

Rising demand to benefit Sino Hua-An

Sino Hua-An International Bhd (Jan 13, 55 sen)

Maintain buy at 52 sen, target price at 87 sen: China's surging demand for steel is expected to dominate the industry landscape this year. Massive government stimulus and infrastructure plans including rails, roads and bridges in eastern China are firing up demand for steel products.

We see no significant export of steel products from China although we anticipate record production this year as most of the output will be consumed domestically. Against this backdrop, we are confident that any correction will be followed by a quick rebound given the strong underlying demand, at least for the medium term.

Apart from the core coal to coke conversion business, Sino Hua-An's byproducts such as tar, crude benzene and ammonium sulphate continue to contribute major profit to the firm. With the nature of its products being closely linked to crude oil, most of the company's byproducts' prices are moving parallel to international oil prices.

The recent surge in oil prices to above US\$80 a barrel has fuelled prices of byproducts such as crude benzene and tar by approximately 10%, based on market checks.

Although we are waiting confirmation of the latest data by Sino Hua-An's management, our sources indicate that crude benzene is priced in the range of RMB5,000 to RMB5,300 (RM2,451 to RM2,598) a tonne compared with its low of RMB1,900, while the selling price of tar is averaging RMB2,050 against RMB1,400 a tonne early last year. Therefore, the encouraging surge in prices of Sino Hua-An's byproducts will eventually flow into the firm's bottom line.

We are bullish on the immediate term direction. The implementation of projects announced under China's RMB4 trillion stimulus package definitely bodes well for steel demand, and prices.

Apart from fundamental considerations, our quantitative test shows a strong correlation of 0.63 time between coke price and Sino Hua-An's share price.

Positive Chinese domestic steel sentiment may potentially give rise to a firmer share price performance. As investors are forward looking, our bullish view for the next six months supports our buy recommendation for Sino Hua-An. The stock's fair value is maintained at 87sen. — OSK Research, Jan 13