The prerequisite conditions for Successful Consolidation of the Malaysia Steel Sector.

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There are 3 principal types of Consolidation Model :

A1) State own Enterprises (SOE) consolidation driven by Governments

A2) Privately own Enterprises (POE) consolidation driven by private sector initiatives

A3) Privately own Enterprises (POE) consolidation driven by Government

Common determinant factors of industries requiring consolidation.

1) It is in the public interests that the long term sustainability & survivability of the industry is necessary.

2) Excess capacity

3) Market demand is expected to continue to trail domestic and foreign supply indefinitely

4) Companies expected to go out of business in the near term.

5) No significant fiscal or technological ‘game changer’ events expected in the operating environment of the companies to be consolidated.

CASE A1

Where Governments led/directed consolidation of SOE is not difficult as workers can be relocated/retrained/compensated and financial obligation of the consolidated companies have been restructured by the Government.

CASE A2

Private sector led consolidations are difficult because under good business environment, consolidation might infringe antitrust laws, e.g. MAS-Air Asia.

During poor business environment, the reduction of capacities and overheads such as manpower and replicated asset such as offices and equipment will result ultimately in higher prices to the consumers as the main goal of any consolidation exercises is not only to reduce overheads but to ensure the new combined entity is more profitable then before (i.e. $1 + 1 \leq 3$ Rule).

Only under the above scenario business owners will be agreeable to sell down their shares and cede control of their companies and for the new majority owner of the newly consolidated entities to recoup the cost of consolidation.

CASE A3

If consolidation is Government led, the possibility achieving the intended result can be difficult but ‘Doable’. In this scenario, the Government has to be involved in the mediation process with the private business owners. And the Government will be expected to provide various incentive to ‘compensate’ the private entities as a result of the consolidation exercise.

Conclusion

In the Malaysian context, consolidation of private sector companies by initiative led by the private sector does have many past successful examples. The common model are for business to undertake outright acquisition or industry wide consolidation via the elimination of some companies due to unsustainable financial losses which will result in fewer player to remain and prices will most lightly rise due of lack of competitions.

Consolidation of the Malaysian Steel Industry can be achieved despite facing many challenges:

1) *Government must stop issuing more steel manufacturing licences for new entrants into the industry regardless of the amount of FDI to be received. It would be better to have the new entrant to acquire the existing companies.*

2) *Local bank should provide assistance for consolidation such as differed loan obligation and funding for worker retrenchment or funding for acquisition of owners shares.*

3) *In the stock market, consolidation are often not viewed positively by the investors as it signals trouble in the industry and any higher prices as a result of the consolidation to pay for the cost of consolidation is often scorned upon as a bad public policy to the consumer.*

4) *Public should be made aware the forex savings to the country due to the domestic steel sector. In addition not allowing the country to depend on imported steel as foreign supplies can be erratic and have long lead time of delivery. Domestic steel industry provide employment to hundred of thousands of Malaysian and is a substantial corporate tax payer.*

5) *Any consolidation of the industry should facilitate the continuous improvement of product range, quality and service.*

Thank You