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Next year to mark a turning point in AISB

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IT has been a rocky few years for Amalgamated Industrial Steel Bhd (AISB), which has been hurt by a global steel glut engendered by companies that expanded capacity to meet anticipated demand from a fast-growing China.

After five consecutive unprofitable years from 2009 to 2013, the steel pipe maker returned to the black in its financial year ended Dec 31, 2014 (FY2014) but slipped back into the red the following year.

Nevertheless, AISB executive director Datuk Ronnie Lim Yew Boon expects 2017 to mark a turning point in "a transformed entity ready for strategic growth and rebuilding shareholders' wealth".

There are several reasons for this.

Ronnie, 59, points to the price of hot rolled steel coil (HRC), which has been trading at around US$440 per tonne in recent days compared with a peak of US$540 per tonne in 1Q2016. He expects prices to stabilise at current levels for the remainder of the year.

The recent plant closure of the country's largest HRC manufacturer — Megasteel Sdn Bhd — also augurs well for pipe makers like AISB, which use HRC as their raw material. They are now able to import at more competitive prices.

AISB also sees better days ahead following a cost-cutting exercise it began in 2013. Under the exercise, its two manufacturing plants have been consolidated into one centralised unit in Jalan Utas, Shah Alam, Selangor, to reduce excess capacity and overlapping costs. It has also slashed its workforce from 200 to 50.

Ronnie says the belt-tightening was necessary as the steel industry was running at below 50% capacity. At the same time, the overheads were high.

"That's why it makes sense [for us] to embark on contract manufacturing to optimise production and reduce conversion costs. Moving forward, we will focus more on contract manufacturing and trading [of our steel-related products]," he tells The Edge in an interview. "In addition, we will keep our inventory to a minimum to avoid carrying any excess."

AISB's financial results for the first six months ended June 30 (1HFY2016) show that it is back on track. It posted a net profit of RM146,000 compared to a net loss of RM2.04 million in the previous corresponding period. However, revenue fell 15.7% to RM30.27 million.

"This year, we expect our steel operations to end the year marginally positive," Ronnie says, adding that the prospects look bright if Selangor's pipeline upgrading exercise recommences.

In January last year, AISB announced its move into property development in an attempt to diversify its revenue stream. Its maiden project, which has a gross development value of RM160 million, is called Avant Industrial Park and is coming up in Shah Alam.

To avoid confusion with its steel business, AISB non-independent non-executive director Lim Chin Sean says the property business is parked under the group's Parkwood Damansara subsidiary. Chin Sean, 36, who is Ronnie's cousin, owns 23.87% of AISB through privately held Telaxis Sdn Bhd.

"We started going to the market [with Avant Industrial Park] earlier this year," he says, adding that though response to its 12 semi-detached factories with a built-up of 12,024 sq ft has been slow, numerous parties are keen on its two custom-built bungalow factories that offer a built-up of up to 100,000 sq ft.

As a result, AISB is considering tweaking its development plan to convert some of the space for semi-detached factories into more bungalow factories. "We are in the midst of talking to various local companies that are interested in buying or renting warehouses and we hope the industrial units will be taken up within the next one to two years," says Chin Sean.

This means AISB will only recognise revenue from Avant Industrial Park in FY2017.

AISB is open to developing all types of properties, whether commercial, residential, industrial or townships. "We aim to achieve [property launches worth] RM500 million in gross development value in three years," says Chin Sean, adding that the group does not rule out the possibility of an injection of property assets by its substantial shareholder LGB Group of Companies.

Property projects under LGB Group's property arm — Bellworth Developments Sdn Bhd — include Menara LGB and The Greens in Kuala Lumpur, and upcoming residential projects such as Saujana Greens Puchong, Bellworth Melaka and Lancer Square in London.

"We have been actively looking to acquire land [for development] in the Klang Valley since last year. But we started seeing some sellers willing to talk further only this year. Whether or not they are lowering [their price], at least we are getting closer. We expect to seal a deal later this year or next," says Chin Sean.

Ronnie believes the sale of two pieces of leasehold land with buildings in Jalan Utas, Shah Alam, to Daikin Malaysia Sdn Bhd for RM69.5 million is the pre-ultimate stage of the group's transformation. The transaction will generate cash flow of as much as RM67.5 million in 2017.

As at June 30, the group had total cash of RM2.61 million.

"We anticipate a capital gain of at least RM17 million in the first half of 2017 on the disposal of the two pieces of land. At RM69.5 million, the value is by far the highest recorded in the Shah Alam area for a leasehold property having just 53 more years to lease expiry," Ronnie remarks.

"Unlocking the value of the two properties would provide around 13.74 sen per share to net assets in the first half of 2017. This is expected to lift net assets per share [from 90.74 sen as at June 30) to RM1.04. We expect the group's net assets per share to continue rising as soon as all properties [at Avant Industrial Park] are either sold or developed. We will see from 2017; the group will be fully transformed to face future growth and success.

"Our top priority is to settle all our borrowings. The excess funds will be placed in short-term deposits, depending on how [and when] we acquire new investments with better returns. AISB is continuing to explore strategic land banks for development."

The company's borrowings amounted to RM29.72 million as at Dec 31, 2015.

AISB expects its finance costs to be reduced and gearing ratio to fall to zero next year from 0.26 times as at Dec 31, 2015.

Still, the proposed disposal is subject to shareholders' approval at its extraordinary general meeting in 4Q2016.

Ronnie says while AISB has no immediate plan to raise capital, much will depend on the outcome of its property investments.

Year to date, its shares have risen 84% from 32 sen at end-2015 and closed at 59 sen last Wednesday, giving the company a market capitalisation of RM73.8 million.

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