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TOPLINE

AnnAik goes environmental amid tepid steel business

Its diversification into the wastewater treatment business has paid off. BY LYNETTE TAN

STEEL stockist AnnAik's move into the wastewater treatment business, initially derided, is gaining traction amid a tepid steel business today, according to its chief executive.

Set up in 1977, the company mainly manufactures stainless steel flanges for customers from various countries. It also distributes stainless steel products used in piping systems in Singapore. Its customers come from industries like marine engineering, oil and gas, and utilities.

In 2005, AnnAik, having supplied its products to NEWater plants in Singapore, decided to make use of its experience to foray into industrial wastewater treatment in China.

The company had seen a need to diversify its steel business as the industry was becoming competitive, said Ow Chin Seng, AnnAik's executive chairman and chief executive officer.

But the move raised scepticism. "To tell you frankly when we started this business, because we are going from steel manufacturing to environmental services, nobody will support you," Mr Ow said. "Because this is not your core business."

Still, with Singapore government agency Enterprise Singapore's help, AnnAik, through a subsidiary, secured a contract to build and run an industrial wastewater treatment plant in Zhicheng, a town in China's Zhejiang province. At the same time, Mr Ow roped in a contact to help the company set up the plant, as well as a French-educated professor who came up with the biological wastewater treatment method for AnnAik.

Contracts with two other towns in Zhejiang followed in the next two years. AnnAik broke even its investment in the business in 2008, according to Mr Ow.

For FY2008, AnnAik recorded a S$482,000 share of profit of associates, against a S$1.2 million net profit.

During the global financial crisis, AnnAik went into a net loss of S$6.6 million for FY2009. It still saw profit from associates, although the share of profit dropped to S$80,000.

On what has helped AnnAik, Mr Ow counts relationship and "cheap and good" technology. The early days were "tough" as the local Chinese governments did not have enough funds to pay the company immediately, according to Mr Ow. It was made to wait a year, even two, and relied on loans from Singapore banks in the meantime.

"Now, times have changed. They appreciate it; at that time we helped them. So now, most of the projects they give to us," he said.

Meanwhile, AnnAik also sought to control costs, said Mr Ow. For instance, it was able to set up a plant – with an initial capacity to treat 10,000 tonnes of industrial wastewater a day – for eight million renminbi (S$1.56 million), by going for a no-frills design.

In contrast, China's state-owned firms could spend as much as 50 million renminbi.

Today, with higher labour costs and operating standards, AnnAik would still take slightly under 20 million renminbi to set up a plant. Each plant has 10 to 20 staff.

Asked if China's slowing economy may put pressure on the local governments' financials today, Mr Ow was confident that the company would be paid properly given its good relationship with the local authorities.

He is also a council member of the Singapore-Zhejiang Economic & Trade Council which, he said, also puts him in a better position to negotiate with them.

In 2015, seeing that industrial wastewater treatment was still largely dominated by China's state-owned enterprises, AnnAik also ventured into rural wastewater treatment.

"State-owned companies won't care ... because it's not a volume game. Maybe only 50 houses form a village," Mr Ow explained. "But it becomes an opportunity for us."

AnnAik entered a joint venture with local partner Shanghai Onway Environmental Development. For that year, the share of profit from the joint venture came in at S$636,000.

Today, the company has eight industrial wastewater treatment plants, one freshwater supply plant and over 3,000 water treatment units across China.

On what has helped AnnAik, Mr Ow counts relationship and "cheap and good" technology. BT PHOTO: YEN MENG JIIN

For FY2018, AnnAik's share of profits from associates more than tripled to about S$2 million, from S$673,000 in the previous year. This came as net profit was halved to S$1.2 million. The company is now eyeing the rural wastewater treatment business elsewhere, particularly in Cambodia, having raised about S$2.7 million from a rights cum warrants issue this year. Mr Ow foresees setting up one or two plants overseas next year.

While AnnAik's wastewater treatment business picks up pace, its core steel business has been lukewarm. "Actually, previously this business called the shots because every year we will make money from this business ... because oil and gas was booming," said Mr Ow. However, the oil and gas, and offshore and marine sectors have declined since then.

But the company will not discard its steel business yet. "I mean, it's not running very well, but it's OK," he said.

Three years ago, AnnAik also moved its listing from the mainboard to the Catalist board, where there is no minimum trading price.

The firm said then that it believes the size of its business, market capitalisation and investor profile "better resemble that of the companies listed on the Catalist".

But Mr Ow waved away any notion that AnnAik might soon delist. He said: "Today, my environmental business is stable. AnnAik has no issues financially. If this environmental business becomes a recurring income, one day maybe I'll spin it off. By then, I have to make sure they (shareholders) also make money."

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