



### MALAYSIA STEEL WORKS (KL)

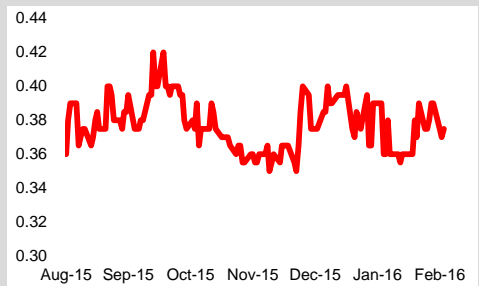
### Neutral

#### DESCRIPTION

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

|                       |         |
|-----------------------|---------|
| 12-Month Target Price | RM0.40  |
| Current Price         | RM0.375 |
| Expected Return       | 6.7%    |
| Market                | Main    |
| Sector                | Steel   |
| Bursa Code            | 5098    |
| Bloomberg Ticker      | MSW MK  |
| Shariah-compliant     | Yes     |

#### SHARE PRICE CHART



|                            |           |
|----------------------------|-----------|
| 52 Week Range (RM)         | 0.33-0.90 |
| 3-Month Average Vol ('000) | 135.6     |

#### SHARE PRICE PERFORMANCE

|                  | 1M   | 3M  | 6M   |
|------------------|------|-----|------|
| Absolute Returns | -3.8 | 4.2 | 7.1  |
| Relative Returns | -6.1 | 6.9 | -7.3 |

#### KEY STOCK DATA

|                              |       |
|------------------------------|-------|
| Market Capitalisation (RM m) | 91.4  |
| No. of Shares (m)            | 243.9 |

#### 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 RM27.4m for FY15 after stripping out RM23.6m in unrealized and realized foreign exchange losses. The results, which were also hit by weaker steel product prices and lower sales volume, were better than our FY15 estimated loss of RM31.9m as 4Q losses were narrower. No dividend was proposed for the quarter. We continue to maintain our **Neutral** call with an unchanged TP of RM0.40 based on a P/B multiple of 0.2x.

- § **4QFY15 revenue (QoQ: -8.9%, YoY: -30%)** Compared to 4QFY14, the Group's topline dropped 30% to RM274.7m. The weaker numbers were mainly due to lower sales volumes and a further decline in steel bar selling prices, which have fallen more than 19% YoY to RM1,344/mt (4QFY14: RM1,659/mt). During the quarter, the company exported 5% of its steel products due to lackluster demand in the local market.
- § **4QFY15 losses narrowed to RM3.4m.** The company would have made a loss of RM3.4m in 4QFY15 compared to the RM4.5m profit in 4QFY14 after stripping out net foreign exchange gain of RM1.5m (unrealized FX gain: RM0.1m, realized FX gain: RM1.4m). At the operating level, the Group made a small gain of RM700k.
- § **Outlook.** The current steel bar prices of RM1,300/mt are a challenge for all players in the industry as it is well below the break-even level of RM1,800/mt. Despite the challenging business environment, management targets a turnaround this year, driven by higher sales contribution from the new 150,000mt/year rolling mill as well as improved margins from the higher-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.
- § **Gross gearing creeping up.** Due to the losses incurred in FY15 and ballooning borrowings, the company's gross gearing level has increased from 54% to 66%. The company may experience a liquidity squeeze should there be further expansions in the pipeline.

#### KEY FINANCIAL SUMMARY

| FYE Dec (RM m)        | 2014A   | 2015A   | 2016F   | 2017F   | 2018F   | CAGR |
|-----------------------|---------|---------|---------|---------|---------|------|
| Revenue               | 1,456.3 | 1,143.7 | 1,379.3 | 1,547.5 | 1,708.8 | 4.1% |
| Gross Profit/(Loss)   | 44.6    | 46.0    | -11.3   | 2.5     | 12.9    |      |
| Pre-tax Profit/(Loss) | 28.1    | -46.9   | -29.3   | -16.0   | -6.2    |      |
| Net Profit/(Loss)     | 15.8    | -27.4   | -22.2   | -12.1   | -4.7    |      |
| EPS (sen)             | 6.5     | -11.2   | -9.1    | -5.0    | -1.9    |      |
| P/E (x)               | 5.8     | -       | -       | -       | -       |      |
| DPS (Sen)             | 1.3     | -       | -       | -       | -       |      |
| Dividend Yield (%)    | 3.5     | -       | -       | -       | -       |      |

