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Business Development Asia

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ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the chemicals sector

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INTRODUCTION

We hope you find the *Asian Specialty Chemicals Newsletter* informative.

BDA is a corporate finance advisory firm that helps multinational companies identify and execute acquisitions, JVs and divestments in Asia. We focus on the specialty chemicals sector and are well placed to advise our clients.

If you think that BDA's services may be useful to you, please contact us at any one of our offices or email me at erellie@bdallc.com. Contact details for our branch offices are at the back of this newsletter. We look forward to talking to you in the future.

Euan Rellie
Managing Director

AUSTRALIA

Incitec, an Australian fertilizer and chemical company, recommended that its shareholders accept the improved offer of AUS$10.75 (US$6.36) per share from **Orica**, which already owns 77% of the firm's shares. Agricultural services and property group **Futuris** holds 21% of Incitec and in January reached an agreement in principle to sell the stake to Orica. Independent shareholders own the remaining 2% of the company. Once the deal has been finalized, a planned merger between Incitec's fertilizer division and the privately-held fertilizer company **Pivot** can go ahead. **Incitec-Pivot** would control 60% of the eastern Australian fertilizer market, with an expected A$1bn in sales. (February 20, 2003)

CHINA/HK

Asahi Kasei has finished building its 1,300tpa PU (polyurethane) elastic-fiber plant in the Hangzhou Economic and Technology Development Zone in Hangzhou, Zhejiang. The target startup date is in April 2003, marking the first phase of the project. The second phase is expected to expand plant capacity by 5,000tpa. (February 6, 2003)

Atofina, the French chemicals group, has agreed to buy a 100,000tpa PS (polystyrene) plant from **China Offshore Sanshui Chemical Industry**

located in Sanshui, Guangdong province. The acquisition will enable Atofina to strengthen its PS business in Asia and expand its sales to customers in China. Currently, Atofina operates a PS plant in Singapore and has two compounding plants in Thailand. In China, Atofina already has 14 chemicals production sites and generates turnover of US$400m (Euro370m) per year. Most of its activities in the Asian region are based in specialty chemicals and intermediates. Atofina is the third largest PS producer in the world with total capacity of 1.4mtpa. (January 29, 2003)

BASF, DSM (Roche), Haarmann & Reimer, ISP and other leading global suppliers of UV absorbers are now competing with local Asian manufacturers for market share of pseudo-commodity products such as OMC and benzophenone-3. These suppliers of UV absorbers are now shifting their focus to the Asia-Pacific region in order to shore up long-term growth. The U.S. and Western European markets for UV absorbers in personal care applications still account for upwards of 80% of the worldwide total, and they are relatively mature. Growth in these leading regions has already slowed to 3%. Developing markets in the Asia-Pacific region, including China and South Korea, are expected to exhibit the strongest growth for both organic and inorganic UV absorbers for sun protection, skin care, and cosmetics products, exceeding 20% for some product categories. Public health campaigns, rising per capita income and increased leisure time are expected to drive demand. (March 6, 2003)

Kailian (Group) Corp, a China state-owned company, wants to form JVs for its phenolic projects. Kailian plans to build a 100,000tpa phenol/acetone unit, an 80,000tpa bisphenol-A unit and a 50,000tpa epoxy resin plant downstream of a planned refinery in Chenyang District, Qingdao, Shandoing. Leaders in the Qingdao municipality consider the refining and chemical industry a significant growth area going forward. (February 2003)

Kureha Chemical has signed an agreement with **Tsusho Corp** to form a JV in China's Jiangsu province for the production and marketing of packaging materials such as vinylidene chloride and films. Sources say that the capitalization of the new company will be US$38m with Kureha taking a 60% stake and Tsusho a 40% stake. The new company will produce 10,000tpa of vinylidene chloride, with films being shipped from Japan in the initial stages of the startup. The JV is expected to start in March 2004. (February 18, 2003)

