AUTHOR: Jose Barrock SECTION: CORPORATE PAGE: 16,18 PRINTED SIZE: 644.00cm² REGION: KL
MARKET: Malaysia ASR: MYR 11,088.00 ITEM ID: MY0039191367

30 MAR, 2020

Shutdown could result in lost revenue of RM3.2 bil for steel industry

The Edge, Malaysia

Shutdown could result in lost revenue of RM3.2 bil for steel industry

BY **JOSE BARROCK**

The iron and steel industry is bracing for a massive loss of revenue as a result of the month-long shutdown imposed by the government under the nationwide movement control order (MCO).

"This non-operating instruction is estimated to cost the iron and steel industry RM3.2 billion in lost revenue for a period of 30 days, excluding further losses on fixed overheads, for example salaries and wages, that we have to bear," the Malaysian Iron and Steel Industry Federation (Misif) says in an emailed response to questions from *The Edge*.

"While we reckon that this is a battle that we need to work hand in hand with the government to fight, we hope the government will apply the MCO fairly across the whole industry, (and that) those who operated or are still operating illegally will be punished accordingly," it adds.

While it is not clear if there are companies flouting the law by operating during the shutdown period, it is surprising that the sector is not considered strategic or essential, which would have allowed the companies to remain in operation during this period.

In India, for instance, the Ministry of Steel made an official notification asking steel mills to continue operations after some state governments sought to restrict steel production. Under the Indian Essential Services Maintenance Act of 1981, businesses "dealing with the production, supply or distribution of coal, power, steel or fertilisers" are deemed as "essential services".

The Indian government explained that a lockdown — if implemented — could result in damage to plants and machinery, as a sudden stoppage of furnaces would lead to chilling and solidifying of hot metal, causing permanent damage.

Misif adds, "We are taken aback by the decision to classify this strategic industry, [the] iron and steel industry, as a non-essential industry — thus (we are) not allowed to operate during the MCO period, including the extended 14-day period (until April 14)."

While Misif largely represents flat steel players, or the companies that supply the manufacturing outfits, the Malaysia Steel Association (MSA), which represents the long steel players, is equally stumped.

In response to questions, MSA says, "The extension of the MCO to one month will have the utmost detrimental effect on the cash flow and profitability of long steel products players that are already grappling with soft steel prices since 2018.

"This severe economic downturn perpetuated by the Covid-19 pandemic could cause the wiping out of Malaysian-owned domestic steel players that have invested hundreds of millions of ringgit to modernise their facilities and to prop up their businesses despite the unforgiving business environment in the last 18 months."

Given the circumstances, local steel players are understandably very pessimistic about their future.

Globally, steel companies typically require around 70% to 80% capacity utilisation to be sustainable. In 2018, Malaysia's total installed capacity for steel was 24.64 million metric tons (12.64 million MT for long steel and 12 million MT for flat steel), but consumption was a mere 9.77 million MT, or less than 40% collectively for both flat and long steel products.

For long steel products, which are generally used in construction, capacity utilisation was about 28% in 2018, down from 46% in 2014. Flat steel, which is used in automotive and other manufacturing, also saw a poor utilisation of 28%, at 1.68 million MT.

Light at the end of the tunnel?

Yet, steel players believe it is darkest before dawn, and that there is hope — albeit just a sliver.

"Misif (has) submitted 12 requests to the Malaysian Investment Development Authority (Mida) on things that the government can implement to assist the iron and steel industry post MCO," the federation says, without elaborating.

While Misif members are coy about their requests to Mida, government sources say some of the initiatives sought include exemptions on sales and services tax, speeding up of refunds on goods and services that were overpaid, assistance with funding, financial relief and a reduction in tariffs for electricity.

MSA, meanwhile, is banking on generous infrastructure stimulus programmes.

"A quantum of at least RM200 billion of construction projects for the next 24 months will be able to achieve the critical mass needed to have a significant impact on the steel sector and to aid the recovery of the country's GDP," it says.

