

02 September 2013

Malaysia Steel Works

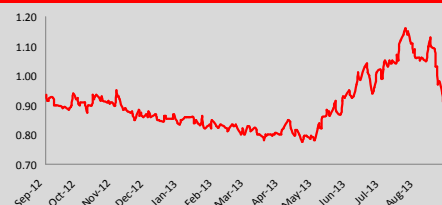
1H13 Results In Line

- Period** ■ 2Q13/1H13
- Actual vs. Expectations** ■ Malaysia Steel Works ("Masteel") 1H13 earnings of RM13.7m came in within our expectations and broadly within the consensus estimates, making up 47% and 44% of our and consensus' full year forecasts, respectively.
- Dividends** ■ An unexpected single tier dividend of 0.5 sen was declared. (Masteel usually declares dividend in fourth quarter). However, it is still within our estimate of 1.5 sen.
- Key Result Highlights** ■ **1H13**, Masteel's core earnings weaken marginally by 3% from RM14.1m to RM13.7m despite a slight improvement in operating margin (+0.3ppt) due to higher taxation as Masteel recognised lower tax-free expenses as compared to 1H12.
- **YoY**, Masteel's core earnings decreased 47% to RM10.1m despite a marginal dip in revenue to RM342.3m of only 1% due to a compression in operating margin from 6% to 4% caused by higher cost of raw materials.
- **QoQ**, its revenue grew 4% from RM330.0m to RM342.3m underpinned by better demand from the local on-going construction activities especially ETP-related projects. Operating profit doubled from RM7.2m to RM14.5m as a result of improvements in margins while operating margin improved by 2ppt to 4% as a result of lower input costs.
- Outlook** ■ We expect a busy year for steel players, especially for Masteel given its smaller capacity compared to its peers. The demand for its steel billets and long products is expected to increase in tandem with the busier construction activities. However, we do not expect a significant increase in selling price due to persistent global oversupply.
- Change to Forecasts** ■ No changes to our earnings estimate.
- Rating** **Maintain MARKET PERFORM**
- Valuation** ■ We maintain our Target Price of RM0.91 based on an unchanged 7x FY14 PER.
- Risks** ■ Volatile scrap prices and a subdued average selling price due to the global economic uncertainties.
- A lower plant utilisation in FY13.

MARKET PERFORM ↔

Price: RM0.93
Target Price: RM0.91 ↔

Share Price Performance



KLCI	1727.58
YTD KLCI chg	2.3%
YTD stock price chg	10.1%

Stock Information

Bloomberg Ticker	MSW MK Equity
Market Cap (RM m)	201.2
Issued shares	217.5
52-week range (H)	1.19
52-week range (L)	0.77
3-mth avg daily vol:	1,235,186
Free Float	61%
Beta	1.1

Major Shareholders

TYE RESOURCES SDN BH	30.9%
LEMBAGA TABUNG HAJI	5.1%
KEMAJUAN REKACEKAP S	3.0%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013E	2014E
Turnover	1312.2	1354.3	1372.8
EBIT	36.1	51.8	58.7
PBT	24.4	29.7	36.4
Net Profit (NP)	23.9	29.0	35.6
Consensus (NP)	-	31.6	37.6
Earnings Revision	-	-	-
EPS (sen)	11.0	11.5	13.0
EPS growth (%)	-9.5%	-6.3%	13.1%
DPS (sen)	1.2	1.5	1.7
NTA/Share (RM)	2.38	2.37	2.37
PER	8.5	8.1	7.2
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.5	0.7	0.3
Dividend Yield (%)	1.3%	1.6%	1.9%

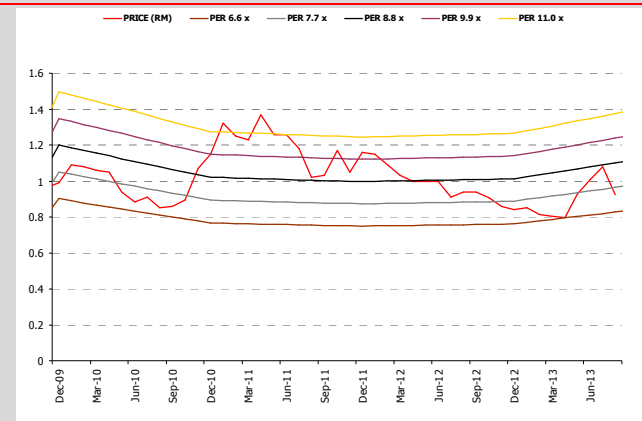
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Result Highlight

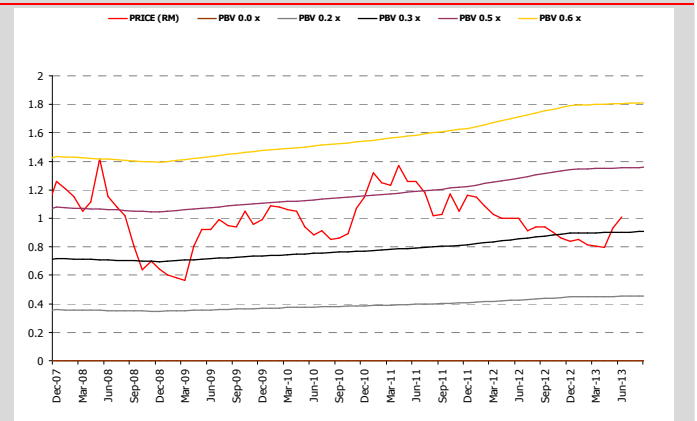
	2Q	1Q	QoQ	2Q	YoY	6M	6M	Ytd-YoY
Y/E : Dec (RM mn)	FY13	FY13	Chg	FY12	Chg	FY13	FY12	Chg
Turnover	342.3	330.0	4%	344.1	-1%	672.3	684.0	-2%
EBITDA	19.7	12.4	59%	27.9	-29%	32.1	30.9	4%
EBIT	14.5	7.2	101%	22.2	-35%	21.8	19.6	11%
Interest income	0.0	0.0	-	0.0	-	0.1	0.1	-
Interest expense	-3.6	-3.8	-4%	-4.3	-15%	-7.4	-7.8	-5%
Associates	0.0	0.0	317%	0.0	39%	0.0	0.0	n.m
Exceptional items	0.0	0.0	-	0.0	-	0.0	0.0	-
Pretax profit	10.9	3.8	188%	18.9	-43%	14.6	14.0	5%
Taxation	-0.7	-0.2		0.1		-1.0	0.1	
Profit after tax	10.1	3.6	185%	19.0	-47%	13.7	14.1	-3%
Minority interest	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	10.1	3.6	185%	19.0	-47%	13.7	14.1	-3%
EPS (sen)	4.6	1.6	185%	8.7	-47%	6.3	6.5	-3%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
NTA/share (RM)	2.47	2.43		2.35		2.47	2.35	
EBITDA margin	6%	4%		8%		5%	5%	
EBIT margin	4%	2%		6%		3%	3%	
Pretax margin	3%	1%		5%		2%	2%	
Effective tax rate	7%	6%		-1%		7%	-1%	

Source: Company, Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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