

14 June 2021

Basic Materials | Metals

Hiap Teck Venture (HTVB MK)

Not Rated

Unearthing The Jewel Of The East

Fair Value (Upside): MYR1.00 (+72%)
 Price: MYR0.58
 Market Cap: USD201m
 Avg Daily Turnover (MYR/USD) 23.5m/5.69m

- MYR1.00 FV based on SOP.** We apply DCF valuation on Hiap Teck Venture's primary operations and FY23F (Jul) P/E on JV earnings to de-emphasise the current spike in steel prices on its valuation, and perceive considerable upside potential even under our prudent parameters. The group's partnership with global steelmaking major, Beijing Jianlong Heavy Industry Group (Jianlong Group), has proven to be a masterstroke, as the 35%-owned Eastern Steel (ESSB) JV's sweeping turnaround into a pivotal profit driver will serve as a key re-rating catalyst for the stock.
- Core business is a proven cash cow.** With annual turnover of >MYR1bn, HTVB is one of Malaysia's largest steel companies engaged in trading and manufacturing of downstream flat steel products, serving various sectors such as engineering, oil & gas, construction and manufacturing. Within South-East Asia, it is a regional market leader for steel pipes and hollow sections, with an annual production capacity of 550,000 tonnes. Its operations have stayed consistently profitable throughout good and bad times, with GPM averaging 10% over the last 10 years and stable opex at 4-5% of revenue. Annual maintenance capex is minimal (MYR10-15m) while there is ample spare capacity to cater for future demand growth.
- ESSB JV to stand out for its cost competitiveness.** The blast furnace (BF) plant with rated capacity of 700,000 tonnes of billets/slabs has seen its performance improve by leaps and bounds since resuming production in FY19 under the stewardship of Jianlong Group, the fifth largest producer in China ([eighth globally](#)). ESSB notably swung into net profitability in 1QFY21 (Oct), which was prior to the sharp rally in steel prices – yet ahead of local peers. This, coupled with significant cost savings from its newly-completed coke oven and 15-year tax exemption period until 2033, denotes that the 35%-owned JV is set to be a major and sustainable profit driver for HTVB going forward – even if global steel prices come under pressure in the future, given the margin buffer afforded by its competitive cost position.
- Forecasts.** We project FY22F earnings to leap 75% YoY to MYR179m, led by higher ESSB share of profit. This, in turn, is driven by still-elevated ASPs seen for 1HFY22F, plus cost savings of >MYR100m from the new coke oven, which is expected to fully ramp-up in 2HFY22F. We expect the JV contribution to normalise at MYR80m from FY23F, in anticipation of steel prices' mean reverting towards more regular levels.
- Under-researched, undervalued stock = high re-rating potential.** Our SOP valuation incorporates a DCF of the cash-generative downstream operations (8% WACC, 2% LTG) and 10x P/E (global industry 5-year average) on ESSB's post-peak FY23F JV profit of MYR80m. Our MYR1.00 FV suggests that the current share price has yet to rightfully account for the value of ESSB, with the earnings contribution still not supersized yet in 1HFY21. At the current 0.9x P/BV, HTVB is trading at a 35% discount to regional steelmaking peer average of 1.4x, corroborating the upside potential implied by our SOP valuation.

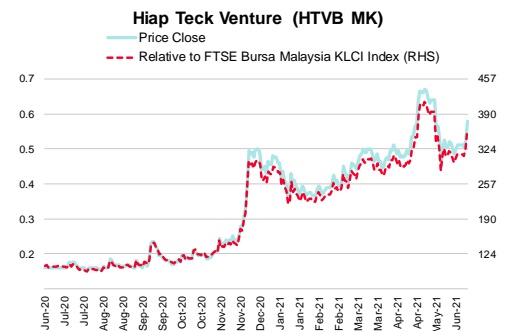
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	26.1	(7.9)	20.8	17.2	251.5
Relative	29.3	(7.7)	24.1	23.7	250.3
52-wk Price low/high (MYR)					0.16 – 0.67



Source: Bloomberg

Forecasts and Valuation	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Total turnover (MYRm)	1,187	933	1,188	1,401	1,299
Recurring net profit (MYRm)	25	4	102	179	152
Recurring net profit growth (%)	(9.5)	(83.1)	2,285.8	74.9	(15.1)
Recurring P/E (x)	30.66	181.39	8.12	5.30	6.25
P/B (x)	0.9	0.9	0.9	0.8	0.8
P/CF (x)	7.56	7.84	17.63	na	7.22
Dividend Yield (%)	0.9	0.9	0.5	1.5	5.2
EV/EBITDA (x)	10.59	20.58	5.84	5.85	5.13
Return on average equity (%)	3.0	0.5	11.2	17.2	12.9
Net debt to equity (%)	51.9	41.9	34.3	32.8	24.2

