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NEUTRAL ↔

Fair Value **RM0.235**
Previous **RM0.235**
Price **RM0.255**

STEEL

HUAAN is primarily involved in the production of coking coke and its by-products.

Stock Statistics

Bloomberg Ticker	HUAAN MK
Share Capital (m)	1,122.3
Market Cap	286.2
52 week H L Price	0.40 0.19
3mth Avg Vol (000)	1,333.0
YTD Returns	4.1
Beta (x)	1.22

Shariah Compliant YES

Major Shareholders (%)

Rock Point Alliance	25.39
Liu Guodong	15.86
Rise Business Inc	9.09

Share Performance (%)

Month	Absolute	Relative
1m	0.0	-0.4
3m	2.0	-3.3
6m	6.4	4.5
12m	-27.2	-26.1

6-month Share Price Performance

FY11 Results Review
Sino Hua-An International
Outlook Deteriorates Further

Sino Hua-An posted a net loss of RM14.8m in 4Q, despite revenue increasing 5.9% q-o-q and 8.5% y-o-y. The rise in revenue was mainly attributed to higher selling prices and sales volume but its 4Q bottom-line was dragged into the red by escalating raw material costs. Apart from gloomy steel industry outlook, the company also faces persistent structural problems inherent in China's steel industry. To date, we still don't see any reasons to rerate this company and therefore, we maintain our NEUTRAL call with a FV of RM0.235 based on 0.36x FY12 P/BV, which is -1 standard deviation of its historical trading band.

Sinks into the red. Sino Hua-An's posted net losses of RM14.8m and RM9.6m for 4QFY11 and full-year FY11 respectively, coming in way below our estimates. Although revenue was maintained at a healthy level, growing 5.9% q-o-q and 8.5% y-o-y, the price increase of coking coal, which is the company's main raw material, has outpaced that of metallurgical coke and hence, dragged Sino Hua-An into the red. Although its by-products' selling prices have increased generally, this is still not good enough to compensate for the losses from its core business.

Persistent problems, fundamentals remain weak. The company is facing a tough situation, by virtue of its value chain position between coal miners and steel mills. This causes Sino Hua-An to lose its bargaining power when it comes negotiating raw material and product selling prices alike. To date, we have yet to see Sino Hua-An making any progress to get itself out of this tricky situation as it does not seem to be moving either upstream or downstream. Other than that, China's unfavourable industry structure for independent coke manufacturers exacerbates Sino Hua-An's situation and near-term poor performance. All in all, we have yet to see any steps taken by Sino Hua-An to overcome the negative factors that are affecting its outlook.

Maintain NEUTRAL. We have always been cautious on Sino Hua-An's performance given the structural problems faced by this company. For that reason, we have always pegged its valuation at a lower base, which is 0.37x P/BV or -1 standard deviation of its historical trading band. In view of the challenging economic environment and Sino Hua-An's persistent structural problems, we are trimming our earnings forecast for FY12 and FY13 substantially. At its current price, the company is trading 61% below its book value and we don't think any rerating for Sino Huaan is warranted, at least for now. Therefore, we maintain our NEUTRAL recommendation at a FV of RM0.235 based on 0.36x FY12 BV.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1280.3	1406.8	1526.6	1437.9	1456.5
Net Profit	-20.6	6.4	-9.6	3.4	5.8
% chg y-o-y	n.m.	131.0	250.1	135.4	-69.3
Consensus	-	-	-	1,519.0	-
EPS (sen)	-1.8	0.6	-0.9	0.3	0.5
DPS (sen)	0.0	0.2	0.0	0.0	0.0
Dividend yield (%)	0.0	0.7	0.0	0.0	0.0
ROE (%)	-2.8	0.9	-1.3	0.5	0.8
ROA (%)	-2.5	0.8	-1.2	0.4	0.7
PER (x)	-13.9	44.7	-29.8	84.0	49.6
BV/share	0.65	0.62	0.64	0.65	0.65
P/BV (x)	0.39	0.41	0.40	0.39	0.39
EV/EBITDA (x)	14.6	6.1	9.2	6.2	5.6

Results Table (RMm)

FYE Dec	4Q11	3Q11	Q-o-Q chg	FY11	FY10	Y-o-Y chg	Comments
Revenue	403.3	381.0	5.9%	1,526.6	1,406.8	8.5%	Increase in metallurgical coke prices Higher coking coal prices dragged Sino Hua-An into the red
EBITDA	-5.9	10.4	-157.3%	26.0	20.6	25.9%	
Depreciation	-8.9	-8.9	0.0%	-35.6	-14.2	>100%	
Net interest expense	0.0	0.0	n.m.	0.0	0.0	n.m.	
Associates	0.0	0.0	n.m.	0.0	0.0	n.m.	
PBT	-14.8	1.5	>-100%	-9.6	6.4	>-100%	
Tax	0.0	0.0	n.m.	0.0	0.0	n.m.	
MI	0.0	0.0	n.m.	0.0	0.0	n.m.	
Net Profit	-14.8	1.5	>-100%	-9.6	6.4	>-100%	Way below expectations
EPS (sen)	-1.3	0.1		-0.9	0.6		
Gross DPS (sen)	0.0	0.0		0.0	0.2		No dividend was declared by the Board for the period under review
EBITDA margin	-1.5%	2.7%		1.7%	1.5%		
NTA/share (RM)	1.09	0.56		1.09	1.05		

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	1280.3	1406.8	1526.6	1437.9	1456.5
EBITDA	17.9	43.6	28.5	39.7	43.6
PBT	-20.9	6.4	-9.6	4.0	6.8
Net Profit	-20.6	6.4	-9.6	3.4	5.8
EPS (sen)	-1.8	0.6	-0.9	0.3	0.5
DPS (sen)	0.0	0.2	0.0	0.0	0.0
Margin					
EBITDA (%)	1.4	3.1	1.9	2.8	3.0
PBT (%)	-1.6	0.5	-0.6	0.3	0.5
Net Profit (%)	-1.6	0.5	-0.6	0.2	0.4
ROE (%)	-2.8	0.9	-1.3	0.5	0.8
ROA (%)	-2.5	0.8	-1.2	0.4	0.7
Balance Sheet					
Fixed Assets	615.0	557.3	547.2	541.9	542.9
Current Assets	212.3	279.2	282.1	258.9	268.2
Total Assets	827.3	836.5	829.3	800.8	811.1
Current Liabilities	93.8	140.5	107.6	75.8	80.3
Net Current Assets	118.5	138.7	174.4	183.1	187.9
LT Liabilities	0.0	0.0	0.0	0.0	0.0
Shareholders Funds	733.5	696.0	721.6	725.0	730.8
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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