

## Leon Fuat adds more mettle to its business

By GURMEET KAUR  
gurmeet@thestar.com.my

AMID the headwinds of Covid-19, Leon Fuat Bhd, which is one of the smaller stocks in the universe of steel-related companies, has been quietly building up its steel pipe manufacturing business.

A manufacturer and trader of steel products, specialising in rolled long and flat products, Leon Fuat diversified into steel pipe manufacturing in 2018. For this, the company embarked on the construction of a three-phase manufacturing plant on a 16-acre in Kawasan Perusahaan Bandar Sultan Suleiman in Port Klang, near the North Port.

Its manufacturing facility under Phase 1 started operations in the second half of 2019 and was able to produce about 5,000 tonnes of welded steel pipes per month.

Executive director Calvin Ooi Shang How says the venture is synergistic and in line with the company's next growth strategy to strengthen its presence in the local steel manufacturing sector.

"We are in the midst of undertaking phase two of the project, which includes the construction of two additional buildings - for factory and warehouse purposes.

"This includes the installation of machinery and equipment for the production of welded steel pipes of a larger sized range," Ooi tells *StarBizWeek*.

According to him, the purchase of pipe forming, welding and slitting machines under phase two are estimated to cost the company some RM53mil.

Leon Fuat plans to use part of the RM26.2mil raised from its recent private placement to fund this expansion, while the remainder will come from internal funds or bank borrowings.

"We expect to complete phase two by the first half of 2023. And with the full completion of this project in the next two years, we can double the maximum capacity from the existing 5,000 tonnes per month," adds Ooi, who is the son of the company's co-founder and executive deputy chairman Datuk Seri Ooi Bin Keong.

In total, the capital expenditure for the two-year expansion plan is estimated at about RM100mil.

Leon Fuat, which is involved in the downstream side of the value chain and having to source raw materials from overseas, is susceptible to the recent price rise of steel - one of the world's most important commodities.

Prices of steel have been on an uptrend since the second half of last year, fuelled by a global demand recovery as some economies bounce back from the Covid-19 pandemic.

To mitigate any negative impact, Ooi says the company has taken proactive measures including negotiating forward contracts, being prudent in inventory management and keeping an eye on costs.

Despite the prevailing risks and uncertainties with Covid-19 not fully abated, Ooi says it is "encouraged by the reasonably good results recorded in the financial year ending March 31, 2020 (FY20) and remains optimistic it will also be able to achieve positive results for FY21".

In FY20, Leon Fuat posted a net profit of RM28.55mil as compared to RM5.60mil a year ago, an increase of some 400%. It also reaped higher overall gross profit margin for both the trading and processing of steel products segments.

On the revenue side, the decrease in overall revenue of 2.9% due to the impact of the movement control order (MCO) and conditional MCO was largely offset by higher revenue from the production of welded steel pipes, which increased significantly by 197.6%, points out Ooi.

Likewise, Leon Fuat had a stellar start for its first quarter ended March 31, 2021. Net profit for that quarter rose over 3,000% year-on-year to RM36.12mil, while revenue came in 76.2% higher to RM211.47mil.

While steel prices are expected to trend higher, Ooi remains cautious on the outlook as the resurgence of Covid-19 and movement restrictions would have an impact on Malaysia's economy.

"Like any other business, there are risks. Trading can be quite volatile depending on market demand and margins. For the processing side, the margins earned are, to a certain extent, manageable by us as we process the steel for our clients and the charges depend entirely on the value-added services we offer.

"Our diversification will enhance future growth as it creates opportunities via supplying to a broader base of industries, which in turn, reduce risks of over-dependency on certain industries," he says.

The processing of steel products is the larg-

er contributor to earnings at 64.8%, while the trading segment contributed 35.1%.

Currently, Leon Fuat is focused on the local market. Its key customers are from the manufacturing sector such as producers of metal products and components and fabricators of machinery, equipment and metal structures. It also caters to the construction and building sectors.

For now, it has no plans to expand via mergers and acquisitions, preferring "to focus on our business expansion plans and corporate exercises".

While a slowdown in activities from local industries is expected due to the re-imposition of movement restrictions to mitigate the pandemic, Ooi believes demand will grow in the mid-to-long term when economic sectors re-open, underpinned by the country's vaccination efforts.

"On our part, we are better prepared as compared to MCO 1.0 and will strive for sustainable growth.

"What this pandemic has pushed us to do is to fast-track our automation process. We are also strengthening our IT infrastructure to improve efficiency and productivity," he says.

Leon Fuat is 70.87% controlled by Leon Fuat Holdings Sdn Bhd, which is the private vehicle of the Ooi family.

The stock was last traded at 98 sen, translating into a market capitalisation of RM334.18mil.

As at end-March, its cash and cash equivalents stood at RM36.26mil, while borrowing was at RM289.69mil.