

## ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the chemicals sector

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### CHINA/HK

**BASF** of Germany has invested RMB120m (US\$14.5m) in a new metal-complex dyestuffs production site in Pudong, Shanghai. **BASF Colorants and Chemicals Co Ltd** will supply nontextile dyestuffs, pigments for printing inks, and leather and textile chemicals to the global market. The facility will export 90% of its output to Asia, Europe and North America. The production of this unit in China will also account for 20% of BASF's future turnover in specialty dyes. (November 21, 2000)

The **Dequest Business Group** of **Solutia Inc** and **Wujin Fine Chemicals** have formed a JV to market phosphonate chemicals, which have a broad range of industrial applications in China. Solutia will own 51% of the JV, **Solutia Xiafeng Fine Chemical Co Ltd**. Under the agreement, Wujin will manufacture the products to be sold through the JV, while Solutia will provide applications expertise for industrial water treatment, detergents and cleaners, pigment dispersion, metal finishing, peroxide stabilization and other industrial applications. The JV is projected to have annual sales of RMB60m (US\$7m), mostly from the water treatment market. (November 14, 2000)

**DuPont Teijin Films** (known as **Teijin DuPont Films** in Japan and Indonesia) announced that its China-based JV, **DuPont-Hongji Films Foshan Co Ltd** will increase capacity for both PET and PEN polyester films to serve the growing demand in China. The JV will use **Ningbo Wuzhou Films Ltd's** existing production facilities. Operated by DuPont-Hongji. It will bring an additional 10,000tpa of production capacity to DuPont Teijin Films' extant global capacity of 300,000tpa. DuPont Teijin Films, a new JV

### INTRODUCTION

Following the lead of its US and European counterparts, Japan's chemical industry has engaged in a series of mergers that will consolidate production and diversify offerings.

We hope that you find *Asian Specialty Chemicals Newsletter* informative. BDA is a corporate finance advisory firm that helps clients identify and execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact me at [erellie@bdallc.com](mailto:erellie@bdallc.com).

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Managing Director

founded in January 2000, is the world's leading supplier of PET and PEN polyester films. The company has anticipated sales of US\$1.4bn for 2000. (November 21, 2000)

**LG Chemical** plans to increase ABS production capacity at **Ningbo LG Yongxing**, its JV in China with **Yongxing Chemical**, from 60,000tpa to 150,000tpa. Following this expansion, LG's total production capacity for ABS will reach 550,000tpa, making it the 4th largest producer in the world. By H2 2002, LG Chemical intends to increase ABS capacity in China to 300,000tpa, and internationally to 700,000tpa. This will make it the 3rd largest ABS manufacturer in the world. (November 24, 2000)

**Toray** of Japan is considering a polyester film JV in China with **Yizheng Chemical Fibre Group**. The JV would spend up to US\$42m on a new 20,000tpa plant, a vapor deposition unit with a capacity of 3,000-4,000tpa, and an improvement program at Yizheng's current 6,000tpa plant. PET film demand in China is rising by 6% pa. (November 9, 2000)

Totalfina, as part of a restructuring exercise, sold its interest in the global ink business to **Sun Chemicals Group BV. SCGBV**, a wholly-owned subsidiary of **Dainippon Ink and Chemicals Inc (DIC)** of Japan and a US\$8bn global player, now holds 59.42% stake in Coates. (October 27, 2000)

**Ciba Specialty Chemicals** is merging **Pigment Specialities India** with **Indo Swiss Textile Chemicals** after acquiring **Indian Dyestuff Industries'** 49% stake in both JVs. The merger is expected to take effect in April 2001. Ciba may also acquire a 49% stake in **Diamond Dye-Chem** from its other optical brightener JV partner. (November 23, 2000)

**ICI India Ltd** plans to sell its polyurethane business to a 100% owned subsidiary of **Huntsman Corp** of the US, or to its affiliates. It will be incorporated in India for Rs825m (US\$17.6m). ICI India developed the polyurethane business with support from its main shareholder **ICI plc**. In 1999, ICI sold its polyurethane business to Huntsman Corp. ICI India has since been operating its polyurethane business as a partnership with Huntsman Corp. The sales revenue from the polyurethane business for the year ended March 2000 was Rs980m (US\$20.9m). (November 23, 2000)

