Malaysia Steel Works

Within estimates

BUY↔

Price: RM1.02

Target Price: RM1.69↔

Malaysia Steel Works ("Masteel")'s 1HFY11 net earnings of RM21.7m were in line with ours and consensus' forecast. YoY and QoQ earnings increased by 92% and 150%, respectively. This was due to (1) improved margins from higher steel prices, (2) lower tax from utilisation of reinvestment allowances and (3) increased steel bar demand from property and construction sector. Furthermore, earnings should improve in the coming quarter on the back of better sales orders and higher steel price when construction activities in the Middle East resumes to normal post-Ramadhan. We maintain our earnings forecast. Maintain BUY with unchanged TP of RM1.69 based on FY12 7x PER.

Within expectations. Masteel's 1HFY11 net earnings of RM21.7m were within expectations, which accounted for 46.1% and 45.8% of our full-year forecast and consensus', respectively. It recorded a significant jump in 2Q11 earnings, as we saw a +150% jump QoQ and +92% YoY, mainly attributable to improved product margins from higher steel prices and lower effective tax rate due to the utilisation of reinvestment allowance of RM4.7m.

Strong revenue in 2Q11. 2Q11 revenue has also improved (+21% QoQ; +43% YoY) on the back of stronger demand for steel bars from both domestic and overseas market. The demand mainly came from the local housing and construction sector as well as the commencement of major public sector projects such as the RM2b Low Cost Carrier Terminal (LCCT). Given Masteel's strategic location, it has supplied steel bars for housing projects i.e. Bangsar South and The Paradigm, which sold 40% more in terms of volume (vs 2Q10). They are currently running at high utilisation rate of c.83%.

New rolling mill for KVMRT. Previously, Masteel said it will invest RM100m in a new rolling mill which adjoins to the existing meltshop at Bukit Raja. The new mill will have a production capacity of 180,000mt p.a., which is part of the 530,000mt capacity expansion targeted by FY12. We believe the expansion will cater for Klang Valley construction projects, particularly the Klang Valley MRT (KVMRT), of which the company bided for more than RM1b worth of contract. Nonetheless, we have factored for higher steel orders in anticipation of increased demand from projects like KVMRT.

Valuation. While margins remained at a healthy level and supported by improving demand, we maintain our earnings forecast for FY11 and FY12. Hence, our unchanged TP at RM1.69 based on 7x PER on FY12. Maintain BUY recommendation.

STOCK DATA

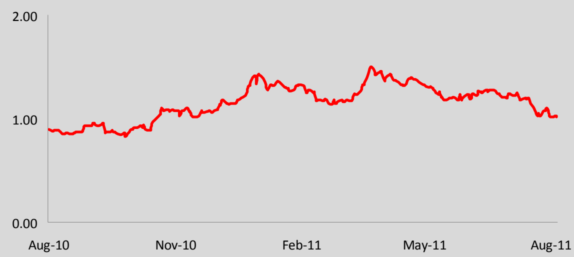
Bloomberg Ticker	MSW MK	YTD price chg	-11.3%
Market Cap	215.0	YTD KLCI chg	-3.3%
Issued shares	210.8	Beta	0.9
52-week range (H)	1.60		
52-week range (L)	0.83	**Major Shareholders**	
3-mth avg daily vol:	605,497	TYY Resources	31.8%
Free Float	59.5%	LTH	5.2%
Altman Z-score	2.6	Dato Hj S Ikhwan	3.5%

AT A GLANCE — **Malaysia Steel Works (MASTEEL)**

Target Price (RM):	**1.69**	**Maintain**
Valuation:	7x PER over FY12 EPS.	
Current Price (RM):	1.02	
Report Reason:	2Q11 results above expectations	
Action:	**BUY**	**Maintain**
Reason:	-	
Basis of call:	-	
Catalyst:	JV with KUB for the intercity rail transit and the >RM1 contracts for the KVMRT.	

FYE31Dec RMm	**2010A**	**2011F**	**2012F**
Turnover	1004.8	1118.7	1243.0
Net Profit (NP)	**42.2**	**47.0**	**60.9**
Consensus (NP)		***47.3***	***55.8***
Earnings Revision:		-	-
Earnings Revision Rationale:	-		

