CORPORATE

Steel sector in vogue

Share prices rally on expectations of construction boom

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Good prospects: The acceleration and revival of major infrastructure projects, as well as affordable housing projects, augur well for the local steel industry

Local steel companies	Market capitalisation (RM mil)	Share price (RM)	Price-earnings (PE) multiple (times)
Ann Joo Resources	610.3	1.09	-
Choo Bee Metal Industries	225.19	1.71	32.79
CSC Steel Holdings	448.4	1.18	19.25
Eonmetall Group	156.14	0.76	14.47
FACB Industries	131.15	1.54	58.44
Hiap Teck Venture	565.29	0.41	129.75
Leon Fuat	153.45	0.50	113.27
Lion Industries Corp	287.16	0.40	-
Leader Steel Holdings	103.15	0.74	-
Malaysia Steel Works (KL)	212.79	0.47	-
Mycron Steel	139	0.42	-
Southern Steel	441.27	0.74	-
Tashin	106.44	0.30	525.86

Source: Bursa Malaysia

TheStar graphics

SHARE prices of local steel companies have rallied over the past week, on the back of select companies performing well in the third quarter of the year and expectations of more construction activity to come.

As highlighted in the Economic Outlook Report 2021, the construction sector is poised to grow an estimated 13.9% next year from an 18.7% contraction in 2020, to be driven by the acceleration and revival of major infrastructure projects, as well as affordable housing projects.

According to Rakuten Trade Research vice-president Vincent Lau, trading interest in the shares of steel companies could be tied to a rotational play in the market.

"Following the thematic plays in glove and plantation counters, investors are now looking at construction and building material sectors, with more infrastructure projects to be rolled out in line with the RM15bil allocation in Budget 2021 for several mega projects.

"Additionally, steel prices have been on an uptrend," he tells *StarBizWeek*.

The RM15bil Budget 2021 allocation for mega projects have been earmarked for the Mass Rapid Transit Line 3 (MRT3), Gemas-Johor Double Tracking Project, Rapid Transit System from Johor Baru to Woodlands, the Klang Valley First Phase Double Tracking Project and Pan-Borneo Highway.

Just two weeks ago, the RM10bil Rapid Transit System Link (RTS) between Johor and Singapore commenced construction work.

It is estimated that the RTS will be completed in 2026.

Malaysia, through the Transport Ministry, will be footing RM3.715bil or 39% of the total cost of the 4-km link project, with the balance to be borne by Singapore.

Apart from the uptick in construction activity going forward, trade numbers in October have shown that shipments of iron and steel have increased by 21.4% year-on-year (y-o-y).

In a recent economics update report, CGS-CIMB highlighted that exports in October had outperformed market expectations of a 0.4% y-o-y decline to an increase of 0.2% y-o-y, led by electrical and electronics (E&E), rubber gloves, iron and steel, as well as palm oil.

As for corporate earnings in the third quarter of 2020, it is interesting to note that companies such as Leon Fuat Bhd and Mycron Steel Bhd have posted y-o-y net profit growths of 269% and 797%, respectively, while Leader Steel Holdings Bhd registered a net profit of RM2.5mil during the quarter against a net loss of RM1.15mil in the same quarter last year.

Leon Fuat, which trades and processes flat and long steel products, says its gross profit for the quarter increased by 24% or RM3.57mil, due to the increase in revenue for processing of steel products by 19.8% or RM17.58mil, as well as its higher gross profit margin from 10.6% for the corresponding quarter last year to 12.6% for the current quarter.

On the other hand, cold rolled coils and steel pipes producer Mycron Steel's net profit for the quarter was on the back of higher gross profit from the steel tube segment as a result of better gross margin spreads.

Despite Leader Steel's improved performance that was mainly attributable to strategic sales and raw material procurement practices during the quarter, the steel and metal products manufacturer and trader was affected by a disruption in raw material supply chain during the quarter for its steel products segment.

Meanwhile, Press Metal Aluminium Holdings Bhd, South-East Asia's largest integrated aluminium producer, has observed improved demand from the automotive and construction sectors, where manufacturers in these two industries were holding low inventory.