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Malaysia	Recurring EPS	0.02	0.00	0.07	0.11	0.09
Basic Materials	DPS	0.01	0.00	0.00	0.01	0.03
Hiap Teck Venture	BVPS	0.65	0.64	0.67	0.69	0.75
HTVB MK	Return on average equity (%)	3.0	0.5	11.2	17.2	12.9
Not Rated						
	Valuation metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Valuation basis	Recurring P/E (x)	30.66	181.39	8.12	5.30	6.25
SOP comprising DCF on core operations (8.0% WACC, 2% LTG) and 10x P/E multiple on Eastern Steel FY23F JV profit	P/B (x)	0.9	0.9	0.9	0.8	0.8
	FCF Yield (%)	(0.4)	10.6	3.9	(3.1)	12.3
	Dividend Yield (%)	0.9	0.9	0.5	1.5	5.2
	EV/EBITDA (x)	10.59	20.58	5.84	5.85	5.13
	EV/EBIT (x)	12.31	35.00	6.62	6.62	5.88
Key drivers	Income statement (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
i. China's supply-side environmental reforms;	Total turnover	1,187	933	1,188	1,401	1,299
ii. Domestic demand recovery;	Gross profit	105	56	143	154	143
iii. Eastern Steel's export prospects for semi-finished steel products in net importing ASEAN countries.	EBITDA	75	34	120	129	118
	Depreciation and amortisation	(10)	(14)	(14)	(15)	(15)
	Operating profit	64	20	106	114	103
	Net interest	(26)	(21)	(14)	(14)	(12)
	Pre-tax profit	39	9	126	204	175
	Taxation	(14)	(4)	(23)	(25)	(23)
	Reported net profit	25	4	102	179	152
	Recurring net profit	25	4	102	179	152
Key risks	Cash flow (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
i. Supply-demand imbalances;	Change in working capital	68	90	(35)	(105)	48
ii. Fluctuations in raw material costs and FX;	Cash flow from operations	103	99	47	(15)	131
iii. Macroeconomic uncertainties.	Capex	(106)	(17)	(15)	(15)	(15)
	Cash flow from investing activities	51	(34)	(15)	(15)	(15)
	Dividends paid	(7)	(7)	(4)	(14)	(49)
	Cash flow from financing activities	7	(261)	(24)	(28)	(111)
	Cash at beginning of period	60	179	145	171	131
	Net change in cash	161	(195)	8	(58)	5
	Ending balance cash	221	(16)	153	113	136
Company Profile	Balance sheet (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Hiap Teck Venture is primarily involved in the downstream manufacturing of steel pipes, hollow sections, and scaffolding equipment. It also trades in a wide range of steel products that serve various sectors, including construction, engineering, manufacturing, and oil & gas. The group is engaged in upstream steel production of slabs and billets too via a 35%-owned JV with Chinese steel major Beijing Jianlong Heavy Industry Group called Eastern Steel. The latter operates a fully integrated blast furnace steel mill with production run-rates of 800,000 tonnes at present – above its rated capacity of 700,000 tonnes. It is currently Malaysia's sole producer of steel slabs.	Total cash and equivalents	179	145	171	131	152
	Tangible fixed assets	271	273	274	274	274
	Total investments	431	431	461	561	641
	Total assets	1,589	1,435	1,541	1,714	1,763
	Short-term debt	607	506	500	500	450
	Total long-term debt	19	0	0	0	0
	Total liabilities	728	573	581	590	536
	Total equity	862	861	960	1,124	1,227
	Total liabilities & equity	1,589	1,435	1,541	1,714	1,763
	Key metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Revenue growth (%)	5.2	(21.4)	27.3	18.0	(7.3)
	Recurrent EPS growth (%)	(9.5)	(83.1)	2133.7	53.1	(15.1)
	Gross margin (%)	8.9	6.0	12.0	11.0	11.0
	Operating EBITDA margin (%)	6.3	3.7	10.1	9.2	9.1
	Net profit margin (%)	2.1	0.5	8.6	12.8	11.7
	Dividend payout ratio (%)	26.5	156.1	4.1	8.0	32.3
	Capex/sales (%)	8.9	1.8	1.3	1.1	1.2
	Interest cover (x)	2.52	0.96	7.54	8.15	8.57

Source: Company data, RHB

Eastern Steel Ready For Take Off

Self-help + improved operating environment = new chapter for Eastern Steel

Quick recap. ESSB was initially taken offline in Oct 2015 after only nine months of trial production, due to highly distressed steel market conditions when global industry capacity additions went unchecked while steel demand stalled – resulting in overall steel prices plunging 50% over a 3-year span before recovering from 2016 onwards – which left domestic producers struggling with an influx of cheap imports (particularly from China). During then, ESSB's nascent plant had yet to be integrated, producing solely crude steel slabs, while the dire external environment made it unfeasible to develop the project further. At the same time, there was an absence of upstart hot-rolled coil (HRC) mills – the midstream consumer of steel slabs – locally, contrary to previous market expectations.

ESSB found a new lease of life in mid-2018 as global steel prices rebounded in tandem with improved supply-side discipline and demand, and HTVB securing a new strategic partner in Jianlong Group. The fifth largest steelmaker in China emerged as ESSB's new controlling shareholder upon acquiring the previous JV partner's interest plus a partial stake from HTVB, with the latter holding on to 35% ownership thereafter.

The new alliance quickly proved fruitful, as ESSB successfully resumed full production from Aug 2018 onwards, supported by Jianlong Group's technical expertise and operational excellence which gradually enabled the plant to surpass its rated capacity. The subsequent addition of a billet caster in Dec 2018 also afforded ESSB the much-needed flexibility to optimise its product mix vis-à-vis market trends, as well as mitigate offtake risks due to the absence of domestic slab demand, as there are no HRC mills in operation currently. In FY20, ESSB achieved a production run-rate of 114% with output hitting just shy of 800,000 tonnes, comprising mostly steel billets. 70% of sales were exported regionally, including to China.

