Gaining from construction boom

Eonmetall undertakes more Middle East jobs

By HARI RAJ
hari@thestar.com.my

EONMETALL Group Bhd is looking to heat up its overseas operations. The Penang-based metalwork and equipment maker has undertaken a number of initiatives that will increase its profile in the lucrative markets of the Middle East, which is experiencing a construction boom.

First up was its May acquisition of Dubai-based Coolrich District Cooling Services LLC, which specialises in the planning, installation and maintenance of co-generation district cooling systems (DCS) in the United Arab Emirates (UAE).

Essentially, DCS involve a centralised energy plant that generates thermal media such as chilled water that is sufficient for the air-conditioning requirements of several buildings within a district. The term "co-generation" refers to the process that sees a fuel converted into both thermal and electrical energy.

In the Middle East, where temperatures hover around a scorching 40°C, utilisation of DCS is widespread. As Eonmetall executive director and chief operating officer Yeoh Cheng Chye explains, there are substantial benefits to be accrued from using the system.

"Given the economies of scale, it's definitely more cost-effective than normal air-conditioning, and maintenance is much cheaper," he says. "Chilled water is better compared to gas because it has better moisture control. DCS also enhances building aesthetics, and 80% of the chilled water is recycled. So it's environmentally friendly while reducing operating costs."

Eonmetall will ramp up its present capacity for cold rolled coils

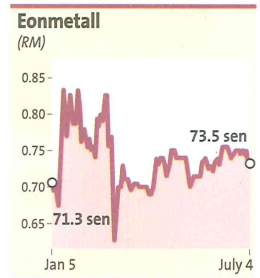
The acquisition saw Eonmetall enter into a joint-venture (JV) agreement with four Dubai-based partners to form Eonmetall Global Composites LLC, of which Eonmetall owns 30%. This company then acquired Coolrich for 4.5 million AE dirham, or about RM4.2mil.

Coolrich has completed projects at the Dubai Investment Park, Dubai Festival City and Grand Mosque Abu Dhabi. The company currently has an order book of approximately 36 million AE dirham, and there's plenty of room to grow.

"Every township in Dubai is as big as Putrajaya itself, and there are more than 10 cities currently in the process of development," says Yeoh, adding that similar DCS have been implemented in KLIA, KLCC and Putrajaya.

"There are many players, but the issue is that the projects are so huge. All in, up to 2010, the total requirement for DCS in Dubai is about 6 billion AE dirham. To date, our order book is less than 1% of that total."

OSK Securities is upbeat on the project as well, citing the booming property development in the region as well as the profit guarantees given by Coolrich. Coolrich has guaranteed Eonmetall a profit of 3 million AE dirham for the first two years of operations, in addition to a profit margin of 20% for the first year and up to 35% for the next five years.



Other synergies

There's more to Eonmetall's Dubai venture than meets the eye, though. As Yeoh explains, Eonmetall will also be looking to supply raw materials to Coolrich, such as steel pipes, fittings, machinery and equipment, including heat exchange systems.

The company is also looking to tap into the booming construction industry in the UAE, which has been sparked by economic growth of some 8% for the past three years. Citing Eonmetall's traditional strength in steel construction, Yeoh outlines the company's plans to supply steel materials to the region.

"We have intentions to build a steel plant in Dubai itself. We found that this is also a synergism where we can produce steel pipes (for DCS) and at the same time go into other steel products. Subsequent to that, we are looking at the UAE as a hub to go into other Gulf Cooperation Council countries

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(GCCs), which allow free access of goods between them."

To this end, Eonmetall has leased a parcel of land at the Dubai Industrial Park to set up its plant, which is targeted to be operational by the end of this year. Yeoh says that 70% of the cost of building a DCS consists of steel pipes, making it much more cost-effective to build a factory as opposed to importing the pipes.

As such, should there be any delays in completing the plant, the company will rent a site to begin production while waiting for the plant to be finished.

Eonmetall has also recently been awarded the rights to manufacture the US-developed Nukote coating and apply it the DCS. According to Yeoh, Nukote is a special polymer used for insulating pipes that is both cheaper and longer-lasting than conventional polymers.

Joint ventures

Eonmetall first established itself in the Middle East in the mid-1990s via the completion of small turnkey projects in Sudan and Yemen. Yeoh describes the company's current approach as harking back to those days, but the company is now focusing on joint ventures (JVs).

"Going forward, how do we want to grow out of Malaysia? Rather than just selling machines, we intend to go into more JVs, and we have actually started negotiating with potential partners," he says. Eonmetall has potential JVs afoot in Indonesia, Zambia and Yemen, all of which will involve the company taking up an equity stake of 20%.

"The beauty of these JVs is that we have a condition in place stipulating that they must acquire machinery from Eonmetall. When we build a factory, though we only hold 20%, we're talking about US$5mil in machinery orders from each JV. We must also be given first right of refusal to supply steel raw materials to the JVs," adds Yeoh.

His take is that most manufacturers in the Middle East or Africa are smaller scale in nature.

This means heightened risk when purchasing from the likes of China, which demands cash payment before delivery, leading to problems of undelivered or defective goods.

Eonmetall, on the other hand, has the capacity and the economics of scale to buy in bulk. This allows the company to either go into the merchanting trade, or bring in materials in bulk that can then be split between Eonmetall's own operations or shipped out to other Middle Eastern countries.

The company is also looking to build a wholly-owned plant in Sudan. Yeoh points out the country's huge market for galvanised products, adding that there is no need for a JV partner as the company can secure both the land and the relevant license from the Sudanese government by the third or fourth quarter of this year.

"We are also talking to three more JV partners, for example in Namibia, but we are taking it slow because we think that three JVs in a year is sufficient for us," says Yeoh.

Current operations

Eonmetall's current plant in Sungai Bakap, Penang, currently occupies four of the seven acres of land on which it is situated. The company is also building its second plant in the same vicinity, the first phase of which will involve seven built-up acres on a 30-acre landbank.

According to OSK, when the new factory opens in the third quarter of this year, Eonmetall will ramp up its present capacity for cold rolled coils (CRC), while its newly-launched galvanised line will also boost contributions for flat products in the second half of the year.

"Apart from that, the company will relocate part of the secondary flat steel production lines from the existing plant to the new factory, eventually offering additional space for its manufacturing of machinery and equipment (MME) division that is currently facing space constraints. This will boost the MME divisions' capacity to 80 units per year from 50 units," says OSK.

Yeoh points out that Eonmetall is able to produce CRC down to a measurement of 0.17mm, "as thin as a piece of paper". He adds that both the company's CRC and galvanised machines are self-designed and self-built.

Besides this organic growth, the company remains on the lookout for potential mergers and acquisitions, while it is also planning to launch its solvent extraction plant in the next quarter.

Further in the future still, there's also the possibility of an oft-mooted listing abroad.

Though Yeoh says it's still an option and that Eonmetall would be "quite comfortable to be listed in Dubai", he cautions that it is still a relatively new financial market, and many other companies are also seeking a similar listing.