**Indian Petrochemical Corp** (IPCL) has shelved plans to erect a 50,000tpa acrylic fibres plant in a JV with **Malwa Cotton**. This plant was to use acrylonitrile from a plant IPCL had intended to construct at Gandhar, India. However, IPCL recently cancelled the acrylonitrile project and has frozen all investments until the government completes the privatization of IPCL. (November 8, 2000)

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## INDIA

**BASF AG** of Germany is to be the first global polystyrene manufacturer to operate a production facility in India. BASF and **Chatterjee Group** have formed a strategic alliance, **Pushpa Polymers Pvt Ltd** (PPPL), for the manufacturing and sales of polystyrene in India. The facility has a capacity of 60,000tpa. BASF, the world's second largest polystyrene manufacturer, will hold a majority stake in PPPL and will assume operational as well as management control of it. (November 8, 2000)

**Coates of India Ltd**, a subsidiary of **Coates** of the UK, will sell off the company's adhesives business to **Totalfina** of France. The business was originally launched in collaboration with Totalfina's subsidiary, **Bostik Ltd**. It was licensed to manufacture and market the products under the *Bostik* brand name. However the brand name is not to be used after the expiration of the current agreement in June 2001.

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## INDONESIA

**Mitsubishi Chemical** has secured full control of its Indonesian purified terephthalic acid (PTA) JV. In a deal valued at ¥5bn-¥6bn (US\$45m-US\$54m), **Bakrie and Brothers** has sold its stake in the PTA producer **Bakrie Kasei** to Mitsubishi Chemical. Bakrie Kasei

is now 82.9% owned by Mitsubishi Chemical and 17.1% owned by **Japan Asia Investment Corp.** (November 23, 2000)

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## JAPAN

**Mitsubishi Corp** will sell its stake in the US chemical subsidiary, **Aristech Chemical Corp**, to **Sunoco Inc** for US\$695m. The latter now holds a 95.4% stake in the chemical producer, with the remaining 4.6% owned by Mitsubishi's US unit. The trading house, which spent US\$1bn to acquire Aristech in 1990, will incur capital loss of US\$342m from the transition. (November 10, 2000)

**Mitsubishi Rayon Co** plans to merge its acrylonitrile operations with those of **Mitsubishi Chemical Corp**. The 50:50 JV is slated to begin operations in April 2000 and expects to have sales of approximately ¥30bn (US\$269.6m) in its first year. The JV will combine Mitsubishi Chemical's 115,000tpa Mizushima unit and Mitsubishi Rayon's 90,000tpa Otake facility. The new company will operate 25% of Japan's total acrylonitrile capacity. Japan's top producer for acrylonitrile is **Asahi Chemical Industry Co**, with 400,000tpa capacity. (October 13, 2000)

**Mitsui Chemicals** plans to increase its acrylamide capacity in Korea and Indonesia. One of its subsidiaries, **Yongsan Mitsui Chemicals**, will commence construction of a 5,000tpa acrylamide plant in Yongsan, Korea, by the end of 2000. The unit, costing ¥500m (US\$4.5m), will produce acrylamide via a bioengineered process when it opens in December 2001. Mitsui Chemicals will also raise acrylamide capacity at its Indonesian plant from 5,000tpa to 10,000tpa. Its JV, **Mitsui Eterindo Chemicals**, operates this facility. (November 25, 2000)

**Occidental Petroleum Corp** of Canada has completed the sale of its Durez phenolic resins and compounding businesses to **Sumitomo Bakelite Co Ltd**. The deal includes all of the Durez divisions in

the US, Canada and Belgium, as well as Occidental's share in the two JVs that the companies operate in Japan, Canada, the US and Singapore. The sale is part of Occidental's strategy to focus its chemical business on its core chloralkali and vinyl operations. The company will use the US\$120m net proceeds from the sale to reduce debt. Through the acquisition, Sumitomo Bakelite will obtain a 25% share of the global phenolic moulding materials market and 11% of the industrial phenolics market. (November 2, 2000)

**Sanyo Chemical Industries Ltd** and **Mitsubishi Chemical Corp** announced an agreement to set up a JV merging their super-absorbent polymer (SAP) businesses. Sanyo Chemical is the world's fifth largest producer of SAP. Mitsubishi Chemical has a start-to-finish production system. Sanyo Chemical will hold a 60% stake in the JV, and Mitsubishi Chemical will hold 40%. The new company, slated to commence operations in April 2001, will have capacity of 95,000tpa and is expected to report US\$100m in revenues for the first year. (November 23, 2000)

