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MOHD IZWAN MOHD NAZAM

LOOKING FOR MINES... Sino Hua-An International Bhd executive director Cedric Choo Sia Teik said the company is seeking to purchase coking coal mines to control its costs of production and raw materials (story on Page 6).

25/08/2014

Sino Hua-An eyes mining opportunities

Company has considered many coal mines in Asia and Australia, but there is nothing firm yet

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Filepic of Sino Hua-An's production plant in China. The company wants to buy coking coal mines in Southeast Asia.

KUALA LUMPUR: Sino Hua-An International Bhd, the first China-based company to be listed on Bursa Malaysia, is seeking to buy coking coal mines in Southeast Asia to control its costs of production and raw materials.

Its executive director Cedric Choo Sia Teik said the metallurgical coke producer has visited several prospective mines in Malaysia; Java, Kalimantan, Sumatra and Sulawesi in Indonesia; Cambodia; Mongolia and Australia, but there is nothing firm yet.

"There are many coal mines in Indonesia, but not many of them produce coking coal. Globally, coking coal makes up only 30% of coal mines," he told *The Edge Financial Daily* in an interview.

"This is not an easy investment [to make]. As such, we are trying to get a better understanding [of] it. It will be a long process and there is no expected timeframe [for the investment]," he added.

Choo said China, the world's biggest producer of metallurgical coal, is not on Sino Hua-An's radar at the moment as the country is now less willing to approve any new opening of coal mines as it works to preserve its natural resources.

Coking coal, also known as metallurgical coal, is used to create coke, one of the key inputs for the production of steel.

Coal alone accounted for 90% of Sino Hua-An's production costs which totalled some RM1 billion last year. The remaining 10% costs came from electricity, manufacturing and labour.

Currently, Sino Hua-An has a coke plant in Shandong, China, with capacity to produce 1.8 million tonnes per year. The plant is running at about 90% capacity.

"We need about 2.3 million tonnes of coal to produce 1.62 million tonnes of coke a year," said Choo.

Sino Hua-An has in the past eight years aborted at least three major expansion plans.

Sino Hua-An in 2007 planned to buy a steel plant in China for RM480 million cash, building itself into a heavy industry focused group. However, the plan was cancelled at the later stage due to high cost of debt and rising iron ore prices, which would require Sino Hua-An to pay a higher premium for the facility.

In 2008, it dropped plans for a dual-listing in either Hong Kong or Singapore, following the advent of the global financial crisis.

More recently, in 2010, Sino Hua-An teamed up with steelmaker Ann Joo Resources Bhd to build a coke manufacturing plant in Malaysia to cater to demand in the region. However, the joint venture was called off towards the end of 2010 due to insufficient logistics and infrastructure available to ensure the project's viability.

On hindsight, Choo said Sino Hua-An was fortunate that it did not proceed with those plans and as a result, managed to avert spending huge amoung of money and resources.

"The investments may not be earnings accretive to Sino Hua-An as no one knew that the steel industry would be languishing over such a protracted period of time," he said.

Sino Hua-An returned to the black for its financial year ended Dec 31, 2013 (FY13), turning in a net profit of RM15.3 million compared with a net loss of RM82.8 million a year ago.

Its revenue, however, fell 3% to RM1.297 billion from RM1.338 billion in FY13, due to a 12% decline in the average price of metallurgical coke as well as a slight drop in sales volume of 2.8%.

The group's trade receivables for FY13 widened 80% to RM62.155 million from RM34.518 million the previous year.

However, Choo said the higher trade receivables figure is not a cause for concern as most of the credit terms given to its customers were below 30 days.

Choo said Sino Hua-An has relatively robust net assets, while it continues to be in a net cash position with no external borrowings.

As at March 31, 2013, the group's total assets stood at RM749.06 million while its total liabilities were RM62.39 million. Its net assets per share stood at 61 sen apiece.

Sino Hua-An shares are currently trading at 15 sen, translating to a low price to book value (P/BV) ratio of 0.24 times. Year-to-date, the stock has risen 18.52%.

Sino Hua-An closed unchanged at 16 sen on Friday, bringing a market capitalisation of RM179.57 million.