

Tough times for local steel players

Falling prices, China and Europe slowdown to impact sector

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KUALA LUMPUR: Malaysian steel companies were not spared from plummeting steel prices in the last quarter of 2011.

"The prices will definitely affect the earnings during that period," said a MIDF Research analyst, who covers the sector, when contacted by *The Edge Financial Daily*.

This could provide an insight into earnings announcements for the final quarter of last year that local steel players will be posting in the coming weeks.

According to MIDF, margins between steel billets and bars are likely to narrow, potentially causing steel producers to report a net loss in their upcoming quarterly results.

According to data from the London Metal Exchange, spot prices of steel billets last year peaked in mid-August at around US\$700 (RM2,107) per tonne, but started on a downtrend soon after.

The price of steel billets, a semi-finished product used to make steel bars, was US\$485 per tonne at press time, having fallen 11% from US\$545 per tonne in the past month.

According to another analyst who tracks the property sector, local steel bar prices dipped from a high of RM2,500 per tonne during the year to around RM2,120 in 4Q. They are now trading at around RM2,120 per tonne, he added.

Several local steel companies have shown signs of slowing profits resulting from the increase in costs between 2Q and 3Q of 2011, when steel prices were declining.

An example is Ann Joo Resources Bhd. The group sank into the red with a net loss of RM24.54 million in 3QFY11 ended Sept 30 from a



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net profit of RM32.75 million in 2QFY11.

Lion Industries Corp Bhd also showed signs of slowing net profits over two of its quarters last year in its latest earnings announcement. It posted a net profit of RM27.62 million in 1QFY12 ended Sept 30, 2011 from RM45 million the previous quarter. Besides softening prices, MIDF also said global steel production and utilisation has slowed down.

"Latest numbers from the World Steel Association confirmed our worries about the global steel in-

dustry. Global steel production was 1.53 billion tonnes in 2011, up by only 6.8% compared with 15% year-on-year in 2010," said the research house.

China's steel production, which accounts for 45% of the world's output, is the largest globally and has also showed signs of slowing.

In December, China's steel production rose 4.6% to 52.5 million tonnes, which was 13% lower than its peak of 60.2 million tonnes in May 2011.

Global utilisation has also trend-

ed lower at 73.4% in November 2011. "[This was] the lowest since April 2011," said the research house. China's slowing production is an indicator of worrying times for the steel industry.

"This is because the steel industry depends heavily on the property market in China," said the analyst from MIDF, adding that the reason for China's slowdown is due to its government's efforts to curb its property market.

Hence, he fears that there could be an oversupply of steel in China, resulting in cheap imports of steel into Malaysia, thus posing a threat to local millers.

Global steel demand is tempered by an economic slowdown in China, and a likely recession in Europe, where orders for steel products for construction, cars and machinery are slowing.

What could potentially help domestic players are local construction projects like the Economic Transformation Programme (ETP) and the 10th Malaysia Plan (MP). The local projects under these programmes include the Klang Valley MRT (the Sungai Buloh-Kajang line), the Gemas-Johor Baru double-tracking railway and the KL International Financial District.

Rather than a sudden surge in demand for steel from these projects, the analyst said "demand will gradually improve because the ETP and the 10th MP will be implemented in stages".

The analyst also said the construction sector would have the choice of buying cheap imports from China or local players. The former would certainly put the local steel industry at a serious disadvantage.

Larger steel players like Lion Industries or Ann Joo could probably counter the import of steel, but smaller ones may have a tougher time, according to the analyst.

Prices of steel will continue to depend on China and the weakening demand is expected to continue into the rest of the year.