SINO HUA-AN MULLS LISTING WHERE IT WILL BE 'APPRECIATED'

Q&A
INDUSTRY

The company will look into a secondary listing, possibly Singapore, Hong Kong or Dubai, should the unhealthy trend in its share price continue

SINO Hua-An International Bhd (Sino Hua-An) is mulling a secondary listing to enhance investor participation in the stock and is looking at Singapore, Hong Kong and Dubai as the possible markets.

Its executive chairman, Tunku Naquiyuddin Tuanku Ja'afar, said should the unhealthy trend in its share price continue, Sino Hua-An will look at a secondary listing of its shares in markets where such stocks are "appreciated" by investors.

He said investors in Singapore and Hong Kong, for example, are able to appreciate China-based IPO stocks better compared to their local counterparts, evident by the discouraging performance of its share price of late.

Sino Hua-An closed at 69.5 sen yesterday, 30% per cent lower than its reference price of RM1. The price shot up to RM2.12 early last year but plunged to as low as 67 sen on Jan 22.

Tunku Naquiyuddin recently met up with ***Halim Wahab*** and ***Isabelle Francis*** to share with *The Malaysian Reserve* the benefits to be derived from Sino Hua-An's acquisition of a steel plant in China.

Also present were executive directors Cedric Choo Sia Teik and Jaleel Abu Bakar.

Tunku Naquiyuddin also talks about why he thinks the company deserves a market value of at least RM1.50 per share, compared to the current level of around 70 sen. Below are excerpts from the interview:

TMR: What is your view on the performance of Sino Hua-An shares?

Tunku Naquiyuddin: When our company was listed in March last year, for the first year or the early nine months, we were still very much off the radar. Because before this, it was known as Antah Holdings and then suddenly it has this new and complicated name — Sino Hua An.

Antah Holdings went through a lot of turmoil before and became a penny stock. People are just probably slightly apprehensive and all that. Also, metallurgical coke is very new in Malaysia. And here we are, buying a stake in a metallurgical coke plant in China.

The fact is that in Malaysia, investors are not familiar (with us) or they are really waiting for our full year audited results... But if you look at our nine-month results, with a revenue of RM620 million and profit of RM90 million, we are well ahead to meet our unpublished target.

We have gone through a fantastic transformation from March last year. From a PN17 to the first red-chip company with an annualised RM800 million turnover, profits should be in excess of RM115 million (for FY07).

By March, we would have nearly completed our (coke) production expansion to 1.8 million tonnes and we would already have signed the MOU (Memorandum of Understanding) to buy a steel company. In terms of growth and potential, Malaysians should be proud of us, but we are off the radar. Therefore, our share price is at 68 sen to 70 sen, which is a PER (price earnings ratio) of six to seven times.

TMR: What is the PER of other related companies?

Tunku Naquiyuddin: So far, talking about listed independent coke producers, throughout the globe, there's only one — Sino Hua An. There are 149 coal companies listed globally, but they are not independent coke producers. If you were to compare apple to apple, there are no near comparable companies.

But if you compare with coal companies listed in Hong Kong, like China Coal, their PER is easily more than 30 times. For listed steel or integrated companies, their PER is more than 20 times.

We're quite mindful of delivering values to our shareholders. If the Malaysian market is not going to deliver what we think it should, we are seriously thinking a secondary listing somewhere else whereby Sino Hua-An will be truly appreciated, and then to arbitrage.

The (Sino Hua-An shares in) Malaysian market could (then) actually go up. We are slightly off the radar, partly because we are a pioneer in what we are doing.

Some investors, when they think of China and when they look at the figures — a 16% net profit margin — they will say "impossible". But you will be surprised to see the (full year) audited top and bottom lines.

Prior to the listing, we engaged two accounting firms to verify the numbers — Deloitte and KPMG. When we went for a roadshow before our listing, the take-up rate was tremendous, 30 times over subscription. We had quite a lot of foreign institutional shareholders.

"We have gone through a fantastic transformation... from a PN17 to the first red-chip company with an annualised RM800 million turnover"
— Tunku Naquiyuddin

From the time of listing till now, there's no change in the fundamentals or business proposition of the company. So the value of the company should sustain at about RM1.50 or above the RM1.50 level. Sino Hua-An is fundamentally sound and very much undervalued.

TMR: When you undertook the restructuring, why did you decide on this industry as the core business?

Tunku Naquiyuddin: Whatever it was, it was an industry which needed to be huge in order for us to accommodate over RM400 million liabilities. The initial one was the building industry. It was interesting but not big enough. We asked our merchant bankers to look outside of the box, not just look at Malaysia.

So, they came back with this company. The company was actually going to go for listing in Singapore, but when I met the chairman, we struck the deal.

The rapport built up as we spoke the same business language. The coincidence of our businesses was a tremendous draw and the chairman of the company decided that Malaysia is the way to go. In fact, he is looking at other investments in Malaysia.

TMR: What are the challenges ahead? Investors are not familiar with the stock, and there is also the Antah legacy. And now, you are buying a steel plant.

Tunku Naquiyuddin: Some investors tend to have the preconceived notion that it is still very much part of the Antah legacy. But there's no liability... In fact, Antah shareholders hold less than 5% of the company after the share swap.

We are not sure how investors think... If Bursa wants to recognise us as the first red chip company in Malaysia and encourage more foreign listings in Malaysia, I would think that one day we might well be on the preferred stock or index.

As an index stock, foreign investors will recognise (the company). Foreign buyers mainly look at the index stocks. This is the sort of service that Bursa Malaysia can do.

I'm not saying now. Maybe in recognition of our first year audited financial results, hopefully something like that can happen. And that would mean putting the money where the mouth is — that they (Bursa) are actually seriously helping to promote foreign listings.

TMR: Why should investors be interested in Sino Hua-An?

Tunku Naquiyuddin: Firstly, we are the first and remain the only foreign company listed on Bursa Malaysia. Secondly, our plants and market are all mostly based in China. This means that our long term growth is tied to China's economic growth prospects, which has a higher GDP growth than Malaysia. Thirdly, our plan is to grow by acquisitions and financed by borrowings, therefore, our earnings will be enhanced greatly in the future.

Come 2009, we will have 1.8 million tonnes capacity. There are a lot of economies of scale as well. The plant proximity, plus the fact that we are buying power from our sister company — our power costs are at a 10% discount to (the power taken from) the power grid — that's another advantage. Also from the coal mine, we have a dedicated railway to our plant. Costs of other manufacturers that use trucks and lorries are much higher. We have signed a long-term agreement with the power plant (30 years) and railway (10 years).

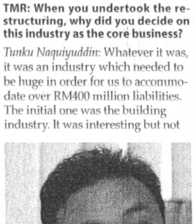
In Shandong province, we command about 10% market share. We are the largest independent coke producer in Shandong. We have 1,000 workers.

TMR: What is your dividend policy?

Tunku Naquiyuddin: We want to pay as high as possible. We are looking at paying about 20% of PAT (profit after tax).

TMR: With Sino Hua-An going downstream into steel, what are the chances of it buying coal assets?

Tunku Naquiyuddin: Every one is buying coal assets now because coal prices have really gone up. It depends on the locations and opportunities given. I do meet a lot people ion the coal business, the fact that I am the chairman of Jimah Ventures. We need at least 3.4 million tonnes of coal a year to power the Jimah plant.



Pics by Ismail Che Rus

Also present were executive directors Cedric Choo (right) and Jaleel Abu Bakar