

How to Succeed in Myanmar and ASEAN Steel Market? Five Major Pointers

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This document is strictly confidential. It involves the assessment of a range of business scenarios.

The assessments are based on preliminary views and estimates that are under ongoing review.

Five Major Pointers

1. Understanding the drivers of steel demand in Myanmar

2. Understanding the competitive forces

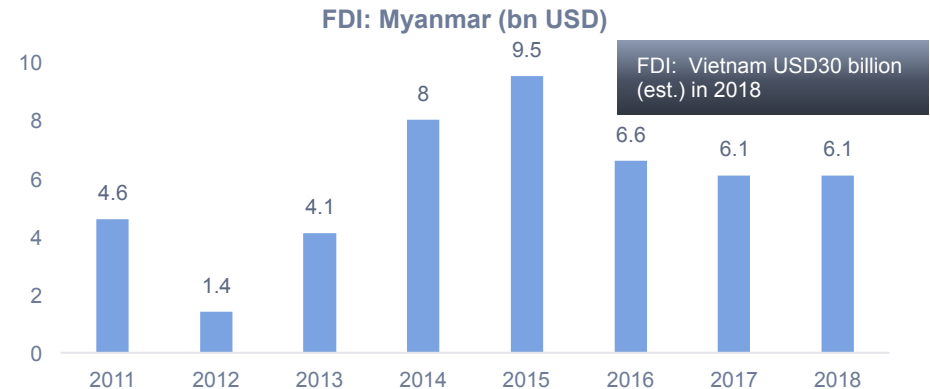
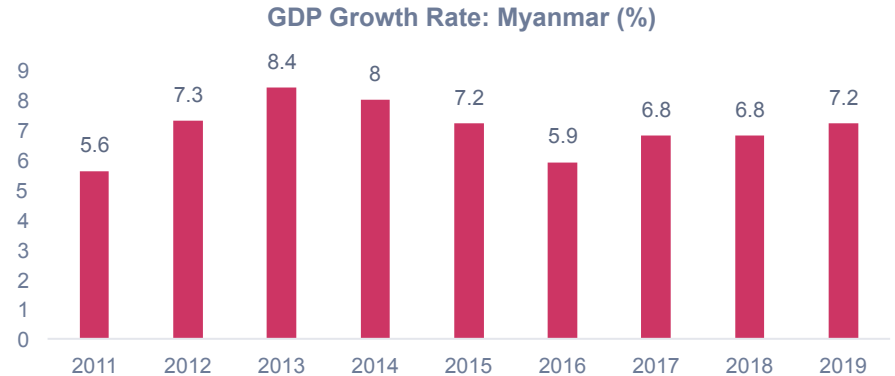
3. Understanding customers' behavior and needs

