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Corporate News Flash

Malaysia Steel Works (KL)

Rail Project Derailed?

THE BUZZ

Over the weekend, StarBiz quoted Iskandar Regional Development Authority (Irda) CEO En Ismail Ibrahim as saying that the Federal Government has yet to decide on the operator of the multi-billion ringgit intra-city commuter train (ICCT) service for Iskandar Malaysia. He said that although Metropolitan Commuter Network SB (MCN) proposed the rail network, the project is not exclusive to MCN and is still open to other companies. Irda is still accepting new proposals from other interested parties, he added. En Ismail also clarified that the Johor state government and Irda are not involved in the project in any way as the final decision lies at the Federal level.

STEEL

NEUTRAL ↔

Fair Value **RM1.07**

Previous **RM1.22**

Price **RM1.03**

Shariah Compliant

YES

OUR TAKE

A quick recap on the rail project. On 19 Jan 2011, Malaysia Steel Works (Masteel) and KUB Malaysia Bhd (KUB) announced that they will be entering into a Heads of Joint-Venture agreement to form a JV company, MCN, which proposes to supply to and operate a 106.5km rail transit network in Iskandar Malaysia and Woodlands in Singapore. The project cost is estimated at RM1.35bn. Under the proposal, seven new stations will be built along the route, together with 16 halts. The proposed rail network will also include a shuttle service from JB Sentral to Woodlands in Singapore.

Long approval process expected. As we had earlier anticipated negotiations on concession-type projects to be protracted, particularly since this one is the first in kind in the country, it would obviously require many rounds of deliberation before the project is firmed up. Hence we are not surprised to learn that the proposal is still awaiting the green light from the Federal Government. We reckon that the JV company, being the only one that has submitted a proposal for the commuter project, stands a good chance of winning the concession. However, as we have not incorporated any contribution from this project, the delay in approval will have no impact on our estimates.

Maintain NEUTRAL. While we expected the approval of the proposed rail project to take some time, we are nevertheless disappointed with the slow pace of recovery in steel prices. In view of the soft prices, we are lowering our book based valuation to 0.41x FY12 BV, or -0.5 standard deviation of the stock's historical trading range, which trims our Fair Value to RM1.07, although our NEUTRAL recommendation on Masteel is maintained.

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