Figure 1: Eastern Steel's JV losses in previous years

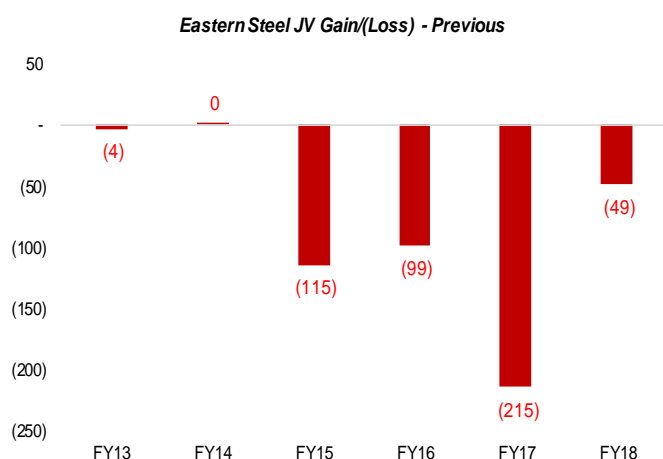
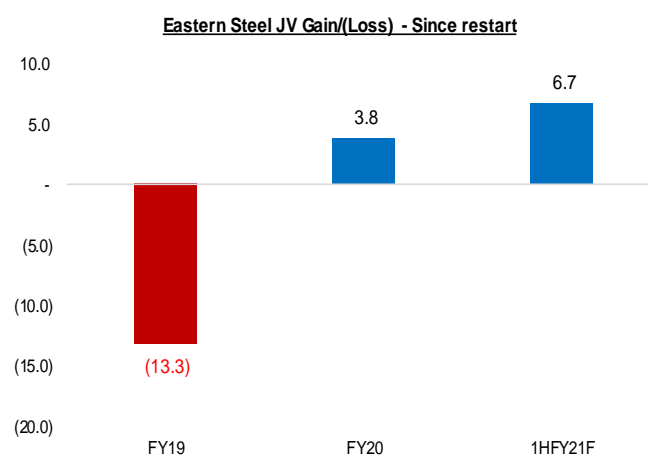


Figure 2: Eastern Steel turning profitable post-restart



Source: Company data

Source: Company data

Figure 3: Eastern Steel's development post-restart under new JV partner, Jianlong Group

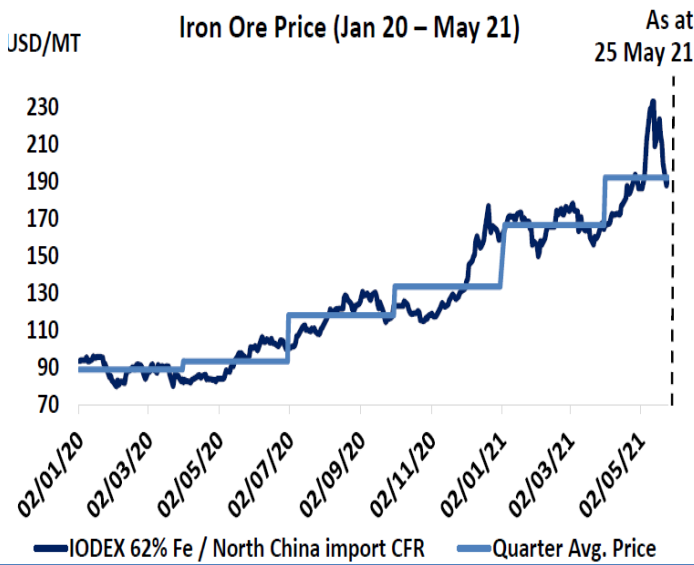
INCOME STATEMENT		FY2019	FY2020	FY2021-H1
Production	MT'000	737	799	359
Sales Volume	MT'000	716	794	371
Revenue	RM'000	1,438,910	1,414,097	717,563
Gross profit	RM'000	(21,393)	26,394	42,399
Profit/(loss) before tax	RM'000	(37,143)	10,966	19,278
HTVB's Shareholding		35%	35%	35%
HTVB's Share of Profit of ESSB		(13,000)	3,838	6,747

Note: *FY19 and FY20 both included MYR50m in impairment reversals following plant upgrades and restarts

Source: Company data

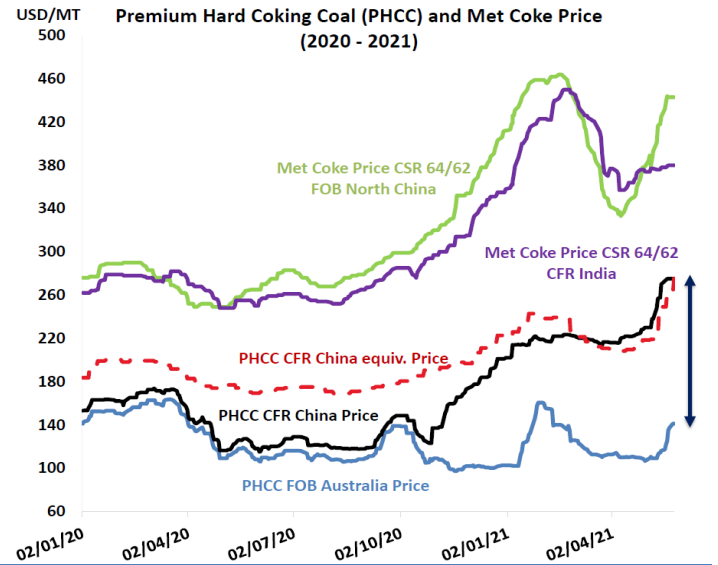
Following on, ESSB is set to enjoy another leg of significant cost savings in FY22F, following the recent completion of its 400,000 tonne pa coke oven in end-FY21, with full commencement slated for 2HFY22F. This comes about at an opportune time, as based on current elevated market prices for coke, ESSB is projected to save up to MYR160m in raw material procurement costs in FY22F – which adds another earnings kicker on top of lofty ASPs.

