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Megasteel expects profits by year end

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MEGASTEEL Sdn Bhd's RM2.5 billion steel mill expects to start generating profits in the next three months after running trial tests for export since March last year.

A member of Lion Group, Megasteel owns the country's first hot strip mill for producing hot rolled coils, which will be officially opened by Prime Minister Datuk Seri Dr Mahathir Mohamad today.

Lion Group chairman Tan Sri William Cheng, in a recent interview, said the plant is currently running at 50 per cent of its capacity, roughly at 1.25 million metric tonnes per year.

"From the very beginning, we have been exporting about 47,000 tonnes and so far, no one has rejected our product," he said, adding that by year end, profits are expected from this huge project.

Cheng, however, declined to say how much profits have been estimated.

The state-of-the art, highly automated flat steel production plant, located in Banting, Selangor has a production capacity of 2.5 million metric tonnes per annum, and would help substitute imports of hot rolled coils worth RM3.2 billion annually.

Flat steel is required for the manufacture of pipes and tubes, steel furniture, home appliances, high pressure vessels, containers and the automobile industry.

Cheng said the full production capacity would only be achieved in about two years' time, and by June next year, it hopes to produce two million metric tonnes.

"With two million metric tonnes, we expect to see a revenue of RM2.8 billion and once we reach full capacity, annual turnover is expected to be RM3 billion," he said.

Cheng said locally, there is quite a big demand for hot rolled coils and "we would do our role to supply these to help the downstream industries".

"The market is there for us and our focus would be for the local market. Any excess capacity would be exported."

He noted that in 1996 and 1997, the demand for hot rolled coils was about four million tonnes and this dropped to two million tonnes in 1998.

"Now it is about three million tonnes and expected to return to four million tonnes in the next two to three years."

On how it is preparing for competition after 2003 with the liberalisation of the market under the Asean Free Trade Area (Afta), Cheng instead envisaged that the plant would be able to cater for the needs of the other regional countries as well.

"Afta is not a threat but will complement our business ...it is an opportunity for us as long as we continue to be low-cost producers. We are confident of the Asean market and keen to become a major player in the region," he said.

On Lion Group's plans to divest 10 per cent to 20 per cent stake of Megasteel's equity to foreign parties, Cheng said negotiations are currently taking place and hopes to conclude it after the completion of Lion Group's debt restructuring exercise.

"After the restructuring, Megasteel would be 90 per cent owned by Lion Corporation Bhd and 10 per cent by Khazanah. We would then divest 10 to 20 per cent of our interest to foreign parties," he said adding that barring unforeseen circumstances, the debt restructuring would be completed in about two months' time.

It was reported that two Taiwanese investors - China Development Corporation and China Steel Corporation - were negotiating with the group to buy a portion of Megasteel. Cheng declined to comment further.

The Megasteel mill employs state-of-the-art Direct Current Electric Arc Furnace - Compact Strip production process which incorporates the "thin slab casting" technology developed by SMS of Germany.

Such a process is recognised worldwide as the latest technique in producing flat steel.

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