Shinho Petrochemical (Changzhou) plans to bring on stream its 120,000tpa expandable PS (EPS) plant in Changzhou, Jiangsu, in Q4 2003. The company is a subsidiary of **Shinho Petrochemical** of South Korea. It also produces 50,000tpa of ABS resins at the Changzhou site. (February 21, 2003)

Taiyuan Chemical Industry Group's 70,000tpa PVC expansion in China's Hexi chemical industry district is coming on stream in March 2003. The expansion will raise Taiyuan Chemical's total PVC capacity to 320,000tpa. (February 24, 2003)

China is poised for a major growth in conditioning polymers for personal care. With an increase in per capita income and greater availability of varied consumer products, the Asia-Pacific region represents a burgeoning market for specialty conditioning polymers used in personal care applications. Within this region, China accounts for more than 50% of total conditioning polymer consumption and will be the key contributor to growth over the next five to ten years. The market for conditioning polymers for personal care applications, including hair care and skin care products, in the United States, Western Europe, and the Asia-Pacific region (excluding Japan) is estimated at US$600m for 2002. The U.S. market currently accounts for 50% of this total, with Western Europe at 30% and Asia-Pacific at 20%. The conditioning polymers business is segmented into three product categories: silicones; polyquaterniums, including cationic guar; and conditioning proteins. Overall, silicones account for 65% of global conditioning polymer consumption, with polyquaterniums accounting for 25% and conditioning proteins for 10%. (March 11, 2003)

INDIA

United Phosphorus Ltd (UPL) has decided to merge its subsidiary **Search Chem Industries Ltd (SCIL)** with the parent company. The decision to consolidate the operations will provide a more effective focus. SCIL manufactures industrial and specialty chemicals, including chlor-alkali products, caustic soda, caustic chlorine and HEDP. (March 11, 2003)

The Indian chemical industry is enjoying bright prospects in its fine and specialty chemicals exemplified by its 2003 exports. This industry is currently enjoying a positive trade balance, especially in drugs and pharmaceuticals, and dyes and dye intermediates sectors. (March 11, 2003)

JAPAN

Air Products has agreed to acquire **Sanwa Chemical Industry**, a Japanese producer of specialty polyamide resins and epoxy curing agents with operations near Tokyo and in Singapore. The acquisition is expected to close on March 31, 2003. This represents Air Products' first performance products operation in Asia. Sanwa has annual revenues of US$30m, with product lines and technologies that are said to complement current Air Products' offerings. (March 3, 2003)

Albemarle Corp, a US based company, has appointed Scott M. Sutton as its regional managing director of Asia Pacific to start from June 1, 2003. Sutton has been the general manager for **Jordan Bromine**, a joint venture of **Albemarle Holdings**, **Jordan Dead Sea Industries** and **Arab Potash Co**. Sutton will be relocating from Jordan to Tokyo, where the Albermarle Asia-Pacific office is located. Albemarle Corp is a leading producer of specialty chemicals for consumer electronics and pharmaceuticals, as well as agricultural, automotive and industrial products. (March 18, 2003)

Mitsubishi Chemical is acquiring **Tonen's Chemical's** 35% stake in **Japan's Polychem (JPC)**. This acquisition is expected to be completed by H1 2003. With this stake, Mitsubishi Chemical would become the 100% owner of JPC, a joint venture setup in 1996 between Mitsubishi Chemcial and Tonen Chemical. Mitsubishi is acquiring Tonen Chemical's stake in order to gain access to more favorably priced feedstock. Sources say that Mitsubishi will probably pay more than US$58m for this stake. (February 2003)

Perstorp Group of Sweden plans to expand its specialty chemicals business into Japan by forming a sales and distribution JV with Japanese polyols producer **Koei Chemical Company**. The joint venture will be named Koei-Perstorp Company and it is scheduled to begin operations in 2Q. Koei produces mainly polyols and has all its manufacturing facilities in Japan. Perstorp has a wider product range with manufacturing facilities in Europe and the US. Perstorp has no plans to move manufacturing to Japan at the moment. Perstorp's products will be supplied from these locations and distributed in Japan. The JV will be owned 40% by Perstorp and 60% by Koei. Perstorp has production units ranging from oxo products to specialty polyols. Koei manufactures specialty and fine chemicals ranging from polyols to nitrogen-containing chemicals such as pyridines and their derivative, and amines. (March 14, 2003)

