



Ng Sem Guan, CFA
+60 (3) 9207 7678
semguan.ng@my.oskgroup.com

9MFY10 Results Review

Malaysia Steel Works (KL)

Beating Its Bigger Peers

TRADING BUY ↔

Target RM1.22
Previous Price RM1.22
Price RM1.07

STEEL

Masteel is an integrated long steel manufacturer.

Stock Statistics

Bloomberg Ticker	MSW MK
Share Capital (m)	210.8
Market Cap (RMm)	225.5
52 week H L Price (RM)	1.18 0.83
3mth Avg Vol ('000)	666.0
YTD Returns	8.1
Beta (x)	1.21

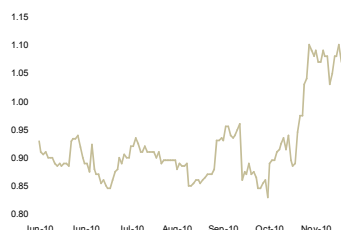
Major Shareholders (%)

TYT Resources	30.4
Lembaga Tabung Haji	9.2

Share Performance (%)

Month	Absolute	Relative
1m	22.9	21.2
3m	23.6	20.6
6m	18.4	-1.5
12m	13.6	-5.5

6-month Share Price Performance



Malaysia Steel Works' (KL) (Masteel) core net profit of RM14.5m was well within our recently revised numbers. The good results were attributed to company's quick maneuvering of sales, which lifted revenue, and the timely importation of containerized scrap metal, which led to wider margins. While we expect the momentum to extend into 4Q, we think its profits may hover at the 3Q numbers on the higher base effect. Therefore, we are maintaining our Trading BUY call with a fair value of RM1.22, derived from 5x PER and 0.59x P/NTA on FY11 figures.

3Q numbers surge. Masteel's 3Q net profit of RM4.8m, which included a RM9.7m exceptional loss, was well within our estimates after the recent revision post our meeting with the management. We also exclude the non-operational items in our earnings table to better reflect the company's core net profit of RM14.5m, which was a hefty 79.5% improvement y-o-y. The good showing was mainly attributed to encouraging sales tonnage, which boosted revenue by 21% q-o-q and 45.6% y-o-y. Meanwhile, EBITDA margin improved to 7.7% from 6.1% in 2Q. While the robust numbers seem inconsistent with the weaker sales recorded by its peers, we think Masteel may have benefited from being centrally located in the catchment area of steel demand. Also being a smaller mill, the volume it produces is easier for the market to absorb.

Momentum to sustain into 4Q. As we are seeing steel prices improve in the past few weeks, we expect the company to record another sterling quarter moving forward. However, its relatively stronger performance in 3Q suggests that Masteel's numbers may hover around the 3Q profit given the high base impact. On top of that, we also suspect that management may have accumulated enough experience in dealing with cheaper scrap imports by container, which are normally priced at a USD20 discount to bulk imports. This also gives the company an advantage in inventory management.

Expansion plan well in progress. After spending some RM60m to RM70m over the past two years to modify its furnace and billet caster, management expects its billet capacity to progressively increase from 450,000 tonnes per year (tpy) to 650,000 tpy in FY12 by deploying in stages 130mm billets instead of the original 120mm. The downstream expansion is also on track as the company has identified a plant near its existing rolling mill as it requires only minimum modification to convert to a new rolling facility. Management is targeting to increase its rolling capacity to 500,000 tpy upon full commissioning in FY12m, with the hope that this is the time for it to ride on the string of public infrastructure and building projects announced by the Government recently.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	548.0	881.2	687.3	931.2	1004.8
Net Profit	44.3	79.3	-8.5	42.4	47.5
% chg y-o-y	47.7	78.8	-110.7	-600.8	12.0
Consensus	-	-	17.2	41.4	-
EPS (sen)	22.8	40.7	-4.4	20.1	22.5
DPS (sen)	2.3	3.3	0.0	2.7	3.0
Dividend yield (%)	2.1	3.1	0.0	2.5	2.8
ROE (%)	13.5	20.2	-2.0	9.6	9.8
ROA (%)	7.3	11.5	-1.1	5.2	5.3
PER (x)	4.7	2.6	-24.6	5.3	4.7
BV/share (RM)	1.83	2.21	2.14	2.20	2.41
P/BV (x)	0.6	0.5	0.5	0.5	0.4
EV/ EBITDA (x)	5.6	3.9	20.5	5.8	5.2

Results Table (RMm)

FYE Dec	3Q10	2Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	285.0	235.7	21.0%	712.8	495.6	43.8%	Higher ASP and shipments resulted in higher revenue
EBITDA	22.0	14.5	52.2%	48.5	3.6	1245.5%	Timely scrap import and good sales volume expanded margins
Depreciation	-2.8	-2.8	0.0%	-8.4	-12.0	-30.0%	
Net interest expense	-4.9	-3.3	48.7%	-11.3	-10.7	5.2%	
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	15.2	8.3	83.4%	30.1	-19.1	-258.1%	
Tax	-0.7	-0.2	246.1%	-1.2	0.0	0.0%	
MI	0.0	0.0	0.0%	0.0	0.0	0.0%	
Net profit ^	14.5	8.1	79.5%	28.9	-19.1	-251.7%	Net profit was well within estimates
EPS (sen)	6.9	3.8		13.7	-9.0		
DPS (sen)	0.0	0.0		0.0	0.0		No interim dividend declared
EBITDA margin	7.7%	6.1%		6.8%	0.7%		Margins improved on timely scrap import compared to reasonable selling prices
NTA/share (RM)	2.14	2.12		2.14	2.09		

^ Core numbers

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Turnover	548.0	881.2	687.3	931.2	1004.8
EBITDA	74.9	115.4	21.8	75.9	81.3
Depreciation	-13.0	-15.1	-16.2	-14.2	-15.2
Net Interest Income	-15.7	-14.6	-14.1	-19.4	-18.8
Associate	0.0	0.0	0.0	0.0	0.0
PBT	46.2	85.7	-8.4	42.3	47.4
Net Profit	44.3	79.3	-8.5	42.4	47.5
EPS (sen)	22.8	40.7	-4.4	20.1	22.5
DPS (sen)	2.3	3.3	0.0	2.7	3.0
Margin					
EBITDA (%)	13.7	13.1	3.2	8.1	8.1
PBT (%)	8.4	9.7	-1.2	4.5	4.7
Net Profit (%)	8.1	9.0	-1.2	4.6	4.7
ROE	13.5	20.2	-2.0	9.6	9.8
ROA	7.3	11.5	-1.1	5.2	5.3
Balance Sheet					
Fixed Assets	386.1	408.4	431.9	362.2	370.0
Current Assets	260.1	326.1	317.3	519.3	552.8
Total Assets	646.3	734.5	749.2	881.5	922.8
Current Liabilities	182.7	191.2	214.9	320.9	336.5
Net Current Assets	77.5	134.9	102.4	198.4	216.3
LT Liabilities	108.2	113.0	117.4	97.4	78.4
Shareholders Funds	355.4	430.3	416.9	463.2	507.9
Net Gearing (%)	54.8	51.9	53.0	45.9	39.1

OSK Research Guide to Investment Ratings

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

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax: +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633