PRESS CUTTINGS

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Press Metal's profit boosted by higher aluminium prices

KUALA LUMPUR: Press Metal Aluminium ... ing US dollar. ... has control measures in place to respond to

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Margins seen shrinking for steel firms

UOB Kay Hian expects challenging period for the sector in Q2 on rising local supply

PETALING JAYA: Local steel companies, which were subjected to share price swings in ... account potentially softer steel price moving into the second half of the year as new supply

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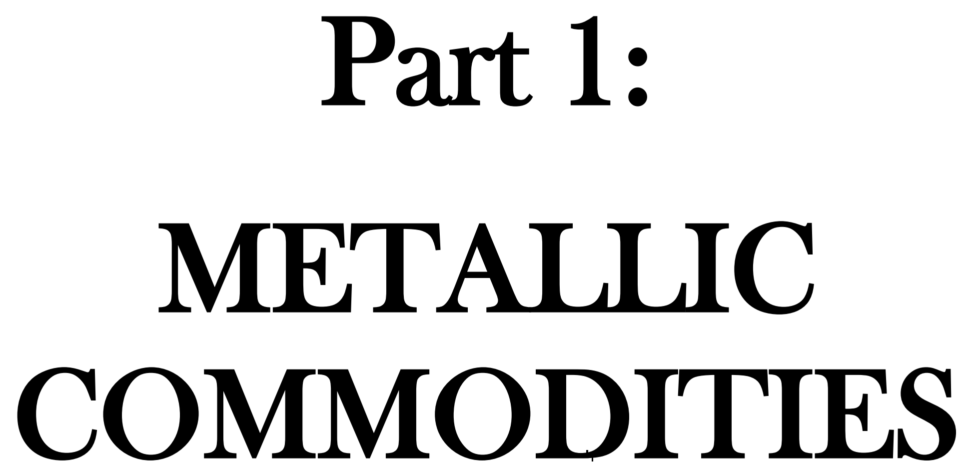
CONTENTS

Part 1:

Metallic Commodities

No.	Title
1.1	Australia's Mineral Resources to sell minority stake
1.2	Margins seen shrinking for steel firms
1.3	Press Metal has limited exposure to US market
1.4	Ghost of overcapacity haunts China steel shares again
1.5	A crypto tycoon, banking heir and the fight for gold
1.6	Tata steel gets nod for biggest acquisition since Corus
1.7	Sinosteel to boost Zimbabwe output
1.8	Press Metal's profit boosted by higher aluminium prices
1.9	This iron mountain looks more like a molehill



Part 1:

METALLIC COMMODITIES

Source : StarBiz **Date : 02 May 2018 (Wednesday)**

Australia's Mineral Resources to sell minority stake

MELBOURNE: Mining services provider Mineral Resources Ltd said it was looking to sell a minority stake in its Wodgina Lithium mine in the west of Australia.

The Australian company said in a statement that it was seeking partners to take up to 49% of the project in the Pilbara region, after receiving a number of unsolicited approaches from parties interested in a stake or in offtake agreements.

Riding a wave of demand for the mineral used in electric vehicle batteries, the firm already has a joint venture with China's largest lithium producer, Jiangxi Ganfeng Lithium, to develop its Mount Marion lithium project in the same state.

"This minority sales process is in line with (our) strategy of investing in early-stage projects, adding significant value and then seeking equity partners to share in the value," managing director Chris Ellison said in the statement.

The Wodgina project produced about 1.16 million wet tonnes of lithium direct shipping ore (DSO) in the quarter that ended in March, accounting for a large portion of the company's overall production.

"(Mineral Resources) will only introduce project partners if acceptable terms can be secured. (The company) has the capability to finance and implement its downstream processing strategy at Wodgina on its own," Ellison added.

The stake sale comes amid burgeoning sector consolidation, with Australian lithium miner Galaxy Resources assessing options for its stake in a large lithium deposit in Argentina.

Mineral Resources said lithium processors, battery manufacturers, international trading companies and automakers had approached it over Wodgina.

