



(From left) Sino Hua-An executive chairman Tunku Naquiyuddin Tuanku Jaafar, Liu and corporate communications and investor relations vice-president Bernard Tan at the company AGM.

## Sino Hua-An looks to a silver lining in 2H

THE **EDGE** FINANCIAL DAILY | Monday May 28, 2012

by **Isabelle Francis**

FD@bizedge.com

PETALING JAYA: Sino Hua-An International Bhd, which has been suffering depressed margins, sees a silver lining in the second half of the year given the Chinese government's pump-priming efforts.

"We are unfortunately at the bottom of the cycle but there is evidence of the industry coming back in the second half.

"The Chinese government had a few months ago implemented a domestic-driven demand policy. For example, they are restarting rail projects that were shelved last June and this will build up demand for steel.

"Hopefully in June or July we will start to see some small up-trend for the metallurgical coal industry as the impact of the Chinese government policy kicks in," its managing director Liu Guodong told *The Edge Financial Daily*.

China-based Hua-An rides on the demand of steel as the company's core activity is the manufacturing of metallurgical coke, which is used as a fuel in the blast furnace for making iron and steel.

Apart from the fall in steel demand, the industrial structural problems in China have also been working against Hua-An as it has not managed to extricate itself from its disadvantaged position of being hemmed between coal

miners and steel mills.

Since 4Q11, the unfavourable spread between the price of coking coal (the raw material for metallurgical coke) and metallurgical coke, has suppressed the company's operating margins.

For 1Q ended March 31, Hua-An posted a net loss of RM19.9 million or 1.77 sen a share, compared to a net profit of RM865,000 in the previous corresponding period.

The losses were mainly attributed to the lower average selling price of metallurgical coke, which was down by 2% from a year ago.

The contribution of by-products also declined, falling by some 6% from a year earlier.

The combination of such factor had weakened Hua-An's bottom line. The by-products coming out of its metallurgical coke manufacturing included tar oil, coal slime, middling, ammonia sulphate, crude benzene and coal gas.

Metallurgical coke contributes 79% and its by-products contribute 21% to Hua-An's revenue, which stood at RM382.12 million in 1Q.

Liu said currently its plant in Linyi City, Shandong Province, which has the capacity of 1.8 million tonnes of metallurgical coke per annum, is running at 90% utilisation rate.

Hua-An had been profitable since listing on the local bourse

in 2007 via a reverse takeover of Antah Holdings Bhd.

But it swung into the red last year, with a net loss of RM9.61 million. During the period, metallurgical coke was priced at an average of 1,935 yuan (RM961.49) per tonne versus coking coal price of 1,408 yuan per tonne, with a narrower margin spread compared to the year earlier period where it was higher.

OSK Research said that moving forward the company is in a "tricky situation" by virtue of its value chain position stuck between coal miners and steel mills.

"This causes Hua-An to lose its bargaining power when it comes to negotiating raw materials and product selling prices alike.

"To date, we have yet to see Hua-An making any progress to get itself out of this tricky situation as it does not seem to be moving either upstream or downstream," it said in a recent note.

OSK Research recently ceased coverage on the counter and its last recommendation was "neutral", with a fair value of 23.5 sen.

Hua-An closed at 18 sen last Friday, trading 72% below its book value of 62 sen per share.

The company's name, "Sino" was chosen to signify the Chinese origins of the metallurgical coke producer, while Hua-An is derived from Yehua, the name of its plant in China — Linyi Yehua Coking Co Ltd — and Antah.