DIGITALEDGE WEEKLY | AUGUST 3, 2015

Sino Hua-An to restart coke plant by year-end

BY **LIEW JIA TENG**

Metallurgical coke producer Sino Hua-An International Bhd, which stopped production at its manufacturing plant in China in March, expects to post a net loss in its financial year ending Dec 31, 2015. Nevertheless, it seeks to restart the plant at year-end.

Executive director Cedric Choo Sia Teik says the group is likely to remain in the red for the remaining three quarters of 2015 after having reported a net loss of RM11.2 million in the first quarter ended March 31 (1QFY2015).

"The financial impact of the damage to our ovens during the suspension period should be reflected in the second quarter of this year onwards. I cannot give you a forecast but it is fair to assume that we will continue to make losses [in the remaining quarters]," he tells *digitalEdge Weekly*.

As long as there is no production, Choo adds, Sino Hua-An (fundamental: 2.25; valuation: 0.90) will incur losses because of its fixed costs, particularly depreciation and labour.

To recap, operations at Sino Hua-An's metallurgical coke plant in Linyi city in Shandong province were suspended after the Chinese government took a tough stance on pollution in the country.

Metallurgical coke is one of the key inputs to the production of steel.

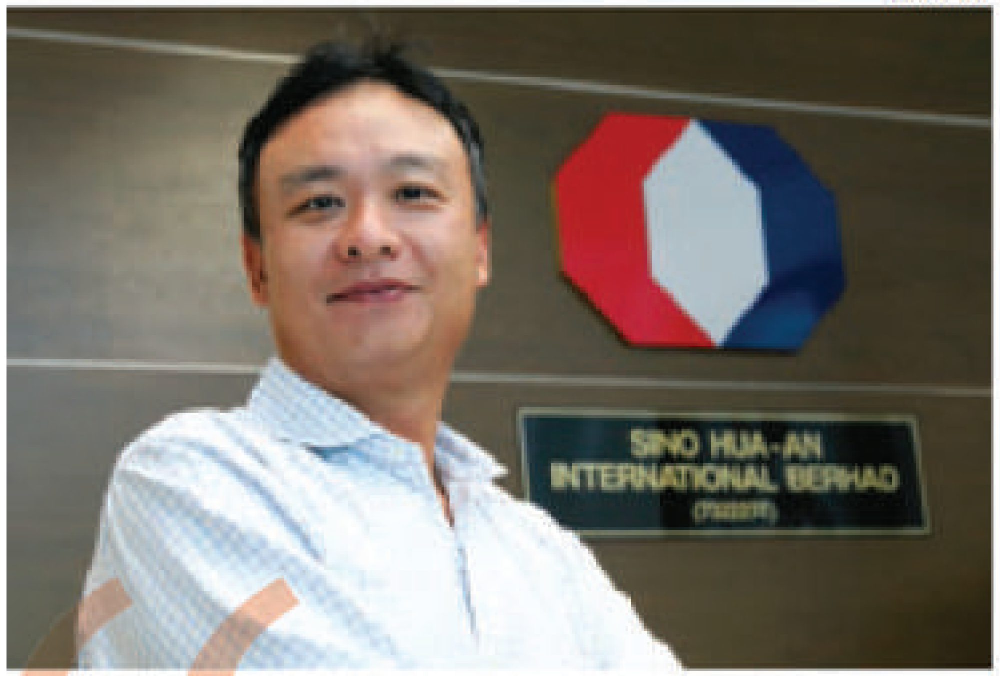
In Linyi city alone, 412 plants in polluting industries such as steel, coke, cement, ceramic, aluminium, fertiliser and glass were affected by the temporary suspension.

Sino Hua-An's plant in Linyi city — its only coke operation — has an annual capacity of 1.8 million tonnes, and before the suspension, it was 90% utilised. It is operated by Linyi Yehua Coking Co Ltd, a major subsidiary that contributed almost 100% to the financial results of Sino Hua-An. Thus, the plant's shutdown will have a material impact on the group's results for FY2015.

Choo says while rectification work on the plant was completed by the end of May, the suspension has damaged its five sets of ovens because they are required to be run at a high temperature for 24 hours, seven days a week, 365 days a year.

"We have complied with all the regulatory requirements, including the four major areas — desulfurisation, dust collection, online monitoring system and dust control. Technically, we are good to go," he remarks, adding that RMB62 million (RM38 million) was spent on technical improvement work last year.

KENNY YAP



"If we hadn't received a blanket directive to shut down and if we had continued to operate, in the present operating environment, we may have incurred a loss anyway, which could have been as huge as what we are looking at now." – Choo

"Unfortunately, the operating temperature of our ovens has dropped drastically (from about 1,300°C to about 100°C) because of the suspension. So, our ovens are damaged and we cannot resume production."

However, steps have been taken to repair and recondition the ovens, which will cost the company between RM15 million and RM30 million, something that will be reflected in the FY2015 results.

"This is an unprecedented scenario. The experts are unable to say whether repair work is viable. If it is not, we will have no choice but to rebuild the ovens and, obviously, the cost will be higher," Choo points out.

Sino Hua-An is the first China-based company to be listed on Bursa Malaysia. Chinese national Liu Guo Dong is its managing director and holds a 15.86% stake in it while executive chairman Tunku Naquiyuddin Ibni Tuanku Ja'afar, who is from the Negeri Sembilan royal family, owns the lion's share of 28.21%.

Meantime, Choo, who has been a director of Sino Hua-An since March 2007, sees a bright spot in the whole situation. "If we look at the suspension alone, yes, it is a bad thing. But the way I look at it, there is still a positive spin on the negative story. If we hadn't received a blanket directive to shut down and if we had continued to operate, in the present operating environment, we may have incurred a loss anyway, which could have been as huge as what we are looking at now," he says.

The 42-year-old highlights the fact that a steel glut in China and the rest of the world has left the players everywhere in dire straits. For coke manufacturers like Sino Hua-An, which are heavily dependent on the steel industry, this means unfavourable prices and margins. "The price of coke is so low that we will make a loss for every tonne we produce and sell," Choo explains.

Assuming that the repair of the ovens is successful, he adds, Sino Hua-An will be able to meet its internal target of resuming production at the coke plant by the end of the year. "We are anxious to restart the plant as soon as possible. Hopefully, the industry's prospects will be better by then."

Sino Hua-An returned to the black in FY2013, turning in a net profit of RM15.3 million compared with a net loss of RM82.8 million in FY2012. Last year, the group posted a minimal profit of RM2 million on revenue of RM1.1 billion.

Nevertheless, Sino Hua-An has relatively robust assets and a healthy balance sheet as it continues to be in a net cash position with no external borrowings. As at March 31, 2015, the group had total assets worth RM761.3 million, including net cash of RM56.7 million. Its net asset value per share was 68 sen.

The stock, which has fallen 32% year to date, closed at 7.5 sen on July 30, giving the company a market capitalisation of RM84.2 million. E

Note: The Edge Research's fundamental score reflects a company's profitability and balance sheet strength, calculated based on historical numbers. The valuation score determines if a stock is attractively valued or not, also based on historical numbers. A score of 3 suggests strong fundamentals and attractive valuations. Visit www.theedgemarkets.com for more details on a company's financial dashboard.