

Briefing Note
Wednesday, January 26th, 2011

MALAYSIA STEEL WORKS (KL) BERHAD

NOT RATED

Current Price 1.35

Stock Codes

Masa MASTEEL/5098
Bloomberg MSW MK

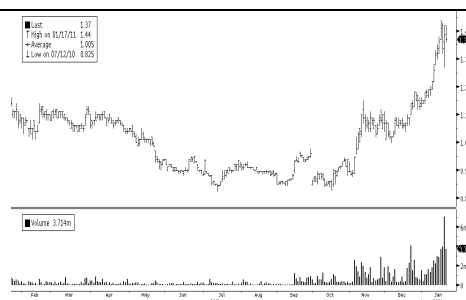
Stock & Market Data

FBMKLCI 1,547.43
Listing Main Board
Sector Industrial product
Syariah Compliant YES
Par Value (RM) 0.50
Issued Shares (mn) 194.6
Market Capitalisation (mn) 297.4
YTD Chg In Share Price 22.6%
52-week Hi/Lo (RM) 1.44/ 0.825
6M Average Volume 1,364,079
Estimated Free Float 50.1%
Majority Shareholders
 TTY Resources S/B (30.40%)
 Tabung Haji (8.93%)

Key Indicators

ROA 3.4%
ROE 6.7%
Net Debt/Equity 0.67
Price/NTA 0.6

Share Price Performance Chart



Briefing Notes

Malaysia Steel Works KL Bhd (Masteel) organised a briefing recently to give further details on its proposed JV with KUB (Malaysia) Bhd (KUB) on the rail commuter services in Johor.

Proposed first privatised rail commuter transit system in IDR. Masteel and KUB have proposed to establish a JV company, Metropolitan Commuter Network Sdn Bhd (MCN) to provide a commuter service within Iskandar Development Region (IDR) and to Woodlands, Singapore. Masteel will hold 60% of the JV Company while KUB will hold the remaining 40%.

To 'Build-Transfer' the rail transit infrastructure then to 'Own-Operate' in intercity train system
The project involves a 2-year build-transfer of a 106.5km of rail transit infrastructure via public-private partnership (PPP) scheme. The proposed service will utilise the existing rail network owned by Keretapi Tanah Melayu Bhd (KTMB). Hence, the JV only needs to build rail stations, and install the train systems and other facilities.

The service in IDR, across a network of about 106.5km of rails track, would span the following areas: -

- Nusajaya – Kota Masai
- Kulai – Johor Bahru Sentral – Woodlands
- Senai Airport – Senai Junction
- PTP – Pasir Gudang (freight cargo only)

The JV hopes to clinch the deal by 3Q this year with construction to commence after all approvals are obtained. The project would cost about RM1.35b and would be mainly funded by PPP and bond issuance. (See Table below)

Estimated construction & supply price	RMm
Rolling stock & infrastructure	320
Track works - Senai spur line	180
Ticketing, electrification, signaling & Kempas maintenance yard	850
Total	1350
Project funding	RMm
Funding by JV promoters	70
Facilitation fund by PPP	1030
Proposed bond issuance	250
Total	1350

The JV Company will then lease the system and infrastructure at a cost of RM515m, for a 25-year concession, to operate the intercity train system. The company plans to have 12 electric multiple units (EMUs) and diesel multiple units (DMUs) and two units of freight locomotive to provide the service.

Minimal impact for FY11 – FY13 earnings We expect minimal impact for FY11 earnings. Based on a profit margin of 8%, it would translated to about RM82.4m of earnings over two years, FY12 and FY13 bottomline would be marginally enhanced by the profit generated from the construction and system installation works.

On the assumption that the construction of the railway project to start in early 2012 and completed by end of 2013, and on an estimated construction cost of RM1.03b and profit margin of 8% (as guided by Masteel's management), the bottomline would be boosted by about RM24.7m p.a. This is somewhat insignificant compared to its steel manufacturing business. Assuming that the gestation period should last for about another 2 – 3 years, intercity train system operation would contribute meaningfully to the group in the later years.

Increasing capacity & utilisation rate Steel manufacturing will remain as the backbone of Masteel to generate revenue for the next 3-5 years. Through organic growth and improvement in efficiency, the group has increased its production capacity and improved utilisation rate as noted below: -

Installed capacity (MT)/ (Utilisation rate)	2009	3Q 2010	2011F	2012F
Billet plant	450000 (60%)	500000 (70%)	550000	650000
Rolling mill	350000 (65%)	350000 (75%)	350000	500000