Figure 4: Iron ore prices



Source: Ann Joo, Platts

Figure 5: Coking coal vs coke prices



Source: Ann Joo, Platts

Enhanced cost structure augurs well for ESSB’s future earnings sustainability. Under normalised circumstances, we expect the coke oven to continue delivering cost savings of MYR120m per year – if interpolated into FY20, ESSB would have been able to achieve net profitability in spite of weaker-than-average ASPs. This bodes well for ESSB’s fortunes going forward, as the fully-integrated BF steelmaker will be in a much stronger position to withstand future market cyclicality. This is further boosted by the plant’s tax-exempted status until 2033, whereas ESSB has almost no borrowings at present. As such, any cash profit will flow directly through to the bottomline.

Well-positioned relative to domestic peers mainly operating electric arc furnaces. In general, while electric arc furnaces (EAF) possess greater operational flexibility and lower capex intensity, BF plants tend to have a cash cost advantage relative to EAF, especially under high utilisation rates. This is mainly due to BF’s primary usage of iron ore and coking coal/coke as raw material and fuel input, vs EAF’s costlier reliance on scrap metal, electricity and natural gas, particularly for scrap metal.

On average, steel scrap feedstock costs twice as much to produce one tonne of steel vs iron ore at international prices, whereas domestically-sourced electricity/gas costs are roughly cheaper by only 30-40% to that of coking coal/coke, with energy costs accounting for a smaller proportion of total input.

Besides that, the sourcing of recycled scraps is also more delicate due to quality differences, necessitating large amounts of imports from the US and Japan to fulfil Malaysia’s EAF-heavy production needs. On the other hand, commodity grade iron ores are exchange-traded and widely available within the region. This helps BF operators to better manage production planning and also save on freight charges. At present, we gather that scrap imports account for 40% of domestic consumption, whereas ESSB sources up to 50% of iron ores locally. Furthermore, the prices of steel, iron ore and coking coal are closely correlated, which help to de-risk the volatility in product spreads to a certain extent.

Figure 6: BOF production cost structure (2021)

Item	unit	factor	unit price (\$)	% fixed	Costs (\$ per tonne)		
					Fixed	Variable	Total
Iron ore	tonne	1.509	170.00	0%	0.00	256.53	256.53
Iron ore transport	tonne	1.509	7.97	0%	0.00	12.02	12.02
Coal	tonne	0.860	114.74	0%	0.00	98.68	98.68
Coal transport	tonne	0.860	7.34	0%	0.00	6.31	6.31
Steel scrap	tonne	0.148	371.01	0%	0.00	54.91	54.91
Steel scrap delivery	tonne	0.148	5.00	0%	0.00	0.74	0.74
Industrial gases	cubic m	162	0.12	0%	0.00	18.96	18.96
Ferrous alloys	tonne	0.009	1588	0%	0.00	14.29	14.29
Fluxes etc	tonne	0.531	49.98	0%	0.00	26.54	26.54
Refractories	tonne	0.004	1314	0%	0.00	4.86	4.86
Other costs	unit	1	20.22	25%	5.06	15.17	20.22
By-product credits	unit	1	-8.96	0%	0.00	-8.96	-8.96
Thermal energy, net	GJ	-6.417	8.32	0%	0.00	-53.36	-53.36
Electricity	MWh	0.138	106.97	15%	2.21	12.52	14.73
Labour	hours	0.605	41.97	25%	6.35	19.04	25.39
Capital charges	unit	1	29.89	100%	29.89	0.00	29.89
Total					43.50	478.25	521.75

