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STEEL STEALS THE LIMELIGHT

An employee monitors molten iron being poured into a container at a steel plant in Hefei, Anhui province

THE recent steep fall in the stock prices of steel-related companies on Bursa Malaysia is likely to be a short-term correction, as the strength in commodities will be supported by the global economic recovery and acceleration in the re-opening phase in various countries, potentially by the first quarter of 2022, which will pave way for a return to normalcy in 2023.

This was opined by Hong Leong Investment Bank head of retail research Ng Jun Sheng, who tells StarBizWeek that given the resurgence in the Covid-19 cases currently, coupled with the slow vaccinations globally, there is ample room for further upside in the commodity's price trajectory at least until first-quarter 2022 "but we do see bouts of profit taking ahead amidst recent unprecendented rally."

He also notes that near-term seasonal demand weakness and recovering iron ore supply from Vale (the world's largest producer of iron ore, pellets and nickel) in the second half could ease prices.

"In the long term though, steel prices should be sustainably higher versus the past few years and be sustainable through to 2022 and 2023, as China (the biggest producer and exporter) aims for carbon emissions peak by 2025. About 18% of carbon emissions come from iron and steel industries. Transitioning to a net importer by curbing domestic production should lend support to steel prices, " he says.

Ng also points out that a long-term infrastructure boom in the United States, driven by President Joe Biden's massive infrastructure bill, if approved, may sustain strong steel prices.

Steel iron

"Low inventories and slow supply response due to logistics disruptions and capacity resumption are contributing to the struggle of meeting the stronger structural demand globally on the back of China's robust demand and the proposed American US$2 trillion (RM8.28 trillion) mega infrastructure plan, " he says.

Rakuten Trade head of equity sales Vincent Lau also sees the recent steel and aluminium-related stocks' price drop as a near-term correction, following the news flow from China. "The commodities price boom has not ended. Investors can buy on the dip. There is a buying opportunity and it is good to cherry pick companies with strong earnings, " says Lau.

TA Securities Research analyst Chan Mun Chun agrees, pointing out that steel prices have not weakened and are still at the RM2,800-per-tonne level in Malaysia.

"What is happening is that steel-related share prices are moving ahead in reaction to perceived negative news flow, " Chan tells StarBizWeek.Over the past six months, steel-related stocks like CSC Steel Holdings Bhd, Hiap Teck Venture Bhd, Ann Joo Resources Bhd, Lion Industries Corp Bhd, Mycron Steel Bhd, United U-Li Corp Bhd and Malaysia Steel Works (KL) Bhd (Masteel) had more than doubled, or even jumped five times from their closing prices on Oct 30,2020.

For example, CSC Steel had closed at RM1.95 on May 4,2021 (from 81.5 sen on Oct 30,2020) while Ann Joo saw a massive jump to close at RM3.08 on May 10,2021 (from 62 sen on Oct 30,2020).

The same skyrocketing trend was also seen over the same period for the stock prices of aluminium producers like Press Metal Aluminium Holdings Bhd, LB Aluminium Bhd, PA Resources Bhd and Alcom Group Bhd.

However, the steel and aluminium-related counters have seen steep drops after the first week of May, with the steel-related stocks falling 11% to 33% within a two-week period as of end-Thursday.

Ng explains that the Chinese government had recently signalled intentions “to cool off iron ore and steel prices, and thus negative price action ensued.”

“There were stricter checks on price manipulation and collusion in the steel industry. There were also growing concerns over peaking construction demand in China as we enter the seasonally slow season, and local state bonds issued for infrastructure projects are also lower this year versus last year, ” he says.

Ng also points out that there was a reported all-time high April crude steel production numbers even with intended 30% to 50% production curbs at Tangshan (15% capacity).

“Overall, CISA (China Iron and Steel Association) is targeting a low single-digit decline in production this year. We anticipate stricter curbs to be enforced, given this data release. As a result, on Bursa Malaysia, the steel-related stocks dropped rapidly due to pent-up selling pressure from reaction to the price action in China, ” he says.

Ng notes that the average selling prices (ASPs) of steel have been increasing and generally, price uptrends would expand companies’ profitability margins.

He explains that the key drivers of ASPs in China this year were ongoing strong construction demand (seasonally strong), a recovery in industrial manufacturing, high iron ore prices (Vale’s iron ore production number missed expectations so far), and high coking coal prices.

“There are also long-term environmental goals. Hence, production curbs at Tangshan. Also, indications are there will be production curbs in Jiangsu also (second-largest steel-making province), ” he says.

A recent TA Securities Research report themed “Commodity Plays” opines that the average steel bar price in Malaysia for the second half of 2021 will be supported at above

RM2,400-per-tonne level, backed by existing demand from construction and property players and less intense price competition in the country.

“Although domestic demand for steel in Malaysia is still relatively soft at this juncture, as the recovery continues to be disrupted by movement restrictions, many domestic steel players are looking for export opportunities, especially to China, in order to offset the weak domestic demand. The steel bar price in China is currently trading at a premium against that in Malaysia, ” says the research unit.

In line with the strong rally in global steel prices, domestic flat steel prices have been experiencing a strong uptrend as well.

TA Securities Research expects flat steel prices in Malaysia to be supported by a gradual demand recovery from the manufacturing sector and less dumping activity from other countries.

It notes that currently, demand for building materials in Malaysia is mainly supported by ongoing mega infrastructure projects such as MRT2, LRT3, West Coast Expressway, East Coast Rail Link and Pan Borneo Highway.

“The government recently revived the MRT3 project, of which we expect contract awards to take place in the first half of 2022.”

The research unit also says global steel prices in the second half of 2021 is likely to remain toppish due to fiscal stimuli globally, recovering economic activities as well as the steel production capacity cut in China.

Under a best-case scenario, the strong uptrend in steel prices may last until 2022.

However, there is a possibility China may want to step in to calm the steel prices as it would hurt local steel users.

“For instance, China has recently removed tax rebates on exports for certain steel products in order to discourage exports while reducing the import duties for certain steel-making raw materials, ” notes the research unit.

Meanwhile, steel-related companies in Malaysia are also optimistic about their financial performance this year.

In its 2020 annual report filed with Bursa, Masteel said it was cautiously optimistic that the worst is behind the company and 2021 could be a promising year ahead due to the government’s experience in handling the Covid-19 pandemic, stricter adherence to standard operating procedures and an expedient vaccine rollout programme.

Masteel, which produces steel billets and steel bars for the construction and infrastructure sectors, noted that the Malaysian construction sector is expected to rebound by 13.9% in 2021, due to the acceleration and revival of major infrastructure projects.

Masteel sources about 70% of its scrap metal requirement locally.

“With the imposition of 15% export duty on the export of local scrap metal, effective March 25,2021, Masteel expects its cost of billet production to improve, ” it said.

The issue of oversupply in the local steel sector due to imports in the Malaysian market is also mitigated via the International Trade and Industry Ministry’s (Miti) anti-dumping duty on steel products from Singapore and Turkey, gazetted on Jan 21,2020.

On April 26,2021, Miti also announced the imposition of anti-dumping duties on imports of cold-rolled stainless steel from Indonesia and Vietnam for five years until April 23,2026.

Masteel noted that while still posing a significant risk, the oversupply from the operations of a China-owned steel mill in Kuantan is expected to be reduced due to China’s buoyant demand for steel bars and billets, which allows the China-owned steel mill to export its steel products back to China.