



**MALAYSIA STEEL WORKS (KL)**

**Neutral**

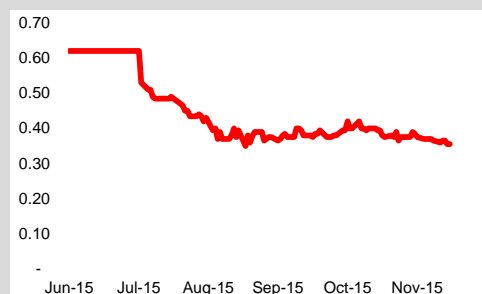
**DESCRIPTION**

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

12-Month Target Price RM0.40  
Current Price RM0.355  
Expected Return 12.6%

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

**SHARE PRICE CHART**



52 Week Range (RM) 0.33-1.00  
3-Month Average Vol ('000) 425.4

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	-4.0	2.9	-
Relative Returns	-5.1	-14.4	-40.7

**KEY STOCK DATA**

Market Capitalisation (RM m) 85.4  
No. of Shares (m) 244.1

**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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**Narrower Loss**

Malaysia Steel Works (Masteel) reported a core net loss of RM23.9m for 9MFY15 after stripping out RM25.1m in net foreign exchange losses. The results, which were also hit by weaker steel product prices and lower sales volume, were within our expectations. We continue to maintain our **Neutral** call with an unchanged TP of RM0.40 based on P/B of 0.20x.

§ **3QFY15 revenue (QoQ: +24.4%, YoY: -16.7%)** Compared to 3QFY14, the Group's topline dropped 16.7% to RM301.4m. The weaker sales were mainly due to weaker sales volume and a sharp decline in steel bar selling prices, which have fallen more than 28% YoY to RM1,480/mt (3QFY14: RM2,070/mt). During the quarter, the company increased its exports sales (made up 21% of total revenue) due to weaker demand in the local market.

§ **3QFY15 losses narrowed to RM5.3m.** The company would have made a loss of RM5.3m in 3QFY15 compared to the RM11.4m loss last quarter after stripping out net foreign exchange losses of RM18.6m (unrealized FX loss: RM17.3m, realized FX gain: RM1.3m). However, the losses expanded by 29% compared to 3QFY14. At the operating level, the company made a small gross profit of RM569,000.

§ **Stricter regulations in the pipeline.** Besides pushing for a 5% import duty on steel bars and stricter enforcement on illegal use of non-Malaysian standard compliance steel products, the local steel industry is also looking toward the implementation of a 35% safe guard duty to protect local interests. It will be tabled to Ministry of International Trade and Industry this month and will be on a retrospective basis once it is successfully imposed.

§ **Outlook.** The current steel bar prices of RM1,350/mt are a challenge for all players in the steel industry as it is well below the break-even level of RM1,800/m. Despite the challenging business environment, management targets a turnaround next year, driven by higher sales contribution from the new 150,000mt/year rolling mill as well as improved margins from the more premium steel bar products. On the plus side, the weak local currency has made China's steel products less competitive compared to local steel products, somewhat alleviating some competitive pressures. All-in, the Group has a total of 700,000mt capacity for its upstream production with downstream standing at about 600,000mt.

**KEY FINANCIAL SUMMARY (RM m)**

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F	CAGR
Revenue	1,375.4	1,456.3	1,250.8	1,379.3	1,547.5	3.0%
Gross Profit/(Loss)	47.8	44.6	-25.1	-11.3	2.5	
Pre-tax Profit/(Loss)	30.7	28.1	-42.5	-29.3	-16.0	
Net Profit/(Loss)	27.0	15.8	-31.9	-22.2	-12.1	
EPS (sen)	11.1	6.5	-13.1	-9.1	-5.0	
P/E (x)	3.3	5.7	-	-	-	
DPS (Sen)	1.0	1.3	1.0	1.0	1.0	
Dividend Yield (%)	2.8	3.6	2.8	2.8	2.8	

