

Plywood demand for Japan reconstruction lifts Eksons

BY Jenny Ng

Unlike for the bigger timber plays on Bursa Malaysia, Japan is not Eksons Corp Bhd's main market but the Middle East and the US.

Eksons is a timber player with a niche in the higher-priced thin plywood — thickness of less than 2.5mm — used mainly for interiors like the inside of boats and caravans.

Some years back, the company decided to steer away from Japan and China to focus on the US market and then the Middle East and North Africa.

"Ten years ago, China started to emerge as a net exporter of softwood plywood. As for Japan, the market there requires different specifications for its plywood compared with the rest of the world. Often, to supply to Japan, suppliers have had to change their processes," Tang Seng Fatt, a director at Eksons, explains.

Furthermore, trading houses in Japan often tie up with local producers via shareholder agreements and dictate terms that may not be ideal for many plywood manufacturers.

Be that as it may, Eksons' share price has risen, thanks to renewed interest in timber stocks on expectations of greater demand for plywood in Japan due to its reconstruction efforts following the March 11 earthquake and tsunami.

The company has received enquiries from clients to export to Japan but nothing has been confirmed yet.

"There have been enquiries but no committed volumes," says Tang, adding that plywood prices are expected to move if demand from Japan, the biggest market for the product, increases.

He says prices have moved up 10% since the earthquake but notes that Japan will still need time to work out its reconstruction plans. He is confident that if there is a surge in demand, Eksons will be able to meet orders, given that it is utilising 80% of its capacity.

With plants located in Tawau, Sabah, and Sibul, Sarawak, Eksons has an installed annual capacity of 285,000 cu m, making it one of the largest thin plywood producers in the region.

"If demand goes up, we can ramp up production," Tang says.

Another difference between Eksons and the other timber plays is its lack of concessions but Tang says this is not a concern because the com-



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pany has been able to source logs from smaller players with short-term concessions.

Eksons has also benefited from log export quotas imposed by Sabah and Sarawak as this ensures a ready supply of logs for the company. Furthermore, not all the concession holders, especially the smaller ones, have processing capacity.

"We source our logs locally; we don't have a concession but it's not a problem," Tang says in an interview at Eksons' office in Kuala Lumpur.

According to him, using smaller and lower-grade logs to produce quality plywood has given the company healthy margins. It has also invested in machinery that can handle small logs.

This has helped Eksons' operations maintain a respectable log recovery rate of 50%, which Tang says is one of the company's strengths.

Although the US used to be one of its main markets, taking up 25% of its sales, when the subprime mortgage crisis struck in 2007, Eksons shifted its focus to the Middle East. Nevertheless, it still receives a steady stream of orders from the US.

"We still get orders from time to time. It's not a big concern to us because in the previous years we have been able to move to other markets," says Tang, adding that he believes orders from the US have bottomed out.

"Orders have been small but consistent," he says.

Although the US housing sector has not recovered, Eksons has not been as badly affected

plywood are facing problems because of the weakening US dollar.

"It's a challenge for all timber players and most of Malaysia's manufacturers," Tang says.

But for the next 24 months, Eksons should see additional revenue from its property division — another feature that singles it out from the other timber plays.

The company's property arm is undertaking a project in Seri Kembangan, Selangor, via a 60:40 joint venture with Tempo Properties Sdn Bhd. Eksons and Tempo have a common major shareholder in Tay Hua Sin.

The mixed commercial development, known as The Atmosphere, has secured RM221 million in sales, of which only RM31 million has been recognised.

The balance RM190 million will be recognised over the next two years.

The project is the second phase of development on a 50-acre site; the first phase was sold to a party now operating a Giant hypermarket.

"Phase 3, which will cover about 14.5 acres, is still in planning stage. The launch depends on a study we're undertaking, which will be completed in July," says Tang.

When asked why Eksons went into property development with Tempo, Tang says the company's managing director Tay had always been keen on that. When the opportunity to develop the 50-acre site came along, Tempo alone could not manage the project, hence the joint venture.

"Moving forward, if we do manage to acquire new land, we will continue to do property [development]," says Tang.

Nevertheless, the plywood business will still account for the bulk of Eksons' top line with property contributing only a third to revenue over the next two years unless the company acquires more land.

Eksons was set up in the early 1990s and its entry into Bursa Malaysia was via a reverse takeover of Ipoh-based Chongai Corp Bhd in 2000.

As at its third quarter ended Dec 31, 2010, Eksons had net cash of RM10.24 million. Net assets per share as at Dec 31 stood at RM2.19.

Net profit for the nine months ended Dec 31, 2010, was RM21.53 million or 13.11 sen a share on a turnover of RM243.14 million. The stock closed at RM1.37 last Thursday.



as the suppliers of thick plywood, which is used mainly in the construction sector.

Tang says this is because thin plywood is used for interiors, where demand has been stable.

Eksons is also not worried about the political unrest in the Middle East and North Africa (MENA) because it believes these are temporary.

Tang expects margins for the plywood business to stay positive in 2011 despite high log costs.

"It's a demand pull market; we think higher costs can be passed on to consumers. Yes, log prices have gone up due to higher demand but we don't think the situation is severe enough to push margins into the red."

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