Following the re-opening of economies after the global lockdown, aluminium demand is seeing positive trends as different industries begin their recovery from the lows in the first half of the year.

"China's swift economic rebound led to increased aluminium demand and higher domestic aluminium prices on the Shanghai Futures Exchange (SHFE) as compared to London Metal Exchange (LME) price.

"China, which historically was a net exporter, has reversed its position to be a net importer of primary aluminium during this quarter.

"Inventory levels are also seen to be decreasing week on week which only demonstrates the tightness of aluminium supply within China currently," Press Metal revealed in its latest quarterly financial result filing.

Still, in general, steel players are neutral to cautiously optimistic on the outlook next year, on the back of business opportunities from the local construction sector recovery.

More specifically, AmInvestment Bank remains cautious on the prospects of the local flat steel sector amidst the economic slowdown while competition from cheap imports in the market remains unabated.

"While safeguard measures have been put in place by the government to protect the local players, these may not completely eliminate the loopholes.

"With cheap imports still flooding the local market, we believe that the local flat steel producers will have no choice but to defend their market share at the expense of margins," the research house says, in an earnings update report on CSC Steel Bhd, a flat steel player.

On rising steel prices, CSC cautions that steel prices may progressively enter the horizontal consolidation period.

In a filing with Bursa Malaysia, CSC says any further breakthrough in steel prices is dependent on the rise and fall of the iron ore and the international steel market.

"At present, the piling up of iron ore and effects of uncertainty on the winter production cuts in China as well as fears of resurgence of Covid-19 cases globally are the factors that may impact the world economy growth and steel demand in the fourth quarter," says CSC.

It remains to be seen what measures will be in place to safeguard the interests of local iron and steel players, with the White Paper that is due to be presented by the year-end.

Industry players submitted their own White Paper in April last year following a request by the International Trade and Industry Ministry (Miti) in its 2018 report.

Local manufacturers of cold-rolled coil have complained about the lack of measures to protect them against industry challenges, such as the imposition of duties on foreign imports into Malaysia to allow more competitive pricing for local products.

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However, Lim points out that Taliworks has been compensated for the BSR reduction via an extension of contract for seven years till 2036.

"For our toll business segment, we can see that the average daily traffic (ADT) in both Grand Saga Highway and Grand Sepadu Highway have improved by 77% and 52% to 143,000 and 88,000 in the third quarter of FY20, nearing the pre-movement control order (MCO) level.

"For FY21, we are optimistic that the ADT will recover and grow to slightly higher than the pre-MCO level, as economic and social activities gradually resume back to normal," he says.

Commenting on the group's waste-management division, Lim expects the business will continue growing with the increase in population and thus increasing its scope of services.

Among all the business divisions within Taliworks, the construction division has been significantly affected by the Covid-19 pandemic as many mega-infrastructure projects have been delayed.

"Our construction division will continue to actively tender for more infrastructure projects."

Datuk Ronnie Lim

However, looking ahead, Lim is optimistic that the government will be resuming the mega-infrastructure projects in 2021 to stimulate the country's economy.

"As such, our construction division has been and will continue to actively tender for more infrastructure projects to boost our order book for our engineering and construction division," he says.

For the third quarter ended Sept 30, Taliworks' net profit tumbled by nearly 78% year-on-year (y-o-y) to RM16.18mil as a result of lower revenue across its business segments.

The group told the stock exchange that the higher profit last year was also due to a RM40.88mil gain on the derecognition of trade receivables and waivers worth RM15.69mil granted by certain trade creditors.

The group's third-quarter revenue fell by 11.7% y-o-y to RM82.63mil.

Cumulatively, for the first nine months of FY20, net profit dropped by 53.9% y-o-y to RM43.79mil on the back of a decline in revenue by nearly 11% y-o-y to RM242.99mil.

At the group-level, Lim says that Taliworks is debt-free and sat on a net cash position as at Sept 30.

"Our borrowings as at Sept 30 stood at RM388mil, of which the majority of the borrowings are non-recourse long-term project borrowings by way of Islamic Medium Term Notes of RM387.9mil, which are linked to our 51%-owned subsidiary company, Cerah Sama Sdn Bhd," he points out.