Source: Company, PublicInvest Research estimates

**Figure 1: Results Summary**

| <u>FY Dec (RM m)</u>          | <u>4Q15</u> | <u>4Q14</u> | <u>3Q15</u>  | <u>QoQ<br/>chg<br/>(%)</u> | <u>YoY<br/>chg<br/>(%)</u> | <u>YTD<br/>FY15</u> | <u>YTD<br/>FY14</u> | <u>YoY<br/>chg<br/>(%)</u> | <u>Comments</u>                                     |
|-------------------------------|-------------|-------------|--------------|----------------------------|----------------------------|---------------------|---------------------|----------------------------|---|
| Revenue                       | 274.7       | 392.2       | 301.4        | -8.9                       | -30.0                      | 1,143.6             | 1,456.2             | -21.5                      | Hit by weaker selling prices and lower sales volume |
| Operating exp                 | -261.2      | -363.2      | -300.8       | -13.2                      | -28.1                      | -                   | -                   | -19.1                      |   |
| <b>Gross profit</b>           | <b>13.5</b> | <b>29.0</b> | <b>0.6</b>   | <b>2,150.0</b>             | <b>-53.4</b>               | <b>45.8</b>         | <b>98.4</b>         | <b>&lt;100</b>             |   |
| Other expenses                | -12.8       | -9.2        | -18.6        | >100                       | >100                       | -77.6               | -58.8               | >100                       | Due to unrealised FX losses                         |
| Other income                  | 1.7         | 0.0         | 0.0          | -                          | -                          | 1.9                 | 4.6                 | -58.7                      |   |
| Interest income               | 0.0         | 0.0         | 0.0          | -                          | -                          | 0.2                 | 0.1                 | 100.0                      |   |
| Finance cost                  | -4.4        | -5.0        | -4.3         | 2.3                        | -12.0                      | -17.2               | -16.2               | 6.2                        |   |
| Share of results of associate | -0.2        | -0.2        | 0.0          | -                          | -                          | -0.5                | -0.4                | -                          |   |
| <b>Pre-tax profit</b>         | <b>-2.0</b> | <b>14.8</b> | <b>-22.3</b> | <b>-91.0</b>               | <b>-113.5</b>              | <b>-46.9</b>        | <b>28.1</b>         | <b>-266.9</b>              |   |
| Taxation                      | 0.1         | -2.0        | -1.7         | -105.9                     | -105.0                     | -4.0                | -12.3               | -                          |   |
| <b>Net profit</b>             | <b>-1.9</b> | <b>12.8</b> | <b>-24.0</b> | <b>-92.1</b>               | <b>&gt;100</b>             | <b>-50.9</b>        | <b>15.8</b>         | <b>&lt;100</b>             |   |
| Core net profit/ (Loss)       | -3.4        | 4.5         | -5.3         | -35.8                      | <-100                      | -27.4               | 15.8                | <100                       | After stripping out unrealised FX losses            |
| Diluted core EPS (sen)        | -1.4        | 1.8         | -2.2         | -35.8                      | -175.6                     | -11.2               | 6.5                 | -273.4                     |   |
| DPS (sen)                     | 0.0         | 0.0         | 0.0          | -                          | -                          | 0.0                 | 0.0                 | -                          | No dividend was declared for the quarter            |
| Gross Margin (%)              | 4.9         | 7.4         | 0.2          | -                          | -                          | 4.0                 | 6.8                 | -                          |   |
| Pre-tax Margin (%)            | -0.7        | 3.8         | -7.4         | -                          | -                          | -4.1                | 1.9                 | -                          |   |
| Net Margin (%)                | -0.7        | 3.3         | -8.0         | -                          | -                          | -4.5                | 1.1                 | -                          |   |

