

**UOBKH Highlights****Malaysia Steel Works (MSW MK/NOT RATED/RM0.94)****Key Takeaways From Analyst briefing**

Masteel's management shared its optimistic outlook for the steel industry at its 1H13 results briefing yesterday, expecting prices of steel bars to be supported by buoyant demand. Local prices of steel bars have rebounded significantly, having risen RM130/tonne to RM2100/tonne in the last two weeks, in tandem with the rebound in international steel prices after reaching a trough in Jul 13. Indicators point to further price hikes amid expectations of rising domestic demand and improving global economies. Masteel expects demand from the Klang Valley MRT project to raise local demand by 400,000-500,000 tonnes/year, from 2012's base level of 2.5m tonnes.

Recall that Masteel recorded a net profit of RM10.2m in 2Q13 bringing 1H13 net profit to RM13.7m (-2.8% yoy), amid a 1.7% yoy decline in revenue to RM672.2m as lower ASPs offset higher volumes. In the immediate term, 3Q13 net profit could drop further due to the Hari Raya holidays which resulted in fewer working days, before a recovery in 4Q13 driven by strong demand and better ASPs.

Meanwhile the expected rise in transportation costs (since diesel prices were raised by 11% last week) can be passed on, and the potential rise in energy costs (about 5% of production cost) would only modestly raise production costs.

Looking ahead, management also guided for strong earnings growth through 2016, driven by firmer prices and margins, and higher capacity (note that its on-going plant expansion works will raise its rolling mill capacity by to 650,000 tpa in 2016, up 62.5% from 400,000 tpa in 2013, and billet plant capacity to 700,000 tonnes in 2016 (up 7.7% from 650,000 in 2013).

Meanwhile, Masteel clarified that it is still engaged in talks with the federal government on its proposed JV with KUB to construct and operate the Iskandar commuter train network. Masteel also clarified that there is no overlap with the ongoing proposed high speed rail project, and that the commuter train network can be complimentary to the mooted RTS network that links Johor Bahru to Singapore (by linking its commuter service from its proposed end terminal in Singapore at Woodland to the Thompson MRT line). The JV is also in the midst of negotiating with Railway Assets Corp to secure land to construct its proposed commuter train depot. Should the government give the green light to the JV's proposal, Masteel expects to inject RM100m into the JV.

Masteel presently trades at a prospective 2014 PE of only 6.57x based on consensus forecast (the PE would fall to 4.7x based on guidance), and at only 0.55x P/B. Masteel also unveiled a dividend policy that entails a 8.0% payout ratio and interim dividend.

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