

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

# SOUTH EAST ASIAN CHEMICAL NEWS

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## INTRODUCTION

The green shoots of recovery are spreading through Asia, but the spring may be a long and painful one. Both upstream and downstream prices and volumes remain depressed, but corporate activity and restructuring is accelerating.

We hope that you find *South East Asian Chemical News* useful and informative. BDA is a corporate finance advisory firm that helps its clients to identify and execute acquisitions and joint ventures in South East Asia. If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300.

Euan Rellie  
Managing Director

## INDONESIA

**Indolatex**, the largest Indonesian manufacturer of synthetic resin dispersions, has announced that **Rhodia**, the global specialty chemicals manufacturer, has increased its ownership position to 100% of the company. Indolatex has a production capacity of 50,000 tpa. Synthetic resin dispersions are used in the paper, paint and coatings manufacturing industries. Rhodia operates nine resin production facilities worldwide, with a total production capacity of more than 400,000 tpa. (November 18<sup>th</sup> 1998)

**Indorama Synthetics Indonesia**, a leading local fiber manufacturer, has posted a profit of US\$46m for the first nine months of 1998, versus a US\$44m profit for the same in 1997 last year. The company has experienced lagging domestic sales but exports have increased 19% from last year, helping to compensate for the depressed local market. (December 7<sup>th</sup> 1998)

**PT Petrokimia Gresik** and **PT Perkebunan Nusantara**, two local chemical companies, have announced plans jointly to set up an NPK fertilizer plant. The facility will have a production capacity of 300,000 tpa. The location has not yet been revealed. (November 14<sup>th</sup> 1998)

## MALAYSIA

**Ancom Bhd**, a diversified Malaysian group, is looking to expand its agrochemical business overseas. It recently paid RM7.4m (US\$1.9m) for an 11% stake in the Stock Exchange of Thailand listed **Pato Co Ltd**, the largest independent chemical distributor in Thailand. Pato is currently controlled by Japanese and American interests. Ancom made RM12.2m (US\$3.2m) in pre-tax profits in 1998 and is expected to maintain a similar level of profitability next year. (November 19<sup>th</sup> 1998)

**Flexsys Chemicals (M) Sdn Bhd**, a manufacturer of chemicals used to process rubber for tires, has signed an agreement with the Pahang government to build a RM280m (US\$74m) rubber chemicals plant at the Gebeng Industrial Estate. Flexsys Chemicals is a subsidiary of the Belgian company **Flexsys**, which has global revenues of US\$600m. (December 1<sup>st</sup> 1998)

**Malaysian Refining Co**, a JV between **Petronas**, the Malaysian state oil company, and US companies **Conoco** and **Statoil**, is to build the first lubricant base oil plant in Malaysia at Melaka. **Foster Wheeler** has been contracted for the project management consultancy. Basic engineering work should be completed by July 1999, with the plant coming onstream by 2002. The high quality hydroprocessed base oils will be sold mainly to the automotive industry. (November 16<sup>th</sup> 1998)

**Orgavyl Chemical Industries Bhd**, a leading Malaysian producer of adhesives and sealants, is aiming to expand its export market by setting up a US company called **OCI Inc**. (November 18<sup>th</sup> 1998)

**Petrochemicals Sdn Bhd**, a leading polystyrene resin producer, has announced projected

revenues of RM570m (US\$150m) 1998. The company expects revenues to grow 35% in H1 1999, with Malaysia and Singapore leading the growth. (November 16<sup>th</sup> 1998)

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## PHILIPPINES

**Hai-O Enterprise Bhd**, a Malaysian trading company, will be looking to the Philippines as the next overseas location for a distribution center. The Philippines, with a population of 70 million and a standard of living slightly lower than that of Malaysia, is cited as an ideal market for the company to distribute lubricant oil, herbal medicines and other local products. The company is looking for potential partners, perhaps locally. (October 5<sup>th</sup> 1998)

**Takeda Chemical Industries**, of Japan, has increased its stake in **Davao Central Chemical Co (DCCC)**, a JV engaged in activated carbon manufacture. Stakes in DCCC were previously divided between **Mitsubishi Corp** (10%), **Takeda Chemical** (35%) and a local company (55%). The JV has an annual production capacity of 4,000 tons of high performance activated carbon, made from local coconut shells. Mitsubishi now holds 20% and Takeda Chemicals 80%. (November 16<sup>th</sup> 1998)