4. Understanding your own company capabilities

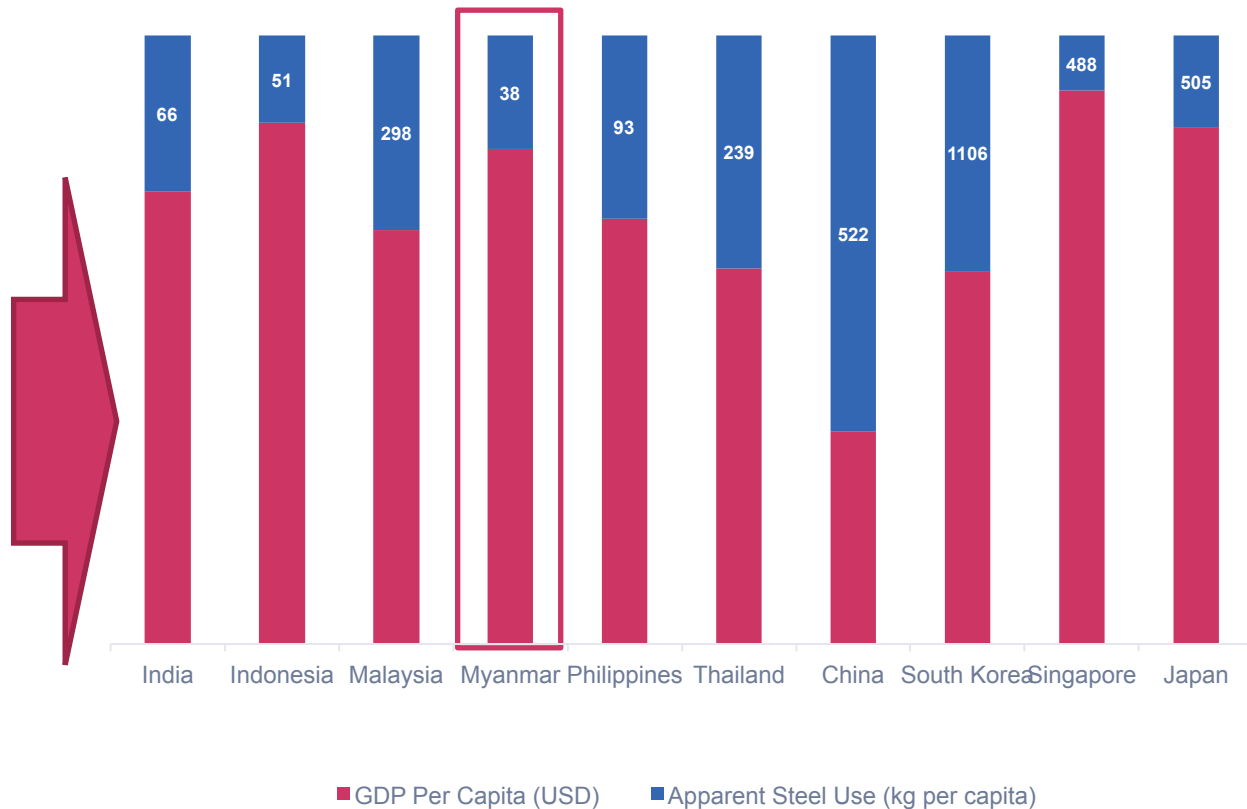
5. Invest in long term relationships and customer equity

1. Understanding the Drivers of Steel Demand in Myanmar

- Young population – more than 60% under age of 35 years
- Total population of 54m people and 40th largest country by area
- Total GDP: 72 bn USD (2018 est.)
- GDP per capita: 1484 USD
- Strategic location: Part of South East Asia and located between India and China
- Resource rich including oil & gas
- Political and economic transformation ongoing since 2012
- Democratically elected government in place since 2016, next elections in 2020



