Sino Hua-An defers buy of China steelmaker

To see an easing of the financial situation before going further with the acquisition

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KUALA LUMPUR: Sino Hua-An International Bhd, which reported a 10.9% rise in net profit to RM127.52 million in its financial year ended Dec 31, 2007 (FY07) despite a margin squeeze due to rising coal prices, is deferring its acquisition of China's Linyi Jiangxin Steel Co Ltd as it weighs the effects of a recession in the United States.

Sino Hua-An executive chairman Tunku Naquiyuddin Tuanku Ja'afar said: "We're still not ready to sign a memorandum of understanding (MoU) yet as we're a bit cautious in view of the US downturn. Another important point is that this is really the worst time to go to the bank to get financing for a deal like this."

"We'd like to see an easing of the financial situation before we go further, but the project is still on, we're just deferring the acquisition," he said, adding it was also possible it could negotiate a better deal at a later date.

Sino Hua-An announced last August its proposed acquisition of a 49% stake in Linyi Jiangxin for about RM500 million. It had expected to sign an MoU by end-2007 and to fund the acquisition through a bond issuance.

Sino Hua-An produces metallurgical coke and its by-products. Metallurgical coke is a critical raw material used as the energy source for the manufacturing of steel.

Its FY07 revenue rose 16.71% to RM852.73 million from RM730.66 million due to the continued robust and positive pricing of metallurgical coke and its by-products. Earnings per share fell to 12.11 sen from 14.37 sen in FY06. It declared a 20% dividend.

Sino Hua-An executive director, Cedric Choo, said growth in FY08 would be driven by the increased capacity of its coke plant, which now stands at 1.8 million tonnes annually from 1.2 million tonnes previously.

He said the company targeted to increase revenue in the year ending Dec 31, 2008 to RM1.2 billion with the additional capacity of its plant. It is also looking into investing in environmental equipment to further adhere to China's strict pollution control regulations.

Tunku Naquiyuddin. Photo by Mohd Izwan Mohd Nazam

The management is also preparing a preliminary report on a secondary listing, most likely to take place in Hong Kong, out of other possible markets of Singapore and London. The report was expected to be completed next month, Choo said.

Tunku Naquiyuddin added that a secondary listing was "very tempting" as the company's share price was low, in the 60 sen range and it was the only red chip company listed on Bursa Malaysia. A red chip company is a China-invested enterprise incorporated and listed overseas.

Meanwhile, on rising coal prices, Choo said the company expected all commodity prices, including the coal price, to rise during the first half of the year, although it would start to rise at a decelerating rate.

He said as the percentage increases in the coal price were slightly higher than the increase in coke prices, the company hoped coke prices would rise to match the coal price, which it passed on to its customers.

For the fourth quarter ended Dec 31, its net profit and revenue surged 23.18% to RM37.44 million and 25.26% to RM233.38 million, respectively, from a year earlier. Earnings per share fell to 3.34 sen from 3.8 sen. Its gross profit margin fell by 6.6% in 4QFY07 against 3QFY07 due to the coal price increase.