of 1.3sen for FY14 was proposed and will be subject to shareholders' approval during the upcoming AGM. We downgrade the stock from Outperform to **Neutral** with a new TP of RM0.54 based on P/B of 0.3x (down from 0.6x) after rolling over valuations to FY16.

- **1QFY15 revenue (QoQ: -17%, YoY: -3.6%).** Compared to 1QFY14, The Group's topline dropped 3.6% to RM325.4m. The weaker sales were mainly due to a decline in sales volume and steel bar selling prices, which came down from USD542/mt to USD410/mt, a 24% drop.
- **Made a loss of RM6.8m.** The company would have made a loss of RM6.8m compared to RM7.2m profit last year after stripping out foreign exchange losses of RM3.9m (unrealized FX loss: RM2.8m, realized FX: RM1.1m). The Group also posted a mild loss at the operating level, signaling the tough working environment for the company.
- **Challenging outlook.** Other than weaker steel prices, the Group also had to face cheap imported steel products delivered in 1H15, which hit local steel prices severely. The increase in natural gas prices to industries by RM2.03 per MMBtu translating to a 10% hike starting this month is going to further weaken its profit margin. Lastly, the substantial drop in the Ringgit has also put more pressure on its raw material costs. Despite the challenges, the Group continues its downstream expansion with an increase of 50,000mt this year.
- **More stringent policies implemented on steel industry.** The Malaysian Government has approved a 5% import duty on all carbon steel bar (HS 7214) and wire rods (HS 7213) effective 11th June 2015, which is aimed at helping avoid price competition by reducing sub-standard steel bar imports from China.
- **Lowering our earnings forecasts.** Given the weaker outlook on steel prices, we lower our earnings forecasts by a significant 50%-65% for FY15-17 after imputing lower steel product prices and higher operating costs in our forecasts. The coming 2QFY15 may also see further losses given the weak steel product prices and more cost pressures. Suspension of Masteel's trading is expected to be uplifted on 9 July 2015 while the AGM will be held on 3 Aug 2015.

KEY FINANCIAL SUMMARY (RM m)

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F	CAGR
Revenue	1,375.4	1,456.3	1,276.7	1,379.3	1,547.5	3.0%
Gross Profit	47.8	44.6	29.3	32.8	38.1	-5.5%
Pre-tax Profit	30.7	28.1	11.8	14.9	19.6	-10.6%
Core Net Profit	27.0	15.8	8.9	11.1	14.7	-14.1%
Diluted EPS (Sen)	8.9	4.9	2.7	3.5	4.6	-15.4%
P/E (x)	7.4	12.7	22.6	18.0	13.6	
DPS (Sen)	1.0	1.3	0.7	0.9	1.2	
Dividend Yield (%)	1.1	2.1	1.2	1.5	2.0	

Source: Company, PublicInvest Research estimates

Figure 1: Results Summary

FY Dec (RM'm)	1Q15	1Q14	4Q14	QoQ chg (%)	YoY chg (%)	YTD FY15	YTD FY14	YoY chg (%)	Comments
Revenue	325.4	337.6	392.1	-17.0	-3.6	325.4	337.6	-3.6	Hit by a decline in sales volume and steel product prices
Operating exp	-326.2	-327.7	-372.3	-12.4	-0.5	-326.2	-327.7	-0.5	
Gross profit	-0.8	9.9	19.8	-104.0	-108.1	-0.8	9.9	-108.1	
Other expenses	-3.9	0.0	-8.5	-	-	-3.9	0.0	-	Due to losses in FX
Other income	0.0	1.7	0.0	-	-	0.0	1.7	-100.0	
Interest income	0.0	0.0	0.0	-	-	0.0	0.0	-	
Finance cost	-5.2	-4.0	-5.0	4.0	30.0	-5.2	-4.0	30.0	
Share of results of associate	0.0	0.0	-0.2	-	-	0.0	0.0	-	
Pre-tax profit	-9.9	7.6	6.3	-257.1	-230.3	-9.9	7.6	-230.3	
Taxation	-0.8	-0.4	-1.7	-52.9	100.0	-0.8	-0.4	-	
Net profit	-10.7	7.2	4.6	-332.6	-248.6	-10.7	7.2	-248.6	Affected by an increase in operating costs as well as weaker sales revenue
Diluted EPS (sen)	-3.3	2.2	1.4	-332.6	-248.6	-3.3	2.2	-248.6	
DPS (sen)	0.0	0.0	1.3	-	-	0.0	0.0	-	No dividend was declared for the quarter
Gross Margin (%)	-0.2	2.9	2.6	-	-	-0.2	2.9	-	
Pre-tax Margin (%)	-3.0	2.3	1.0	-	-	-3.0	2.3	-	
Net Margin (%)	-3.3	2.1	-1.6	-	-	-3.3	2.1	-	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Revenue	1,375.4	1,456.3	1,276.7	1,379.3	1,547.5
Gross Profit	45.7	98.6	65.1	71.7	82.0
Finance Cost	47.8	44.6	29.3	32.8	38.1
Others	-17.2	-16.1	-17.4	-18.0	-18.5
Pre-tax Profit	30.7	28.1	11.8	14.9	19.6
Income Tax	-1.9	-12.3	-3.0	-3.7	-4.9
Effective Tax Rate (%)	6.2	43.8	25.0	25.0	25.0
Core Net Profit	28.8	15.8	8.9	11.1	14.7
Growth (%)					
Revenue	4.8	5.9	-12.3	8.0	12.2
Gross Profit	18.9	1.1	-34.4	12.2	16.2
Core Net Profit	22.6	-41.5	-43.8	25.6	32.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Fixed assets	482.3	536.7	524.0	511.1	497.8
Other long-term assets	8.8	8.9	8.0	8.0	8.0
Cash at Bank	45.9	42.2	87.1	96.3	94.6
Other current assets	477.9	501.4	444.4	479.6	537.5
Total Assets	1,014.9	1,089.2	1,063.5	1,095.0	1,137.9
ST Borrowings	264.0	278.7	278.7	278.7	278.7
LT Borrowings	25.2	34.5	44.5	54.5	64.5
Payables	170.6	189.7	169.3	182.7	204.8
Total Liabilities	459.8	502.9	492.5	515.9	548.0
Shareholders' Equity	555.0	576.8	571.0	579.1	589.9
Total Equity and Liabilities	1,014.9	1,079.7	1,063.5	1,095.0	1,137.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2013A	2014A	2015F	2016F	2017F
Book Value Per Share	1.7	1.8	1.8	1.8	1.8
NTA Per Share (Sen)	1.7	1.8	1.8	1.8	1.8
EPS (sen)	8.9	4.9	2.7	3.5	4.6
DPS (sen)	1.0	1.3	0.7	0.9	1.2
Payout Ratio (%)	5.6	26.6	26.6	26.6	26.6
ROA (%)	2.8	1.5	0.8	1.0	1.3
ROE (%)	5.2	2.7	1.6	1.9	2.5

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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Published and printed by:
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