

Equity Beat

4QFY09 Results

Kinsteel Berhad

Ending FY09 with a positive note

Reaffirm BUY

Maintain Target Price (TP): RM1.20

- 4Q09 net profit of 41.1% was higher by 216.2% compared to 3Q09.
- 12M09 net profit of RM18.2m was 43.1% lower than 12M08. 2009 was impacted by lower average selling prices for steel products.
- 12M09 net profit exceeded our expectation of a loss of RM3.2m and was better than consensus estimates of a net profit of RM4.2m.
- We make no changes to our forecast for FY10.
- We reaffirm our buy call on the stock with an unchanged Target Price (TP) unchanged at RM1.20, pegged at 8 times FY10 EPS.

STOCK INFO

Price (25 Feb 10)	RM0.995	KLCI	1,270.78
Issued shares (mil)	950.496	Bursa / Bloomberg	5060 / KSB MK
Par Value (RM)	0.20	Board / Sector	Main / Industrial Products
Market cap. (RM'm)	945.74	Syariah Compliant	No
Price over NA (x)	1.17		
52-wk price Range	RM0.36 - RM1.18	Major Shareholders	
Beta (against KLCI) (x)	1.88	Kin Kee Holdings S/B	35.24%
3-mth Avg Daily Vol	3.83m	Maju Holdings S/B	19.76%
3-mth Avg Daily Value	3.81m	EPF	12.62%

Revenue lower in 4Q09 due to lower steel product prices. As at end of Dec 09, East Asia import prices for billets and rebars were USD472.5 and USD515 respectively compared to USD495 and USD522.5 in Sept 09. However, steel prices in Jan and Feb 10 moved higher as results of cost pressures. Higher raw material prices (iron ore and scraps) pushed prices for billets and rebars higher in 4Q09. We believe that the outlook for steel prices is still volatile and that higher real demand for semi and finished steel products will be required to sustain price hikes.

Lower cumulative losses for Perwaja. Perwaja Holdings Berhad (owned 37% by Kinsteel), the group's manufacturer of upstream steel products (billets, bloom and beam blanks) recorded a net profit of RM12.7m vs. RM13.0m in 4Q09. On cumulative basis, net losses have been narrowed down to RM115.5m as at Dec 09 (vs. a net loss of RM128.2m as at Sept 09 and a net loss of RM141.3m as at June 09). This was due to improved selling prices and better demand for steel products.

Expansion of production capacity by mid 2010. Kinsteel's mini blast furnace costing RM80m and a new electric arc furnace still slated for completion by mid 2010. Upon completion, the group's Direct Reduced Iron (DRI) production capacity will be increased from 1.5m mt to 1.8m mt while billets production capacity will be raised from 1.3m mt to 2.0m mt. The mini blast furnace will be used for recycling of waste material for higher DRI production. The expansion will not only increase the production capacities but also expected to result in improved cost efficiencies in particularly electricity savings.




FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	2,461.4	1,928.0	2,403.3	2,557.3
EBIT (RM'm)	154.5	28.3	264.4	392.8
Pretax Profit (RM'm)	38.2	-98.0	188.3	231.4
Net Profit (RM'm)	37.4	18.2	141.2	173.62
EPS (sen)	4.0	1.8	15.0	18.0
EPS growth (%)	-72.8%	-55.0%	733%	26.7%
PER (x)	24.8	55.2	6.6	3.7
Net DPS (sen)	1.7	1.0	1.0	1.0
Net Dividend Yield (%)	1.7	1.0	1.0	1.0

Source: Company, Forecasts by MIDFR

Longer term prospect depending on increase of private sector spending. We believe with the world economies improving coupled with indication of increase in interest rates to keep inflation in check as well as higher government debt in particularly in western countries, there would be a scale down of stimulus spending and that in the longer term, increase in private sector spending will be required to offset to lower stimulus spending to continue to support the demand of steel products.

Dividend of 1 sen per share for FY09. Management has proposed for a tax exempt dividend of 1 sen per share for FY09.

Valuation. We are maintaining our BUY call on the stock with an unchanged Target Price of RM1.20, pegged at 8x FY10 EPS. We believe that that steel industry has stabilized from the effects of financial crisis in 2008, where most steel manufacturers suffered substantial writedowns in inventory when the steel prices plummeted. Steel prices are not likely to follow that in 2008. Price hikes will likely not be sustainable due to end-users demand growing rather gradually, strong competition among suppliers, idle capacities of steel producers in various markets and that finished demand in various market is still weak for support higher steel prices. For demand pull upward steel prices, demand for finished steel products needs to be stronger. 

Quarterly Results						Cumulative		Comments
FY 31 Dec (RM'Mil)	4Q09	3Q09	4Q08	%Qoq	%Yoy	12M09	%Yoy	
Turnover	390.9	409.5	377.4	-4.5	+3.6	1,928.0	-21.6	Lower qoq due to lower sales tonnage and prices as a result of seasonal factors.
Operating profit	79.3	28.5	-359.5	+178.2	-122.1	28.3	-72.5	
Interest expense	27.0	15.5	15.9	+74.2	+69.8	126.4	+36.5	Higher qoq due to increase in borrowings to RM1.63b vs. RM1.61b. Higher borrowings was mainly in term loan facilities (short term) to RM66.2m vs. RM5m.
Pre-tax profit	52.3	13.0	-375.3	+302.3	-113.9	-98.0	-1051.5	
Tax	-1.3	-	31.5	NM	-104.1	-42.8	-206.5	Effective tax rate lower than statutory tax rate of 25% due to utilization of deferred tax assets not recognized in previous years and expected utilization of unutilized capital allowances, tax incentives and tax losses.
Net Profit	41.1	13.0	-202.8	+216.2	-120.3	18.2	-43.1	
EPS (sen)	4.03	1.85	-19.3	+117.8	-120.9	1.81	-40.7	
				+/-	Ppts			
				Qoq	Yoy			
Operating Margin (%)	20.3	7.0	-95.3	13.3	115.5			
Pretax Margin (%)	13.4	3.2	-99.4	10.2	112.8			
Net Profit Margin (%)	10.5	3.2	-53.7	7.3	64.3			
Tax Rate (%)	2.5	NM	8.4	NM	5.9			

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.