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

| FYE Dec (RM m)         | 2014A       | 2015A        | 2016F        | 2017F        | 2018F       |
|------------------------|-------------|--------------|--------------|--------------|-------------|
| Revenue                | 1,456.3     | 1,143.7      | 1,379.3      | 1,547.5      | 1,708.8     |
| Gross Profit           | <b>98.6</b> | <b>46.0</b>  | <b>27.6</b>  | <b>46.4</b>  | <b>61.5</b> |
| EBIT                   | 44.6        | -25.1        | -11.3        | 2.5          | 12.9        |
| Finance cost           | -16.1       | -17.2        | -18.0        | -18.5        | -19.0       |
| Pre-tax Profit/(loss)  | <b>28.1</b> | <b>-46.9</b> | <b>-29.3</b> | <b>-16.0</b> | <b>-6.2</b> |
| Income Tax             | -12.3       | -4.0         | 7.0          | 3.8          | 1.5         |
| Effective Tax Rate (%) | 43.8        | 8.5          | 24.0         | 24.0         | 24.0        |
| Core Net Profit/(loss) | <b>15.8</b> | <b>-27.4</b> | <b>-22.2</b> | <b>-12.1</b> | <b>-4.7</b> |
| <b>Growth (%)</b>      |             |              |              |              |             |
| Revenue                | 5.9         | -21.4        | 20.6         | 12.2         | 10.4        |
| Gross Profit           | 1.1         | -53.3        | -40.0        | 67.0         | 404.9       |
| Core Net Profit        | -41.5       | <-100        | -18.9        | -45.5        | -61.2       |

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

| FYE Dec (RM m)                      | 2014A          | 2015A          | 2016F          | 2017F          | 2018F          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets                        | 536.7          | 602.2          | 511.1          | 497.8          | 484.3          |
| Other long-term assets              | 8.9            | 8.4            | 8.0            | 8.0            | 8.0            |
| Cash at Bank                        | 42.2           | 14.9           | 23.4           | -3.9           | -21.9          |
| Other current assets                | 501.4          | 509.7          | 485.0          | 541.8          | 596.6          |
| <b>Total Assets</b>                 | <b>1,089.2</b> | <b>1,135.2</b> | <b>1,027.4</b> | <b>1,043.7</b> | <b>1,067.0</b> |
| ST Borrowings                       | 278.7          | 302.2          | 278.7          | 278.7          | 278.7          |
| LT Borrowings                       | 34.5           | 50.6           | 54.5           | 64.5           | 74.5           |
| Payables                            | 189.7          | 239.6          | 188.9          | 209.7          | 230.2          |
| <b>Total Liabilities</b>            | <b>502.9</b>   | <b>605.9</b>   | <b>522.1</b>   | <b>552.9</b>   | <b>583.4</b>   |
| Shareholders' Equity                | 576.8          | 529.3          | 505.4          | 490.8          | 483.7          |
| <b>Total Equity and Liabilities</b> | <b>1,079.7</b> | <b>1,135.2</b> | <b>1,027.4</b> | <b>1,043.7</b> | <b>1,067.0</b> |

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

| FYE Dec              | 2014A | 2015A | 2016F | 2017F | 2018F |
|----------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 2.4   | 2.1   | 2.1   | 2.0   | 2.0   |
| NTA Per Share (Sen)  | 2.4   | 2.1   | 2.1   | 2.0   | 2.0   |
| EPS(loss) (sen)      | 6.5   | -11.2 | -9.1  | -5.0  | -1.9  |
| DPS (sen)            | 1.3   | -     | -     | -     | -     |
| Payout Ratio (%)     | 26.6  | -     | -     | -     | -     |
| ROA (%)              | 1.5   | -4.4  | -2.2  | -1.2  | -0.4  |
| ROE (%)              | 2.7   | -9.6  | -4.4  | -2.5  | -1.0  |

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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