

Malaysia Steel Works (MSW MK)

Basic Materials - Iron & Steel

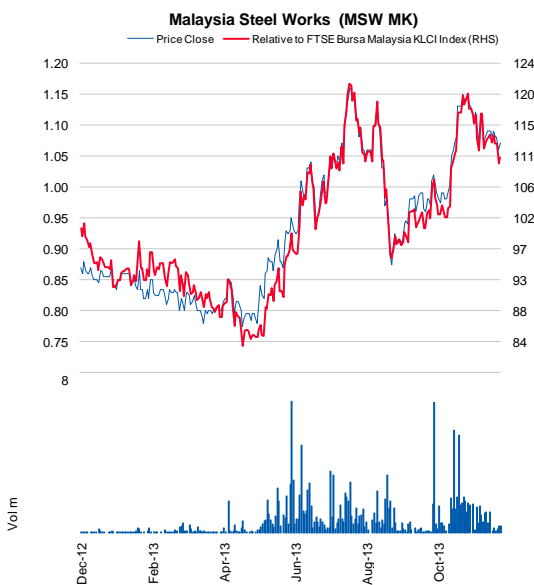
Market Cap: USD72.9m

Trading Buy (Maintained)

Target Price: MYR1.30

Price: MYR1.07

Local Steel Industry In Sweet Spot

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.91m/0.29m
Cons. Upside (%)	-15.9
Upside (%)	21.5
52-wk Price low/high (MYR)	0.78 - 1.16
Free float (%)	50
Shareholders (%)	
TYT Resources	30.9
Lembaga Tabung Haji	5.1

Shariah compliant

Ng Sem Guan, CFA +603 9207 7678

ng.sem.guan@rhbgroup.com

We like MSW's focus on steel bar production, which enjoys healthy demand growth spurred by Government measures, on top of the limited threat from imports. Despite 9M13 profit making up ~68% of our and street estimates, a possibly decent 4Q could make up the rest of our estimates. Thus, we keep our TRADING BUY call and MYR1.30 FV, as the proposed rail project poses a risk in the form of a gearing hike.

- ◆ **3Q results on track.** Malaysia Steel Works (MSW)' 9M13 profit of MYR23.4m is in line, despite accounting for only ~68% of our and street estimates. MSW reported a 2.6/12.2% increase in revenue q-o-q/y-o-y although the fasting month, followed by the *Hari Raya* celebration, slowed down construction activities and steel demand. Meanwhile, 3Q13's net profit of MYR9.7m was almost flat q-o-q at -4.1%, but improved by 37.9% y-o-y, thanks to the continuous improvement in plant efficiency and stringent cost controls. As we expect another decent 4Q to make up our full-year estimates, we maintain our earnings projection.
- ◆ **In a sweet spot.** MSW is the sole local integrated long steel player that manufactures only steel bars. Other companies that also produce wire rods are facing stiff competition from imports. Steel bars are normally delivered in smaller bundles as they are made according to various specifications by contractors, which have limited space to store this basic material. Therefore, steel bar users prefer local producers that can better accommodate their needs, and do not mind absorbing the 10-15% premium over international prices, which benefits MSW. We are also relieved that there was no mention of any cancellation of mega-projects in Budget 2014. Instead, the Government pledged to help develop affordable homes, which will stimulate the demand for steel.
- ◆ **Reiterate Trading BUY.** Meanwhile, we are keeping a close eye on MSW's proposed Iskandar rail project as the first-of-a-kind project (for the company) and high capex may increase its gearing if it proceeds. Although the company is currently in the steel industry's sweet spot but final approval from the Government on the rail project is still pending, we maintain our Trading BUY recommendation. That said, we raise our FV to MYR1.30, based on 0.48x FY14 P/BV, or +1 SD from the mean of the stock's 5-year historical trading range.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	1,005	1,253	1,312	1,312	1,346
Reported net profit (MYRm)	28.1	24.4	24.3	34.7	36.6
Recurring net profit (MYRm)	28.1	24.4	24.3	34.7	36.6
Recurring net profit growth (%)	na	(13.3)	(0.0)	42.7	5.3
Recurring EPS (MYR)	0.14	0.12	0.11	0.16	0.17
DPS (MYR)	0.01	0.01	0.01	0.01	0.02
Recurring P/E (x)	7.72	9.26	9.42	6.71	6.38
P/B (x)	0.47	0.45	0.44	0.42	0.40
P/CF (x)	6.5	10.5	8.1	6.1	3.1
Dividend Yield (%)	1.3	0.9	0.9	1.3	1.4
EV/EBITDA (x)	6.83	7.70	7.85	6.83	6.20
Return on average equity (%)	6.3	5.0	4.7	6.4	6.4
Net debt to equity (%)	43.8	49.4	44.8	50.1	48.6
Our vs consensus EPS (%)				(0.4)	8.2