SHARE PRICE CHART



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Results Highlights

FY 31 Dec (RMm)	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	QoQ Chg	YoY Chg	1HFY10	1HFY11	YTD Chg
Revenue	235.7	285.0	292.0	278.4	338.0	21%	43%	427.8	616.4	44%
EBIT	11.5	9.6	14.0	9.6	19.5	102%	69%	20.8	29.1	40%
Pretax profit	**8.3**	**5.4**	**9.7**	**6.8**	**15.4**	127%	86%	**15.0**	**22.2**	48%
Taxation	-0.2	-0.7	-0.7	-0.6	0.1	-115%	-145%	-0.5	-0.5	-8%
Minority Interest	0.0	0.0	0.0	0.0	0.0	-	-	0.0	0.0	-
Net Profit	**8.1**	**4.8**	**9.0**	**6.2**	**15.5**	150%	92%	**14.4**	**21.7**	50%
EPS (sen)	3.8	2.3	4.3	2.9	7.3			6.8	10.3	
GDPS (sen)	0.0	0.0	1.4	0.0	0.0			0.0	0.0	
EBIT margin (%)	4.9%	3.4%	4.8%	3.5%	5.8%			4.9%	4.7%	
PBT margin (%)	3.5%	1.9%	3.3%	2.4%	4.6%			3.5%	3.6%	
Net profit margin (%)	3.4%	1.7%	3.1%	2.2%	4.6%			3.4%	3.5%	
Effective tax rate (%)	2%	12%	7%	9%	1%			-4%	-2%	

Earnings Estimates

FYE31Dec (RMm)	2008A	2009A	2010A	2011E	2012E
Turnover	881.2	687.3	1004.8	1118.7	1243.0
EBIT	100.3	5.6	32.2	66.3	83.7
Pretax profit	85.7	-8.4	30.1	50.2	65.1
Net Profit	79.3	-8.5	42.2	47.0	60.9
EBIT margin	11.4%	0.6%	3.7%	7.5%	9.5%
Pretax margin	9.7%	-1.0%	3.4%	5.7%	7.4%
Effective tax rate	7.5%	-0.3%	6.3%	6.3%	6.3%
Growth ratios					
Turnover	61%	-22%	46%	11%	11%
EBIT	62%	-94%	474%	106%	26%
Pretax profit	86%	-110%	-456%	67%	30%
Net profit	79%	-111%	-598%	11%	30%
ROE	20.2%	-2.0%	9.4%	9.4%	11.2%
ROA	11.5%	-1.1%	5.4%	5.5%	6.7%
Net Gearing (x)	0.5	0.5	0.4	0.4	0.3
Per share data					
EPS (sen)	40.7	-4.4	20.0	20.3	24.1
EPS growth (%)	78.8%	-110.7%	-560.0%	1.3%	18.9%
PER (x)	2.5	-23.4	5.1	5.0	4.2
EV/EBITDA (x)	3.7	19.3	8.6	5.1	3.8
Gross DPS (sen)	3.3	0.0	0.0	0.0	0.0
Div. Yield (%)	3.3%	0.0%	0.0%	0.0%	0.0%
NTA/share (RM)	2.2	2.1	2.3	2.2	2.3
P/NTA (x)	0.5	0.5	0.4	0.5	0.5
Historical Price Ratio	**2006**	**2007**	**2008**	**2009**	**2010**
PER (x)	1.9	-29.0	3.2	4.9	4.8
PBV (x)	0.3	0.6	0.3	0.4	0.5

Source: Kenanga Research

Balance Sheet

FYE31Dec (RMm)	2008A	2009A	2010A	2011E	2012E
Non Current Assets	407.9	431.9	448.3	449.8	452.8
Current Assets	326.6	317.7	378.2	438.4	489.9
Total Assets	**734.5**	**749.6**	**826.5**	**888.2**	**942.7**
Current Liabilities	180.2	214.9	261.5	303.6	326.0
Non Current Liabilities	124.1	117.4	86.3	66.3	46.3
Shareholders' Fund	430.3	417.3	478.6	518.3	570.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Equity & Liabilities	**734.5**	**749.5**	**826.5**	**888.2**	**942.7**

Source: Kenanga Research

Stock Rating are defined as follows

Stock Recommendations

Core Coverage*

OUTPERFORM	:	The stock's expected total return is expected to outperform the FBMKLCI benchmark by 5% or more over the next 12 months.
MARKET PERFORM	:	The stock's expected total return is expected to perform in line with the FBMKLCI benchmark by +/-5% over the next 12 months.
UNDERPERFORM	:	The stock's expected total return is expected to underperform the FBMKLCI benchmark by 5% or more over the next 12 months.

Core coverage is for our coverage on the Top 100 market capitalisation stocks and selective industry proxies/leaders.

Non-Core Coverage**

BUY	:	The stock's absolute expected total return is +10% or more over the next 12 months.
NEUTRAL	:	The stock's absolute expected total return is +/- 10% over the next 12 months.
SELL	:	The stock's absolute expected total return is -10% or more over the next 12 months.

*****Non-core coverage is for our coverage on stocks other than our core coverage.***

Sector Recommendations***

OVERWEIGHT	:	The industry is expected to outperform the FBMKLCI benchmark over the next 12 months.
NEUTRAL	:	The industry is expected to perform in line with the FBMKLCI benchmark over the next 12 months.
UNDERWEIGHT	:	The industry is expected to underperform the FBMKLCI benchmark over the next 12 months.

******Sector recommendations / ratings are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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