Sumitomo Chemical and **Hodogaya Chemical** have agreed to merge Hodogaya Agros, a 50/50 JV between the two, and **Nihon Green & Garden,** a subsidiary of Sumitomo, on April 1, 2003. The merged firm, **Nihon Green & Garden Corp.**, will be capitalized at ¥90m and owned 65% by Sumitomo and 35% by Hodogaya. Through the merger of the two units, Sumitomo and Hodogaya aim to further strengthen and develop their agricultural chemical business in non-farming areas, such as home and garden and lawn applications. (March 3, 2003)

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Sumitomo Chemical and **Mitsui Chemicals** broke off their merger, which was first announced in November 2000, due to disagreements on an acceptable share exchange ratio. The US$10bn merger (including debt) was expected to create Japan's No 1 chemicals company and the world's fifth largest. A US$1bn gap between how the two companies handled their underfunded pension plans compromised the deal. Sumitomo had written off the bulk of its pension plan shortfall, while Mitsui hadn't addressed its problem. Initially the two companies planned to integrate various business divisions into a single entity under a joint stock-holding company by October 2003 and planned to fully merge operations at the end of March 2004. (April 1, 2003)

KOREA

Daelim is considering merging its polyolefins assets with those of **Hyundai Petrochemical**. At present, Daelim's 380,000tpa of hdPE assets are wholly-owned and its 52,500tpa PP assets, called **PolyMirae**, is a 50/50 JV with **Basell**. The two operations would be combined into one company that would then be merged with a third partner, such as Hyundai Petrochemical. Further discussions on this merger are put on hold to allow the new owners of Hyundai Petrochemical, **LG Chem** and **Honam Petrochemcial**, to take charge. (February 2003)

Daelim wants to sell its 50% stake in **Yeochum Naphtha Cracker Centre (YNCC)**. This will allow Daelim to focus on its more lucrative construction business. The other 50% stake in YNCC is owned by **Hanwha Chemical**. YNCC operates three crackers with capacities of 465,00tpa, 530,000pta and 385,000pta in Yeochum, South Korea. (February 2003)

Daelim has decided to delay the sale of its 40,000tpa plastics-processing plant and 30,000tpa polybutane facilities to an undisclosed South Korean chemical trading company until after it has divested its hdPE and PP businesses. The company hopes to divest its hdPE and PP business by the end of the year. (February 14, 2003)

KP Chemical's sale will be delayed by six months to a year, as the company's creditors have decided to call for a fourth round of bidding. A source said that the South Korean company's creditors had decided to reject the third round of bids because they were too low, although they had yet to make this official. The creditors are likely to announce their decision formally by the end of March during meetings of their shareholders. KP was split from **Kohap Corp** in December 2001 as part of a debt restructuring. While Kohap retained some synthetic-fiber operations, its core petrochemical business which includes PX (paraxylene), orthoxylene, benzene, and PTA (purified terephthalic acid) resides in KP. (March 2003)

LG Chem and **Honam's** acquisition of **Hyundai Petrochemical's** assets may face certain Korea Fair Trade Commission (KFTC) antitrust hurdles. Sources say that the KFTC usually does not allow any company to own a domestic market share of more than 50% in any one product. However, the KFTC is likely to continue to make exceptions to its rule for the sake of restructuring South Korean industries. LG would have a 65% market share in styrene if the deal goes through. (February 26, 2003)

Tongsuh Petrochemical's new 200,000tpa ACN (acrylonitrile) plant in Ulsan, South Korea, is undergoing trials and is expected to start commercial operations in March. When the plant starts up, the company will decommission its 60,000tpa ACN facility at the same site. However, it will continue to operate a second 70,000tpa plant located in Ulsan. (February 26, 2003)