MSA adds that an automatic moratorium on repayment of loans and financing should be extended to all steel mills to ease the problem of cash flow, following zero revenue during the MCO period while having to pay fixed costs. It suggests banking institutions keep temporary overdraft facilities at 4% interest per annum to help cushion monthly overheads such as salaries.

"With the drastic fall of petroleum and natural gas prices worldwide, MSA implores the regulators to rapidly reflect this reduction in the form of a 50% discount for electricity and gas tariffs for the next 12 months," it says, adding that a moratorium on the payment of utilities by utility companies such as Tenaga Nasional Bhd, Gas Malaysia Bhd and Petroliam Nasional Bhd for four months would provide "great relief" and help support the sustainability of the capital-intensive sector.

In addition, it is hoping for "an immediate freeze on the issuance of manufacturing licences for new steel mills for the next five years" to restore the supply and demand equilibrium.

CONTINUES ON PAGE 18

Provided for client's internal research purposes only. May not be further copied, distributed, sold or published in any form without the prior consent of the copyright owner.

AUTHOR: Jose Barrock SECTION: CORPORATE PAGE: 16,18 PRINTED SIZE: 644.00cm² REGION: KL
MARKET: Malaysia ASR: MYR 11,088.00 ITEM ID: MY0039191367

30 MAR, 2020

Shutdown could result in lost revenue of RM3.2 bil for steel industry

The Edge, Malaysia

Mycron the only large-scale Malaysian-controlled CRC player left

FROM PAGE 16

The main players in the sector

Flat steel essentially involves the production of cold rolled coils (CRC) from hot rolled coils (HRC), and is used to make automobiles, electrical appliances and other such items, as opposed to long steel, which is used in construction.

Although there are several privately owned flat steel players, there are only two large publicly traded local CRC producers: Mycron Steel Bhd and CSC Steel Holdings Bhd. Another notable player is Eastern Steel Sdn Bhd, 40% controlled by Hiap Teck Venture Bhd and 60% by Beijing Jianlong Heavy Industry Group Co Ltd.

With the flat steel segment bleeding, Mycron is the only large-scale Malaysian-controlled CRC player remaining. It is 74.13% controlled by Melewar Industrial Group Bhd, which in turn is 45.84% controlled by businessman Tunku Datuk Yaacob Khyra.

CSC Steel is a 46.30% unit of China Steel Asia Pacific Holdings Pte Ltd. CSC Steel is, however, operating at less than half of its production capacity owing to large-scale dumping of cheap CRC into the Malaysian market. CSC Steel's CRC operations are bleeding, and the company is being kept afloat by its galvanised iron and pre-painted galvanised iron businesses.

Meanwhile, long steel players in the country include Amsteel Mill Sdn Bhd, which is wholly owned by Lion Industries Corp Bhd, part of the Lion group; Ann Joo Resources Bhd; Kinsteel Bhd and Malaysia Steel Works (KL) Bhd.

Lion Industries took over the assets of sister company Megasteel Sdn Bhd for close to RM640 million recently. For the longest time, Megasteel was the only HRC maker in the country.

Businessman Tan Sri William Cheng Heng Jem owns 34.63% of Lion Industries and also controls Megasteel via other entities.

Ann Joo, meanwhile, operates a blast furnace with an annual capacity of 500,000 MT. The company is 48% controlled by the Lim family, headed by patriarch Lim Seng Chee.

Malaysia Steel Works is helmed by Datuk Sri Tai Hean Leng @ Tek Hean Leng, its managing director and CEO, who owns 30.76% of the company via his vehicle TYY Resources Sdn Bhd.

Kinsteel is the flagship company of Tan Sri Pheng Yin Huah, the company's managing director. Together with members of his family, Pheng controls just under 9% of Kinsteel. E

Provided for client's internal research purposes only. May not be further copied, distributed, sold or published in any form without the prior consent of the copyright owner.