CORPORATE

Eonmetall rides on global eCommerce boom

Strong demand for group's storage solutions

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EONMETALL Group Bhd is optimistic about hitting double-digit revenue growth in 2022 as the manufacturer of steel storage and racking systems is benefitting from the global eCommerce boom.

Group managing director and CEO Yeoh Cheng Chye says wholesalers, logistics and real estate investment trusts are expanding and building new warehouses.

"There is huge overseas demand for our storage solutions such as industrial steel racks, and we export 60% of our steel products to Asia, Australia, Middle East and the United States.

"This is driven by the eCommerce industry's shift to shorten delivery lead time to consumers," he says at a briefing in Kuala Lumpur.

He also points out that the group's steel racks command double-digit margins due to its in-house manufacturing capability and production efficiency, and serve some renowned global brands.

Yeoh says he is optimistic about seeing a 20% to 30% growth in both turnover and earnings in 2022, noting that the group saw good results in the first quarter and is likely to see "the momentum continued in the second and third quarters."

"I believe the second and third quarters would still be as good as the first quarter. But for the fourth quarter, rate hikes by central banks worldwide and other market uncertainties may pose some downside risks," he says.

While steel prices have declined in recent months, which Yeoh says is good for the group as its production cost also goes down, he remains wary as price volatility could impact the group's cost of production and operating margins in the future.

"A rise in raw material prices is bad for us, as we are selling end products and there is a limit regarding how much we can increase our prices.

"For example, if your raw material price increased by 20%, you cannot raise your end-product prices by 20% also. No end user is going to buy from you – they can wait, right?

"It's different if you are in the up or midstream industries; you can adjust your prices in line with the cost of raw materials. But we can't," he explains.

Penang-based Eonmetall, which started operations in 1990, is also a niche player in the designing and fabrication of metalworks and palm oil-related machines.

Eonmetall's founder and executive director is Datuk Goh Cheng Huat, who is also an executive director of Leader Steel Holdings Bhd. Both companies are listed on the Main Market.

Leader Steel, also based in Penang, manufactures steel products like pipes and tubes, hollow section, sheets, flat bar, angle and square bars, and plates as well as sources and exports steel making minerals (iron and manganese ore).

For its first quarter ended March 31, 2022 (1Q), Eonmetall's net profit jumped 76.6% year-on-year (y-o-y) to RM11.2mil while revenue rose 25% to RM70.615mil, mainly due to the increase in sales from steel products and trading activity.

"Eonmetall is currently on a good growth trajectory and we aim to expand to more international markets in the coming years."
Yeoh Cheng Chye

Earnings per share for 1Q was 5.5 sen (versus 3.12 sen a year earlier).

For its financial year ended Dec 31, 2021 (FY21), Eonmetall's net profit increased almost seven times to a record RM24.16mil (from RM3.47mil in FY20) while revenue jumped 59.8% y-o-y to RM216.95mil.

In its annual report 2021, Eonmetall states that business growth in FY21 was driven by strong contribution from its steel products and trading activity segment, while the bottom line was also supplemented by contribution from the gain on disposal of land and building of RM6.5mil.

Net asset per share was RM1.35 and its gearing ratio was about 0.44 times.

In FY21, the group's steel product and trading segment contributed 83.5% to revenue, followed by its machinery and equipment segment (16.4%), as well as property, investment holding and others.

Export markets contributed about 50% of the total group revenue in FY21, and the other half came from Malaysia.

"Currently, the export markets have grown to about 60%, which is good for us as it is a natural hedge for our revenue and costs," Yeoh points out.

Export markets

In FY21, the United States contributed 49% of its overseas revenue, followed by the Middle East (8.9%), Africa (8.4%), Singapore (6.5%), Australia, Europe, Taiwan, the Philippines, Indonesia, Sri Lanka and other countries.

"Eonmetall is currently on a good growth trajectory and we aim to expand to more international markets in the coming years," adds Yeoh.

Earnings per share for FY21 was 11.86 sen (versus 1.82 sen in FY20).

The group does not have a dividend policy, and Yeoh says it is currently conserving cashflow for business expansion.

Eonmetall's annual report also notes that the group's racking systems under the "Eonmetall" and "Constructor" marques have emerged as leading brands in their respective categories in their markets.

The "Constructor" brand of racking system was launched in mid-2019 and is offered via a partnership with Gonvarri Material Handling AS, one of Europe's leading engineering and manufacturers of steel storage solutions.

Expansion plan

Yeoh notes that Eonmetall is currently the largest steel rack manufacturer in South-East Asia and is likely to grow its production capacity to be the largest in Asia once its upcoming plant in Kapar, Selangor, is operational by end-2023 or early 2024.

The group also has plans to move a large chunk of its manufacturing operations from Penang to Klang within the next few years.

"We are looking at monetising some of our (land and building) assets in Penang for capital gain and margin enhancement as we are moving production operations to Klang where there is bigger space for us to grow.

"The new plant in Klang will also result in cost savings for us in terms of lower transportation, shipping and handling costs, as our products and raw materials will go through Port Klang only (to its final destination in Klang) without transhipment to Penang Port," explains Yeoh.

In July 2019, Eonmetall inked a joint-venture deal with Sinaran Seribumi Sdn Bhd, Kapar Holding Sdn Bhd and Kapar Land Sdn Bhd to buy a 420.59-acre land in Klang from Sime Darby Plantation Bhd for RM155.73mil.

In a filing with Bursa Malaysia in May 2022, Eonmetall said following the subdivision of the land, the group's portion would be 71.64 acres and the price adjusted to RM26.53mil based on RM8.50 per sq ft.

"We are converting the land from agriculture to medium industry usage. The plan is to build a new 30,000-sq-m plant. A second plant may be also in the works but we need to evaluate how fast we can grow," says Yeoh.

He points out that the group has over 55 acres of land and buildings in Penang, on which it owns three plants and rents a fourth plant.

"A lot of our land assets are still undervalued. Land prices move up so fast, especially when you're just beside Batu Kawan Industrial Park. So it makes sense for us to also look into monetising our assets for capital gain," says Yeoh.

However, he notes that some manufacturing will still remain in Penang, especially the group's business in metalwork and industrial process machinery and equipment.

Meanwhile, Yeah notes that the elevated crude palm oil (CPO) prices have also resulted in growing demand for Eonmetall's palm solvent extraction plants (SEPs), which are parked under the group's machinery and equipment business segment.

In recent years, Eonmetall has focused on building its built-to-operate, own and transfer (BOOT) business model, offering patented palm SEPs to palm oil mill owners.

Its maiden palm SEP project in Johor, which is part of a deal involving six palm SEP projects under the BOOT model with a major government-linked company, started operations in late 2021 after several disruptions to the plant installation and operation on-site due to the pandemic.

"We are looking into several palm SEP turnkey orders in Johor and hope to secure the orders sometime this year. Other potential projects are in Pahang and they may include the largest-ever SEP to be built," says Yeoh.

According to Yeoh, the BOOT agreements will provide recurring income for 10 years and each palm SEP can contribute about 5% of the group's bottom line.

He says the palm SEP business is gaining traction and expects more deals to be secured as CPO prices are expected to continue to remain attractive for plantation owners despite recent price corrections.

"The group has sufficient bank support and facilities to grow this business segment," he says.

Meanwhile, Yeoh points out that the shortage of foreign labour is impacting the group.

"Today, I have a shortfall of about 100 workers. As we grow the business, we need more," he says, adding that the group plans to increase automation in its production processes.