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## FY10 Results Review

# Malaysia Steel Works (KL)

### Full Year Core Numbers Spot On

We are happy to see Malaysia Steel Works' (KL) (Masteel) bread and butter steelmaking business continue to beat its bigger peers, posting a core net profit of RM42.2m in FY10, which was well within our estimates but above consensus. While we are upbeat on earnings for 1HFY11, we remain cautious of its outlook beyond six months and the investment risk from its newly proposed rail transit project in the south of Peninsular Malaysia. Therefore, we are keeping our NEUTRAL call with a fair value of RM1.34, derived from 6x PER and 0.59x P/NTA on FY11 figures.

**On the dot.** Post adjustment of a RM9.7m exceptional loss recorded in 3Q and RM4.3m legal suit provision in 4Q, Masteel's FY10 core net profit of RM42.2m was well within our estimates but way above consensus projections. While the 4Q core bottomline of RM13.3m was 8.3% lower than that in 3Q, the performance was commendable as the results were relatively stronger than its larger peers that have announced their respective 4QCY10 results. 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 and it is able to source for cheaper scrap metal from the domestic market.

**Robust sentiments for 1HFY11, but not quite.** Masteel is set to benefit from higher steel prices in 1Q, which may translate into a wider spread as a result of cheaper materials procured earlier. While margins may possibly narrow as the market moves into 2Q with raw material cost set to edge higher against a consolidation in selling, we are still upbeat on a potential pick-up in physical steel demand in the local market cushioning the thinner margins. On top of that, we also suspect that management may have accumulated enough experience in dealing with cheaper scrap imports by containers, which are normally priced at a USD20 discount to bulk imports. This also gives the company an advantage in inventory management. Nevertheless, given its poor earnings visibility beyond six months, we are keeping our FY11 estimates unchanged.

**A long wait for rail project.** We continue to have some reservations on the company's recently announced 60:40 joint-venture agreement to supply to and operate a rail transit network within Iskandar Malaysia and Woodlands in Singapore spanning some 106.5km. We do not see any immediate earnings contribution as we expect discussions with the relevant authorities to take some time. Negotiations on the concession type of project, particularly since it is the first of its kind in the country, will obviously require many rounds of deliberation before being firmed up. As infrastructure and public transportation are new areas of endeavor for Masteel, it would be fair for us to assume greater investment risks.

NEUTRAL ↔

**Target** RM1.34  
**Previous Price** RM1.34  
**Price** RM1.25

#### STEEL

Masteel is an integrated long steel manufacturer.

#### Stock Statistics

Bloomberg Ticker	MSW MK
Share Capital (m)	210.8
Market Cap (RMm)	263.5
52 week H   L Price (RM)	1.45   0.83
3mth Avg Vol ('000)	2,083.3
YTD Returns	8.7
Beta (x)	1.27

#### Major Shareholders (%)

TYT Resources	30.4
Lembaga Tabung Haji	6.5

#### Share Performance (%)

Month	Absolute	Relative
1m	-10.6	-4.1
3m	22.3	18.9
6m	43.2	32.5
12m	15.9	-3.1

#### 6-month Share Price Performance



FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	881.2	687.3	1004.8	1017.5	1037.8
Net Profit	79.3	-8.5	42.2	47.5	50.6
% chg y-o-y	78.8	-110.7	-598.4	12.6	6.5
Consensus	-	-	35.7	49.8	-
EPS (sen)	40.7	-4.4	20.0	22.5	24.0
DPS (sen)	3.3	0.0	0.0	0.0	0.0
Dividend yield (%)	2.7	0.0	0.0	0.0	0.0
ROE (%)	20.2	-2.0	9.4	9.4	9.1
ROA (%)	11.5	-1.1	5.4	5.6	5.7
PER (x)	3.1	-28.7	6.2	5.5	5.2
BV/share (RM)	2.21	2.14	2.27	2.51	2.76
P/BV (x)	0.6	0.6	0.6	0.5	0.5
EV/ EBITDA (x)	4.2	22.2	6.1	5.3	4.7

**Results Table (RMm)**

FYE Dec	4Q10	3Q10	Q-o-Q chg	FY10	FY09	Y-o-Y chg	Comments
Revenue	292.0	285.0	2.4%	1004.8	687.3	46.2%	Higher ASP and shipments resulted in higher revenue
EBITDA	21.1	22.0	-4.0%	69.6	21.1	230.1%	Timely scrap procured and good sales volume expanded margins
Depreciation	-2.8	-2.8	0.0%	-11.2	-16.2	-30.6%	
Net interest expense	-4.9	-4.9	1.0%	-16.1	-14.1	14.5%	
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	14.0	15.2	-7.7%	44.1	-8.4	622.2%	Commendable PBT in 4Q despite marginally lower on q-o-q basis
Tax	-0.7	-0.7	4.3%	-1.9	0.0	n.m	
MI	0.0	0.0	0.0%	0.0	0.0	0.0%	
Net profit ^	13.3	14.5	-8.3%	42.2	-8.5	598.4%	Net profit was well within estimates
EPS (sen)	6.3	6.9		20.0	-4.0		
DPS (sen)	0.0	0.0		0.0	0.0		The board have not decided on final dividend
EBITDA margin	7.2%	7.7%		6.9%	3.1%		Margins drop marginally on increase raw material costs
NTA/share (RM)	2.27	2.14		2.27	2.14		

^ Core numbers

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	881.2	687.3	1004.8	1017.5	1037.8
EBITDA	115.4	21.8	78.0	80.3	81.9
Depreciation	-15.1	-16.2	-17.8	-14.6	-16.2
Net Interest Income	-14.6	-14.1	-16.1	-16.0	-12.9
Associate	0.0	0.0	0.0	0.0	0.0
PBT	85.7	-8.4	44.1	49.7	52.9
Net Profit	79.3	-8.5	42.2	47.5	50.6
EPS (sen)	40.7	-4.4	20.5	22.5	24.0
DPS (sen)	3.3	0.0	0.0	0.0	0.0
<b>Margin</b>					
EBITDA (%)	13.1	3.2	7.8	7.9	7.9
PBT (%)	9.7	-1.2	4.4	4.9	5.1
Net Profit (%)	9.0	-1.2	4.2	4.7	4.9
<b>ROE</b>	20.2	-2.0	9.4	9.4	9.1
<b>ROA</b>	11.5	-1.1	5.4	5.6	5.7
<b>Balance Sheet</b>					
Fixed Assets	408.4	431.9	448.3	348.9	358.8
Current Assets	326.1	317.3	378.2	519.9	535.4
Total Assets	734.5	749.2	826.5	868.8	894.2
Current Liabilities	191.2	214.9	261.5	273.3	265.1
Net Current Assets	134.9	102.4	116.7	246.6	270.3
LT Liabilities	113.0	117.4	86.3	67.3	48.3
Shareholders Funds	430.3	416.9	478.6	528.2	580.8
Net Gearing (%)	51.9	53.0	43.8	30.6	21.3

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