Source: Company, PublicInvest Research estimates

**Figure 1: Results Summary**

<b>FY Dec (RM'm)</b>	<b>3Q15</b>	<b>3Q14</b>	<b>2Q15</b>	<b>QoQ chg (%)</b>	<b>YoY chg (%)</b>	<b>YTD FY15</b>	<b>YTD FY14</b>	<b>YoY chg (%)</b>	<b>Comments</b>
Revenue	301.4	362.0	242.2	24.4	-16.7	869.0	1,059.7	-18.0	Hit by weaker selling price and sales volume because of stiff competition from China
Operating exp	-300.8	-352.8	-248.8	20.9	-14.7	-875.8	-	-14.7	
<b>Gross profit</b>	<b>0.6</b>	<b>9.2</b>	<b>-6.6</b>	<b>-109.1</b>	<b>-93.5</b>	<b>-6.8</b>	<b>32.8</b>	<b>&lt;100</b>	
Other expenses	-18.6	-2.0	-2.8	>100	>100	-25.4	-2.0	>100	Due to unrealised FX loss
Other income	0.0	0.0	0.3	-	-	0.2	2.4	-91.7	
Interest income	0.0	0.0	0.0	-	-	0.0	0.1	-100.0	
Finance cost	-4.3	-3.7	-3.2	34.4	16.2	-12.8	-11.4	12.3	
Share of results of associate	0.0	-0.2	-0.1	-	-	-0.2	-0.2	-	
<b>Pre-tax profit</b>	<b>-22.3</b>	<b>3.5</b>	<b>-12.3</b>	<b>81.3</b>	<b>-737.1</b>	<b>-44.8</b>	<b>21.9</b>	<b>-304.6</b>	
Taxation	-1.7	-9.5	-1.7	0.0	-82.1	-4.2	-10.6	-	
<b>Net profit</b>	<b>-24.0</b>	<b>-6.0</b>	<b>-14.0</b>	<b>71.4</b>	<b>&gt;100</b>	<b>-49.0</b>	<b>11.3</b>	<b>&lt;100</b>	
Core net profit/ (Loss)	-5.3	-4.1	-11.4	-53.5	29.3	-23.9	10.7	<100	After stripping out unrealised FX loss
Diluted core EPS (sen)	-2.2	-1.7	-4.7	-53.5	29.3	-9.8	4.4	-323.4	
DPS (sen)	0.0	0.0	0.0	-	-	0.0	0.0	-	No dividend was declared for the quarter
Gross Margin (%)	0.2	2.5	-2.7	-	-	-0.8	3.1	-	
Pre-tax Margin (%)	-7.4	1.0	-5.1	-	-	-5.2	2.1	-	
Net Margin (%)	-8.0	-1.7	-5.8	-	-	-5.6	1.1	-	

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	1,250.8	1,379.3	1,547.5
Gross Profit	45.7	98.6	10.0	27.6	46.4
Finance Cost	47.8	44.6	-25.1	-11.3	2.5
Others	-17.2	-16.1	-17.4	-18.0	-18.5
Pre-tax Profit	30.7	28.1	-42.5	-29.3	-16.0
Income Tax	-1.9	-12.3	10.6	7.0	3.8
Effective Tax Rate (%)	6.2	43.8	25.0	24.0	24.0
Core Net Profit	28.8	15.8	-31.9	-22.2	-12.1
<b>Growth (%)</b>					
Revenue	4.8	5.9	-14.1	10.3	12.2
Gross Profit	18.9	1.1	-156.2	-54.9	-122.5
Core Net Profit	22.6	-41.5	-301.8	-30.2	-45.5

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	52.7	23.4	-3.9
Other current assets	477.9	501.4	442.0	485.0	541.8
<b>Total Assets</b>	<b>1,014.9</b>	<b>1,089.2</b>	<b>1,026.7</b>	<b>1,027.4</b>	<b>1,043.7</b>
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	173.4	188.9	209.7
<b>Total Liabilities</b>	<b>459.8</b>	<b>502.9</b>	<b>496.6</b>	<b>522.1</b>	<b>552.9</b>
Shareholders' Equity	555.0	576.8	530.2	505.4	490.8
<b>Total Equity and Liabilities</b>	<b>1,014.9</b>	<b>1,079.7</b>	<b>1,026.7</b>	<b>1,027.4</b>	<b>1,043.7</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2013A	2014A	2015F	2016F	2017F
Book Value Per Share	1.7	2.4	2.2	2.1	2.0
NTA Per Share (Sen)	1.7	2.4	2.2	2.1	2.0
EPS (sen)	11.1	6.5	-13.1	-9.1	-5.0
DPS (sen)	1.0	1.3	1.0	1.0	1.0
Payout Ratio (%)	5.6	26.6	0.0	0.0	0.0
ROA (%)	2.8	1.5	-3.1	-2.2	-1.2
ROE (%)	5.2	2.7	-6.0	-4.4	-2.5

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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