

# Malaysia Steel Works (MSW MK)

Basic Materials - Iron & Steel

Market Cap: USD71.5m

**Neutral** (from Trading Buy)

Target Price: MYR1.07

Price: MYR1.05

## Setback From Electricity Tariff Hike

Macro ◆◆  
 Risks ◆◆  
 Growth ◆◆  
 Value ◆◆



Source: Bloomberg

|                            |             |
|----------------------------|-------------|
| Avg Turnover (MYR/USD)     | 0.90m/0.29m |
| Cons. Upside (%)           | -14.3       |
| Upside (%)                 | 1.9         |
| 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

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**MSW's focuses on steel bars, which enjoy healthy demand growth on top of the limited threat from imports. However, there is no escaping from the 18.8% hike in electricity tariffs, which will translate into a -58% earnings cut for FY14. With potentially poor market interest on steel counters amid other negative developments, we downgrade MSW to NEUTRAL, and lower our FV to MYR1.07.**

- ◆ **In a sweet spot.** Malaysia Steel Works (MSW) is Malaysia's sole local integrated long steel player manufacturing 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 the specifications of contractors who 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 in turn 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 develop more affordable homes, which will stimulate the demand for steel, particularly steel bars.
- ◆ **A setback from higher tariff.** Similar to its peers, MSW uses approximately 600 kWhr of electricity to produce a tonne of billets and 110-120 kWhr for a tonne of bars from billets. As such, electricity cost makes up about 10% of its production cost. The company falls under the "special industrial tariff" group that is subject to a 18.8% electricity tariff hike from Jan 2014. We slash the company's FY14 earnings by 58% after incorporating the new tariffs.
- ◆ **Downgrade to NEUTRAL.** We see the electricity tariff revision causing investors to shy away from the sector, especially considering the two steel counters that were recently designated as PN17 companies. We are also keeping a close eye on MSW's proposed Iskandar rail project as this first-of-a-kind project for the company will involve high capex that could increase gearing if it proceeds. We downgrade MSW to NEUTRAL, with our FV lowered to MYR1.07 (from MYR1.08), based on a 0.4x (from 0.48x) FY14 P/BV, or the mean (from +1 SD) 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  | 1,283   | 1,316   |
| Reported net profit (MYRm)      | 28.1   | 24.4   | 24.3   | 34.7    | 15.3    |
| Recurring net profit (MYRm)     | 28.1   | 24.4   | 24.3   | 34.7    | 15.3    |
| Recurring net profit growth (%) | na     | (13.3) | (0.0)  | 42.7    | (56.1)  |
| Recurring EPS (MYR)             | 0.14   | 0.12   | 0.11   | 0.16    | 0.07    |
| DPS (MYR)                       | 0.01   | 0.01   | 0.01   | 0.01    | 0.01    |
| Recurring P/E (x)               | 7.6    | 9.1    | 9.2    | 6.6     | 15.0    |
| P/B (x)                         | 0.46   | 0.44   | 0.44   | 0.41    | 0.40    |
| P/CF (x)                        | 6.3    | 10.3   | 7.9    | 5.0     | 4.4     |
| Dividend Yield (%)              | 1.3    | 1.0    | 1.0    | 1.4     | 0.6     |
| EV/EBITDA (x)                   | 6.77   | 7.63   | 7.78   | 6.66    | 8.62    |
| Return on average equity (%)    | 6.3    | 5.0    | 4.7    | 6.4     | 2.7     |
| Net debt to equity (%)          | 43.8   | 49.4   | 44.8   | 48.7    | 52.6    |
| Our vs consensus EPS (%)        |        |        |        | (0.4)   | (54.8)  |

Source: Company data, RHB estimates

## 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

## RHB Guide to Investment Ratings

- 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  
**Sell:** Share price may fall by more than 10% over the next 12 months  
**Not Rated:** Stock is not within regular research coverage

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