

Coal price hike won't hurt Sino Hua-An

Can pass on 100% of increase in coal prices in China to its customers

by Gan Yen Kuan

FD@bizedge.com

KUALA LUMPUR: Metallurgical coke producer Sino Hua-An International Bhd's earnings will not be crimped by the anticipated increase in coal prices in China, its executive director Cedric Choo said.

Although the hike in thermal coal price is imminent, prices of coking coal and metallurgical coke in China would be supported by market demand and supply forces, Choo told *The Edge Financial Daily* in an email reply yesterday.

"The increase in coal price will not affect significantly our earnings and profit margin because when the coal price increases, the coke price also increases, as evidenced by the historical pricing trend of coal and coke that we achieved all this while," he said.

Sino Hua-An's core business is coke manufacturing. It has a metallurgical coke plant in Shandong province, China. Coking coal is the main raw material used in the production of coke, which is in turn used as fuel for the production of steel.

Since late last year, China's media have been reporting a possible increase of 10% in the price of thermal coal in 2008, due to tight coal supply, rising costs and the surge in crude oil price.

Thermal coal is used for power

generation, while coking coal for the production of coke. Due to the different chemical compositions, coking coal is priced higher than thermal coal. As such, any increase in thermal coal prices would lead to a hike in coking coal prices.

However, Choo said Sino Hua-An would be able to pass on 100% of the increase in coal prices to its customers by raising the price of its coke.

"The increase in coke price will not affect our sales, as a result of continued robust demand for coke vis-à-vis the domestic demand from the steel and construction industries in China.

"We are still experiencing great demand from existing customers for our coke and we are unable to satisfy fully all their coke quantity requirements. As a result, some of our customers are making pre-payments to us to secure a consistent supply of a minimum quantity of coke," he said.

For 2008, Choo said he believed that both the prices of coal and coke would continue to increase, albeit at a decelerating rate, in line with the continued growth of the steel industry in China.

"However, such increase in the coal prices is expected to taper off and remain consistent from the second half of the year," he added.