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1QFY12 Results Review

Malaysia Steel Works (KL)

Still Seeing Red

Malaysia Steel Works (Masteel) remained in the red in 1QFY12 with a RM4.9m loss, thus missing our and street estimates. Nevertheless, its financial performance is likely to improve moving into 2Q in light of the widening spread between steel and scrap metal prices. However, steel demand could stay lackluster at least for 2H as the execution of ETP projects may gain pace only after the General Election. As negotiations on the proposed rail project with government agencies may be long-drawn, we do not expect any immediate earnings contribution. We are keeping our NEUTRAL call on Masteel, with a FV of RM1.03, based on the same valuation parameter of 0.41x FY12 BV, or -0.5 standard deviation of the stock's historical trading range.

Still in the red. Masteel continued to see red ink, posting with a 1QFY12 net loss of RM4.9m, thus missing our and street estimates. We had anticipated that the company would return to the black in 1QFY12, although perhaps with weak results. The weaker-than-expected numbers could be attributed to the persistently weak demand at steelmaking operations and timid recovery in steel prices, especially with the Chinese New Year celebration resulting in the company's volume remaining flat. We also reckon that the group had not made any provisions for inventory impairment in the past two quarters and may be still stuck with some high-cost raw materials and is thus faced with negative spreads.

Not enough short term kick. We are optimistic that the company's upcoming results will improve substantially, especially with steel prices rising q-o-q and average material cost trending lower as scrap metal gets cheaper. However, the rollout of "mega" projects under the Economic Transformation Programme (ETP) is expected to be a protracted affair, at least until the General Election is held. This aside, the company is also busy with a recently proposed JV with KUB to supply and operate a 106.5km rail transit network linking Johor Bahru in Malaysia and Woodlands in Singapore. This being a new venture, obtaining approvals from the various government agencies may take some time. As such, we have not incorporated any contribution from this project.

Maintain NEUTRAL. We had expected a short-term spurt in Masteel's earnings but remain cautious on the medium-term outlook for the steel industry, especially with renewed concerns over the ongoing European debt crisis. We had also expected persistently thin steelmaking margins to dampen the company's performance for 2H12, which is largely reflected in our projections. Furthermore, we do not have high hopes on the company's proposed rail project, more so considering that negotiations with the government are likely to be long-drawn-out. Therefore, we keep our NEUTRAL rating on Masteel, with a FV of RM1.03, derived from 0.41x FY12 BV, or -0.5 standard deviation of its historical trading range.

NEUTRAL ↔

Fair Value **RM1.03**
Previous **RM1.03**
Price **RM1.02**

STEEL

Masteel is an integrated long steel manufacturer.

Stock Statistics

Bloomberg Ticker	MSW MK
Share Capital (m)	210.8
Market Cap	210.8
52 week H L Price	1.31 0.92
3mth Avg Vol (000)	322.4
YTD Returns	-13.8
Beta (x)	0.93
Shariah Compliant	YES

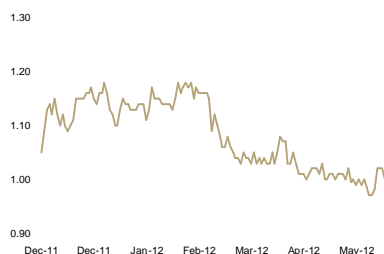
Major Shareholders (%)

TYT Resources	31.9
Lembaga Tabung Haji	5.2
Dato HJ S Ikhwan Salim	3.5

Share Performance (%)

Month	Absolute	Relative
1m	2.0	-0.4
3m	-6.4	-8.7
6m	-2.9	-11.1
12m	-16.2	-21.6

6-month Share Price Performance



FYE Dec	FY09	FY10	FY11	FY12f	FY13f
Revenue	687.3	1004.8	1253.4	1128.3	1150.9
Net Profit	-8.5	42.2	24.5	25.4	49.5
% chg y-o-y	-110.7	-598.4	-41.9	3.7	94.5
Consensus	-	-	-	35.7	47.5
EPS (sen)	-4.4	20.0	11.6	12.1	23.5
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-2.0	9.4	5.0	4.9	8.9
ROA (%)	-1.1	5.4	2.9	3.0	6.0
PER (x)	-23.4	5.1	8.8	8.5	4.3
BV/share	2.14	2.27	2.37	2.51	2.76
P/BV (x)	0.5	0.4	0.4	0.4	0.4
EV/EBITDA (x)	20.0	5.4	7.7	7.1	4.9

Results Table (RMm)

FYE Dec	1QFY12	4QFY11	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Turnover	339.9	336.7	1.0%	339.9	278.4	22.1%	Sales were largely soft during the festive season
EBITDA	3.1	-5.3	-157.9%	3.1	14.6	-79.1%	
Depreciation	-5.7	-5.7	-0.4%	-5.7	-5.0	13.7%	
Net interest expense	-3.5	-4.8	-26.9%	-3.5	-3.7	-3.6%	
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	-4.9	-14.5	-66.4%	-4.9	6.8	-172.1%	
Tax	0.0	1.2	-100.0%	0.0	-0.6	-100.0%	
MI	0.0	0.0	0.0%	0.0	0.0	0.0%	
Net Profit	-4.9	-13.3	-63.4%	-4.9	6.2	-178.8%	Net loss was below our and street estimates
EPS (sen)	-2.3	-6.3		-2.3	2.9		
Gross DPS (sen)	0.0	0.0		0.0	0.0		No interim dividend proposed by the board
EBITDA margin	0.9%	-1.6%		0.9%	5.3%		
NTA/share (RM)	2.35	2.37		2.35	2.30		

EARNINGS FORECAST

FYE Dec	FY09	FY10	FY11	FY12f	FY13f
Turnover	687.3	1004.8	1253.4	1128.3	1150.9
EBITDA	21.8	78.0	59.8	55.9	74.4
Depreciation	-16.2	-17.8	-17.8	-15.5	-16.7
Net Interest Income	-14.1	-16.1	-16.5	-14.4	-7.0
Associate	0.0	0.0	0.0	0.0	0.0
PBT	-8.4	44.1	25.1	26.0	50.6
Net Profit	-8.5	42.2	24.5	25.4	49.5
EPS (sen)	-4.4	20.5	12.1	12.1	23.9
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Margin					
EBITDA	3.2	7.8	4.8	5.0	6.5
PBT	-1.2	4.4	2.0	2.3	4.4
Net Profit	-1.2	4.2	2.0	2.3	4.3
ROE	-2.0	9.4	5.0	4.9	8.9
ROA	-1.1	5.4	2.9	3.0	6.0
Balance Sheet					
Fixed Assets	431.9	448.3	478.5	334.2	345.5
Current Assets	317.3	378.2	410.3	478.1	485.6
Total Assets	749.2	826.5	888.8	812.4	831.1
Current Liabilities	214.9	261.5	334.2	246.1	232.4
Net Current Assets	102.4	116.7	76.1	232.0	253.2
LT Liabilities	117.4	86.3	54.5	36.5	17.5
Shareholders Funds	416.9	478.6	500.0	529.7	581.2
Net Gearing (%)	53.0	43.8	49.4	34.8	25.2

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