"Min Res are used to putting together a joint venture on a project," said Canaccord Genuity analyst Larry Hill, adding that contenders would be companies that could process the mineral into a battery-ready form.

Mineral Resources may also consider selling its offtake from the project to partners as part of the transaction.

Appetite for Australian hard rock deposits is increasing as manufacturers look to secure high-purity supply. — Bloomberg

Source : StarBiz **Date : 07 May 2018 (Monday)**

Margins seen shrinking for steel firms

UOB Kay Hian expects challenging period for the sector in Q2 on rising local supply

PETALING JAYA: Local steel companies, which were subjected to share price swings in recent times following concern on how big an impact the US-China trade spat would have on them, are expected to see improved margins in their soon-to-be released first quarter (1Q18) results.

According to UOB Kay Hian, based on year-to-date spot prices, gross margin per tonne of steel should improve quarter-on-quarter (q-o-q) in 1Q18 to RM711/tonne versus 4Q17's RM708/tonne.

This comes as the price of steel bars has climbed more than 9% q-o-q to RM2,717/tonne in the first quarter of this year.

But this optimism may be short-lived. It said steel companies may be in for a more challenging period after that as a result of rising local supply which in turn will put pressure on average selling prices (ASP) of steel products.

"Moving into 2Q18, we may see gross margin shrink to RM676/tonne based on available data," it said.

New competition will come from players such as China-owned Alliance Steel, which could add up to 16% to existing capacity.

Elsewhere, Lion Industries Corp Bhd is also looking to significantly raise the utilisation rate at its Johor plant in 3Q18 and mulling to restart its Banting plant in 4Q18.

Collectively, the three plants could effectively raise industry long steel capacity by 30%, noted UOB KayHian.

"Based on an assumption of 5% growth in steel consumption in 2018, we think that the industry utilisation rate could fall from 88% in 2017 to 75% in 2018 based on the base case scenario where Alliance Steel comes on stream with 1.5 million tonnes capacity and Lion Industries ramps up its utilisation rate at its Johor plant, which currently has a 20% utilisation rate."

Still a buy: An Ann Joo Resources facility. UOB Kay Hian maintains its 'buy' rating on Ann Joo but has reduced its target price to RM3.60 from RM4.50 previously.

It said that in the worst-case scenario, it sees industry utilisation rate falling to 68% if Lion Industries reactivates its Banting plant which has 500,000 tonnes of steel making capacity.

However, the research form thinks this worst-case scenario would unlikely materialise because Lion would need to consider the huge financial resources and long project payback period in restarting the Banting plant.

Last year was a good year for local steel companies, which saw a turnaround in their fortunes after several years the industry being in the doldrums.

However, in its report UOB Kay Hian noted that steel prices have eased in the month of April, contracting by close to 5% month-on-month to RM2,575/tonne.

Local billets prices, meanwhile, declined by 4.6% to RM2,225/tonne in that month.

"Apart from softer China steel price in April, we think local steel prices were weak for that month because mega and infrastructure projects have yet to take off.

"We also think traders are taking into account potentially softer steel price moving into the second half of the year as new supply comes into the market and existing millers are expecting to ramp up production."

As for China, steel prices there are capped with the five-year plan beginning 2016 for steel capacity cuts coming to its tail end.

The Chinese government aimed to cut 100 million to 150 million tonnes of steel production capacity.

"As at 2017, Chinese officials had already slashed 115 million tonnes of steel production capacity and targeting to cut another 30 million tonnes in 2018.

"Assuming this is achieved in 2018, the Chinese government will only be left with five million tonnes of steel capacity cuts in 2019, which also means that they achieved the 5-year plan way ahead of the original plan," said the research firm.

However, industry players remain sanguine of their prospects.

As for stocks under its coverage, UOB Kay Hian maintains its "buy" rating on Ann Joo Resources Bhd but has reduced its target price to RM3.60 from RM4.50 previously.

Similarly, it has cut the target price on Choo Bee Metal Industries Bhd to RM2.70 from RM3.10 before.