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## SINGAPORE

**GE Plastics (GE)** and **Fitch Consultants** have formed a JV in Singapore to handle industrial design projects in Asia. The venture is an extension of the five-year partnership between GE and Fitch in the US called **Polymer Solutions**. The JV will operate independently from GE's operations in Singapore and cli-

ents will be under no obligation to use GE polymers. (November 16<sup>th</sup> 1998)

**Sembawang Utilities and Terminals (SUT)**, a Singapore state-controlled company, expects to reap maiden profits from its Jurong Island project in 1999, just two years after it first began operations. Expected revenues will be S\$80m-S\$90m (US\$49m-US\$55m). SUT provides centralized utility services including steam, cooling water, demineralized water, fire water, chemical tank storage and waste water treatment for the petrochemical and chemical industries. (November 24<sup>th</sup> 1998)

**Witco**, the US specialty chemical company with annual sales of US\$2.2bn, has commenced the start-up phase of its alkoxylation plant at Pulau Ayer Merbau, Singapore, for which it purchased land in mid-1998. This facility will serve the agricultural chemicals and emulsion polymerization markets. The opening of this plant represents the first phase of Witco's plan to supply specialty chemical products in the Asia Pacific region. (November 24<sup>th</sup> 1998)

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## THAILAND

The **Deputy Agriculture Minister** has announced that Thailand, the world's largest natural rubber producer and exporter, may pull out of the **International Natural Rubber Organization** (INRO). This is because the agency has ignored the country's plea to raise intervention prices to meet bearish market conditions. Malaysia has also confirmed that it will quit the organization by October 15<sup>th</sup> 1999. (November 5<sup>th</sup> 1998)

**Dow Chemicals** has increased its stake in **Rayong Olefins Co (ROC)**, the owner/operator of a 600,000 tpa cracker, from 11% to 19% which gives it a greater managerial role.

Dow previously held its stake in ROC through Dow's 50:50 JV with **Siam Cement**. Dow now owns an independent 9% stake in ROC. (November 30<sup>th</sup> 1998)

**Thai Petrochemical Industry Plc (TPI)** has announced plans to reduce its debt-to-equity ratio through increasing its capital by US\$700m and converting its interest payment of US\$300m-US\$400m to equity. TPI will also ask for a five-year extension on all debts in order to restructure its finances further. (November 18<sup>th</sup> 1998)

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## VIETNAM

**Mobil Oil, Mitsui** of Japan and **Unique Gas Thailand** have commenced a JV to produce lubricants and related products. Construction of the processing plant at the Go Dau Industrial Park in Dong Nai province has begun. The US\$30m venture will produce 15,000 tpa of lubricant at full capacity, along with bitumen and LPG. The plant is scheduled to open in July 1999. Mobil holds a 50% stake, Mitsui 36% and Unique 14%. (November 22<sup>nd</sup> 1998)

**My Plastics and Chemicals (MPC)** is planning Vietnam's second PVC facility at Phu My, Baria, Vung Tau. MPC is a JV owned by **Petronas** of Malaysia (40%), **Marubeni** of Japan (30%), **Vietgas** of Vietnam (15%) and **Tramatsuco** (15%). The 100,000 tpa facility is due to be brought onstream in Q1 2000, although it may be delayed due to adverse weather conditions. (November 20<sup>th</sup> 1998)

**PetroVietnam** and **Vietnam Chemicals Corp** are working on a feasibility study (to be completed in March 1999) for constructing a linear alkyl benzene plant with a capital investment of US\$135m. The plant will be developed in Dinh Vu Industrial Park in the north-

ern city of Haiphong. When opened, it will have a capacity of 80,000 tpa of local detergent production. (November 5<sup>th</sup> 1998)

**Southern Fertilizer Corp**, in a JV with Japanese companies **Nissho Iwai** and **Central Glass**, has commenced pilot operation of a US\$40m NPK fertilizer plant on November 10<sup>th</sup> 1998. The plant, located in Dong Nai province, has a capacity of 350,000 tpa. The Vietnamese industry is expected to produce 2 million tons of NPK fertilizer a year, satisfying domestic demand until 2005. (November 23<sup>rd</sup> 1998)

**Viplaco** has commenced production of PVC in April 1998 at Dong Nai, near Ho Chi Minh. This facility has a capacity of 80,000 tpa and required an investment of US\$27m. There are plans to expand capacity by 120,000 tpa in 2001, requiring an additional investment of US\$63m. Output for 1998 is anticipated to amount to 30,000 tons. (November 20<sup>th</sup> 1998)

