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Hua-An restores profit margins

Product prices raised to adjust for record coking coal prices

PETALING JAYA: Metallurgical coke processor Sino Hua-An International Bhd has regained its profit margin levels after raising product prices to adjust for record costs of coking coal, its raw material.

The group encountered a slight drop in gross profit margin to 21.3% in its fourth quarter ended Dec 31, 2007 from 22.8% in the preceding quarter "due to a sudden spike in coal prices in December," executive director Cedric Choo told *StarBiz* recently.

In the fourth quarter, Sino Hua-An's coke prices were raised 16% versus the third quarter, but its coal costs rose even more, by 22%, he added.

"We can pass through the full coal price increases, but we need some time to do that. Now, our coke prices have caught up with coal prices," he added.

Sino Hua-An, which operates a large coking plant in Shandong, China, increased its coke price by 24% to 1,960 yuan a tonne last month from December, compared with a 19% rise in the cost of coal to 1,043 yuan during the same period.

"There may be some fluctuations from quarter to quarter but, over a year, our profit margin will be consistent," said Choo, who is based in Kuala Lumpur.

Coal prices are expected to continue to surge this year, according to reports, as snowstorms in China, the world's largest producer, and floods in Australia had reduced supply.

In the face of record coal prices, Sino Hua-An expects to be able to continue a full-cost pass-through as coking plant capacity is tight. Coke is used in the manufacture of steel.

"Our plant has been running at full capacity in the last two years. Our increases in revenue and profit reflected purely our higher coke prices," said financial controller Vincent Wong, who is based in Hong Kong.

Although the latest fourth-quarter results showed a drop in profit margin from the third quarter, the net profit increased 23% to RM37.4mil compared with the previous corresponding period.

Furthermore, the rise in operating profit margin was 21.3% in the fourth quarter from 17.8% previously. That resulted from coke prices being raised higher than coal prices over the year.

Wong said Sino Hua-An sold its coke at spot prices, and not forward contract prices. "That's why our receivables are low, and cash flow is strong," he added.

At the same time, the company keeps only a month's stocks due to high volatility in the prices.

Sino Hua-An shares closed at 60.5 sen yesterday, which valued the stock at a price/earnings ratio (PE) of 5.5 times the company's net profit of

> TURN TO B3

Cedric Choo Sia Teik (left) and Vincent Wong King Chung

> FROM B1

RM127.5mil in the financial year ended Dec 31.

Choo said that when the company sought a stock exchange listing in 2005, the owners felt Hong Kong housed mainly very large firms, while Singapore offered a PE of just four times.

"Over here, the market was willing to pay a PE of eight times, so we chose Bursa," he added. The market later offered more than that, with the stock traded at over RM1.50 in 2006.