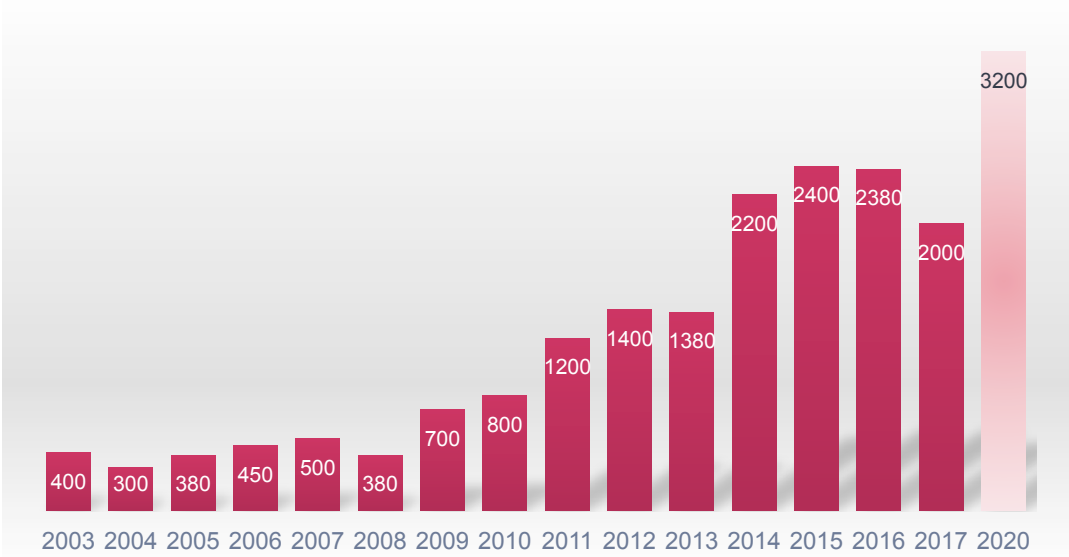
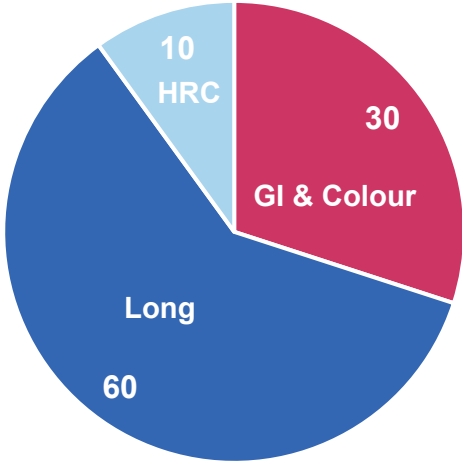
Myanmar's Steel use per capita is one of the lowest in Asia



Source : CIA World Facebook, Ministry of National Planning and Economic Development (MNPED), IMF

Myanmar's steel demand is rising and comes mainly from the expanding construction sector

Steel demand segmentation in Myanmar (%)

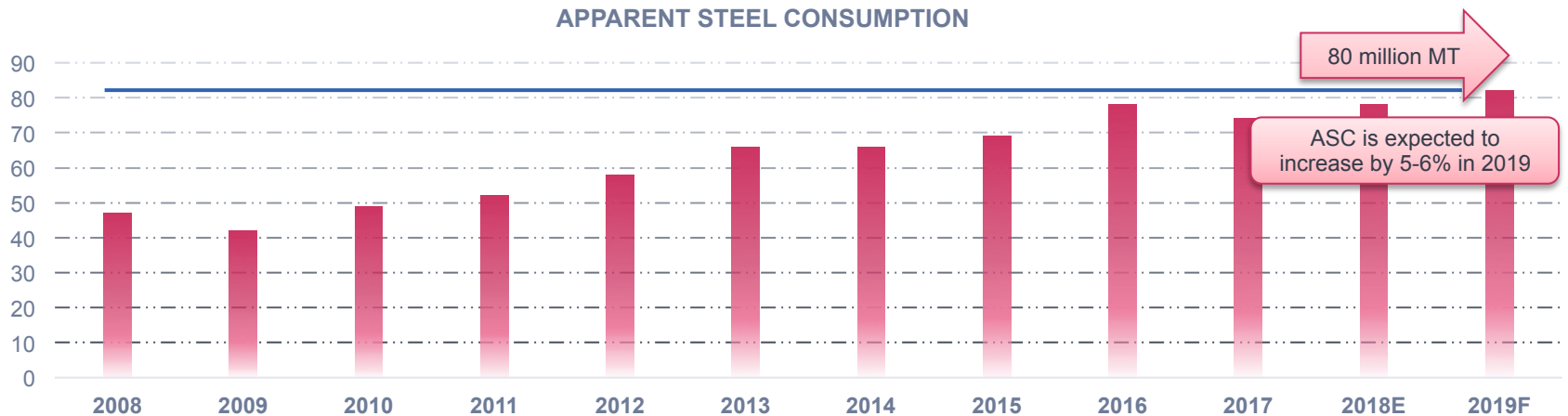


Myanmar rapid economic development and emergence of middle income group will drive steel demand particularly in construction and infrastructure sectors