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## REGIONAL

**BASF** of Germany, is considering building an integrated petrochemical base in Nanjing. If constructed, the plant will begin operation in 2003. BASF has become a prominent foreign investor in **China's** chemical industry. It has a strong textile dyes business and numerous joint ventures with a total capital investment of DM1bn (US\$588m) in China. (November 5<sup>th</sup> 1998)

**Birla VXL**, an **Indian** group, has received a consultants plan regarding the viability of its plan to divest its soda ash division, **Sauashtra Chemicals (SC)**. The company is likely either to sell SC or to seek a partner, due to a slump in the soda ash market. In Q2 1998 the company incurred losses of Rs72.3m (US\$1.7m), on a turnover of Rs1.4bn

(US\$33.3m). Compounding these losses was the cyclone in Gujarat in June 1998, which forced the plant to close for three months. (November 16<sup>th</sup> 1998)

**China Synthetic Rubber Corp (CSRC)**, the world's third largest carbon-black producer, has announced that it is nearing an agreement to purchase **LG Chemicals'** carbon-black plant in Yeochon, **South Korea**. CSRC already has a 100,000 tpa plant in **Taiwan** and a 250,000 tpa plant in the US. (November 16<sup>th</sup> 1998)

**Eastman Chemical** has divulged plans to build its presence in coating materials in Asia. The expansion will involve acquisitions and construction of new facilities in several Asian countries, particularly **China, Taiwan, and Japan**. Construction is underway for an oxochemical plant in **Singapore**. (November 18<sup>th</sup> 1998)

**Guangzhou Petrochemicals (GPC)** of **China**, has been forced to delay its takeover of **Guangzhou Ethylene** until it obtains the State Council's approval, which it expects to receive by the end of the year. GPC says that completion of the transaction, scheduled for early 1999, will be delayed by one month. (November 16<sup>th</sup> 1998)

**Mallinckrodt Inc** of the US has announced that it is exiting its JV in **India, Coromandel Fertilisers Ltd (CFL)**, which manufactures a variety of fertilizers at its plant in Andhra Pradesh. Mallinckrodt's Indian partner, **EID Parry**, will buy Mallinckrodt's stake to increase its shareholding in CFL from 41.67% to 62.56%. (December 7<sup>th</sup> 1998)

**Montell** of the Netherlands, is likely to take a 10% stake in the 42,000 tpa ethylene facility being set up by **Haldia Petrochemicals Ltd (HPL)** in West Bengal, **India**. This project is estimated to cost Rs51.7bn (US\$1.2bn). This will aid Montell, a major supplier of process technology to the Haldia

project, to strengthen its position within the Indian petrochemicals industry. (November 30<sup>th</sup> 1998)

**Sichuan Santong Enterprise Co (SSEC)** of **China** has paid RMB69m (US\$8.3m) for a 15% stake in the government-run **Sichuan Jinlu Group Co** which manufactures chemical products. SSEC, which is privately held, purchased a controlling stake on the Shenzhen Stock Exchange. Sichuan Jinlu has A shares (for domestic investors only) listed on the exchange. (October 29<sup>th</sup> 1998)

**SPIC Organics** and **Manali Petrochemicals, India's** only producers of proylene glycol (PG) and slabstock polyol, had been planning to merge. This has been delayed whilst approval is sought from the creditors and shareholders. The producers have a combined PG capacity of 13,250 tpa and a joint polyol production of 14,000 tpa. (November 30<sup>th</sup> 1998)

**Westvaco Corp** of the US has entered a definitive agreement to acquire a 45% interest in a carbon plant in Guangzhou, **China**, from **Shorewood Packaging Corp** for US\$25m. Westvaco manufactures paper, envelopes, packaging and specialty chemicals. (October 29<sup>th</sup> 1998)

**Witco**, the US specialty chemicals company, is expected to finalize a land acquisition in the Zhongshan Industrial Zone in **China** in November 1999, where it proposes to construct its first Asian specialty chemicals complex. The facility will be built in two phases, with production expected to start in 2002. Production units for silicon fluids, urethane and polymer additives will commence in phase one, followed by industrial surfactants, amines and other products. (November 23<sup>rd</sup> 1998)

**Wuxi Di'aisheng Epoxy Co Ltd** of **China** has begun a test run, producing a first batch of 850S epoxy resin. The company is a JV between the **Japanese** firms **DIS Company** and **Sumitomo Co Ltd** and **Chinese** firm, **Wuxi**

**Petrochemical Plant.** The three companies have invested US\$17m in the venture. The JV will produce epoxy resin for both the domestic and export markets. (November 5<sup>th</sup> 1998)

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## FOCUS:

### South East Asian paint and coating additives companies

We have given thumbnail sketches below of six paint and coating additives players in SE Asia. Like other sectors in the region, these additives companies have been hit by the slow-down in car, home and industrial sales.