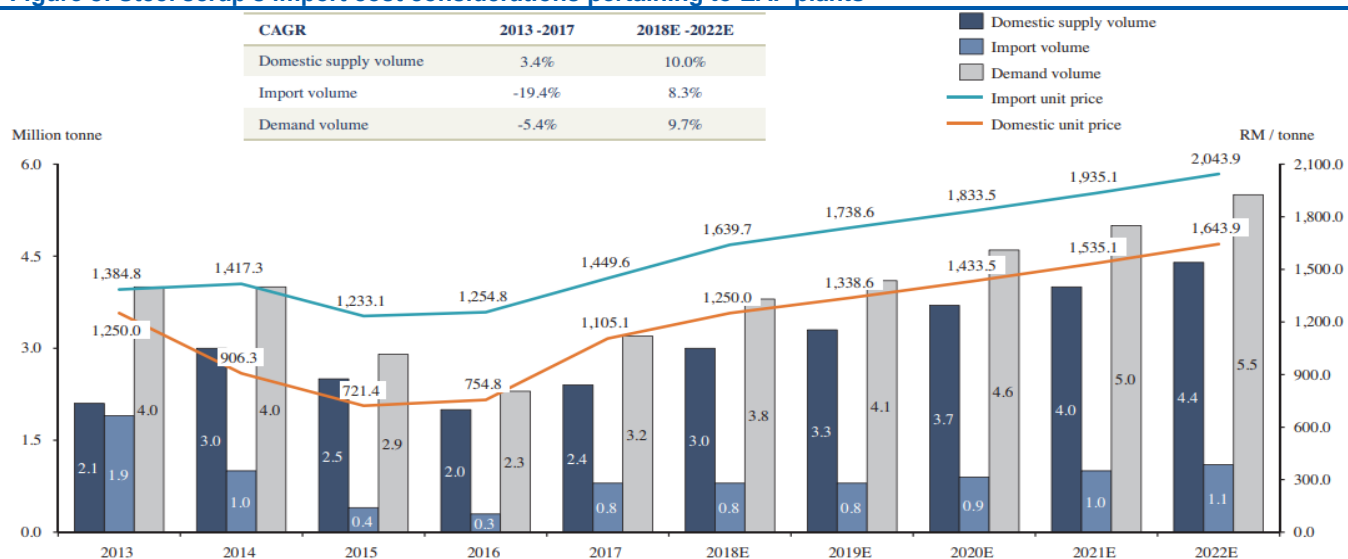
Source: Steelonthenet

Figure 7: EAF production cost structure (2021)

Item	unit	factor	unit price (\$)	% fixed	Costs (\$ per tonne)		
					Fixed	Variable	Total
Steel scrap	tonne	1.117	371.01	0%	0.00	414.42	414.42
Steel scrap transport	tonne	1.117	5.00	0%	0.00	5.59	5.59
Pig iron/DRI	tonne	0.000	406.00	0%	0.00	0.00	0.00
Pig iron/DRI transport	tonne	0.000	14.00	0%	0.00	0.00	0.00
Industrial gases	cubic m	56	0.11	0%	0.00	5.95	5.95
Ferrous alloys	tonne	0.021	1588	0%	0.00	33.34	33.34
Fluxes etc	tonne	0.068	149.41	0%	0.00	10.16	10.16
Electrodes	tonne	0.001	4000	0%	0.00	5.96	5.96
Refractories	tonne	0.001	1314	0%	0.00	1.23	1.23
Other costs	unit	1	19.62	25%	4.91	14.72	19.62
Thermal energy	GJ	-0.068	8.32	0%	0.00	-0.57	-0.57
Electricity	MWh	0.444	102.61	15%	6.83	38.73	45.56
Labour	hours	0.291	41.97	25%	3.05	9.16	12.21
Capital charges	unit	1	17.31	100%	17.31	0.00	17.31
Total					32.10	538.69	570.79

Source: Steelonthenet

Figure 8: Steel scrap's import cost considerations pertaining to EAF plants



Source: Heng Hup IPO Prospectus (2018)

Commercially, ESSB is also in a favourable position as it produces both long (billet) and flat (slab) semi-finished steel products, which are enjoying strong demand in South-East Asia, given the present shortfall in upstream production (c.5m tonnes pa) to serve the consumption of standalone midstream rolling mills in the region. It is also able to export to China (25% of sales currently) as its products have met the country's quality standards.

Figure 9: Regional export demand for semi-finished steel (billets, slabs, beams, etc)

Heat Map of Malaysia Exports in 2019 (~ 5.5 million MT)

Source: SEAISI Research & Analysis

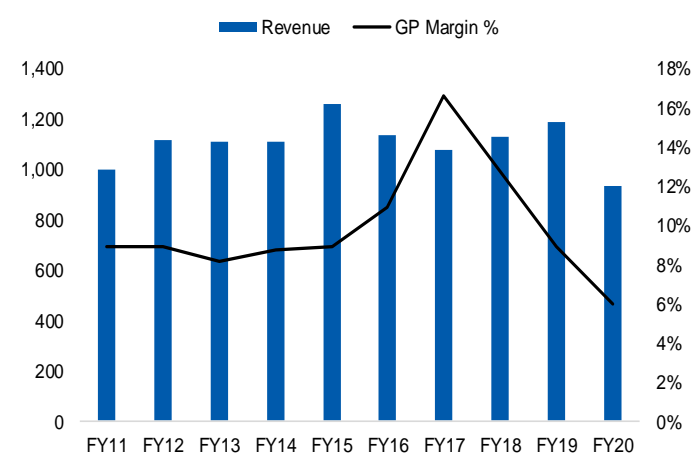
Malaysia Steel Exports	Europe	Russia & CA	Africa	Middle East	ASEAN-4	ASEAN-6	China	Other APAC	Americas	Others	Grand Total
380 Semi - Finished Steel						20%	17%	3%			39%
410 Rails & Accessories											0%
420 Steel Sheet Piles											0%
430 Sections						3%					3%
440 Bars					2%	1%	2%			1%	6%
450 Wire Rods					1%	14%	4%	2%	1%	2%	24%
470 Plates						1%		1%			3%
480 HR Coils/Sheets											1%
500 CR Products	1%			1%		2%		2%		1%	7%
600 Coated Sheets & Strips						1%					3%
700 Pipes & Tubes									1%	1%	4%
800 Cld Fin, Cld Frmd St.						2%		2%			4%
900 Iron & Steel Scrap						3%	1%	3%		1%	7%
Grand Total	1%	0%	0%	1%	4%	49%	24%	13%	2%	7%	100%

