

Malaysia Steel Works (MSW MK)

Basic Materials - Metals

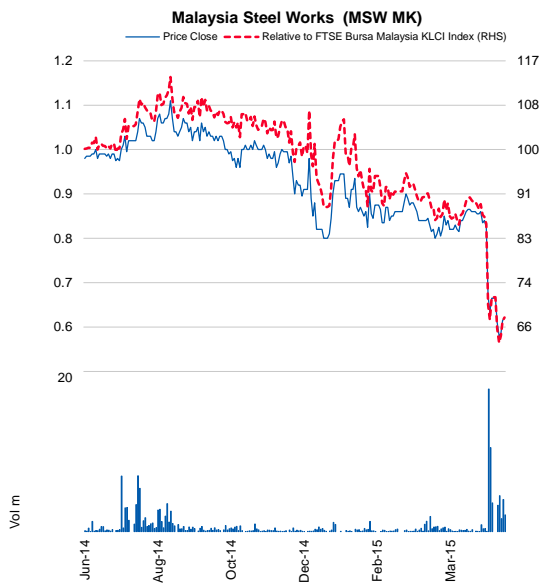
Market Cap: USD40.4m

Neutral (from Buy)

Target Price: MYR0.63

Price: MYR0.62

FY14 Audited Accounts Qualified

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.68m/0.19m
Cons. Upside (%)	62.9
Upside (%)	1.6
52-wk Price low/high (MYR)	0.58 - 1.11
Free float (%)	35
Share outstanding (m)	244
Shareholders (%)	
TYT Resources	30.9
Lembaga Tabung Haji	5.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.3)	(27.9)	(26.2)	(37.4)	(38.0)
Relative	(31.7)	(21.8)	(22.5)	(32.3)	(30.8)

Shariah compliant

Ng Sem Guan, CFA +603 9207 7678

ng.sem.guan@rhbgroup.com

Masteel finally issued its FY14 audited accounts – the accounts were qualified by Nexia although UHY was satisfied with the classification of advance payments and found trade debtors properly supported following its special audit exercise. Downgrade to NEUTRAL (from Buy) with a lower MYR0.63 TP (from MYR1.16, 2% upside), as investors may adopt a more prudent valuation on the company after the incident.

- ◆ **FY14 accounts qualified.** Yesterday, Malaysia Steel Works (Masteel) finally issued its FY14 audited accounts. Although without any adjustment, the accounts were qualified by its existing external auditor – Messrs Nexia SSY (Nexia).
- ◆ **Special audit clears accounting doubts.** Masteel engaged UHY Advisory (KL) SB (UHY) to conduct an independent review of the issues after Nexia raised concerns with respect to: i) the treatment/classification of an amount due to a multinational commodity trader as trade deposits despite said trader continuously declining deliveries of the orders – which had triggered the repayment of the earlier deposit, and ii) the recoverability of MYR287.2m from its trade debtors as the relevant accounts receivable records contained a number of credit entries and other adjustments that looked like possible specific misstatements. After six week of special audit, UHY was satisfied that the classification of advance payments was in accordance with the Malaysian Financial Reporting Standards. Additionally, it believed the trade debtors under review were properly supported with the amounts due fully repaid in accordance with the agreed trade credit terms.
- ◆ **Downgrade to NEUTRAL, TP lowered to MYR0.63.** The counter will remain suspended until further notice. Although UHY's special audit managed to help clear doubts raised by Nexia, its accounts remain qualified. We expect Masteel's impending 1Q15 results to be weak, thus share price will likely remain depressed upon resumption of trading, although downside may be limited. Thus, we decided to value the company at -2SD (from +2SD) of its 5-year historical trading range, arriving at a lower MYR0.63 TP. The new TP implies P/Es of 6.2x/4.3x/4.0x on FY15/FY16/FY17 EPS respectively. We downgrade the company to NEUTRAL (from Buy), as we think investors may adopt a more prudent valuation on Masteel after the incident.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	1,375	1,452	1,260	1,298	1,305
Reported net profit (MYRm)	28.8	15.8	32.1	46.2	50.2
Recurring net profit (MYRm)	28.8	15.8	32.1	46.2	50.2
Recurring net profit growth (%)	18.2	(45.1)	103.4	43.9	8.6
Recurring EPS (MYR)	0.13	0.07	0.12	0.14	0.16
DPS (MYR)	0.02	0.00	0.01	0.01	0.02
Recurring P/E (x)	4.74	9.00	5.37	4.30	3.96
P/B (x)	0.25	0.25	0.30	0.28	0.27
P/CF (x)	2.95	5.05	2.46	2.37	2.16
Dividend Yield (%)	2.4	0.0	1.6	2.3	2.5
EV/EBITDA (x)	5.31	6.13	3.68	3.03	2.32
Return on average equity (%)	5.3	2.8	5.2	6.8	6.9
Net debt to equity (%)	41.2	47.0	28.5	18.6	8.4
Our vs consensus EPS (adjusted) (%)			(9.2)	(5.7)	1.1

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-02-27	Buy	1.16	0.88
2014-11-28	Buy	1.26	0.94
2014-08-28	Buy	1.31	1.07
2014-05-29	Neutral	1.05	1.00
2014-02-28	Neutral	1.10	1.10
2013-12-03	Neutral	1.07	1.07
2013-12-02	Trading Buy	1.30	1.05
2013-09-02	Trading Buy	1.08	0.91
2013-08-26	Neutral	1.08	0.94
2013-06-03	Trading Buy	1.08	0.95

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB OSK Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB OSK Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jend. Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB OSK (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Phnom Penh

RHB OSK Indochina Securities Limited
No. 1-3, Street 271
Sangkat Toeuk Thla, Khan Sen Sok
Phnom Penh
Cambodia
Tel: +(855) 23 969 161
Fax: +(855) 23 969 171

Bangkok

RHB OSK Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799