

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the specialty chemicals markets

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CHINA/HK

Ciba Specialty Chemicals, the US\$4.9bn Swiss specialty chemicals manufacturer opened a textile chemical products facility and technical center in Panyu, in Guangzhou, China. The new factory will employ 100 people and manufacture 20 products that will be marketed to Asian markets. (November 19, 2001)

Degussa AG of Germany plans to establish an investment office in Beijing to evaluate further investment opportunities in China. The company has to date invested over US\$40m in 11 JV companies in China. The chemical giant expects to double its China sales within the next three years to US\$400m from the current US\$200m. (November 23, 2001)

Dow Chemical of the US plans to establish a new epoxy resins plant at Tianjin, China with a planned production capacity of 80,000 metric tpa. The plant will supply a 40,000 metric tpa solid epoxies facility that is scheduled for completion by H1 2003. (November 1, 2001)

LG Chem of Korea will form a partnership with the Tianjin municipal government to build a major PVC production facility in the Tianjin Municipality, in Northern China. LG has already invested US\$10m in its China-based joint venture **LG-Dagu Chemicals** to expand PVC production. The new investment will raise the joint venture's annual PVC production by 60%, corresponding to an increase of US\$49m in annual revenues. (November 16, 2001)

INTRODUCTION

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

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions and JVs in Asia. We focus on the specialty chemicals sector and are well placed to help Western companies structure mutually beneficial transactions with local partners.

If you think that BDA's services may be useful to you, please contact me at erellie@bdallc.com.

Euan Rellie
Managing Director

Optatech, a Finland-based producer and marketer of specialty chemicals and polymers, has set up a JV with **Sinopec** subsidiary **Jinling Petrochemicals** in Nanjing, China. The new venture will specialize in the production of proprietary thermo-plastic elastomer. (November 1, 2001)

Rhodia the French US\$7bn specialty chemicals manufacturer is forming a joint venture with **Zhangjiagang Hengchang Chemical** to make phosphorus derivatives. Zhangjiagang Hengchang Chemical is one of the largest sodium hypophosphite suppliers in the world. Rhodia will own 70% of the new company, **Rhodia-Hengchang (Zhangjiagang) Speciality Chemical Co.** The JV will target water treatment and flame retardants, and capitalize on the increasing demand in China and Asia for phosphorus and performance derivatives. (November 5, 2001)

Wuzhou Arakawa Chemical Industries will expand its ester glycerine capacity from 2000 tpa to 6000 tpa at its JV plant in Wuzhou, Guangxi, China. The resin is primarily used in adhesives manufacturing. The company was started in May, 2001 as a 50:40:10 joint venture between **Arakawa Chemical** (Japan), **Guangxi Wuzhou Pine Chemicals** (China) and **Nichimen Corp** (Japan). (November 6, 2001)

INDIA

Hindustan Lever Ltd of India will sell its nickel catalyst business for Rs210m (US\$4.4m) to **ICI India Ltd.**, a subsidiary of **ICI Plc** of the UK. The sale will be executed on a going-concern basis. ICI will take over the nickel catalyst manufacturing facilities at the Taloja Factory (near Mumbai). The nickel catalyst operations contributed around Rs200m (US\$4.2m) to Hindustan's top line in 2000. The transfer will result in a profit of around Rs125m (US\$2.6m) to Hindustan. (November 21, 2001)

INDONESIA

Indonesian Bank Restructuring Agency (IBRA) is working on two chemicals projects that will help revive the country's troubled chemical industry. In the first, **Chandra Asri** of Indonesia is working with its main creditor, **Marubeni Corporation** of Japan and IBRA on a debt restructuring plan. Secondly, IBRA is also in discussions with **Pertamina** and other creditors to revive a stalled TPPI aromatics and olefins project located in East Java. The deal being discussed will allow Pertamina to lend US\$15m in return for a 15% stake in the project and off-take access from the aromatics facilities. (November 26, 2001)

Tosoh Corporation of Japan is evaluating a potential acquisition of a chlor-alkali and vinyl joint venture project in Indonesia. It is primarily interested in chlor-alkali, vinyls, petrochemicals and specialty inorganics. (October 22, 2001)

JAPAN

Asahi Glass Co (AGC) will invest Y3b (US\$24m) to establish fluorine-based medical and agro-chemical intermediates by Q1 2003. The new plant will likely be located within the company's chemicals complex in Chiba, Japan. Asahi anticipates robust growth in the agrochemicals and pharmaceuticals markets in both Japan and Asia. Construction is expected to begin in January 2002 and is scheduled for completion by October 2002. (November 6, 2001)

Mitsui Chemicals Inc. plans to invest over Y30b (US\$256m) to build a terephthalic acid plant with 50tpa capacity in China. The project will be among the largest Japanese chemical investments in China.