**Sumitomo Chemical Co** and **Mitsui Chemicals Inc**, Japan's second and third largest chemical companies respectively, announced that they will merge by October 2003. Given combined consolidated sales of ¥1.8tn (US\$16.2bn), the merged entity would surpass **Mitsubishi Chemical Corp** to become Japan's largest chemical company and the fifth biggest in the world. The consolidation is expected to enable the two companies to effect substantial synergies in the fields of performance materials, fine chemicals and life sciences. The merged entity will aim to post ¥3bn (US\$27bn) in consolidated sales, ¥300bn (US\$2.7bn) in group operating profits, ¥250bn (US\$2.3bn) in consolidated pre-tax profits and ¥150bn (US\$1.3bn) in group net profits in fiscal 2006. Its fiscal 1999 combined figures were ¥1.8tn (US\$16.2bn), ¥125.9bn (US\$1.1bn), ¥124.5bn (US\$1.1bn) and ¥34.5bn (US\$310m) respectively. See **Focus** for details. (November 17, 2000)

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## KOREA

**BASF** plans to acquire a 10% stake in **Hanwha Chemical** for an estimated ₩120bn (US\$99.3m). The two companies were formerly partners in an **MDI** JV in Yosu, Korea. In Q1 2000, BASF announced it will invest EUR400m (US\$350m) to expand its production in Korea. (November 17, 2000)

**LG Chemical** has signed a contract to acquire **Hyundai Petrochemical's** PVC (poly vinyl chloride) operation. The acquisition price was set at ₩105bn (US\$87m). LG Chemicals also agreed to take over Hyundai's entire PVC workforce. With the takeover, LG Chemical will become the seventh biggest PVC manufacturer in the world and the second largest in Asia. The acquisition raises LG Chemical's PVC production capacity from 700,000tpa to 900,000tpa. (November 25, 2000)

**PolyMirae** of Korea, a polypropylene JV between **Basell Polyolefins** and **Daelim Industrial** of Korea, has started full-scale business activities at its 540,000tpa polypropylene plant, using Basell Polyolefins' advanced Spheripol process. Basell's polypropylene capacity in Asia-Pacific now totals 1.15 million tpa. (November 9, 2000)

**Sumitomo Chemical** is considering expanding its 80,000tpa MMA plant at Yeochon, Korea, owned by **LG MMA Corp**, a JV between Sumitomo Chemical, **LG Chemical** and **Nippon Shokubai**. Sumitomo is also considering debottlenecking its 50,000tpa MMA plant in Singapore. (November 14, 2000)

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## MALAYSIA

**BASF Petronas Chemicals Sdn Bhd**, a 60:40 JV between **BASF** of Germany and **Petroliam Nasional Berhad Petronas** of Malaysia, started production of acrylic monomers at its facility in Kuantan, Malaysia. This is the first project to come onstream at the site. Total investment in the Kuantan site will amount to US\$900m. (October 4, 2000)

**Colour Compound (M) Sdn Bhd** will increase its color compound capacity to 24,000tpa by Q4 2000. The company is based in Malaysia and is a JV between **Inabata & Co** and **Matsui Sangyo**, both of Japan. The compounds have various applications in polystyrene products. (November 25, 2000)

**Petlin**, a JV of **Petronas** of Malaysia, **Polyfin** of South Africa, and **DSM** of the Netherlands, is building a new 255,000tpa low-density polyethylene (LDPE) plant at Kerteh. The plant is due to be completed in Q3 2001. It will be the largest single-train LDPE plant in the world. (November 20, 2000)

**Sime Darby Bhd** has reported that the shareholders of its subsidiaries **Sime Tremco Sdn Bhd**, **Sime Tremco (Malaysia) Sdn Bhd** and **Sime Tremco Specialty Chemicals Sdn Bhd** have agreed to the voluntary liquidation of these companies. Sime Tremco is a 51:49 JV between **Sime Malaysia Region Bhd** and **Tremco Incorporated**. Sime Tremco Malaysia and Sime Tremco Specialty Chemicals are wholly-owned subsidiaries. The liquidation of the three companies is not expected to have any material effect on Sime Darby group's earnings and net tangible assets. (October 12, 2000)

