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Mycron`s foray into Mexico is paying off, but for how long?

The Edge, Malaysia

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BY **JOSE BARROCK**

Flat-steel player Mycron Steel Bhd's (KL:MYCRON) foray into the Mexican market last November has given the group's financials a boost. For the financial year ended June 30, 2024 (FY2024), it chalked up a net profit of RM16.97 million, reversing its FY2023 net loss of RM12.33 million. This was on the back of a 48% surge in revenue to RM801.81 million, from RM540 million in FY2023.

To put things in perspective, Mycron reported its highest-ever annual revenue since going public in 2004. In FY2024, foreign sales, mainly from Mexico, accounted for about 30% of the company's total revenue at RM241.82 million — more than seven times the RM33.96 million (6.3% of total revenue) recorded in FY2023.

Despite the strong performance in FY2024, critics are concerned about the sustainability of exports to Mexico.

Group CEO Roshan Mahendran Abdullah says local steel manufacturers, such as Mycron, struggle to maintain healthy capacity utilisation due to an influx of low-cost imports.

"These imports come from countries with significantly lower manufacturing costs, owing to factors such as lower wages, low energy tariffs and subsidised steel production. The result is excess supply that is often dumped into the Malaysian market," says Roshan, who was travelling, in a text message response to questions from *The Edge*.

"Mycron was established primarily to serve the domestic market, but low domestic sales, reduced capacity utilisation and the influx of cold rolled coil (CRC) imports — both legal and illegal — have compelled us to pivot to export markets to stay viable."

In its FY2024 annual report released last week, the group says of its exports of CRC and hot rolled coils (HRCs): "Product dumping by certain dominant steel-exporting countries into certain member countries in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) had resulted in hefty tariff retaliation, which opened up the opportunity for us as a member-nation in CPTPP to step in ... However, export sales do come with higher transaction risks and thin margins."

SHAHRIN YAHYA/THE EDGE

> The government must expedite reforms to anti-dumping legislation and introduce countervailing measures." — Roshan

The steel business can be divided into two segments: flat steel, which includes the production of CRC from HRC; and long steel, commonly used in construction. In a nutshell, CRC is the raw material for manufacturing automobiles, electrical appliances and other flat-steel products.

Mycron has three business units: Mycron Steel CRC Sdn Bhd, which manufactures CRC steel sheets; Melewar Steel Tube Sdn Bhd, which manufactures steel tubes and pipes; and Silver Victory Sdn Bhd, which is involved in the trading of steel-related products.

Mycron's largest shareholder, with 74.13% equity interest, is Melewar Industrial Group Bhd (KL:MELEWAR) — the publicly traded vehicle of Mycron executive chairman Tunku Datuk Yaacob Khyra, who has a 46.9% stake in Melewar Industrial Group.

ANNUAL REPORT FY2024

Mycron Steel financial performance

FINANCIAL YEAR ENDED JUNE 30 (RM MIL)	2020	2021	2022	2023	2024
Revenue	596.1	736.7	745.9	540	801.8
Net profit	(10.6)	53.8	52.7	(12.3)	17

Local steel industry calling for level playing field

Local flat-steel companies, including Mycron, often have to urge the Ministry of Investment, Trade and Industry (MITI) to impose anti-dumping duties on flat-steel imports from countries such as China, Japan, South Korea and Vietnam.

In July 2021, anti-dumping duties were imposed on imports of pre-painted, painted or colour-coated steel coils originating or exported from China and Vietnam for a period of five years from July 20, 2021, to July 19, 2026.

There has been some legal wrangling as well. Last December, Mycron and another flat-steel player CSC Steel Holdings Bhd (KL:CSCSTEL) sought a judicial review and a stay on MITI's decision to terminate anti-dumping duties on CRC imports from South Korea and Vietnam. The two companies questioned the due process of the Trade Practice Section (TPS) in the ministry.

MITI — or, more precisely, TPS — has to justify its conclusion to have an administrative review of the anti-dumping duties initially imposed on South Korea and Vietnam, and why it sought to reverse an earlier decision.

An administrative review puts an end to the imposition of anti-dumping duties and is generally sought in only two cases — when circumstances change so much that they affect the dumping margin or amount of subsidy; or when anti-dumping duties are no longer deemed necessary.

Malaysia's duty on Vietnamese CRC was 7.42% to 33.7% for CRC less than 1,300mm in width and 7.7% to 20.13% on CRC at least 1,300mm in width.

The dispute between Mycron, CSC and the government is ongoing.

"The government must expedite reforms to anti-dumping legislation and introduce countervailing measures to level the playing field for Malaysian steel producers facing pressure from cheaper imports," Roshan says.

"This approach aligns with the national agenda of raising wages and advancing towards a high-income nation. When domestic manufacturers are able to sustain operations and achieve reasonable profitability, they are better positioned to increase wages in line with growth. But expecting local companies to bear higher costs across the board is unsustainable if we are continually operating at a loss."

Still, the key question remains as to whether Mycron's recent financial performance is sustainable.

In its annual report, the group warns that the steel industry is expected to face increasing challenges in 2025. "China's aggressive export strategy, driven by excess steel production amid weak domestic demand due to real estate issues and factory slowdowns, is exacerbating global market pressures," it says.

According to the annual report, the ongoing effects of de-globalisation and trade protectionism will continue to weigh on the industry. In addition, regional steel prices, which have been on a downtrend since March, reached new lows in August and are forecast to remain weak for the rest of the year.

The group also says domestic steel producers are likely to face ongoing intense competition and margin compression from imports, compounded by subdued domestic demand, elevated inventory levels and declining steel prices.

"Rising domestic manufacturing costs pose increasing challenges to sustaining export levels and protecting our margins while competing with countries that benefit from significantly lower production expenses," Roshan says.

Local steel players are preparing for the government's plans to introduce carbon tax by 2026 while they grapple with issues such as higher wages, and higher gas and electricity prices.

"The manufacturing sector is experiencing significant labour and operating cost pressure, driven by government policies — reminiscent of a nation undergoing deindustrialisation. In recent years, we have seen a significant cost rise in electricity, gas, fuel, wages and almost all supplies ... Production cost has increased by as much as 30%, cutting deep into the bottom line," Mycron says in its annual report.

"The squeeze on businesses and the middle-60%, in championing the B20, is likely to zap any remaining dynamism in the economy. [Even] as most of the advanced economies are reverting to protectionism, subsidisation and reindustrialisation, Malaysia is moving in the opposite direction ... In conclusion, our global outlook remains negative."

The group has at least one thing going for it: a healthy balance sheet. At end-June, it had cash and bank balances of RM69.29 million, short-term borrowings of RM126.1 million and long-term debt commitments of RM8.3 million, leading to a net debt of RM65.1 million. Its net gearing ratio is 0.13 times. Its retained earnings stood at RM237.1 million at end-June.

Mycron shares closed at 35.5 sen last Thursday, giving it a market capitalisation of RM116.1 million. Since hitting a 52-week high of 51.5 sen in mid-July, the stock has shed 31% of its market value. ■

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SUMMARIES

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