"Unlike Ann Joo, Choo Bee has been less volatile in terms of earnings cycle as demand and ASP for steel products has been relatively stable.

"We believe that the flat steel segment will not suffer the same oversupply issue as the long steel segment but the flat steel segment is dependent on the import exemption which has to be renewed on a yearly basis."

The shares of most steel stocks are down since the start of the year. Ann Joo, the largest steel company by market capitalisation on Bursa, closed last Friday at RM2.91 – down by close to a quarter year-to-date.

Source : StarBiz Date : 07 May 2018 (Monday)

Press Metal has limited exposure to US market

PETALING JAYA: Press Metal Aluminium Holdings Bhd's overall exposure to the US aluminium market is about 0.5% for financial year ended Dec 31, 2017 (FY2017) and about 0.7% in the first quarter of 2018.

Group chief executive officer Tan Sri Koon Poh Keong said Press Metal has limited exposure to the potential US levy as the group's smelting products were not exported to the US in FY2017.

Sarawak-based Press Metal is the largest aluminium producer in South-East Asia with annual smelting and extrusion capacity of 760,000 tonnes and 160,000 tonnes, respectively.

In the first quarter of 2018, Press Metal had monthly sales of about 200 tonnes to the US which accounted for about 0.3% of its total monthly revenue, Koon said in the company's latest 2017 Annual Report.

"As for our downstream extrusion products, total exposure to the US was about 2.5% out of the total extrusion capacity," he added.

The current trade negotiations between the US and China have led to uncertainty in the global economy growth, Koon said, adding that the import tariffs imposed by the US on steel and aluminium may disrupt the global supply chains by potentially raising the prices for consumers worldwide.

For Press Metal, he said the business risks which may have significant impact on its performance are basically the adverse changes in the aluminium market prices and foreign currency rates as "our smelting products are indexed to the London Metal Exchange (LME) and quoted in US dollar".

Having said that, it is the group's policy to hedge up to about 65% of its total aluminium production for the period of up to two years, he said.

Koon explained that certain material costs such as alumina which are pegged to LME will fluctuate based on LME price movement and provide a natural hedge environment.

On foreign currencies hedges, he said Press Metal has exposure to foreign currency exchange risk on sales, purchases, cash and cash equivalents and borrowings that are transacted in the US dollar, Australian dollar, British pound sterling, yuan, Singapore dollar, Hong Kong dollar and euro.

"The US dollar is our main exposure as our core business, smelting revenue and purchases are subhstantially linked to the US dollar," said Koon.

In order to mitigate the US dollar exposure, Press Metal has entered into foreign currency hedging contract with reputable financial institutions.

Barring unforeseen circumstances, Koon is cautiously optimistic that the group will be able to achieve satisfactory results for the current financial year ending Dec 31, 2018.

Source : StarBiz **Date : 15 May 2018 (Tuesday)**

Ghost of overcapacity haunts China steel shares again

SHANGHAI: Expectations of a rebound in steel production in China, along with signs of softening demand, are combining to cast a shadow over the valuation of listed Chinese steel companies.

Steel prices in China have weakened this year following a two-year bull run, with Shanghai-traded steel rebar falling 15% from a peak in December amid worries of renewed production growth and tepid demand.

Shares of most Chinese steelmakers like Baoshan Iron & Steel Co Ltd, Angang Steel Co Ltd and Maanshan Iron & Steel Co Ltd saw a sharp correction in February and March before staging a minor rebound.

Reflecting investor caution over the sector's outlook, price-to-earnings ratios of the shares of Baoshan, Angang and Maanshan are still hovering around one-year lows.

"I don't see a lot of opportunities in steel sector," said Pan Jiang, chief executive officer of private investment fund Shanghai V-Invest Co. "The supply-side reform has created a lot of positive effect in the last few years but does not look likely to gain much further momentum this year."

Driven by Xi Jinping's supply-side reform aimed at reducing industrial capacity and tackling emissions, China closed many illegal and polluting plants across the country in the last two years.