Source: Company data, RHB estimates

Figure 1: Results table

FYE Dec (MYRm)	3Q FY12	2Q FY13	3Q FY13	q-o-q (%)	y-o-y (%)	9M FY12	9M FY13	y-o-y (%)	Comments
Revenue	312.9	342.3	351.2	2.6	12.2	997.0	1,023.5	2.7	Higher sales tonnage boosted revenue
EBITDA	14.1	19.7	18.5	(6.0)	31.2	47.2	50.5	7.1	
<i>EBITDA Margin (%)</i>	4.5	5.7	5.3			4.7	4.9		Lower steel prices vs relatively stable scrap metal costs resulted in its EBITDA margin dropping slightly
Depreciation	(5.3)	(5.2)	(5.4)	3.1	1.9	(16.7)	(15.8)	(5.4)	
EBIT	8.8	14.4	13.1	(9.3)	48.8	30.5	34.8	14.0	
<i>EBIT Margin (%)</i>	2.8	4.2	3.7			3.1	3.4		
Interest expense	(4.0)	(3.6)	(5.0)	37.8	23.7	(11.7)	(12.4)	5.9	
Interest income	0.0	0.0	0.0	(7.4)	nm	0.0	0.1	nm	
Associates	(0.0)	(0.0)	0.0	(104.0)	(111.1)	(0.0)	(0.0)	(21.1)	
El/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Pretax profit	7.6	10.9	10.3	(5.3)	36.1	21.6	24.9	15.6	
<i>Pretax Margin (%)</i>	2.4	3.2	2.9			2.2	2.4		
Tax	(0.5)	(0.7)	(0.6)	(22.5)	10.5	(0.4)	(1.5)	276.7	Utilisation of a reinvestment tax allowance translated to a lower effective tax rate
<i>Effective tax rate (%)</i>	(6.8)	(6.7)	(5.5)			(1.9)	(6.1)		
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net Profit	7.0	10.1	9.7	(4.1)	37.9	21.2	23.4	10.6	9M13 profit was in line with our and street estimates despite only accounting for ~68% of projections
Core Profit	7.0	10.1	9.7	(4.1)	37.9	21.2	23.4	10.6	
<i>Net Margin (%)</i>	2.2	3.0	2.8			2.1	2.3		

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	1,005	1,253	1,312	1,312	1,346
Cost of sales	(913)	(1,171)	(1,237)	(1,206)	(1,234)
Gross profit	92	83	75	107	112
Gen & admin expenses	(37)	(27)	(19)	(35)	(37)
Selling expenses	(12)	(16)	(20)	(18)	(19)
Operating profit	43	40	36	53	56
Operating EBITDA	61	61	58	75	83
Depreciation of fixed assets	(18)	(21)	(22)	(21)	(27)
Operating EBIT	43	40	36	53	56
Net income from investments	(0)	(0)	(0)	-	-
Other recurring income	2	1	4	1	1
Interest income	-	-	0	-	-
Interest expense	(15)	(16)	(16)	(18)	(19)
Pre-tax profit	30	25	25	37	38
Taxation	(2)	(1)	(1)	(2)	(2)
Profit after tax & minorities	28	24	24	35	37
Reported net profit	28	24	24	35	37
Recurring net profit	28	24	24	35	37

