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YTL Cement wants to go global, says chief

David Ong-Yeoh

THE opening of YTL Cement Bhd's RM700 million Pahang Cement plant in Bukit Sagu near Kuantan today is just the start of the company's expansion plan, which includes taking on the world.

"It only makes sense that YTL Cement should want to go global, or at least regional first," said Datuk Michael Yeoh, its executive director, in an interview with Business Times.

Yeoh said there are vast opportunities for YTL Cement in the region alone, especially in China, India and Indonesia.

"YTL Cement's view is that we want to take the company global and it's an industry that we are very interested in. We know how to finance it, cross-border it, we know the industry, the energy requirements and how to supply the energy.

"This is the time for Malaysian cement operators to expand beyond our shores," he said, adding that a consolidation among themselves would stabilise the industry.

An advantage for Malaysia is its competitively low power tariffs which make it relatively lower to produce cement here.

"What YTL likes about the cement industry is that we believe it's a sunshine industry and there is no regional player yet," he said.

With the current economic situation, YTL's strategy will not be to build plants but to take over them where there are opportunities to expand and Yeoh said the next five years will be "a very interesting period".

Meanwhile, YTL Cement's latest venture - Pahang Cement Sdn Bhd - is expected to become a major contributor to its revenue.

The Pahang Cement plant is the only one serving the east coast region, which till now has been sourcing its cement from the west coast. That results in a 15 per cent increase in cost because of transportation.

To be opened by Prime Minister Datuk Seri Dr Mahathir Mohamad, the plant is located 40km to the north-west of Kuantan, and is the tallest structure in the state.

The plant is a 50:50 joint venture between YTL Cement and the Pahang State Government's Pasdec Corp Sdn Bhd (33.3 per cent) and Perbadanan Setiusaha Kerajaan Pahang (16.7 per cent).

Producing one million tonnes of cement a year, the plant is expected to generate an annual turnover of RM200 million for Pahang Cement and contribute some RM20 million in profit a year to YTL Cement.

For the financial year ended June 30 1997, its turnover was RM312.8 million.

Having decided to have its own cement plant in the early 1990s, YTL Cement scouted around for the ideal location and finding the west coast too crowded, in 1995 it found the ideal location near Kuantan which is close to a limestone hill.

Part of YTL Cement's decision to invest in Pahang Cement, said Yeoh, was the anticipation of the cement market opening up in 2003 under Association of South-East Asian Nations Free Trade Area.

The fully-integrated cement plant was built with German technology and requires only 100 people to operate, which translates into lower production costs.

Yeoh said the cost of the plant has been unaffected by the financial and economic crises because YTL Cement locked in the cost with fixed exchange and interest rates when it signed the contract for it.

"YTL's style is we don't take risks. The project must sustain itself and every risk is hedged."

The Pahang Cement plant is the first in Malaysia to obtain financing for a 15-year tenure on a strictly project finance basis.

The credit facilities are made up of a floating rate facility of RM260 million and a bank guarantee facility of RM300 million.

A fixed rate loan facility of RM300 million at 9 per cent per year supported by the bank guarantee facility was simultaneously raised.

With a capacity of one million tonnes a year, most of the cement will be used to meet the demand in the east coast while about 20 per cent will be used by YTL's own consumption on the west coast.

The plant is buffered against the west coast's cement demands, said Yeoh, because a study by the project financiers has shown that even in the worst of times, demand for cement in the east coast has consistently hovered around 700,000 to 800,000 tonnes a year.

Industry figures also show that total cement demand for the first quarter of 1998 has dropped 25 per cent, but not in the east coast.

YTL Cement alone, which contributes some 30 per cent to the YTL group's revenue, consumed some 700,000 tonnes of concrete last year.

Although the construction industry is facing a downturn, Yeoh said, YTL Cement is unconcerned about the impact on the cement industry as there will always be a base demand.

A drop in demand is expected as building of shopping complexes and large projects slows down or stops, but there will still be industrial demand, said Yeoh.

Cement consumption in Malaysia last year was about 17 million tonnes, importing about 3 million tonnes, and this year it is projected to be 12.5 million tonnes. The total manufacturers capacity in Malaysia is 15 million tonnes.

"Even if a plant runs at about 85 per cent capacity that's all right," he said.

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