



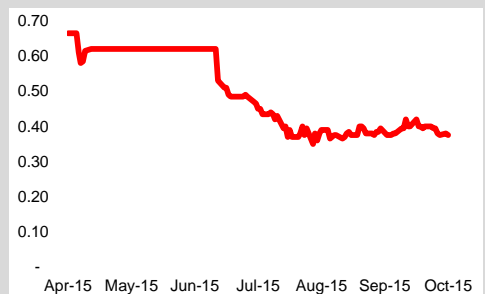
DESCRIPTION

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

12-Month Target Price RM0.40
 Current Price RM0.375
 Expected Return 6.6%

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

SHARE PRICE CHART



52 Week Range (RM) 0.33-1.03
 3-Month Average Vol ('000) 547.6

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	-12.5	-42.7
Relative Returns	-3.5	-10.8	-38.4

KEY STOCK DATA

Market Capitalisation (RM m) 91.5
 No. of Shares (m) 244.0

MAJOR SHAREHOLDERS

	%
Dato' Sri Tai Hean Leng	30.9
Raya RekaJaya S/B	3.9
Kemajuan Rekaacekap S/B	3.0

Chong Hoe Leong
 T 603 2268 3015
 F 603 2268 3014
 E chonghoeleong@publicinvestbank.com.my

New Rolling Mill

We recently visited Malaysia Steel Works' (Masteel) new rolling mill in Bukit Raja, Klang and came away with some positive updates. The rolling plant has started operating since last month and is expected to generate better contribution to the Group in the last quarter of this year. Also, the Malaysian steel industry has been pushing for tighter measures on steel product imports in efforts to curb stiff competition, particularly from China. Nevertheless, we think the outlook remains challenging in the short term and will need to take a while for the industry to flush out the cheaper-priced steel imports. Hence, we maintain our **Neutral** call with an unchanged TP of RM0.40 based on P/B of 0.2x.

- **Expecting narrower loss in the upcoming results.** We expect 3QFY15 to be another loss-making quarter mainly due to stiff competition from steel bar imports. 3QFY15's average steel bar price was around USD353/mt (QoQ: -7.8%, YoY: -28%). We understand that the spread between China's imports and local price is around RM100/mt (based on current exchange rate). Currently, about 50% of the Group's revenue is derived from dealers while 20% comes from MRT-related projects. The company also exports about 10% of its production overseas, which will likely benefit the company through foreign exchange gains.
- **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 in November and will be on a retrospective basis once it is successfully imposed.
- **New rolling mill has started operating after 2-1/2 years of construction.** The new 150,000 mt rolling mill, which costs about RM120m, will increase the total rolling capacity to 600,000mt and which can be expanded by another 100,000 mt in the future. The new rolling mill will produce Y10, Y12 and Y16 (small diameter) premium steel bars, which will fetch higher margins (additional RM100 on the selling price). We expect to see additional sales contributions from the new rolling mill in 4Q this year. Meanwhile, based on current steel bar prices, we expect the additional capacity will help improve the Group's sales by 10%-17% in FY16-17.

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	47.8	44.6	-25.1	-11.3	2.5	-52.0%
Pre-tax Profit	30.7	28.1	-42.5	-29.3	-16.0	
Core Net Profit	27.0	15.8	-31.9	-22.0	-12.0	
Diluted EPS (Sen)	8.9	6.5	-13.0	-9.0	-4.9	
P/E (x)	3.4	5.7	-	-	-	
DPS (Sen)	1.0	1.3	1.0	1.0	1.0	
Dividend Yield (%)	2.4	3.5	2.7	2.7	2.7	

Source: Company, PublicInvest Research estimates

Figure 1: New Rolling in Bukit Raja, Klang (Capacity: 150,000mt)



Reheating Furnace Area



Overview of Stack & Furnace Area



Billet Charging Area



Rolling Mill Area



Cooling Bed



Billet Storage Area



Steel Bar Cutter



Temp Core System

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	7.3	4.0
Effective Tax Rate (%)	6.2	43.8	25.0	25.0	25.0
Core Net Profit	28.8	15.8	-31.9	-22.0	-12.0
Growth (%)					
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	-31.1	-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	23.7	-3.4
Other current assets	477.9	501.4	442.0	485.0	541.8
Total Assets	1,014.9	1,089.2	1,026.7	1,027.7	1,044.2
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
Total Liabilities	459.8	502.9	496.6	522.1	552.9
Shareholders' Equity	555.0	576.8	530.2	505.7	491.3
Total Equity and Liabilities	1,014.9	1,079.7	1,026.7	1,027.7	1,044.2

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)	8.9	6.5	-13.0	-9.0	-4.9
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	-2.1	-1.1
ROE (%)	5.2	2.7	-6.0	-4.3	-2.4

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:
PUBLIC INVESTMENT BANK BERHAD (20027-W)
9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129