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Flat steel companies in the spotlight

Cold rolled coils at Mycron Steel's plant in Shah Alam. (Photo by Mycron Steel)

LAST Wednesday, iron ore futures on the Dalian Commodity Exchange (DCE) were traded at US$158.60 a tonne, down from a record high of US$180 a tonne a week ago. Iron ore futures on the DCE have gained more than 100% over the past 12 months.

Similarly, Singapore's SGX TSI iron ore futures, one of the widely used benchmarks, were at US$160.25 a tonne last Wednesday, down from their historic high of US$175.45 a tonne a week ago. SGX TSI iron ore futures had gained almost 120% over the past 12 months, prior to the recent dip.

A high-ranking executive from a flat steel company explains, however, that the dip in iron ore futures is a result of the US dollar's strengthening. In a nutshell, when the dollar strengthens, commodities become more expensive in non-US dollar currencies. This tends to adversely impact demand.

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Flat steel companies' earnings

COMPANY	SHARE PRICE AS AT MARCH 10 (RM)	MARKET CAPITALISATION (RM MIL)	4QFY20 NET PROFIT (RM MIL)	4QFY19 NET PROFIT (RM MIL)	FY20 NET PROFIT (RM MIL)	FY19 NET PROFIT (RM MIL)
Mycron Steel Bhd*	0.60	196.23	14.92	-3.11	18.8	-2.68
CSC Steel Holdings Bhd	1.38	509.65	21.43	7.06	37	34.8
Leon Fuat Bhd	0.61	189.10	18.09	-4.18	28.56	5.6
Choo Bee Metal Industries Bhd	1.52	198.71	11.52	-1.15	19.48	-1.12
Astino Bhd	0.95	255.64	11.47	4.10	11.67	4.1
Hiap Teck Venture Bhd**	0.47	647.62	6.97	-3.27	6.97	3.27
United U-Li Corp Bhd	1.04	226.51	3.42	-0.40	3.52	-1.527
Prestar Resources Bhd	1.02	197.91	15.76	3.12	22.16	5.529
Eonmetall Group Bhd	0.64	130.37	2.73	-3.74	4.03	3.333
Leader Steel Holdings Bhd	0.56	75.11	2.49	-1.15	2.74	9.329
Tashin Holdings Bhd	0.41	141.34	6.46	-2.12	9.268	0.398

*Mycron Steel's financial year ends in June 2021 **Hiap Teck Venture's financial year ends in October 2021

Iron ore is a key component of steel, which explains the increase in the price of futures.

The executive notes that this time around, the scenario is different in that the entire flat steel value chain — hot rolled coils, cold rolled coils, galvanised iron, pre-painted galvanised iron and electrogalvanised coils — has gained momentum.

"(The reason is) a global supply shortage and strong manufacturing demand. Steel selling prices across the entire value chain have increased concurrently with the strengthening global iron ore prices," he explains.

Local flat steel players

The local listed companies involved in flat steel and related sectors include Mycron Steel Bhd, CSC Steel Holdings Bhd, Leon Fuat Bhd, Choo Bee Metal Industries Bhd, Astino Bhd, Hiap Teck Venture Bhd, United U-Li Corp Bhd, Prestar Resources Bhd, Eonmetall Group Bhd, Leader Steel Holdings Bhd and Tashin Holdings Bhd.

On whether the high iron ore price is sustainable, the executive explains, "In the first and second quarters last year, when there was a lockdown (as a result of the Covid-19 pandemic), several large global steel companies reduced capacity by shutting down blast furnaces. Operations in some Brazilian iron ore mines also ceased. (But) during the lockdown, furniture sales picked up, as many opted to work from home. Sales of white goods (home electrical appliances such as refrigerators and washing machines) picked up, laptops and computers also sold in larger numbers, and now automobile sales are picking up … so flat steel players are looking good."

He goes on to note that restocking of flat steel products by global manufacturing supply chains post-Covid-19 lockdowns outpaced production when blast furnaces restarted operations, which in turn has created supply shortages and nudged flat steel prices higher owing to increased demand.