The move sparked a major rally in prices of commodities from steel to aluminum as well as Hong Kong and mainland-listed shares of Chinese steel mills, which have long been plagued by overcapacity. Major steelmakers like Baoshan, Angang and Maanshan were the main beneficiaries of the reform as they gained more pricing power.

Now rising production and falling steel prices have started to weigh on the profits of steelmakers. China's iron and steel industry, the biggest in the world, posted a slide in its profits for the first quarter. Baoshan and Angang are expected to see a drastic slowdown in their earnings growth this year, according to data compiled by Bloomberg.

Maanshan Iron & Steel is likely to post a drop in earnings.

"The overall steel demand is falling from last year. We are relatively pessimistic," said Yang Kunhe, an analyst with Pacific Securities Ltd, adding that China's real estate and infrastructure spending are now in a downward trend, and that is unlikely to be offset by a recovery in manufacturing.

The A-shares of most Chinese steelmakers weakened yesterday, under-performing a slight increase in the benchmark Shanghai composite Index. Shares of Baoshan continued to rise after the company announced a price hike for some hot-rolled steel products last week.

The stock gained 1.4 % yesterday.

Yang's industry view is largely in line with what Mysteel Research forecast at the end of last year. The consultancy expected the Chinese market to swing to surplus from deficit this year. It said steel production in China is likely to rise while demand would remain flat as a price rally to the highest in nine years prompts a surge in supply. — Bloomberg

Source : StarBiz Date : 15 May 2018 (Tuesday)

A crypto tycoon, banking heir and the fight for gold

LONDON: The battle for some of Russia's richest gold mines has an unusual cast of characters: the scion of one of Europe's great banking families, a Kazakh tycoon with his own cryptocurrency, hedge fund DE Shaw, and mystery shareholders.

They're all part of a new fight for control over Petropavlovsk Plc, a London-listed miner.

For the second time in a year, the company is in the middle of a shareholder coup to throw out the board and revive its fortunes.

A decade ago, Petropavlovsk was worth US$3bil and was mentioned as a future member of the benchmark FTSE 100 Index, but sinking gold prices and management missteps reduced it to a penny stock.

The company, started by Pavel Maslovskiy and banking heir Peter Hambro, still owns profitable mines and a new plant that's about to start operating.

"It's a turnaround story," said Ivan Mazalov, director at Prosperity Capital Management Ltd, a Russia-focused asset manager that recently bought shares.

Petropavlovsk cut gold output in recent years to focus on more profitable ounces, and so far it seems to be working. Last year, the company reported the highest net income since 2012, and the big hope is that a new processing method will allow mining of more complicated ores.

But to achieve a comeback, Petropavlovsk needs to fix a fissure in the company that has erupted this month.

On one side are a pair of mystery shareholders trying to oust the board and bring back old directors.

On the other side are owners including DE Shaw that threw out the executives last year.

The two unidentified shareholders – CABS Platform Ltd and Slevin Ltd – are registered in Gibralter and Anguilla, respectively and own a 9.1% stake.

It's not publicly known who is behind these holding companies.

The ultimate kingmaker is likely to be Kazakh tycoon Kenes Rakishev, the biggest shareholder and son-in-law of a former Kazakh deputy prime minister.

The executive, who holds investments in banks, mobile phones and infrastructure projects, bought a stake in Petropavlovsk in December. — Bloomberg

Source : StarBiz
Date : 16 May 2018 (Wednesday)

Tata Steel gets nod for biggest acquisition since Corus

NEW DELHI: Tata Steel Ltd's plan to double its production capacity in five years received a boost after an Indian court gave its final approval for the purchase of the assets of Bhushan Steel Ltd, Tata's biggest buy since Corus Group Plc.

The two-judge tribunal rejected objections to Tata's bid from Bhushan creditor Larsen & Toubro Ltd and the steel company's employees, paving the way for the sale. Bhushan Steel owes its lenders about 560 billion rupees (US$8.3bil) and is among the most indebted of the defaulters identified by the Reserve Bank of India last year under its new bankruptcy law.