MALAYSIA

Toray Industries started trial runs at its 60,000tpa ABS plant in Penang, Malaysia. The company is targeting end of March for the startup of the facilities. Toray completed construction of the plant in early February. (February 26, 2003)

SINGAPORE

Faci SpA, an Italian metal stearates manufacturer, plans to build a 10,000tpa esters plant on Singapore's Jurong Island at a cost of US$5.7m. The project is scheduled for completion in Q3 2004. The proximity of key raw materials, such as fatty acids, fatty alcohols, short-chain alcohols, polyols and phthalic anhydride, and the potential of markets in Asia were key elements driving the group's decision to locate the plant in Singapore. Esters have a diverse range of applications in the food, cosmetics, pharmaceuticals, paints, electronics coatings and leather industries. (January 24, 2003)

Mitsui Chemical is restarting its 250,000tpa phenol and 150,000tpa acetone plants on Jurong Island, after an unscheduled shutdown on February 18th due to problems in its phenol unit's heat exchanger and distillation components. (February 20, 2003)

Sumitomo Chemical plans to finish by early next year its study for the construction of the downstream derivatives of the proposed 1mtpa JV cracker. This JV with **Shell Chemicals** will be in Pulau Bukom. Shell and Sumitomo will conduct individual feasibility studies for the construction of downstream derivatives. The partners are likely to invest separately in the derivatives. The construction of the US$847m cracker is expected to start in 2004, with startup planned for 2007. (February 19, 2003)

Sumitomo Chemical will make a final decision in March on whether to build a proposed 70,000tpa MMA (methyl methacrylate) plant on Jurong Island. If it goes ahead, it will target a Q4 2003 construction start and Q1 2005 operation start. Sumitomo Chemical hopes to source butadiene feedstock from the merchant market for the proposed plant.

To submit stories to the *Asian Specialty Chemicals* Newsletter, please contact Terrence Giang in New York on (212) 265-5300 or email to tgiang@bdallc.com.

TAIWAN

China Man-Made Fibers Corp (CMMFC) will shut one of its two monethylene glycol (MEG) lines in Kaohsiung for one month starting in March 2003. CMMFC will shut this 70,000tpa MEG line for 20-30 days because of a disruption in feedstock supplies from **Chinese Petroleum Corp**. (February 18, 2003)

Shipley, a unit of **Rohm & Haas**, is selling its dry film photoresist business to **Eternal Chemical Co** of Taiwan. Eternal will manufacture this newly expanded dry film photoresist product line under the Eternal company label. Shipley will distribute the entire Eternal dry film photoresist product line in North America and Europe as well as to Shipley's existing customers in Asia. Shipley said its North American and European dry film manufacturing operations would be phased out by the end of the year. (March 19, 2003)

THAILAND

Thai MMA plans to increase capacity at its 70,000tpa MMA (methyl methacrylate) plant in Mab Ta Phut by 20,000tpa in the first half of 2004 according to its major shareholder Mitsubishi Rayon. (February 17, 2003)

VIETNAM

The government of Vietnam last week approved, in principle, provision of an emergency financial package to stockpile fertilizer in response to a sudden price rise in foreign imports. A Ministry of Agriculture and Rural Development (MARD) official said that although the approved amount - 200,000 tons to be stockpiled until the end of June 2003 - is negligible compared to the expected import volume of 3.85 million tons, it would certainly help farmers. Market observers said foreign fertilizer import prices, including urea and DAP (diamonnium phosphate), is expected to increase further in coming months due to supply shortage. Meanwhile, the US$200m DAP project is currently under construction in Dinh Vu industrial park in Haiphong. **Vietnam Chemical Corporation** is the major developer of the project, which will produce 330,000tpa of DAP fertilizer. (March 13, 2003)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact our offices below.

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