- Steel consumption per capita in Myanmar increased from 11kg in 2000 to 22kg in 2011 and expected to reach 58.7kg in 2020 and 83.8kg in 2025.
- It is expected that Myanmar's steel demand will continue to expand with an average growth rate of 8% per year, reaching 5 million tonnes in 2025

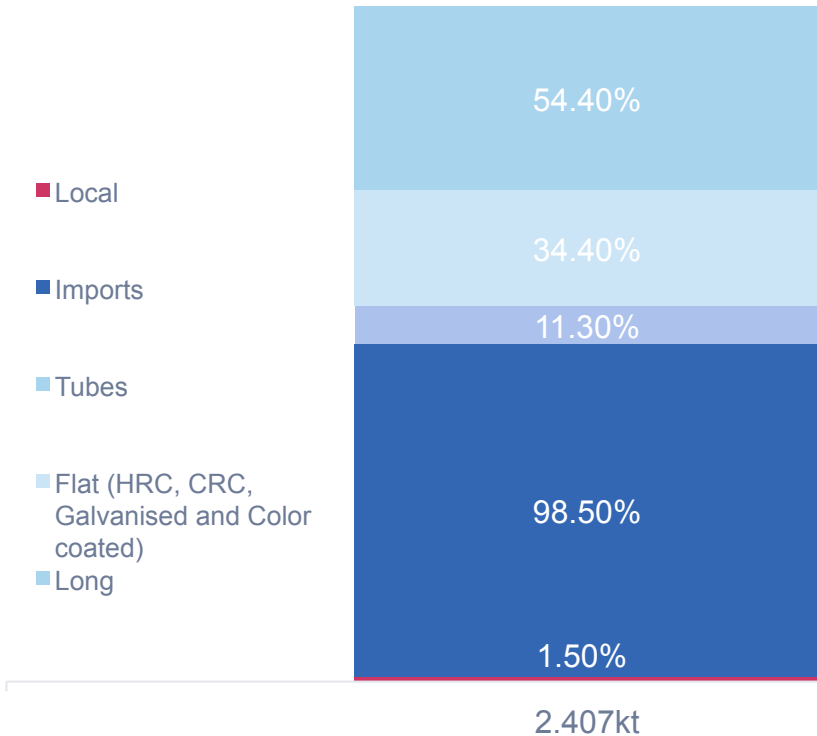
The Construction segment remains the key driver of steel consumption in ASEAN and total consumption is expected to exceed 80 million MT in 2019

- Philippines will launch major infrastructure and housing projects and plan to build integrated steel plants
- Vietnam demand is picking up driven by continued investment in infrastructure projects
- Indonesia construction industry and infrastructure projects is expected to grow around 7.5% per year between 2019 and 2022
- Myanmar consumption is growing rapidly at 7% per year driven by strong growth from construction sector and will potentially grow to 5.0 million tonnes by 2025
- Thailand demand will recover due to many government mega projects



2. Understanding the competitive forces

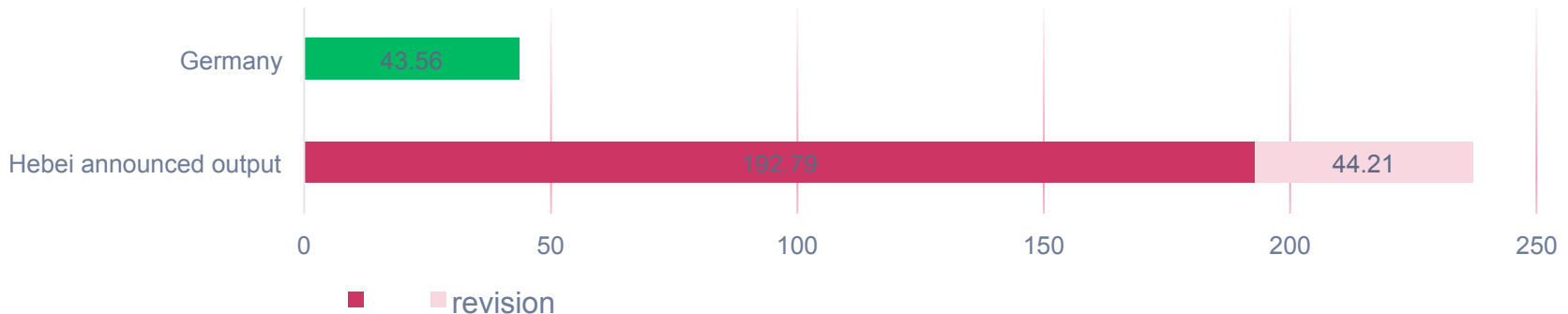
Myanmar's steel industry is strongly dominated by imports – mainly from China