The company has yet to announce a specific site for the project, but market observers believe it will be near Shanghai, where many polyester fiber plants are located. Mitsui Chemicals expects completion by 2005, and may include the participation of local joint venture partners. Terephthalic acid is a material used to produce polyester fibers and polyethylene terephthalate (PET) resins. (November 27, 2001)

Sumitomo Chemical Co Ltd said the company expects to post a 17% decline in profits for FY2001 due to weakness in all product segments. Specialty chemicals is expected to post an operating profit of Y66b (US\$564m), down 9.9% YoY, basic chemicals and petrochemicals are likely to break-even this year versus a combined operating profit of Y11.8b (US\$101m) last year earlier. The company attributed the relative weakness of its specialty chemicals division declining sales of fine and IT-related chemicals. (November 2, 2001)

KOREA

Rhodia Polyamid of France will invest US\$70m for an expansion of its Onsan chemical plant in Ulsan, Korea. Plans call for doubling production capacity by the end of next year. This will result in a total capacity of up to 130,000 tpa for adipic acid. The company also formed a strategic alliance with Japan's **Asahi Chemical Group** to secure a stable supply of raw materials and marketing channel. Adipic acid demand has been robust thanks to healthy demand from auto parts and textiles manufacturing. (October 18, 2001)

Seoul Fine Chemicals, Jian Corporation and **Taesung Chemicals** will actively expand their Japan operations with the help of the government affiliated **Korea Trade Center (KOTRA)**.

- **Seoul Fine Chemical Industries** manufactures paint stabilisers, zinc stearate, and holds an 80% share of the South Korean market. Its production capacity is 2,400 tpa, which is of comparable quality to chemicals produced in Japan.

- **Jian Corp** is a chemicals trader specializing in rutile- type titanium dioxide pigments. The material is sourced from a Ukrainian producer that has a 6,000 tpa capacity.

- **Taesung Chemical Co.** manufactures and sells iron dioxide pigments used in rubber, cement, ceramics, paper, bricks and tiles. It has a capacity of 6,000 tpa. (October 18, 2001)

MALAYSIA

BASF PETRONAS Chemicals Sdn Bhd. opened its world-scale integrated chemical complex in Gebeng, Pahang, Malaysia on October 4, 2001. The complex, owned and operated by the 60:40 joint venture between **BASF Aktiengesellschaft** of Germany and Malaysia's national petroleum corporation **Petroleum Nasional Berhad (PETRONAS)**. The 150-hectare "Verbund" site includes 12 plants producing acrylic monomers, oxo products and butanediol developed in three phases. The acrylics complex came onstream in July 2000. A complex for the production of syngas, oxo products, phthalic anhydride and plasticisers became operational in April 2001. A butanediol complex, which is under construction, is scheduled to start up in the fourth quarter of 2002. Total investments for the projects at the site will be about US\$900 million. (October 4, 2001)

Akzo Nobel will invest US\$31.5m to build new production capacity in Singapore, Japan and Malaysia. The region will receive about 15% of the company's annual investment budget by the end of 2002 (10% in 2000).

The bulk of the investment will be in Singapore, where the company is constructing a US\$20.9m speciality chemicals on Jurong Island. The new Singapore facility will produce compounds for hair conditioners and fabric softeners, and is expected to open in early 2003.

In Japan, the company will expand its industrial surfactant capacity at its Laco joint venture (Yokkaichi, Japan) from 20,000tpa to 27,000tpa, at a projected cost of US\$4.5m. Capacity will rise.

Malaysia will receive a US\$5.9m investment for a fractionated fatty acid plant in Pasir Gudang. This project is slated for completion by mid-2003.

SINGAPORE

YCH Group, the Singaporean chemical logistics management company extended its partnership with Dystar, a world leader in textile dyes and pigment preparations. The new agreement will last for another three years, and the two companies will work together to supply Dynstar's products to customers throughout the Asia Pacific region. YCH is a leading supply chain solutions company to the chemicals industry, its major clients include chemical conglomerates such as Ciba Specialty Chemicals and other global chemical companies.

Teijin Chemicals Ltd. plans to restructure its production system for high-performance resin polycarbonate, shifting output of commodity-grade products to a newly expanding plant in Singapore. Its Singapore location has a capacity of 80,000 tpa, but this will increase by 50,000 tpa this month when new capacity comes on-line. 50,000 tpa in additional capacity is due to come on-stream in Singapore at

the end of 2002, raising total capacity to 180,000 tpa. Teijin Chemicals is Japan's largest manufacturer of polycarbonate and the fourth-largest in the world.