BDA has had the opportunity to meet with the senior management of most of these companies. There are good opportunities available for Western firms.

#### 1. Lam Thong Corporation Pte Ltd, Singapore

**Corporate Summary** - Lam Thong is active in the production of **screen inks, pigment pastes** and **special coatings**. It has operations involving the manufacturing of various paint chemicals (**solvents, dilutents, thinners, pigment distributors, paint hardeners**, etc.) The company has been in operation since 1978 and has 80 on site employees. Lam Thong has a good distribution network in Singapore and Malaysia.

**Management** - The executives are Ong Huan, Director and Ong Keh Beng, Director.

**Financials** - The company has issued share capital in the amount of S\$139,004 (US\$86,070). 1997 revenues were approximately US\$4m.

## 2. Nitro Chemical Industries (NCI), Thailand

**Corporate summary** - NCI is a subsidiary of the Taiwan-based **TNC**, which also owns shares in **TNC Philippines**. NCI is the monopoly local manufacturer of **nitrocellulose**. NCI is 80% owned by Thai shareholders and 20% by TNC. It was established in 1984. NCI produces nitrocellulose as a **paint** and **lacquer additive**. The factory is 40 km from Bangkok.

**Management** - Amphan Viprapasit, Managing Director. Paiboon Wongwanich, Marketing Director.

**Financials** - Share capital of Bht15m. Revenues of approximately US\$6m in 1997.

## 3. Thai Epoxy Resins (TER), Thailand

**Corporate summary** - TER produces over 35 different grades of **epoxy resins**. It markets them under the trademark **EPOTEC**. TER's epoxy resins are used as raw materials in **industrial protective coatings, marine and container paints, powder coatings, can coatings, adhesives, and electrical casings**. The company also produces **brominated resins** used for PCB's in the electronics industry. TER has a capacity of 30,000 tpa of epoxy resins.

**Management** - Dr. S.K. Bhatnagar.

**Financials** - Revenues of approximately US\$17m.

## 4. Thai Oleochemicals (TO), Thailand

**Corporate summary** - Manufacturer of downstream additives for the **coatings/printing inks** and **PVC processing** markets. **Thai Maparn Group** is the key shareholder. **Henkel** is the main MNC competitor. TO had 45 employees as of November 1998.

**Management** - Mukund S.A. Rao, Managing Director.

**Financials** - Revenues are forecasted to fall from US\$9m from US\$6m, but margins remain high.

## 5. TNC Chemicals Philippines (TNC), Philippines

**Corporate summary** - 60% of TNC is owned by Taiwanese who have settled in Philippines and by other local shareholders. 40% is owned by **TNC** of Taiwan but the local management is independent. TNC produces 1,500 tpa of **nitrocellulose**. **Chrome yellow pigments** make up the remaining 30% of the revenues, but are more profitable than the nitrocellulose business. The products are used as paint additives and are sold to all of the Philippines' paint producers. Sales are down 20% since the downturn.

**Management** - David Lih, President and shareholder. Kurt Lin, VP of Marketing and shareholder.

**Financials** - Revenues of approximately US\$9m.

## 6. Yung Koo Paint & Varnish Mfg Co Ltd, Taiwan

**Corporate Summary** - Yung Koo was established in 1926 and currently has 150 employees on site. Yung Koo produces various paint additives including **fire resistant additives** and **underwater paint additives**. Yung Koo is also active in **natural** and **synthetic resins, primers, lacquers, paints, and enamels**.

**Management** - The executives are T.W. Shen and H.S. Lin (General Manager).

**Financials** - Revenues of approximately US\$18m.

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### ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies in expanding their businesses in Asia. BDA specialises in the chemical industry and helps clients to find local business partners and opportunities, and to execute JVs and acquisitions. BDA has offices in New York and Singapore, and has senior advisors in Bangkok, Jakarta, Kuala Lumpur and Manila. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie or Charles Maynard, through our New York office, or Andrew Huntley in Singapore.

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