Sino Hua-An to defer buying plant

Market conditions not conducive

KUALA LUMPUR: Metallurgical coke producer Sino Hua-An International Bhd is deferring the acquisition of a steel plant till next year.

According to executive chairman Tunku Naquiyuddin Tuanku Ja'afar, the acquisition of Linyi Jiangxin Steel Co Ltd has been deferred due to the prevailing market conditions.

"It's not conducive for capital raising exercises and we prefer to focus on raising the efficiency of our coke plant," he told reporters after the company AGM yesterday.

The company had in late February announced that it was putting off the acquisition of Linyi Jiangxin after taking into consideration several factors, including the increase in funding costs, escalating iron ore prices and also its own depressed share price.

Sino Hua-An had proposed to acquire a 49% equity stake in the steel plant, located near the company's coke plant in the Jiangquan Industrial Park, Linyi City, Shandong Province, for an estimated RM500mil. The plant produces pig iron, ferro-allay products and other steel products and is Shandong's largest independent pig iron producer.

Naquiyuddin said there was a possibility that the company might be able to move forward with the acquisition next year as part of its strategy to expand its business into downstream activities. Metallurgical coke is a raw material used to produce steel while coking coal is the feedstock of coke.

"It is still part of our strategy to diversify by acquiring either steel plants or coal mines," Naquiyuddin said, adding that for now, the company would concentrate on raising production capacity of its coke production at its Linyi City plant.

He said the company was still able to pass on the higher costs of coke to steel producers due to the higher price of steel.

"It was challenging late last year to pass on the costs because there was an abrupt spike in the price of coal that resulted in a slight margin squeeze. But we feel that we may be able to achieve the financial target reported by the research houses," he said.

Tunku Naquiyuddin Tuanku Ja'afar

The average net profit deduced from eight analysts' reports taken from five equity research houses was RM167mil for the current financial year ending Dec 31 (FY08).

The company posted a net profit of RM127.52mil on revenue of RM851.4mil for FY07. Naquiyuddin said there was usually a lag between the price of coking coal and coke, "but the price of coke is catching up."

According to a website sponsored by the China Mining Association, the iron and steel industry accounted for over 85% of total demand for coke while the China Iron & Steel Association put China's 2008 raw steel output at 520 million to 540 million tonnes, up 6.3% to 10.4% year-on-year, compared with 15.6% growth recorded for 2007.