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# Commodities rally seen having minimal impact on local companies

BY SHARIDAN M. ALI



THE rally in commodity prices, specifically raw sugar and iron ore, is expected to have neutral impact on local companies using the raw materials in their production.

This is because, according to the Malaysian Iron and Steel Industry Federation (Misif) president Datuk Soh Thian Lai, the iron ore price rally is generally influenced by China's re-stocking exercise.

"The impact on us will be minimal. Iron ore price prices between US\$50 per tonne to US\$60 per tonne is still manageable.

"It is because of China's restocking in the last few month and not increase in consumption," he tells *StarBizWeek*.

It was reported that iron ore price has rallied some over 40% year-to-date from its December 31 close of \$US42.90 per tonne, boosted by the Chinese government's stimulus plans and seasonal restocking by Chinese steel mills.

The market has also been coming back into balance as some sources of higher cost supplies have been forced out, according to a news report.

Although the rise in iron ore prices is expected to be short-lived, the real dilemma in the local steel industry remains due to of intense competition from cheaper and below-cost steel imports mainly from China.

According to an expert, this is mainly structural and unlikely to be resolved in the near future.

In 2015, Malaysia's top five steel makers for long products had incurred a combined RM1.3bil pre-tax losses.

Nevertheless, due to the Government embarking on mega infrastructure projects such as the Klang Valley mass rapid transit (KVMRT), Pan Borneo Highway and the high speed rail linking Kuala Lumpur and Singapore, the demand for steel bars is expected to be healthy going forward.

The total value of contracts awarded for the first five months of this year is RM37.1bil, 451% higher than RM6.7bil for the same period last year.

The local steel bar benchmark prices have also settled at around RM2,200 to RM2,400 per tonne as of June levels since early May following a strong rally.

KAF-Seagroatt and Campbell Securities maintained a "buy" call on [Ann Joo](#) in early June as valuation still appears distressed at 0.5 times for the financial year 2016 price-to-book value despite the sharp run-up in the share price.

Meanwhile, raw sugar prices, which have climbed by more than 70% year-on-year (y-o-y)

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## Market Summary

to US 19 cents on the back of softer global sugar output.

According to CIMB Research, [MSM Malaysia Holdings Bhd](#), Malaysia's largest sugar refiner will increase wholesale prices of sugar to the big domestic food and beverage (F&B) players.

"Refined sugar price will increase from to RM2,500 per tonne from RM1,800 per tonne effective Aug 1.

"Note that MSM commands 60% of sugar consumption in the country," it says in a report.

CIMB Research believes that among the F&B companies under its coverage, the revision in prices will hit F&N and Nestlé the hardest as sugar comprises approximately 20% to 25% and 10% to 15% of the respective group's total raw material costs.

"Our sensitivity analysis suggests that for every 10% increase in sugar prices, F&N's and Nestlé's future financial year of 2017 and 2018 net profit will be hit by 7% to 8% and 3% to 4%, respectively.

"Note that this is under the assumption that the costs are not passed on to consumers through product price revisions.

"We also note that F&N still has some leftover APs to import refined sugar over the next few months but this will be fully utilised by year-end," it says.

CIMB Research is not overly concerned on this development as it believes that both these F&B players will be able to weather this price increase either through gradual cost-pass through to consumers or through the continuous improvement of internal operating efficiencies.

The research house maintains its "neutral" call on the sector due to the lack of near-term re-rating catalysts.

Updated: 25 Oct 2016 17:00  
Quotes are delayed by at least 15 minutes.

**FBM KLCI**

**1676.05** -1.17

Day's Range

Low 1670.00  
High 1676.05

Gainers



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