Source: SEAISI

Earnings Outlook

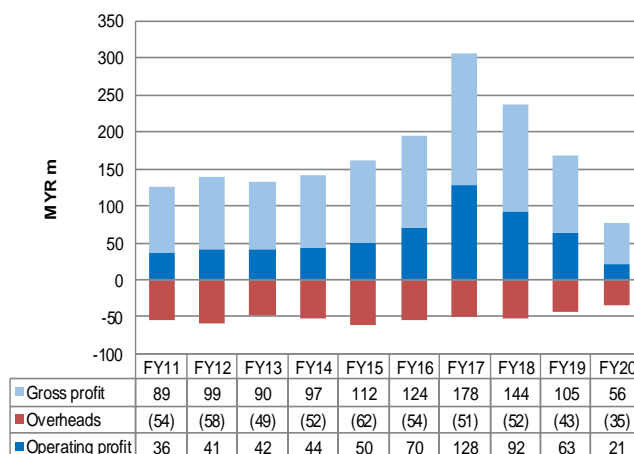
ESSB's turnaround is a major re-rating catalyst, as the JV's start-up losses in the past have distorted HTVB's otherwise resilient operational track record. With these now becoming a thing of the past, we expect sentiment for the stock to turn up as the market acquires a better picture of the group's cash cow operations and JV earnings potential. Current share price suggests that investors have yet to fully appreciate ESSB's transformational shift, given its modest earnings contribution thus far in 1HFY21 whereas there is no active coverage on the stock at present.

Figure 10: HTVB's resilient downstream business



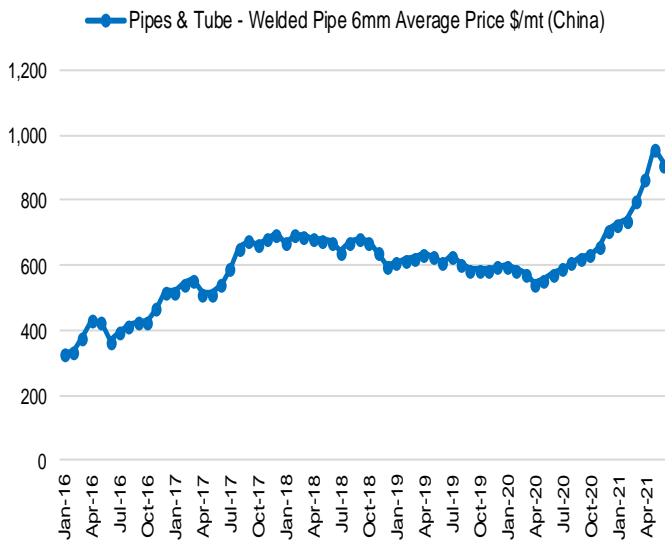
Source: Company data

Figure 11: Operating profit trends, past 10-year average



Source: Company data

Figure 12: Steady price trends for welded pipes and tubes



Source: Bloomberg

Figure 13: Downstream flat steel has high barriers to entry

Electric arc furnace investment cost summary	
Parameter	Value
Average capacity	1170 kt
Average cost 2018	US \$ 154 million
Average cost per tonne capacity	US \$ 143 / tonne

Hot strip mill investment cost summary	
Parameter	Value
Average capacity	2930 kt HRC
Average cost 2018	US \$ 506 million
Average cost per tonne capacity	US \$ 187 / tonne

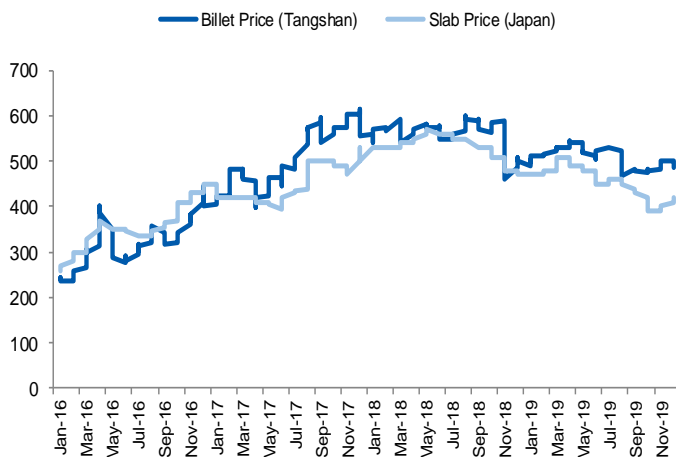
Welded tube and pipe mill investment cost summary	
Parameter	Value
Average capacity	290 kt
Average cost 2018	US \$ 120 million
Average cost per tonne capacity	US \$ 385 / tonne

Source: Steelonthenet

Expecting a mean-reversion in steel prices, rather than a crash subsequently. Although the current decade-high steel prices are unlikely to be sustainable in the longer run, we do not believe that ASPs will subsequently plunge in a dramatic fashion as supply-demand dynamics appear to be in a much better shape compared to the previous cycles, supported by China's environmental reform policies on steel producers. Global steel consumption should remain underpinned by a stimulus-driven economic recovery post-pandemic, while capacity reforms on highly-polluting and inefficient steel mills in China should help to provide better supply-side visibility this time around. Based on current market conditions, we see steel prices remaining strong in the second half of 2021 pending a full restart of ex-China production, followed by a gradual moderation in 2022 towards equilibrium levels.