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	43	40	36	53	56
Depreciation & amortisation	18	21	22	21	27
Change in working capital	(21)	(27)	(16)	(36)	(8)
Other operating cash flow	(4)	(10)	(28)	(17)	(18)
Operating cash flow	35	23	15	22	58
Interest received	-	-	(0)	-	-
Interest paid	-	-	15	18	19
Tax paid	(2)	(2)	(2)	(2)	(2)
Cash flow from operations	34	22	28	38	75
Capex	(48)	(55)	(11)	(60)	(60)
Other investing cash flow	0	0	0	-	-
Cash flow from investing activities	(47)	(55)	(11)	(60)	(60)
Dividends paid	(2)	(3)	(4)	(3)	(4)
Proceeds from issue of shares	35	-	6	-	-
Increase in debt	(27)	32	(3)	20	20
Other financing cash flow	(0)	(1)	-	(18)	(19)
Cash flow from financing activities	6	29	(1)	(1)	(3)
Cash at beginning of period	44	36	32	48	25
Total cash generated	(8)	(4)	16	(23)	12
Implied cash at end of period	36	32	48	25	37

Source: Company data, RHB estimates

Financial Exhibits

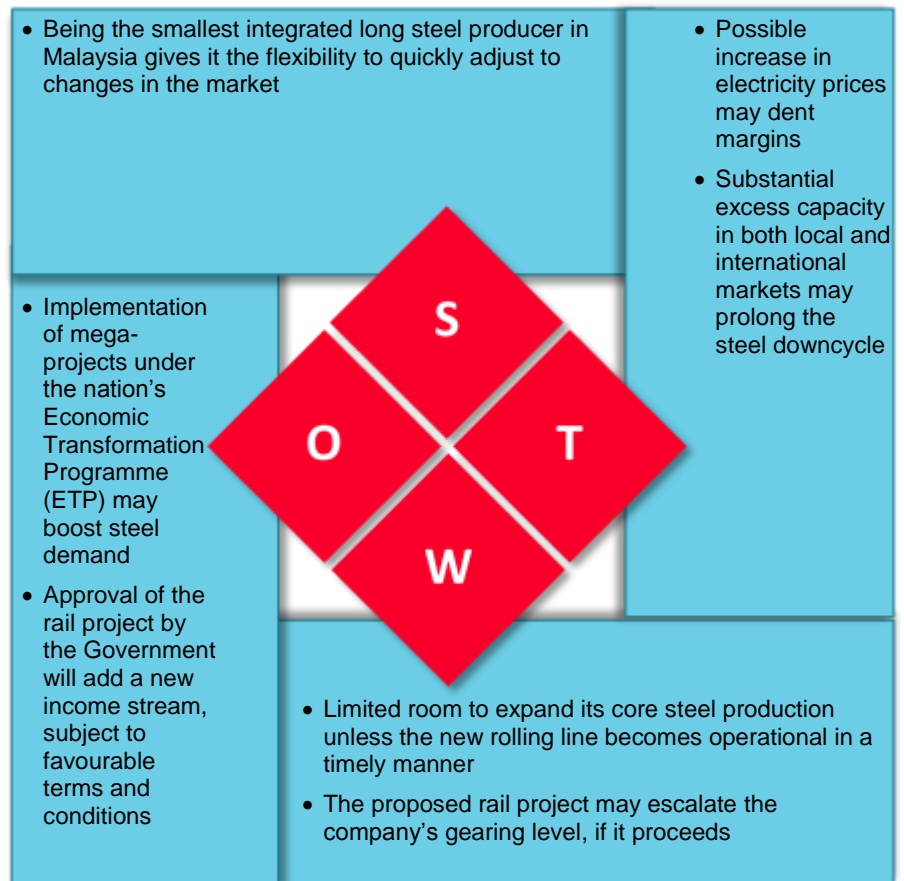
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	36	32	48	25	37
Inventories	148	161	181	219	223
Accounts receivable	180	203	229	221	227
Other current assets	2	3	4	4	4
Total current assets	366	398	462	469	491
Total investments	8	8	8	8	8
Tangible fixed assets	436	470	460	499	532
Total other assets	4	-	-	-	-
Total non-current assets	448	478	468	507	540
Total assets	814	877	930	976	1,031
Short-term debt	159	224	248	268	288
Accounts payable	89	98	120	115	117
Other current liabilities	0	-	-	-	-
Total current liabilities	249	322	369	383	405
Total long-term debt	86	54	35	35	35
Total non-current liabilities	86	54	35	35	35
Total liabilities	335	377	404	419	441
Share capital	105	105	109	109	109
Retained earnings reserve	271	292	344	375	408
Other reserves	102	102	73	73	73
Shareholders' equity	479	500	526	557	590
Total equity	479	500	526	557	590
Total liabilities & equity	814	877	930	976	1,031