Mumbai-based Tata had offered 352 billion rupees in cash to acquire Bhushan Steel, which has capacity of 5.6 million tonnes a year. Tata's capacity in India is 13 million tonnes, making it the nation's No. 3 producer, and it has also announced the expansion of a further 5 million tonnes at its Kalinganagar plant over four years.

According to a lawyer for the administrator in charge of the insolvency process, Tata Steel will also pay another 12 billion rupees to creditors and convert the remaining debt owed to banks to equity. That would give Tata a 75% stake in Bhushan, while banks would get just over 12% and the public's share would drop to 10%. The founding Singal family will be left with 2.5%. The Competition Commission of India had already given its approval for the acquisition.

The tribunal's ruling comes even as bitter court battles between founders, lenders and bidders delay a timely resolution of the sale process for other distressed assets.

Earlier, Vedanta Ltd got the nod from the tribunal for the acquisition of Electrosteel Steels Ltd, only to see an appeal by a rival bidder put the matter back in the hands of the court.

A successful resolution of about US$210bil in stressed loans is crucial to Prime Minister Narendra Modi's efforts to clean up the balance sheets of state-run banks, which hold nearly 90% of the impaired assets.

The Bhushan buy is Tata's biggest after its 2007 acquisition of Corus for US$12bil, one of India's most expensive overseas purchases. The European company's fortunes soon turned, however, as demand slumped following the 2008 economic crisis and China flooded the market with additional steel, forcing Tata to sell some of the business and take billions of dollars in writedowns.

After the court approval, shares of Tata Steel surged 4.3% in Mumbai to their highest since early March.

Tata has also bid for the assets of another Singal company, Bhushan Power & Steel Ltd. — Bloomberg

Next page >>

From Previous Page >>

Steel takeover: Workers moving waste metal at Tata Steel's new robotic welding line at their automotive service centre in Wednesfield, Britain. Mumbai-based Tata has offered 352 billion rupees (US$5.1bil) in cash to acquire Bhushan Steel. — Reuters

Source : StarBiz
Date : 16 May 2018 (Wednesday)

Sinosteel to boost Zimbabwe output

HARARE: Sinosteel Corp will build a power plant in Zimbabwe as part of a US$1bil investment to more than triple ferrochrome output in the southern African nation.

The Beijing-based company's Zimasco unit will build a 400-megawatt power plant fired by coal-bed methane to raise production of the stainless-steel ingredient to 300,000 tonnes per year from 120,000 tonnes, Sinosteel president Andong Liu told reporters on Monday in the capital, Harare.

Zimasco plans to build three new smelting furnaces and will supply excess electricity to the national grid, President Emmerson Mnangagwa said at the same event.

Two smelters will be based in Zvishavane, 357km (221 miles) south of Harare, and another in the central town of Kwekwe, he said. — Bloomberg

Source : StarBiz **Date : 18 May 2018 (Friday)**

Press Metal's profit boosted by higher aluminium prices

KUALA LUMPUR: Press Metal Aluminium Holdings Bhd's net profit rose 4%, year-on-year, to RM192.56mil in the first quarter ended March 31, 2018, as higher aluminium prices boosted its revenue.

The largest integrated aluminium producer in South-East Asia reported a higher revenue of RM2.12bil for the quarter compared with RM1.93bil recorded a year earlier.

In a filing with Bursa Malaysia yesterday, the company said the financial performance would have been stronger if not for the prolonged high carbon prices, as well as, weakening US dollar.

However, it expected a reversal of high raw material prices in the coming quarters, it added.

Group chief executive officer Tan Sri Paul Koon said Press Metal recognised there would be continuous shifts and reactions in global aluminium markets caused by unsettled development from the US sanctions.

"Recent production volume disruption from Brazil has caused a sudden spike in alumina prices. Our management is closely monitoring the changing market landscape and has control measures in place to respond to price volatilities on both aluminium and raw material fronts," he said in a statement.

Koon said such external shocks had proven the resilience of aluminium prices, which could benefit producers like Press Metal. "Looking forward, we are focusing on streamlining our acquisition of Leader Universal Aluminium and expanding our value-added capacity.