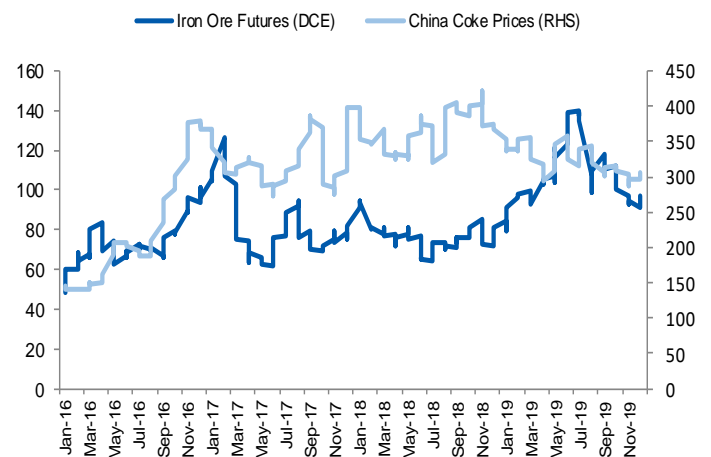
Using 2016-2019 levels as a yardstick for sustainable profitability beyond FY22F. We believe this is the most reasonable lookback period to gauge ESSB's earnings potential on a sustainable basis, as it incorporates the steel market's most recent peak-to-trough evolution over a normal cycle. The previous cycles may not be as meaningful to benchmark against, given those periods coincided with China being the driving force behind severe industry overcapacity, whereas the current situation is playing out to the contrary.

Figure 14: Billet and slab (semi-finished) prices, 2016-2019



Source: Bloomberg

Figure 15: BF raw material price trends, 2016-2019



Source: Bloomberg

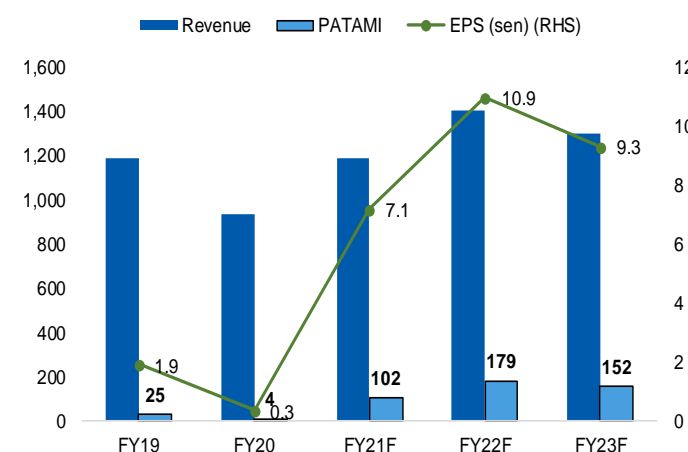
Figure 16: Estimates of ESSB's sustainable earnings delivery beyond FY22F

Key assumptions	Baseline	Long-run	Remarks
	FY19	FY23F	
Sales volume ('000 tonnes)	716	800	Running above rated capacity
USD/MYR	4.13	4.25	
ASP (USD/tonne)	487	500	Based on 2016-19 average
Unit cost savings			
• 55MW Power Plant		25	
• Coke Oven		30	Internal conversion of coking coal
Iron ore price (USD/tonne)	105	85	1.7t (62% purity) per tonne of steel
Coke price (USD/tonne)	330	300	0.5t per tonne of steel
All-in cash cost (USD/tonne)	492	400	Including other misc. direct costs
Cash margin (USD/tonne)	-5	100	
EBITDA (MYR m)	-16	340	
Depreciation & interest (MYR m)	-71	-110	Almost no borrowings currently
Taxation	-	-	15-year tax holiday until 2033
Net profit (MYR m)	-37	230	
JV share of profit	-13	80	MYR80m earnings base under 2016-19 average market prices

Source: RHB

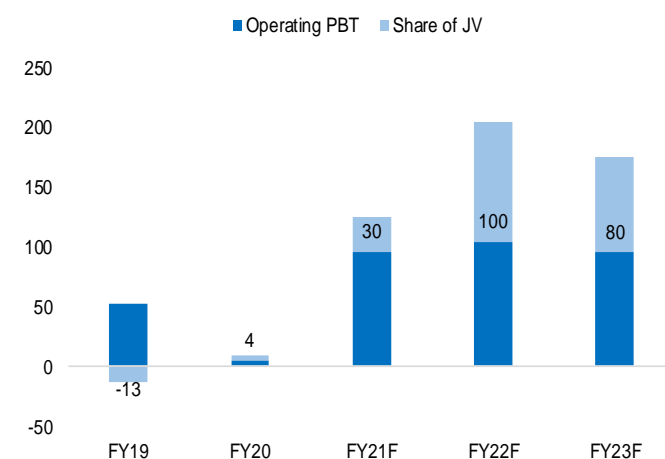
Forecasting ESSB's JV contribution to sustain at MYR80m from FY23F onwards. This is after applying 2016-2019 average price trends to our long-run assumption: USD500.00 per tonne for semi-finished steel products. We estimate ESSB's sustainable cash cost at USD400.00, after assuming an iron ore 62% average cost price of USD85.00, coke price of USD300.00, while factoring in cost savings of USD25.00 and USD30.00 per tonne from ESSB's power and coke oven plants. Non-operating expenses mainly comprise depreciation expenses at MYR100m per year, which ultimately yields a net profit of MYR230m, or MYR80m based on HTVB's 35% share of profit.