- In the short term - Myanmar's business will be challenging due to its emerging economy.
- But the Myanmar coated steel market has huge potential – driven by the expanding construction sector
- Imports will gradually decline as China consolidates

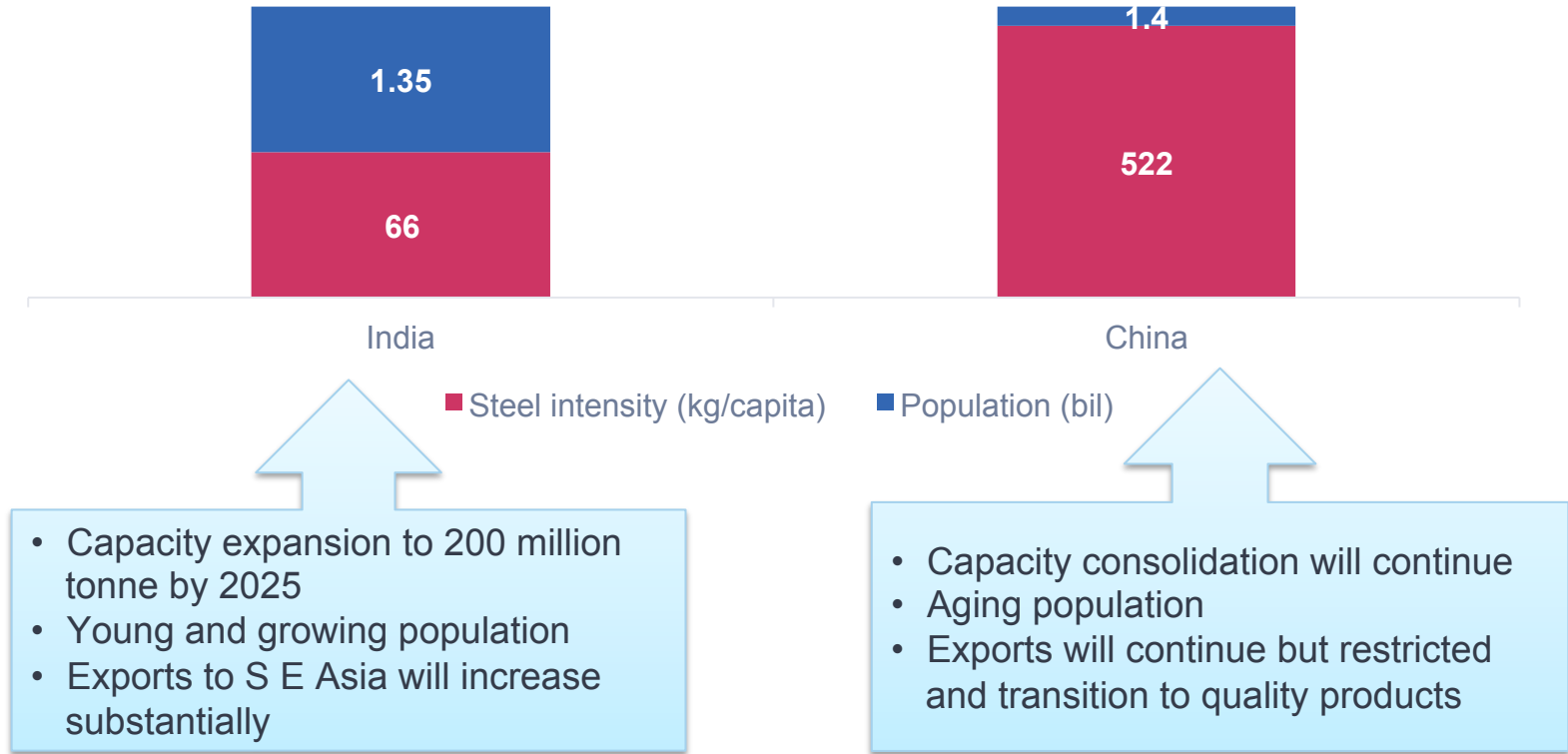
The transformation of China's steel industry is impacting ASEAN's steel supply landscape