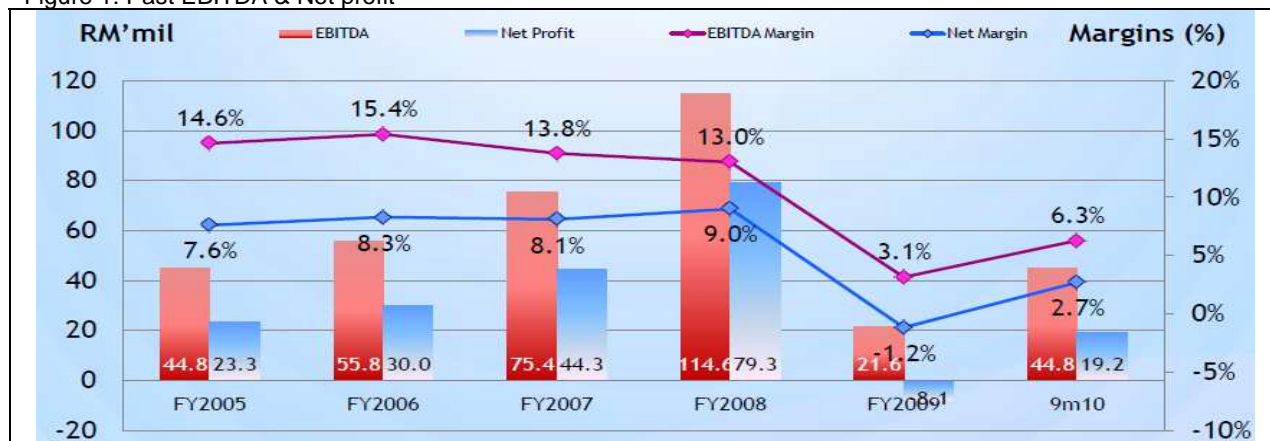
Masteel plans to spend additional RM180m to further increase its billet plant capacity to 550,000MT p.a. this year and subsequently to 650,000MT in 2012, while rolling mill's production capacity will be increased to 500,000 MT from the existing 350,000 upon the completion of its new plant.

Better performance in 2010 Masteel turned around from a net loss of RM8.1m for FY09 to a 9MFY10 net profit of RM19.2m, thanks to better steel prices and increased local demand. EBITDA margin also improved from 3.1% in FY09 to 6.3%. In addition, the group is not be affected by flood in Australia that has interrupted supply of coking coal (used in the making of steel from iron ore) as it is using scrap as the main raw material.

Further improvement in 2011 We are positive on Masteel's future prospect, banking on higher steel prices and increase in local demand arising from the various mega projects under Economic Transformation Programme. Based on the fully diluted EPS of 16.4sen for FY11, Masteel is trading at a forward PE of 8.1x.

Should the railway transit network project materialize, the stock is set for re-rating, as the concession-based business would provide a more stable and recurrent income to the group.

Figure 1: Past EBITDA & Net profit



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JUPITER SECURITIES RESEARCH

Investment Highlights

YE 31 Dec (RM mn)	2007	2008	2009	2010F	2011F
Revenue	548.03	881.22	687.26	1000.0	1135.0
Net Profit	44.3	79.3	-8.1	29.0	52.0
NI Growth (%)		79%	-110%	-458%	79%
EPS (sen)	22.93	40.74	-4.16	9.2	16.4
DPS (sen)	2.3	2.5	1.0	5.8	5.8
NTA/Share (sen)	144.6	182.6	221.1	224.5	235.2
Net Debt/Equity	0.64	0.58	0.63	0.67	0.62
PER (x)	5.5	1.6	-23.8	14.6	8.1
Dividend Yield	1.8	3.9	1.0	4.3	4.3
ROE (%)	12.5	18.4	-1.9	6.7	10.9
ROA (%)	6.9	10.8	-1.1	3.4	5.7
P/NTA (x)	0.9	0.4	0.4	0.6	0.6

Source: Bloomberg, Company, Jupiter Research compilations

Company	Last Price (RM)	Market Cap (RMm)	PE Ratio (x)		EPS (RM)		Div Yield (%)		ROE (%)	
			2011	2012	2011	2012	2011	2012	2011	2012
Malaysia Steel Works KL	1.41	297.2	9.7	5.4	13.8	24.7	4.3	4.3	6.7	10.9
Ann Joo Resources Bhd	3.04	1589.0	11.2	9.2	27.2	33.0	3.7	3.3	3.5	15.1
Southern Steel Bhd	2.29	960.5	8.5	7.4	27.0	31.0	NA	3.3	2.3	13.6
Kinsteel Bhd	0.96	918.0	25.3	10.4	3.8	9.2	1.4	0.9	2.4	4.3
CSC Steel Holdings Bhd	1.75	665.0	8.0	6.9	21.8	25.4	8.1	7.6	12.4	10.2
Lion Industries Corp Bhd	2.02	1450.2	5.8	4.8	34.8	42.5	0.5	0.5	12.6	6.4
Perwaja Holdings Bhd	1.03	576.8	14.3	8.3	7.2	12.4	1.0	1.2	-11.8	0.2
Hiap Teck Venture Bhd	1.20	392.9	7.2	7.1	16.6	17.0	1.7	1.8	8.1	7.5
Choo Bee Metal Industries	1.75	192.3	8.8	6.5	20.0	27.0	3.4	3.4	5.3	5.6
Average			11.1	7.6			2.8	2.7	4.4	7.9

Source: Bloomberg, Jupiter Research compilations

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