Figure 17: Earnings outlook taken up another level



Source: Bloomberg

Figure 18: ESSB's JV profit contribution



Source: Bloomberg, Company data

Figure 19: SOP valuation

FYE 31 Jul (MYR m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
Revenue	1,401	1,299	1,351	1,405	1,461	1,520	1,580	1,644	1,709	1,778	
GP margin (%)	11%	11%	10%	10%	10%	10%	10%	10%	10%	10%	
Gross profit	154	143	135	140	146	152	158	164	171	178	
Opex	(36)	(33)	(35)	(36)	(38)	(39)	(41)	(42)	(44)	(46)	
EBIT	118	110	100	104	109	113	117	122	127	132	
Less: cash tax	(28)	(26)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(32)	
Add: D&A	14	15	15	15	15	15	15	15	15	15	
NWC	(105)	48	(8)	(8)	(8)	(9)	(9)	(9)	(10)	(10)	
Capex	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	
Free cash flow to firm (FCFF)	(16)	132	68	71	74	77	80	83	87	90	1,543
Discount factor	0.93	0.86	0.79	0.74	0.68	0.63	0.59	0.54	0.50	0.46	0.46
PV of FCFF	(15)	113	54	52	51	49	47	45	44	42	717

Risk-free	2.9%
Beta	1.3
Cost of Equity	12.0%
Cost of Debt	1.9%
WACC	8.0%
Terminal growth	2.0%

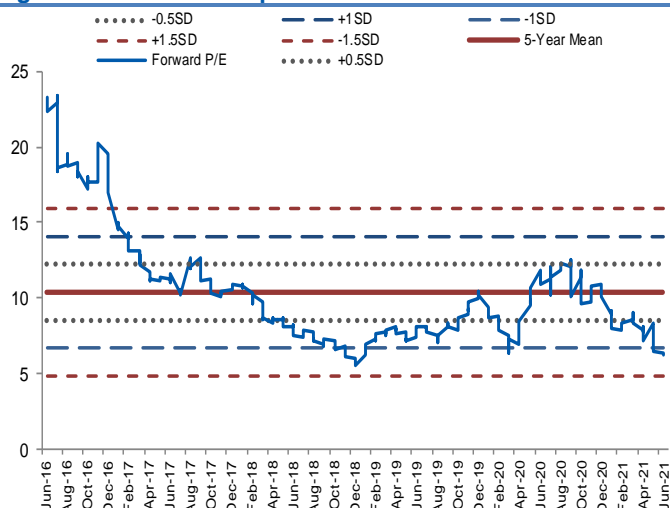
Enterprise Value (MYR m)	1,198.8
Cash	131.0
- Debt	(500.0)
- NCI	0.3
Equity Value (MYR m)	830.2
No of shares (m)	1,635.3
HTVB DCF Value (MYR)	<u>0.51</u>

Eastern Steel JV Profit	80.0
10x FY23F P/E	800.0
JV Value (MYR)	<u>0.49</u>

SOP Value (MYR)	<u>1.00</u>
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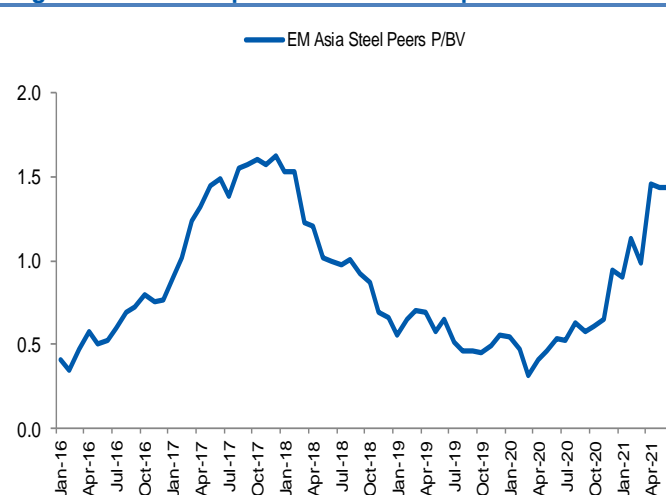
Source: RHB

Figure 20: Global steel producers forward P/E band



Source: Bloomberg

Figure 21: EM Asia peers' current P/BV premium over HTVB



Source: Bloomberg

Key risks

- i. Reversal of China’s commitment to reform its steel industry, and/or slowing credit impulse in the world’s largest steel market. On the other hand, this is seen to be mitigated by Jianlong Group’s vantage point on the Chinese government’s policymaking;
- ii. Supply shocks of key raw materials such as iron ore and coking coal, leading to a narrowing in ASP-input cost spreads;
- iii. Excessive investments in steel capacity in ASEAN – such as the 10m per year Wenan steel project in Samalaju – could take away the shine on the region’s demand potential for semi-finished steel products. However, HTVB’s downstream operations should be relatively insulated given the lofty capex for flat steel pipes and tubes;
- iv. Unfavourable protectionist policies enacted at key export markets.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-06-14			

Source: RHB, Bloomberg

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