**Vinyl Chloride Malaysia**, a 60:40 JV between **Petronas** of Malaysia and **Mitsui** of Japan, has commenced production at its new 150,000tpa PVC plant in Kerteh. The PVC plant will use vinyl chloride monomer from an adjacent, new 400,000tpa plant. The new plants cost US\$26m and aim to make Vinyl Chloride Malaysia a major supplier of vinyl chloride monomer and PVC in southeast Asia. 70%-80% of the PVC produced will be sold to the domestic market. (November 20, 2000)

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## PHILIPPINES

**Mabuhay Vinyl Corp** has initiated talks regarding the sale of its 49% stake in **Philippine Resins Industries Inc**. (November 24, 2000)

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## THAILAND

**BASF** plans to double production capacity at its 20,000tpa superabsorbents facility in Rayong, Thailand. Meanwhile, a 70,000tpa unit is being planned for Brazil through its JV with **Petrobras**. BASF's total superabsorbents capacity currently stands at 300,000tpa. In 2001 the company will move a 60,000-80,000 tpa acrylic and styrene butadiene dispersions facility from Jakarta to Cilegon, Indonesia. (November 8, 2000)

**Mitsui Chemicals** of Japan announced that it will invest about ¥24bn (US\$215.7m) to double its production capacity of purified terephthalic acid (PTA) in Thailand. The production capacity at **Siam Mitsui PTA Co's** plant in Rayong will be increased to 800,000tpa by January 2003. Siam Mitsui PTA Co is Mitsui's 50:50 JV with **Siam Cement Group**. Mitsui Chemicals' PTA production capacity of 1.2m tpa is the third largest in Asia. It produces PTA at its domestic plant in Yamaguchi Prefecture, and also produces it through JVs in South Korea and Indonesia. (November 14, 2000)

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## VIETNAM

**TPC Vina** announced its plan to increase the capacity of its PVC resin plant in Dong Nai Province from 80,000tpa to 120,000tpa. Previously known as **Mitsui Vina**, it is the only PVC resin producer in Vietnam. It was set up in 1995 and went into production in Q2 1998. However, by August 1999, Mitsui Vina had incurred heavy losses and its Japanese partners, **Mitsui Chemicals** and **Mitsui & Co**, agreed to sell their stakes to **Thai Plastic Chemical**. This raised the stake held by Thai Plastic Chemical to 70%, with the remaining stake being held by the **Vietnam Plastics** and **Vietnam Chemicals** corporations. (November 28, 2000)

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## FOCUS

### Sumitomo Chemicals and Mitsui Chemicals

In our last issue, BDA reported on the slow pace in the consolidation of the Japanese chemical industry compared to its Western counterparts and the urgency of reform in order to gear up for intense global competition. In late October, the news of a merger between **Sumitomo Chemicals** (2000E revenues of US\$9.1bn) and **Mitsui Chemicals** (2000E revenues of US\$8.3bn) was announced, reinforcing our belief that further consolidation in the chemicals market in Japan is irreversible. The merger would create Japan's largest chemicals company and is scheduled to be completed in October 2003. However, given that denials had been issued now and then from both firms (latest on Chemical Newsweek, December 4, 2000) and given the length of time from now until the completion date, the realization of this transaction is far from certain.

### Deal Structure

The news of a merger between Mitsui Chemicals and Sumitomo Chemicals in late October 2000 comes from a series of cooperative arrangements that have bound the companies. The merger, if it does take place, will be completed with the establishment of a joint holding company, which will be listed in Japan through a joint share transfer.

### Will a merger be realized ultimately?

A merger between Sumitomo Chemicals and Mitsui Chemicals has been discussed for several years in the press. Even after Nikkei reported a likely merger, there have been denials issued by both companies, though neither denied that discussions had taken place. Analysts see that a merger could result as a natural extension of previous moves. Notably, the two companies have formed several JVs such as **Evolue Japan Co Ltd** for metallocene polyethylene (1996), **Japan Polystyrene Co Ltd** for polystyrene (1997),

and most recently **Nippon A & L Inc** for ABS resin (1999). The two companies will integrate their polyolefins businesses by 2001, preceding the larger consolidation. In addition, the two companies' petrochemical operations in Chiba are next to one another, and the companies share an ethylene source in Keiyo Ethylene, together with **Maruzen**. Cooperation could increase efficiency at the Chiba complex.