TAIWAN

Asahi Kasei of Japan is considering two options for expanding its methyl methacrylate (MMA) production. The company plans to either add 30,000 tpa capacity at its Kawasaki, Japan facility, or form a JV with Tasco Chemical to build a green-field 60,000-80,000tpa plant in Kaohsiung, Taiwan. Asahi is expected to finalize a decision by Mar 2002.
(October 22, 2001)

Clariant Taoyuan-Taiwan has developed a new process for making colour masterbatches for CD-ROMs. The JV subsidiary sells the chemical in to the domestic Taiwan market, which holds an estimated 70% share of the global CD-ROM market. The company's French parent company, Clariant International Ltd. separately announced that it will establish technical design centres in Singapore and Taiwan by 2Q 2002.
(November 15, 2001)

Chang Cheng Chemical of Taipei and Akzo Nobel have established **Akzo Nobel Chang Cheng Coatings**, a 50:50 joint venture. The company will produce a new powder coatings plant in Suzhou, China. The plant will produce Akzo's speciality fusion bonded epoxy powders. (September 26, 2001)

Chi Mei and **Asahi Kasei** have completed construction of their 50,000 tpa polycarbonate (PC) joint venture in Tainan, Taiwan. The former holds a 51% equity in the venture and the latter 49%. The

two companies expect to begin running tests on the new plant, with commercial operations beginning in April 2002. (October 15, 2002)

Daikin Industries and **Formosa Plastics** commissioned an electronics-grade hydrofluoric acid plant at the Gao-xiang, Taiwan, facility of their joint venture **Formosa Daikin Advanced Chemicals**. The company was capitalized at JPY1.5b (US\$12.8m). (October 30, 2001)

Jin Tung Chemical Corp, an affiliate of Taiwan's **Ho Tung Chemical Corp**, is expected to open a new 72 000 tpa linear alkyl benzene (LAB) plant in Nanjing, China, sometime in Q3 2002. The company has commenced construction of the plant, which will source feedstock from Jinling Petrochemical. The new plant is a joint venture between **Jinling Petrochemical** of China and Ho Tung Chemical. (November 7, 2001)

THAILAND

Mitsui Chemicals will likely locate its next large scale PET plant in Thailand. The capacity of the proposed plant is estimated to be between 100,000-150,000 tpa, and will be mainly sold to bottle manufacturers. Mitsui is also expanding output at its two PET plants in Japan, and one in Indonesia. The expansion project is expected to be completed between November, 2001 and Spring, 2002. Mitsui will have a total PET capacity will be 263,000 tpa

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after the expansion project is completed. (November 1, 2001)

Thai Acrylic Fibre will complete a proposed 30% expansion of its domestic 57,000 tpa acrylic fiber plant by 2003. This will enable the company to boost its presence in the speciality segment of the acrylic fiber market. The company also announced that it was evaluating production facilities outside of Thailand, and has indicated a possibility that a new plant may be constructed in China. The foreign facility could be in the form of a new plant or an acquisition of an existing plant. (November 12, 2001)

Mitsubishi Chemical and Mitsubishi Gas Chemical will invest together over US\$180m to increase their polycarbonate and polyacetal production at Thai Polycarbonate and Thai Polyacetal. Mitsubishi Gas Industry is the major shareholder in both Thai companies. Thai Polycarbonate's capacity will be increased from 60,000 tpa 140,000 tpa, and Thai Polyacetal's capacity will be boosted from 20,000 tpa to 45,000 tpa.

Building work at a new unit will start in 2001 with the facilities at full capacities by 3Q 2002. The expansion decision was made in anticipation of future growth in the speciality and engineering plastics sectors.

Cognis Thai, a Thailand-based specialty chemicals company announced it will double its surfactants capacity by Q2 2002. The company's surfactants plant in Bangpakong, Thailand, will be doubled to 60,000 tpa. Cognis, formerly the chemical arm of Germany's giant Henkel Group, which recorded worldwide sales of Euro1.6bn (US\$1.4b) in H1 2001. Schroder Ventures and Goldman Sachs recently paid Euro2.6b (US\$2.4b) to acquire Cognis from Henkel. (November 20, 2001)

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. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact Charles Maynard in Tokyo, Euan Rellie in New York, Andrew Huntley in Singapore, Simon Wu in Shanghai or Paul DiGiacomo in Hong Kong.

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