- China's continued closure of inefficient operations coupled with mega mergers - will result in reduction of export volumes and change in product mix – from cheap to high end products and we expect this transformation to impact steel prices
- But the transition will take probably 3 – 5 years. So meanwhile – we expect the steel market in ASEAN to remain uncertain and volatile – much depend on how events unfold in China and Global trade war
- And **ASEAN** producers cannot compete on price with China – they are the “gorilla” of steel for example - just **Hebei** increased production of 44.21 million MT to 237 million MT adds a Germany to 2017 output



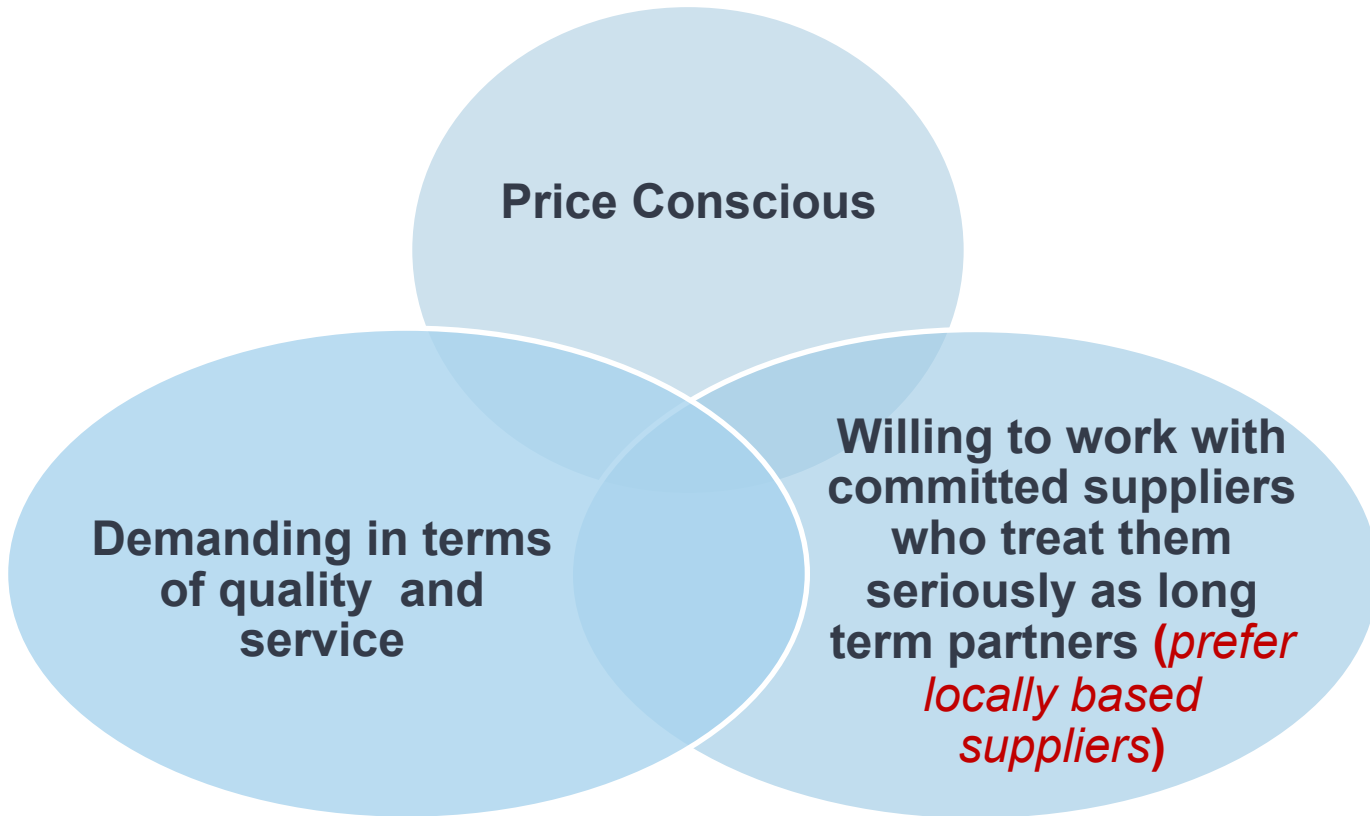
Source: Kallanish, JMM internal research