#### **Mutual benefits of a merger**

Both companies benefit from cost reductions and economies of scale. They would also broaden their respective product lines. A merger would also serve to help them prepare for tariff deregulation in polyethylene and polypropylene. In addition, Sumitomo excels in polypropylene technology, whereas Mitsui is strong in polyethylene. A merger would probably be accompanied by new projects in both products.

Mitsui, specifically, could benefit as it would gain the opportunity to participate in Sumitomo's fine chemicals, agrochemicals, life sciences and electronic materials businesses. A merger with Sumitomo would not only provide the company with a stronger financial backing, especially as Mitsui's shares are depressed, but would provide an answer to Mitsui's struggling strategy to move into higher value-added products.

For Sumitomo, there would also be benefits of a merger with Mitsui. Both companies are relatively profitable companies and a merger would give Sumitomo deeper pockets to pursue acquisitions in agrochemicals and life sciences more aggressively. Sumitomo had expressed skepticism of the exit of Western chemical manufacturers from chemicals and becoming pure life science companies. With this merger, scale would cease to be a limiting factor for Sumitomo. Nikkei also notes that a merger with Mitsui would help Sumitomo expand its petrochemical operations in Singapore.

Sumitomo had previously denied the possibility of a merger based on the rationale for a merger that Mitsui has more to gain in such an arrangement. The decision

to merge the two companies seems to lie primarily on Sumitomo. There is a significant chance that the deal will fall through.

#### **Third party - Toray Industries?**

**Toray Industries**, another significant player in the Japanese chemicals market with revenues of US\$2.6bn, has expressed interest in joining the consolidation. However, the company is unlikely to participate in the deal as the Sumitomo-Mitsui merger is seen as being complicated enough to keep both companies occupied full-time.

#### **Economic & social impact of the merger**

The financial crisis of 1997 and a decade of recession have had a profound impact on the Japanese business climate. The Japanese government is now the largest borrower in the world, with debt totalling 15 months of the country's GDP. There has been a growing number of bankruptcies in the country, including some of its largest corporations. This trend, as well as the rising cost of crude oil and a decrease in protectionist regulation, has allowed foreign chemicals corporations to increase market share. To remain competitive Sumitomo and Mitsui may resort to relying on economies of scale in the medium to long term.

This alliance, which would create the world's fifth largest chemical group, targets net sales of US\$27bn by 2006. It would thus overtake the current top chemicals maker, **Mitsubishi Corp**. The merger of the two chemicals giants is significant for more than mere size, for it is another sign of the changes in the keiretsu system that has dominated in Japan. In the financial world, corporations are crossing traditional keiretsu lines, notably as **Sakura Bank Ltd**, a core member of the Mitsui group of companies, plans to merge with **Sumitomo Bank Ltd** in April 2001. The consolidation of the chemicals industry may be a precursor to consolidations binding entire keiretsu together, creating even larger conglomerates.

#### **Implications for the petchem industry**

The most obvious implication of the merger is for

the petrochemical industry. Petrochemicals constitute 54% of Sumitomo's revenue and 33% of Mitsui's. Combining these two divisions is the major impetus behind the merger, as both companies are in a position to benefit significantly. In 2000 earnings at Sumitomo were kept on a growth trajectory by passing costs on to customers. In that same time Mitsui's petrochemicals merely met expectations. The merger will increase revenues and efficiency through economies of scale and technological synergies. Achieving that efficiency may require reduction in workforce in a few years, but that may be difficult to implement.

engineering plastics such as liquid crystal polymers (LCP). Agrochemicals make up 11.1% of Sumitomo's sales and include plant-protection chemicals and feed additives. Fine chemicals account for 20% of Mitsui's revenues and include toluene diisocyanate (TDI), diphenylmethane diisocyanate (MDI), and thio-urethane based monomers for creating stronger glass. There is not a great deal of overlap between Mitsui and Sumitomo in specialty chemicals. By merging, the two corporations hope to gather their strengths under one corporate structure.

#### **Implications for the specialty chemicals industry**

Both Mitsui and Sumitomo are heavily involved in the production of specialty chemicals. Fine chemicals constitute 17.3% of Sumitomo's revenues and include strong performers such as color filters, high-quality chemicals for the production of semiconductors, and

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