

Trading Idea: MASTEEL – Anticipate a better 3Q17 earnings; Early signs of bottoming up

November 6, 2017

MASTEEL (RM1.24; 2.43M)
DAILY CHART: EARLY SIGNS OF BOTTOMING UP


Source: HleBroking

- Company profile.** MASTEEL (listed in Feb 2005) is one of the biggest long steel manufacturers in Malaysia, which is involved in the manufacturing of steel billets and steel bars. Its manufacturing facilities are located in Petaling Jaya and Bukit Raja, Klang, housing an annual capacity of 700,000 MT billets and 600,000 MT steel bars, respectively. It has over 60 domestic dealers and several international trading houses as partners in Australia, New Zealand, Indonesia, Singapore, Thailand, Vietnam and the Philippines. In FY16, exports accounted about 8% to revenue.
- MASTEEL also has an associate company which manufactures radioisotopes for the imaging of cancer cells. This company has seen rapid growth in revenue from c.RM1.4m in FY14 to c.RM3.3m in FY16. Its radioisotopes manufacturing facility is located in Bandar Enstek, Negeri Sembilan, supplying mainly to the hospitals in Peninsular Malaysia.
- Anticipate a strong 3Q17 results.** For the upcoming 3Q17 results, market is anticipating steel rebars companies such as MASTEEL to perform better, taking cue from strong local steel rebars and expanding margins, as rebar prices hit multi-year high at RM2700/tonne levels in Sep before retracing to RM2450 currently while overall raw material prices remain muted (FIG4). Overall, steel prices are likely to remain strong, buoyed by gradual roll-outs of mega infrastructure projects, Malaysia's government safeguard duties coupled with stable China rebar prices (FIG3) following a confluence of factors, i.e. stable demand, capacity cuts and policies to reduce pollution.
- Downside limited.** On the back of profit taking activities after the announcement of proposed 24.3m private placement and the listing of 53.9m bonus issues on 29 Sep, MASTEEL share prices retreated 17.7% from a 52-week high of RM1.41 on 18 Sep to a low of RM1.16 (26 Sep) before ending at RM1.24 last Friday. At RM1.24, MASTEEL is trading at 0.66x P/BV (based on enlarged shares) and 8.3x FY17 P/E (FIG1), which are 55% and 16% below its peers (refer FIG2), respectively. We see limited downside risks amid undemanding valuations and early signs of bottoming up in technical indicators. A successful downtrend line breakout above RM1.29 (also the 50% FR) will spur prices higher towards RM1.35 (76.4% FR) before reaching our LT target at RM1.47 (123.6% FP). Key supports are situated near RM1.19 (3 Nov low) and RM1.16. Cut-loss at RM1.15.

Loui Low Ley Yee
lylow@hlib.hongleong.com.my
(603) 2083 1727
Risk Profile

Low Risk Moderate Risk High Risk


Malaysia Steel Works (KL) Berhad

Last price (RM)	1.24
1 Day Change (%)	3.33
5 Day Change (%)	-3.88
1 Day Range Percentile (%)	83.33
5D High	1.30
5 Day Range Percentile (%)	45.45
52Wk High	1.408
52Wk Low	0.538
52Week Range Percentile (%)	80.69
Outlook (2-4 weeks)	Early signs of bottoming up
Daily RSI	77.7
Daily Stochastics	91.6
Daily MACD	0.00
Average Volumes 100D ('mln)	2.91
S1/S2	1.19 / 1.16
R1/R2	1.29 / 1.35
LT Technical Objective (RM)	1.47
Upside reward (%)	18.55
Stop Loss	1.15
Downside risk (%)	-7.26
HLIB Institutional TP (RM)	-
Bloomberg TP (RM)	-
Trading period (max)	4-5 Weeks
BVPS (RM) –After adjusting the proposed private placement and bonus	1.89
P/BV (times)	0.66

Source: HLIB, Bloomberg

EARNINGS SUMMARY (FIG1)

FYE 31 Dec	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	1HFY17
Revenue (RM'm)	548	881	687	1,005	1,253	1,312	1,375	1,456	1,143	1,206	640
PATAMI (RM'm)	44.3	79.3	(8.9)	28.0	24.4	24.3	27.0	15.8	(50.4)	21.4	24.7
Issued shrs (m)	146.0	194.7	194.7	210.8	210.8	218.0	222.0	236.7	244.5	244.5	252.5
EPS (sen)	30.3	40.7	(4.6)	13.3	11.6	11.1	12.2	6.7	(20.6)	8.8	9.8
Dividend (sen)	3.0	2.5	1.0	1.35	1.0	1.5	1.5	0.65	-	0.85	-
P/E (x)	4.0	3.0	(26.7)	9.2	10.6	10.9	10.0	18.3	(5.9)	13.9	-
Yield (%)	2.5	2.0	0.8	1.1	0.8	1.2	1.2	0.5	-	0.7	-

Source: Bursa

PEERS COMPARISON-Steel bars/billets (FIG2)

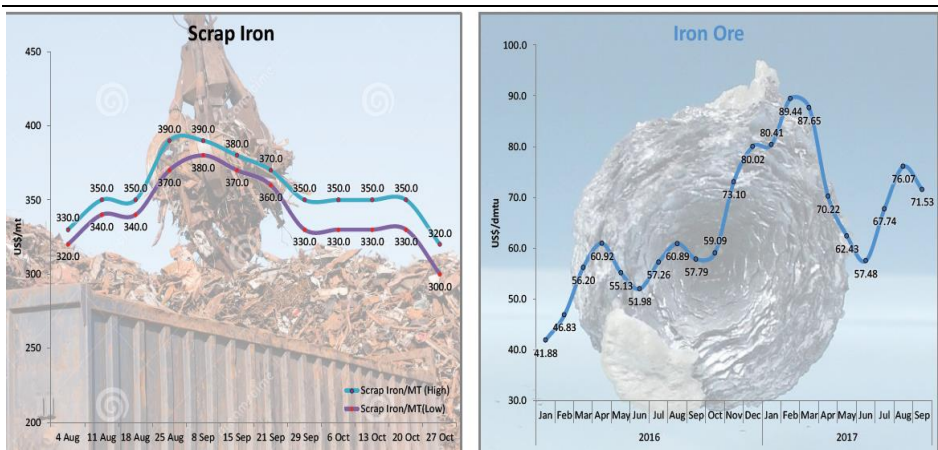
Stock	3-Nov	YTD	Mktcap	52w High	52w low	Latest	P/BV	FY17	EPS basis		
		chgs	RM'm	RM	RM	BVPS	(x)	EPS	P/E		
						(RM)		(RM)	(x)		
MASTEEL	1.240	49.4%	400	1.410	0.540	1.89	0.66	14.9	8.3	Annualised 1H17 earnings	
ANNJOO	3.760	73.3%	2,013	3.860	1.960	2.24	1.68	38.3	9.8	Consensus	
SSTEEL	2.210	82.6%	955	2.580	1.040	1.78	1.24	22.1	10.0	Historical FY6/17	
Average								1.46	9.9		
MASTEEL vs average								-55.1%	-15.9%		

Sources: Bursa, Bloomberg

DAILY REBAR FUTURES (FIG3): POISED FOR A DOWNTREND LINE BREAKOUT AFTER BUILDING A BASE NEAR 3500 LEVELS



RAW MATERIALS PRICES (FIG4): FALLING PRICES INTENSIFY IN 4Q17



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 Level 28, Menara Hong Leong
 No. 6, Jalan Damanlela,
 Bukit Damansara,
 50490 Kuala Lumpur
 Tel 603 2083 1800
 Fax 603 2083 1766

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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