Indian Steelmakers: The Next Wave



Implication: Clearly, ASEAN producers cannot ignore competition from India in addition to China

3. Understanding ASEAN Steel customers' behavior and needs



Source: JMM internal research

4. Understanding your own company capabilities

Case Study: JFE Meranti Myanmar CGL and CPL plant in Thilawa, Yangon



Architect illustration

JMM Factory Construction Progress and Summary



- Paint Line commissioning – November 2019 and Metallic Coating Line – February 2020
- Production of GI, GL (180kt/ annum) and PPGL, PPGI (100kt/ annum)
- Main equipment supplier is CMI
- JFE Meranti Myanmar is JV of five companies: JFE Steel (35%) Meranti Steel (20%) JFE Shoji (15%) Marubeni-Itochu (15%) and HANWA (15%)
- Our products include zinc coated, aluminum zinc coated and pre-painted coils with thickness from 0.20 to 2.0mm and are formulated to suit global environment
- Potential to expand plant in phase 2 to a Cold Rolled Mill and 2nd Continuous Galvanizing Line

JFE Meranti Myanmar project - Location



- 2400 ha mixed industrial and economic zone 25km south of Yangon
- Cooperation between Myanmar (51%) and Japan (49%)
- Offers solid infrastructure and solid regulatory framework
- Most successful economic zone in Myanmar to date with close to 100 projects

JFE Meranti identified strong long term opportunities in Myanmar

- Short term - Myanmar will remain challenging market that cannot support integrated steel projects, but opportunities in the downstream segments
- Beyond 2023 we expect strong steel demand driven by government and foreign investments in major infrastructure including industrial and residential projects.

We observed encouraging progress recently

- Opening of investment law to attract FDI and foreign banks, insurances, manufacturing and real estate
- New 2.5bn USD railway station and 20.5km elevated four-lane Yangon toll road project approved
- In March 2019 – Sembcorp Industries opened a USD310 million power plant

