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## Ouhua Energy expects 20% rise in revenue

*China LPG supplier keen on making acquisitions, joint ventures*

OUHUA Energy Holdings, a supplier of liquefied petroleum gas in China, says it expects its revenue for the year ended December 2006 to be 20 per cent higher than the previous year because of strong demand.

'Barring any unforeseen circumstances, we expect (our) fourth quarter performance to be better than that of (the) third quarter. As such, we are inclined to believe that our revenue this year (2006) will likely be approximately 20 per cent better than that in 2005,' Ouhua chief financial officer Denis Mao told XFN-Asia.

Ouhua's revenue jumped by 40 per cent to 2.49 billion yuan (S\$490.8 million) in 2005 from 1.77 billion yuan in 2004.

'We hope to maintain a double-digit compounded annual growth rate in revenue going forward,' Mr Mao said. He said higher operating costs in the third quarter arising from higher freight rates were unlikely to recur in the fourth quarter, because the increase in distribution costs is being passed on to customers.

Ouhua is keen on making acquisitions and establishing joint ventures this year. 'We are finding opportunities to make acquisitions and (establish) joint ventures in China and the South-east (Asian) region to achieve continuous rapid growth,' Mr Mao said.

With the average utilisation rate of its production facilities reaching 85 per cent, Ouhua is considering ways to expand its facilities, by acquiring more storage tanks and processing facilities, if needed. 'By the end of next year (2007), our annual production capacity is expected to increase to 1.2 million tons from the current 900,000 tons,' he said.

Ouhua plans to buy its own fleet of delivery trucks and vessels instead of chartering them, in order to alleviate occasional bottlenecks in deliveries.

To increase its market share, Ouhua plans to set up more sales offices in China. The company plans to start supplying its LPG directly to end-users instead of through distributors, to improve profit margins.

Ouhua's net profit margin for the first nine months of last year was 2.68 per cent, lower than the margin of 3.19 per cent seen in 2005, as operating and administrative costs increased.

But Mr Mao said the group was confident of improving its margins over the next two years because it would enjoy exemptions from tax and increasing economies of scale as its sales volume grew.

Funding for expansion will come primarily from the net proceeds of S\$30.5 million that Ouhua raised from its initial public offering here in October.

Ouhua is also looking at more opportunities outside China, Mr Mao said.

'We are watching the overseas market closely. With the enhancement of our distribution facilities, we expect to achieve rapid growth in the overseas market,' he added.

In the 11 months to November, Ouhua delivered more than 40,000 tons of LPG to customers outside China through seven distributors, which accounted for 5 per cent of its revenue. This percentage is expected to rise because of demand in countries such as Vietnam, Singapore and Hong Kong, Mr Mao said.

He added that Ouhua was especially interested to expanding its presence in Vietnam. - XFN-Asia

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