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Sino Hua-An expects gradual earnings improvement

Expects 1Q results to come in better than 4Q

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KUALA LUMPUR: Sino Hua-An International Bhd, whose fortunes are tied to China's steel industry, expects to see a gradual improvement in earnings going forward as the stimulus package in the world's largest economy starts to kick in.

"China's steel industry has improved considerably since the last quarter of 2008. Last year, the average production capacity utilisation of steel makers in China was around 50%, from April onwards it was more than 80%," said the company's managing director Liu Guodong.

He was speaking to reporters after Sino Hua-An's AGM here yesterday. It produces metallurgical coke and by-products such as tar, crude benzene, ammonium sulphate and coal gas. Metallurgical coke is used as an energy source for the smelting of iron ore in the manufacturing of steel.

Liu said it had put on the backburner its plans to diversify downstream and become a steel player. "It did cross our minds but now with the crisis, we choose to concentrate on our current business and ramp up our production to the maximum."

"It may still happen but not this year. Instead we are considering expanding our by-products and add value by refining them instead of just selling it raw. However, this plan is still at a very preliminary stage," he said.

Sino Hua-An's executive chairman Tunku Naquiyuddin ibni Tuanku Ja'afar said it had high hopes in the Chinese government's four trillion yuan (RM2.08 trillion) economic stimulus plan, which would be spread out over the next two years, to keep pushing the demand for steel.

"So far, some 420 billion yuan has already been disbursed for investment projects and three billion yuan for infrastructure projects," he said.

When the global economic crisis dampened appetites for steel, Sino Hua-An slipped into the red in its fourth quarter (4Q), but managed to report a net profit of RM545,000 for the financial year ended Dec 31, 2008, on the back of RM1.46 billion in revenue.

Sino Hua-An's executive director Cedric Choo Sia Telk said the company's 1Q numbers should come in better.

"However, you shouldn't expect a huge jump in numbers but we are quite happy with the data that has been coming in," he said, declining to say if Sino Hua-An was profitable in 1Q. Its results will be out by the end of the month.

Choo said the company's production capacity had increased considerably since the end of last year from about 50% to 90% in April.

On whether it was considering a cash distribution given its healthy cash pile, Choo said there was still a lack of clarity going forward. "We are looking towards prudent cash management. We want to maintain a comfortable enough buffer in case the unexpected happens," he said.

As at the end of last year, Sino Hua-An's cash pile stood at RM28.4 million with no debt.

Asked if Sino Hua-Ann was still feeling the impact of high raw material costs, Choo said while the price of coke was still high, he expected it to ease in the coming months.

Asked if the current improvement in China's steel sector could be sustained, he said the signs were pointing in that direction.

"Previously people were doubtful, but now a number of foreign research houses have upgraded their view on China. That is why Premier Wen Jiabao was confident when he mentioned at the National People's Congress that China's GDP is expected to grow at 8% this year," said Choo.