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LINK: https://themalaysianreserve.com/2021/04/30/steel-counters-rise-due-to-upcycle-in-commodities-infrastructure-spending/	

STEEL COUNTERS RISE DUE TO UPCYCLE IN COMMODITIES, INFRASTRUCTURE SPENDING

Putrajaya's move to roll out mega rail projects has attracted investor interest in steelmakers in recent weeks.

STOCK prices of steel-related companies on Bursa Malaysia are benefitting from expectations of rising demand, prices and import restrictions.

Putrajaya's move to roll out mega rail projects like the East Coast Rail Link and Mass Rapid Transit Line 3 (MRT3) has attracted investor interest in steelmakers in recent weeks.

“The sector counters are basically playing catchup with the sharp rise in sector stocks in foreign markets which have risen due to expectation of rising demand for building materials to build the infrastructure planned, financed by the expansionary fiscal policies.

The sector stocks are also gaining from the price upcycle in commodities and the anti-dumping measures imposed by the government on certain steel products import which will benefit local producers,” said Vincent Lau, head of equity sales at Rakuten Trade Sdn Bhd.

Steel-related counters like CSC Steel Holdings Bhd, Hiap Teck Venture Bhd, Ann Joo Resources Bhd, Lion Industries Corp Bhd (LionInd) and Mycron Steel Bhd for example are trading at year-high.

LionInd’s share price, for instance, has risen from about 30 sen in late November 2020 to 77 sen at close on Wednesday after hitting a high of 97 sen on Feb 25.

Ann Joo has risen from about 79 sen to RM2.61 over the same period. CSC Steel’s share price rallied to RM1.77 on Wednesday from 95 sen at the end of November.

Aluminium producers like Press Metal Aluminium Holdings Bhd, LB Aluminium Bhd, PA Resources Bhd and Alcom Group Bhd have also gained for the same reasons.

Press Metal has risen from about RM3.50 in late November to RM5.35 on Wednesday.

Leader Steel Holdings Bhd, in its 2020 annual report, noted the international uptrend in steel prices may be sustained right into the third quarter of 2021, fuelled by extended lead times due to logistics disruptions and capacity resumptions, historically low inventories and higher demand from automobile markets in the US and Europe.

It noted that Malaysia faces a steel supply shortage due to a lag in price and construction activities.

Reuters recently reported Chinese steel rebar and hot-rolled coil futures rose on April 1 shored up by expectations of further demand on upbeat economic indicators and Beijing’s efforts to stimulate consumption.

S&P Global also reported on March 30 that China’s steel mill margins have reached their highest level since last December, supported by soaring finished steel prices and a slight softening of raw material input prices.

The Ministry of International Trade and Industry (MITI) on Monday imposed anti-dumping duties on imports of coldrolled stainless steel in coil, sheet or any other form originating or exported from Indonesia and Vietnam.

MITI imposed anti-dumping duty of 8.8% to 34.82% on products from Indonesia, while for Vietnam 7.81% to 23.84%. The collection of anti-dumping duty on the subject merchandise has been enforced for five years from April 24, 2021, to April 23, 2026.

Despite its core role in the economy, the sector is not widely covered by local analysts. Inter-Pacific Research Sdn Bhd has a ‘Buy’ call on CSC Steel with a target price of RM1.95, which is 0.85 time its calendar year 2021 (CY21) book value per share.

“Given the outlook for automotive and manufacturing sectors is expected to improve further following the relaxation of Movement Control Order, we believe the demand for flat steel products is on track to recovery. Hence, we upgrade the price-to-book value multiple for CSC Steel from 0.75 time to 0.85 time,” the broker noted in a recent report.

CSC Steel targets a 90% plant utilisation rate for CY21, banking on the recovery of the global economy out of the Covid-19 pandemic that would improve steel consumption.

CSC’s net profit in the fourth quarter of 2020 (4Q20) rose 203% year-on-year (YoY) to RM21.43 million from RM7.07 million in the corresponding quarter last year. Revenue increased to RM367.53 million, a 9.91% higher compared to the RM334.39 million previously, primarily due to an increase in sales volume and selling prices of its products.

Hiap Teck is optimistic of its prospects and performance for the remaining quarters of financial year 2021.

The group noted, in its past exchange filings, Malaysia’s growth forecast will maintain between 6.5% and 7.5% for 2021, with the construction sector expected to grow at 13.9% as major infrastructure projects are revived and accelerated to meet deadlines.

The projects include MRT3, Gemas-Johor Double Tracking Project, Rapid Transit System Link from Johor Baru to Woodlands, the Klang Valley Double Tracking Project Phase 1, the Pan Borneo Highway and various affordable housing projects.

It said rising global steel prices attributed to worldwide supply disruptions, industrial sector rebound and higher raw material prices have benefitted the steel players as margins expand in tandem with the rising prices.

Hiap Teck’s earnings in 2Q21 jumped to RM30.05 million from a net loss of RM7.66 million in the previous year, while revenue increased by 33% YoY to RM356.02 million over the preceding year’s corresponding quarter of RM268.27 million due to both higher sales volume and higher steel prices.

Ann Joo, however, anticipates 2021 to be a challenging year for the steel industry, adding that demand outlook for its domestic front remains uncertain, given the impact of Covid-19 on the pace of construction activity.

Ann Joo posted lower earnings in 4Q20 by 68.2% YoY to RM6.2 million from RM19.52 million, with revenue also slumping 10.65% YoY to RM539.42 from RM603.71 million mainly due to lower sales tonnage.

The group expects to focus on exports, in view of the expected continued demand from China and South-East Asian markets.