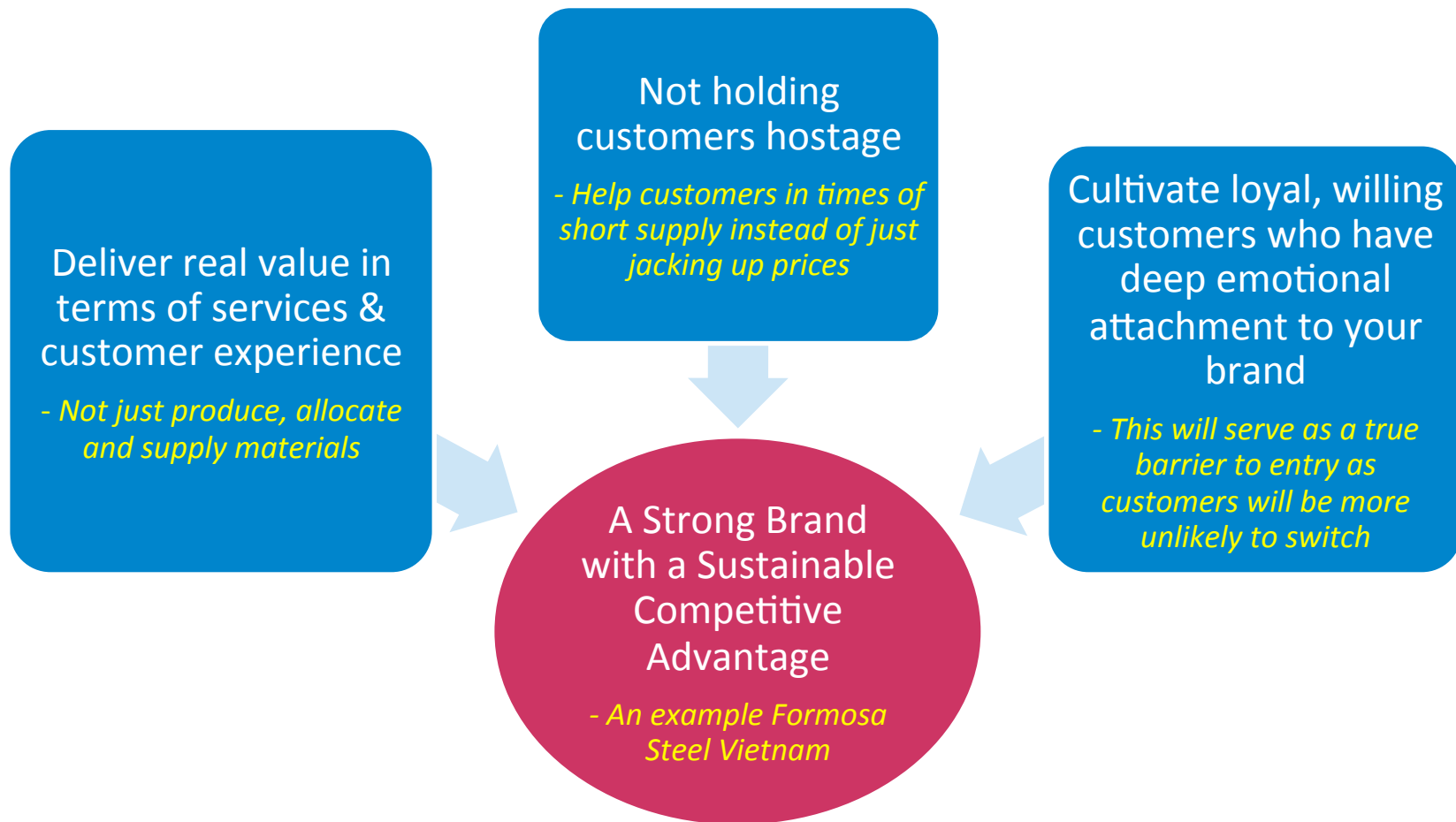
Electricity in Myanmar

- Currently only one third of the population have access to electricity
- Plans to increase power generation by 3,000MW in next 3 years and full electrification by 2030

Transportation & Logistics

- Deep sea ports and terminals are a challenge – over next 5 to 7 years
- Plan to upgrade existing facilities and build new facilities including airports, rails, roads and bridges

5. Invest in long term relationships and customer equity



To Recap: Five Major Pointers for Succeeding in Myanmar and ASEAN steel market

Understanding the drivers of steel demand in Myanmar

Understanding the competitive forces

Understanding customers' behaviour and needs

Understanding your own company capabilities

Invest in long term relationships and customer equity

Implications:

- Clearly to stay relevant - ASEAN steel producers must embrace the above pointers – relying on ADs and other trade measures – breeds complacency and erode customer equity
- In closing – how we operate and engage our customers, focusing on consistent quality, trust, creativity, lead time and responsiveness will determine whether we make or break

Thank You