SHIB to maintain profit margins

By ISABELLE FRANCIS

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SINO Hua-An International Bhd (SHIB) expects to maintain its profit margins despite a recent 200% increase in the prices of international coking coal, the main raw material used in its operations.

A company official told *The Malaysian Reserve* that the company expects to maintain a gross profit margin of 21% and net profit margin of 15% for the year.

The official said this is because China uses almost all of its coking coal output for domestic consumption. Therefore, prices of coking coal in the republic is better contained and won't jump as much as international prices.

Additionally, he said, China historically sells coking coal at up to 30% discount compared to international prices.

SHIB sold its metallurgical coke at RMB2,030 or US$289 (RM913.60) per tonne last month when it got its coking coal supply at RMB1,133 (US$161.71) per tonne.

"The recent increase in international coking coal does not effect our operations in China. Coking coal prices will increase but minimal, not 200%.

"Also bear in mind that Nippon (Steel) and the other big players are buying top grade coking coal. SHIB's is using lower grade coking coal," he said.

Coking coal refers to coal with a quality that allows the production of coke suitable to support a blast furnace charge. Metallurgical coke is used as fuel for the production of steel.

China has cut its coal export quotas for the year, beginning March, by 24% to 53 million tonnes, as the government seeks to channel production to its own economy.

Analysts had said they expected China to become a net coal importer in 2008 and the cut in the quota would help increase international coal prices.

Last week, Nippon said it would pay BHP Biliton Mitsubishi Alliance triple the price it paid for coking coal last year, at US$300 per tonne.

This transaction by the two giants is expected to set a new benchmark for coking coal globally.

"As long as the raw material (coal) cost increase is linear, is very close, we are okay," he said, adding that it can pass on almost 100% of any price increase to its customers.

Metallurgical coke is made from low sulphur bituminous coal and the production process involves baking the prewashed coal in an oven.

The end product is a fusion of fixed carbon and residual ash.

The key characteristic of metallurgical coke is its low smoke or smokeless, with relatively stable burning temperature.

RHB Research said in a note earlier that the rise in coke prices could be offset by rising coal prices. Therefore, gross margin will depend on the average increase of coal prices against coke prices.

The research house also noted that coke prices in China have risen 14% year-on-year driven mainly by the demand from steel plants and limited coal supplies.

SHIB is also on track to increase the annual capacity of its Shandong metallurgical coke plant by over 30% to 1.8 million from 1.2 million presently.

The exercise, slated middle of the year, will cost RM183 million. SHIB assumed Antah Holding Bhd's listing on the main board last year as part of its restructuring scheme.

SHIB also acquired PIPO Overseas Ltd of China, which owns coke producer Linyi Yehua Coking Ltd, for RM800 million.

For the financial year ended Dec 31, 2007, SHIB posted a higher net profit of RM127.52 million, beating its initial internal target of RM113 million.