

Hua-An mulls building coke plant here

BY Isabelle Francis

Sino Hua-An International Bhd (Hua-An) is considering setting up a coke manufacturing plant here to increase its production capacity and to tap into the rising demand for the commodity. Its first plant is located in Shangdong, China.

"Hua-An officials have been visiting the various economic corridors in Malaysia to explore

the possibilities of setting up a plant...[because] the growth of its China facilities is constrained by increasing restrictions and the fact that no new licences are being issued for coke producing facilities there," says a source.

It is learnt that Hua-An officials have met with, among others, the Sarawak Planning Unit to explore the possibility of setting up the plant in the state. But sources say the plan is still on the drawing board and talks are at a preliminary stage. Hua-An officials could

not be reached for comment. Sources say the plant the company plans to build will have an annual capacity of 1.8 million tonnes of coke, similar to its Shangdong plant in China. Coke is used as an energy source in steel-making blast furnaces. It requires two tonnes of iron ore and 0.5 tonne of coking coal to produce one tonne of pig iron. The cost of the new plant is not known, but the investment needed for such a venture in China could easily run into hundreds of millions of ringgit.

Three years ago, Hua-An acquired PIPCO Overseas Ltd of China's coke producing unit for RM800 million. In 2008, the company invested another RM180 million to expand the plant's annual capacity to 1.8 million tonnes from 1.2 million tonnes, bringing the total cost of its investment in China to almost a billion ringgit. The 319,014 sq m China plant is located in Linyi City and employs 1,500 workers.

Based on its current capacity, Hua-An is the third largest coke producer in Shangdong, with a 10% market share in China's third largest coke producing province.

But growing restrictions and limits on new licences for coke plants have become a major setback for the company's growth.

The need to explore its options here to expand its capacity is more urgent because of the rising demand for metallurgical coke, which contributes 80% to Hua-An's revenue. The setting up of a manufacturing plant in Southeast Asia will also enhance the company's income and shareholder value.

A source says Hua-An is not keen to buy an existing plant in China as none meets the company's desired return on investment. In August 2007, the company aborted its plan to buy a steel plant in China for RM480 million cash due to the high cost of debt and rising iron ore prices, which required the company to pay a much higher premium for the facility.

Unlike the purchase of the steel plant, its strategy to set up a coking plant in Malaysia is expected to be viewed favourably as the move can cushion some of its business risks in China. It will allow Hua-An to more aggressively tap into the growing global demand for coke, mitigating China's lofty export duty of 40% on coke manufacturers.

Furthermore, with a plant in Malaysia, the company can mitigate the negative impact on its earnings due to the movement of the renminbi. Presently, 100% of its revenue is denominated in the Chinese currency. It is estimated that a 1% depreciation of the renminbi against the ringgit would reduce its earnings by 1.2%.

However, can Hua-An achieve the same low production cost here that it enjoys in China?

It buys coal from local miners and processes it into metallurgical coke through an oven-baking process. In China, the proximity to coal reserves and major steel players in Shangdong and the neighbouring provinces of Shanxi, Anhui and Henan ensure low operating costs.

It has a 10-year contract, from 2006, to ensure linkage from its production site to the national railway system, besides enjoying a 10% discount on the transport rates its competitors are charged. The company also enjoys a 15% discount on its power, through a 30-year electricity supply contract that started in 2006, and the use of some of its coal to generate electricity. One notable advantage is that Hua-An has its own coal-washing facility in China, which helps the company save about 5% in costs.

These advantages aside, things are already looking up for the company as commodity prices recover from their lows in tandem with the global economic recovery.

Apart from coke, byproducts such as tar, crude benzene and ammonium sulphate will continue to contribute to Hua-An's profit. The prices of tar and crude benzene, for example, which accounted for about 20% of the company's annual revenue, rose about 10% with the recent surge in oil prices to above US\$80 a barrel. After a long absence of corporate development, this capacity expansion will definitely be a booster for Hua-An, which assumed Antah Holding Bhd's listing on Bursa Malaysia in 2007.

Since March 1, 2010, Hua-An's stock, already a favourite of analysts, has had four "buy" and "outperform" calls each with target prices ranging from 55 sen to 71 sen. If its plan to expand outside of China materialises, it will certainly give an interesting twist to its growth story. ■