

Highlight

Steel sector to be hit by more global headwinds, says MIDF Research

Samantha Ho / theedgemarkets.com

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KUALA LUMPUR (Aug 13): Malaysia's steel sector is likely to experience further headwinds, as global demand is likely to be further hit by shaky demand from China's waning construction sector, in addition to risks from trade war tariffs, said MIDF Amanah Investment Bank Bhd Research.

"We view that the steel sector will be affected negatively in 2018 and 2019," MIDF Research analyst Fadhli Dzulkifyly wrote, pointing to changes in global trade policies, tepid global demand and the local steel mill cost structure as impediments to any positive demand.

Six counters under MIDF Research's watch — Ann Joo Resources Bhd, Lysaght Galvanized Steel Bhd, Southern Steel Bhd, CSC Steel Holdings Bhd, Mycron Steel Bhd and Choo Bee Metal Industries Bhd — have previously shown negative reactions to news on the trade war and tariff impositions by the US and European Union, he said in a special update today.

"We reckon that this trend will persist as global steel demand is expected to grow 1.8% year-on-year to 1.62 billion metric tonnes in 2018, and tepid growth will be plagued by low demand in 2019, growing 0.7% year-on-year to 1.63 billion metric tonnes," Fadhli said.

On top of that, most local players are affected by fixed overheads and unwavering operation expenditure, making the sector unattractive, he said.

The market has currently priced in risks such as tariff impositions, but demand is expected to decline further due to China's environmental health and occupational safety policies, MIDF Research added.

However, the exclusion of building materials from the sales and services tax (SST) is expected to give a breather to Malaysia's construction and steel sectors.

"SST will enable steel sector to maintain its product supply to construction sector without any additional cost," Fadhli said.

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