"Normally, steel plants keep two to three months of steel raw material stock at any point in time. During the lockdown, while consuming existing stock, many of the steel companies either completely stopped or reduced steel procurement. So, when the plants restarted operations, most were short and hence there was a huge simultaneous pull globally for steel products as attempts were made to normalise operations and stockholding to meet the pent-up demand. Most manufacturers in the steel value chain were caught by surprise at the fast rate of recovery. Many plants are now operating on a month's stock of raw material," he explains.

Much of the demand for steel is fuelled by China. From January to October 2020, the country increased its share in world steel production to 58%, from 54% previously.

China's steel imports increased 150% to 38.56 million tons in 2020, according to the country's customs agency, as local producers fought to keep up with surging demand brought about by government efforts to revive the economy after the coronavirus-induced downturn.

The country's post-Covid 19 economic recovery has been robust even as other countries struggle with the pandemic. With its 14th Five-Year Plan spanning 2021 to 2025, China is set to make new strides in economic development, and is expected to require large amounts of steel.

While demand for steel has been creeping up, iron ore supply has hit a snag, with Brazilian iron ore giant Vale's production capacity stretched. Vale had to shut down some of its mines owing to the pandemic.

Mines in Itabira, Minas Gerais, stopped operations last June for almost two weeks after 188 workers tested positive for the coronavirus. The closing of the three mines in Itabira impacted Vale's output by 10%, and it revised its 2020 production figures downwards to 310 million to 330 million tonnes from 340 million to 355 million tonnes forecast earlier.

While Vale's production was adversely impacted by Covid-19, China ramped up imports after geopolitical tensions with Australia surfaced. Australia had called for an investigation into the origins of Covid-19.

Fearing that Australia would restrict the export of iron ore, China increased imports from other iron ore-producing countries as a precaution, which further nudged iron ore prices up.

There have also been murmurs of China cutting export tax rebates on steel (currently as high as 13%), which would result in Chinese steelmakers concentrating on the domestic market as opposed to exports. With Chinese steel mills no longer exporting steel, there could be a further supply gap, which would boost spot prices.

Against this backdrop, iron ore and steel have both seen a strong increase in demand and price.

On the local bourse, flat steel players and those in downstream sectors released strong financials last month (see table).

Good earnings

Among the more prominent flat steel companies is CSC, which is 46% controlled by China Steel Asia Pacific Holdings Pte Ltd. For its fourth quarter of FY2020 ended December, CSC chalked up a net profit of RM21.43 million on the back of RM367.53

million in revenue. For the corresponding period in 2019, it recorded a net profit of RM7.06 million from RM334.39 million in turnover.

For its full year ended December 2020, the company registered a net profit of RM37 million from RM1.08 billion in revenue, in contrast to a net profit of RM34.8 million from RM1.36 billion in revenue in FY2019.

Mycron, which is 74.15% controlled by businessman Tunku Datuk Yaacob Khyra, also performed well. For its second quarter of FY2021 ended December, it posted a net profit of RM14.92 million from RM195.83 million in revenue. For the corresponding period a year earlier, Mycron suffered a net loss of RM3.11 million from RM173.98 million in turnover.

For the six months ended December 2020, the company registered a net profit of RM18.8 million from RM351.83 million in sales. For the first six months of FY2020, it suffered a net loss of RM2.68 million from RM357.94 million in turnover.

Prestar registered a net profit of RM15.76 million from RM137.05 million in revenue for its fourth quarter ended December 2020, in contrast to a net profit of RM3.12 million from RM111.77 million in revenue for the corresponding quarter a year earlier. For the full year ended December 2020, Prestar recorded a net profit of RM22.16 million — a little more than four times the net profit it chalked up in FY2019.

Brothers Datuk Toh Yew Peng, who is the managing director, and Toh Yew Keat (executive chairman) have almost 38% equity interest in the company.

Leon Fuat, meanwhile, posted a net profit of RM18.09 million on the back of RM198.96 million in revenue for its fourth quarter of FY2020 ended December. This compares with a loss of RM4.18 million from RM149.58 million in sales a year ago.

For FY2020, Leon Fuat registered a net profit and revenue of RM28.56 million and RM589.58 million respectively compared with a net profit and revenue of RM5.6 million and RM607.12 million respectively in FY2019.

Leon Fuat is almost 71% controlled by the Ooi and Ng families, who founded the company.