"We are confident that we will meet the growth target we set for ourselves this year," he added. — Bernama

Source : StarBiz
Date : 23 May 2018 (Wednesday)

This iron mountain looks more like a molehill

By DAVID FICKLING

THE global iron ore market is quivering in the shadow of a mountain of rust building up in China. Investors should put that in a bit of perspective.

Since the end of 2015, the inventory of iron ore at Chinese ports and tracked by consultancy Shanghai Steelhome Information Technology Co has roughly doubled, from 80 million tonnes to about 160 million tonnes.

Even compared to the period in 2011 and 2012 when the market was running red-hot, the stockpile is up by 50% or so.

That looks like bad news for the state of Chinese steel production and ore demand: If all that ore is sitting around unused, surely consumption at steel mills must be headed for a fall?

Start breaking down what's actually in those piles of oxidized iron, though, and the numbers look much more manageable.

First of all, you need to compare the absolute volumes to the amount being imported. Chinese iron-ore imports have risen by almost half over the past five years. If the nation's steel industry consistently stockpiles about 0.5% of imports, the quantity left in inventories will increase by an equivalent amount.

Sure enough, if you compare the

Next page >>

From Previous Page >>

monthly change in iron-ore stockpiles to the volumes imported, you end up with a chart that's nearly flat.

Nearly, but not quite. The period up to mid-2015 showed regular interludes where inventories fell, with a tendency toward destocking in some years and only gradual restocking in others. Since then, there's been a more consistent build: In 2016, on average about 0.2% of imports were diverted into stockpiles, rising to 0.3% in 2017 and 0.5% so far this year.

That suggests there's something else going on.

One factor is probably China's growing import-dependence. Ore imports aren't just going up because China's producing more steel: They're rising because it's producing less iron ore as well.

Assuming that domestic ore grades are unchanged, there's about six million tonnes a month less elemental iron being produced from local pits relative to where we were in 2015, suggesting that around 10 million tonnes of the import total is needed just to supplement declining Chinese output.

Another factor is pollution. Beijing sits in the middle of the country's metal belt, concentrated on the province of Hebei that encircles the capital and produces about a quarter of the country's crude steel.

The winter just ended has been the first in many that didn't see a dramatic spike in Beijing's particulate pollution.

Part of that is the general decline in industrial activity to meet government anti-pollution mandates but there's another way that it's affected stockpiles, according to Lachlan Shaw, a Melbourne-based commodities strategist at UBS Group AG.

Stockpiled iron-ore imports are mostly a gritty material known as fines. Iron ore producers spend considerable sums spraying these with water and other additives to stop them being converted into inhalable dust, and Chinese steel mills faced by tightening pollution rules have a similar problem. One solution is to concentrate inventory in the small number of port stockyards, rather than the myriad mills scattered throughout the country.

Blending of different grades of ore to produce the right mixes to feed into blast furnaces "another messy, polluting activity" is likewise moving toward ports, where the greater volumes being processed allow particulates to be controlled more consistently.

Put together, those factors probably account for about 30 million tonnes to 40 million tonnes of the 160 million-tonne port inventory, according to Shaw "enough, when combined with the change in volumes, to make the mountain all but go away.

There's a further issue to consider, too.

China's Dalian Commodity Exchange earlier this month opened its iron ore contract to international investors. The contract is a physically delivered one, meaning that a trader with a 10,000-tonne long position needs to be able to actually receive that amount of ore somewhere if they're still holding the contract at the end of the month.

That means rising open interest in futures contracts should put upward pressure on port stockpiles. Assuming more international traders start participating in the market, the ability to fulfil contracts and keep trading will depend increasingly on the availability of deliverable ore in bonded warehouses connected to the Dalian exchange.

Ensuring liquidity in the futures market will require a pile of ore separate from the existing iron mountains that steel mills use to manage their own needs.

There are reasons to fret about the future of iron ore prices. (Will Vale SA flood the market? Will China's credit-fueled construction boom grind to a halt?) But ore stockpiling isn't one of them. From the right angle, this mountain looks more like a molehill. — Bloomberg

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