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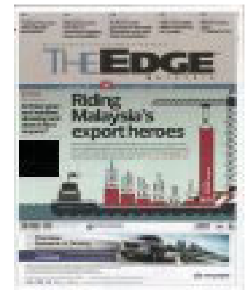

NEWSBREAK

18 CORPORATE

CRC players seek import restrictions

BY JOSE BARROCK

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The Malaysian Iron and Steel Industry Federation (MISIF), which represents local cold rolled coil (CRC) players, is in talks with the Ministry of International Trade and Industry (Miti) to help curb the import of CRC into the country.

Among the main publicly traded CRC producers or re-rollers in Malaysia are YKGI Holdings Bhd, CSC Steel Holdings Bhd and Mycron Steel Bhd.

"MISIF is talking to the government," confirms Mycron executive director and CEO Azlan Abdullah, who doubles as MISIF deputy president. "And what MISIF hopes to achieve is to help the local re-rollers."

In a nutshell, the national industry body for the manufacturers of iron and steel products is fighting for the re-rollers, calling for the imposition of controls on CRC imports.

Meetings between MISIF and Miti have been ongoing for some time now with the re-rollers taking a tough stance.

When contacted, the executives of the other two companies — CSC and YKGI — were also vocal. Kenny Ten, the vice-president of commercial business at CSC, says, "We need government intervention to reduce CRC imports into the country."

According to YKGI managing director Victor Hii Lu Thian, the "pressure brought about by utility and labour cost increases, and the weak ringgit, has added to the burden of re-rollers".

Though the executives of the three companies have voiced their unhappiness at the situation, they do fear repercussions.

According to industry sources, CRC imports from India and Japan have been increasing rapidly over the past 1½ years — over and above those of other exporters such as China.

Documents viewed by *The Edge* show that since February last year, CRC imports from India have consistently been above four million tonnes a month since mid-2017 while those from Japan have shot up to more than 10 million tonnes a month.

"It used to be below two tonnes a month for Indian CRC and less than five tonnes a month for Japanese CRC. This seems likely to remain unchanged unless the government intervenes," remarks an executive with a re-roller.

According to industry players, import duties of 15% on CRC were largely done away with when the Asean Free Trade Area (Afta) and Malaysia-Japan Economic Partnership Agreement took effect on July 13, 2006.

However, steel company executives say countries with which Malaysia has signed treaties have imposed sanctions on Malaysian exports or placed barriers to entry.

CSC, Mycron and YKGI have also engaged a trade lawyer to review anti-dumping measures against China, Vietnam, South Korea, India and Japan.

At present, the legal team is studying data from some of the countries to ascertain if any dumping is taking place.

Against this backdrop, the steel industry is grappling with higher costs brought about by the implementation of the Goods and Services Tax from April 2015, and electricity and gas tariff hikes that were just implemented.

According to MISIF, the natural gas tariff has increased 102% over the past four years, translating into an additional RM200 million a year in costs for the steel industry. To recap, there have been six tariff hikes for natural gas over the last four years, ranging between RM16.07 per MMBtu and RM32.52 per MMBtu.

The effects of the challenging operating environment are already showing in the bottom line of the companies.

In its first financial quarter ended September 2017, Mycron posted a net profit of RM5.81 million on revenue of RM179.75 million. In contrast, the company's net profit fell 42.36% while revenue gained 7.31% in the previous corresponding period.

Checks on Mycron's segmental reporting indicate that of the RM8.11 million in pretax profit, CRC only contributed RM2.77 million, or 34.15%, with the rest coming from steel tubes, although these generated RM66.36 million or about a third of revenue.

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In its notes accompanying the financials, Mycron says, "The weaker performance in the current quarter compared with that in the previous corresponding quarter is mainly attributed to the lower gross profit achieved, due to lower sales volume and higher unit conversion cost arising from the lower production volume in the cold rolled segment."

In its nine months ended Sept 30, 2017, YKGI suffered a net loss of RM8.11 million on sales of RM283.82 million. In the previous corresponding period, it had registered a net profit of RM6.28 million on sales of RM293.75 million.

In its notes, YKGI says, "The group's financial performance during the current quarter continues to be impacted by soft demand and low gross margin ... The local steel environment remains very challenging.

"Stiff competition from local production and imports will continue to impact the margin of flat steel products for the rest of the year. It is estimated that steel consumption for the rest of the year will remain soft. Without a major upswing in demand, the product margin will remain weak," says YKGI, painting a bleak outlook.

In its nine months ended Sept 30, 2017, CSC registered a net profit of RM44.99 million on sales of RM956.07 million. In contrast, net profit was down 28.02% despite a close to a 28% gain in revenue in the previous corresponding period.

In its performance review, CSC says, "The significant drop in profit is mainly due to higher production cost as a result of significantly higher raw material cost and a marginal drop in the total sales volume."

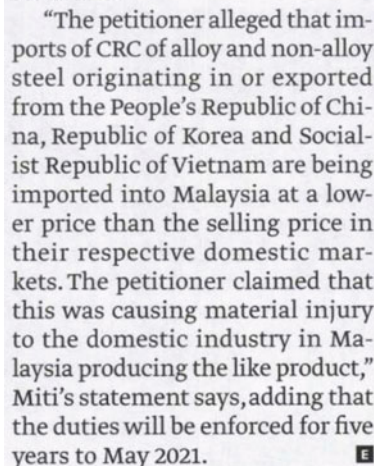
However, CSC, in which China Steel Asia Pacific Holdings Pte Ltd has a 46.3% stake, is in a different league than the rest of the players.

CSC closed at RM1.57 last Friday, which translated into a market capitalisation of RM596.6 million for the company.

Mycron, which is 71.26%-controlled by Melewar Industrial Group Bhd — the vehicle of businessman Tunku Yaacob Khyra — ended trading at 55.5 sen, giving the company a market capitalisation of RM157.37 million.

YKGI, meanwhile, is 26.78%-controlled by Marubeni-Itochu Steel Inc and 15.34% by Yung Kong Co Bhd, the vehicle of the Hii family. YKGI ended at 18 sen last Friday, which translated into a market capitalisation of RM62.7 million for the company.

To recap, in May 2016, Miti imposed anti-dumping duties, ranging from 3.78% to 23.78%, on imports of alloy and non-alloy steel CRC from China, South Korea and Vietnam.



This followed an anti-dumping investigation based on a petition filed by CSC on behalf of local producers of alloy and non-alloy steel CRC.

"The petitioner alleged that imports of CRC of alloy and non-alloy steel originating in or exported from the People's Republic of China, Republic of Korea and Socialist Republic of Vietnam are being imported into Malaysia at a lower price than the selling price in their respective domestic markets. The petitioner claimed that this was causing material injury to the domestic industry in Malaysia producing the like product," Miti's statement says, adding that the duties will be enforced for five years to May 2021. E

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HARIS HASSAN/THE EDGE

What MISIF hopes to achieve is to help the local re-rollers, says Azlan, seen here at Mycron's plant

Editor's Note

With reference to "Worst is over, says T7 Global's Tan" on page 28, T7 Global announced on Friday (after the story had gone to print) that it had formed a 51:49 joint venture with China State Construction Engineering Corp Ltd (CSCEC) to bid for projects such as the East Coast Rail Link, Mass Rapid Transit, Light Rail Transit and construction business in Malaysia.

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