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Hua-An conducting study on proposed coke plant in M'sia

Liu says Hua-An's plans still at very preliminary stage. Photo by Chu Juck Seng

Company wants to tap growing demand for steel in underserved region

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KUALA LUMPUR: Sino Hua-An International Bhd is conducting a feasibility study on setting up a coke plant in Malaysia to cater to the growing demand for steel in the region, said its managing director Lin Guodong.

Speaking to reporters after the company's AGM here yesterday, Lin, however, stressed that Hua-An's plans were still at a "very preliminary stage".

It was previously reported that Hua-An officials had met with the Sarawak Planning Unit, among others, to explore the possibility of setting up a plant in the East Malaysian state, with the plant slated to have an annual capacity of some 1.8 million tonnes of coke. This would match the capacity of Hua-An's plant in Shandong, China.

The move to set up a plant in Malaysia could also help cushion the negative impact of movements of the renminbi, and enable Hua-An to tap into the growing demand for coke.

Coke is generally used as an energy source or fuel in steelmaking furnaces.

Other compelling reasons nudging Hua-An to venture into Sarawak include China's 40% export duty on coke manufacturers.

"We see steel demand coming back, but the reason behind (us) looking into setting up a plant outside China is to cater to an underserved region, where there are inadequate suppliers of coke," said the company's executive director Cedric Choo, who added that the improving economic climate would drive up demand for coke.

Lin had said earlier that demand for steel had increased. "Under China's 12th five-year plan, the government has allocated RMB7 trillion (RM3.29 trillion) to expand second- and third-tier cities and to build infrastructure... I believe the demand for steel will definitely increase in view of the development of infrastructure," he said.

In a research note yesterday, Kenanga Research said that Hua-An's relatively better earnings in 1Q10 announced earlier in the week was partly due to favourable pricing of metallurgical coke and its by-products. The research outfit, however, added that the surging cost of materials and coal continued to compress Hua-An's margins.

For its first three months of FY10, Hua-An suffered a net loss of RM2.48 million on the back of RM373.59 million in sales. For the corresponding period a year ago, Hua-An recorded RM23.63 million in net losses from RM310.95 million in revenue.

In notes accompanying its financials, Hua-An said: "Whilst the group saw a gradual improvement in the average prices of metallurgical coke and the by-products during the current quarter under review, the extent of such improvements appeared to be inadequate to cover the extent of increase seen in the average prices of the coking coal. As a result, the group continued to register a loss for the period."

Despite the losses in the first quarter, Kenanga said it expected Hua-An to turn a profit in FY10 but lowered its net profit forecasts by 29.4% to RM42 million given the weak 1Q results, adding that it expected a profit turnaround in 2Q10 boosted by a recovery in steel demand and pricing of metallurgical coke above 1,976 yuan per tonne.

"The unfavourable coal prices and short-term steel demand volatility, however, remain as key risks to our earnings forecasts," the research house added.

Kenanga downgraded its call on the company's stock to a hold, with a lower target price of 37 sen from 58 sen previously based on FY10 price-earnings ratio (PER) of 10 times, which is in line with the small- to medium-sized Malaysian steel players and 30% discount to its China peers.

Hua-An closed yesterday at 40.5 sen, inching up half a sen.