Source: Company data, RHB estimates

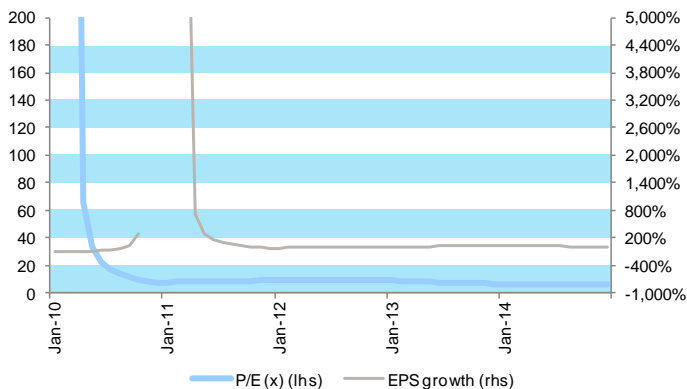
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	46.2	24.7	4.7	0.0	2.6
Operating profit growth (%)	772.7	(7.6)	(8.0)	45.5	6.1
Net profit growth (%)	0.0	(13.3)	(0.0)	42.7	5.3
EPS growth (%)	0.0	(16.6)	(1.7)	40.3	5.3
Bv per share growth (%)	6.0	4.5	1.7	5.9	5.9
Operating margin (%)	4.3	3.2	2.8	4.0	4.2
Net profit margin (%)	2.8	1.9	1.9	2.6	2.7
Return on average assets (%)	3.6	2.9	2.7	3.6	3.6
Return on average equity (%)	6.3	5.0	4.7	6.4	6.4
Net debt to equity (%)	43.8	49.4	44.8	50.1	48.6
DPS	0.01	0.01	0.01	0.01	0.02
Recurrent cash flow per share	0.17	0.10	0.13	0.18	0.35

Source: Company data, RHB estimates

SWOT Analysis

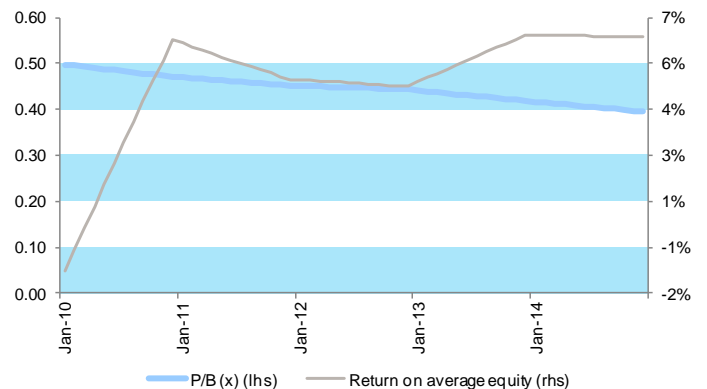


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Malaysia Steel Works (KL) is an integrated steel manufacturer with a focus on long steel products.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-09-02	Trading Buy	1.08	0.91
2013-08-26	Neutral	1.08	0.94
2013-06-03	Trading Buy	1.08	0.95
2013-03-01	Neutral	0.91	0.80

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
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