

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

ASIAN SPECIALTY CHEMICALS NEWSLETTER

Issue 26, August 2001

A bimonthly newsletter of developments in the chemicals sector

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INTRODUCTION

We hope you find *Asian Specialty Chemicals Newsletter* informative. BDA is a corporate finance advisory firm which helps clients to identify and to execute acquisitions and JVs in Asia. BDA has offices in New York, London, Shanghai, Tokyo, Hong Kong, and Singapore and specifically focuses on the specialty chemicals industry.

If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300, Singapore at (65) 533-8500 or via e-mail at erellie@bdallc.com.

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Managing Director

CHINA/HK

BASF has commenced production of 40,000tpa of acrylate dispersions at its new facility in Pudong, China. The acrylate dispersions produced at the new facility are primarily destined for the Chinese market, but will also be exported to other Asian countries. BASF already manufactures acrylate dispersions at facilities in Australia, India, Indonesia, Japan, Pakistan and the Philippines. (July 13, 2001)

Bayer AG of Germany will further expand its presence in the Asia-Pacific region by investing US\$6bn by 2008. The investment is anticipated to increase the contribution of sales in these regions to the Bayer group's total revenues from 16% to 25% by 2010. Bayer will invest more than US\$4bn towards the expansion of production facilities in these regions. US\$300m is earmarked for the expansion of Bayer's polymers production facilities in China. (July 13, 2001)

Dainippon Ink & Chemicals is erecting a 12,000tpa polyester and acrylic resins plant in Zhongshan, China. Called **DIC Synthetic Resins**, the project will require an investment of ¥1bn (US\$8m) to complete and is due onstream in 2002. Output from the plant will be sold in China and Japan. (July 16, 2001)

Degussa AG of Germany has announced that its projects in China will act as a gateway to the development of its business throughout Asia. The US\$180m in revenues Degussa generated in China in 2000 was mainly through its feed additives, C4-chemistry, advanced filler, pigments and construction chemicals activities. (July 13, 2001)

Nanning Chemical Industry Co. of Guangxi, China, has completed the set-up of ionic membrane caustic soda lines. The production lines, which started operation in late July 2001, have a combined annual capacity of 20,000 tons. Funding for the project was obtained from the proceeds of the company's initial public offering of 40m shares in June 2000. (August 2, 2001)

Rhodia of France is investing US\$7m to construct a 3,000 tpa vanillin plant in Wuxi, China. The proposed plant will be the second on the site and will be on stream in 2003. Additionally, Rhodia plans to raise the capacity of its vanillin plant in Haining, China, from 1000tpa to 1500tpa by debottlenecking. This project will cost approximately \$650,000 and will be completed in late 2002. (August 8, 2001)

Ticona of Germany, **Mitsubishi Gas Chemical Co Inc** and **Polyplastics Co Ltd**, both of Japan, have announced plans to jointly construct a world-scale 60,000tpa polyacetal facility in China by 2004. Engineered polymers supplier **Polyplastics**, a JV between **Japanese Daicel Chemical Industries** and **Celanese AG** subsidiary **Ticona**, will have the majority of the equity and will manage the venture. The decision to locate the polyacetal plant China is based on the anticipated growth of the local market, which presently exceeds 100,000tpa. (July 6, 2001)

INDIA

Hindustan Lever Ltd (HLL) of India has indicated that it may eventually exercise its option to divest to **ICI India** its entire 49% stake of the specialty chemicals JV operated by the two companies. The JV agreement stipulates that HLL has the option to divest their shares, and ICI has priority in acquiring them. The agreement is in effect for five years after the venture becomes operational. (July 18, 2001)

Oswal Group, a manufacturer of agro-based products, petrochemicals, alcohol chemicals and

nitrogenous fertilizers, plans to set up a DAP plant in Paradeep, Orissa. The US\$250m group is comprised of **Oswal Chemicals and Fertilizers Ltd**, **Oswal Agro Mills Ltd** and **Oswal Agro Furane Ltd**. **Oswal Chemicals and Fertilizers**, which has fertiliser plants in Ludhiana, Shahjahanpur, Dewas and Mandideep, plans to expand its operations and to enter into technical collaborations with **Buhler Marg** of Germany, **Berico** of the US and other foreign companies in order to remain competitive. (July 12, 2001)

Thermax Limited of India is endeavoring to reduce company-wide operational costs and increase revenues by 10% by 2002. To achieve better utilization of resources, Thermax has restructured its divisions into five special business units (SBUs): energy systems and co-generation units, solid waste and wastewater treatment, ion exchange resins, specialty chemicals and additives, and air pollution control systems. The company has also decided to close down loss-making units. (July 6, 2001)

INDONESIA

Mitsubishi Corp of Japan has formed a 50:50 JV with Indonesia-based **Humpuss Group** to produce ammonia locally. Mitsubishi Corp has also announced its intention to change its global focus from commodity chemicals to specialty chemicals in the medium-term. The move is due to weakening margins for commodity chemicals. The company anticipates that specialty chemicals will account for 50% of its business by Q1 2004. (July 4, 2001).

Mitsui Chemicals Inc of Japan is nearing completion of a feasibility study regarding the construction of a new 10,000 tpa acrylamide unit in Indonesia. If built, the new facility is likely to be sited at Merak, where Mitsui Chemicals already operates an acrylamide plant with a production capacity of 35,000 metric tpa. Construction is tentatively scheduled to begin in mid-2002 or early 2003, and the plant is expected to become operational two years later. (July 3, 2001)

JAPAN

Asahi Glass of Japan plans to double its turnover in Japan from *Lumiflon*, a resin for fluorine coatings, by 2006. The company expects higher demand from the construction sector even though market acceptance is limited due to high prices. Asahi Glass aims to stimulate demand by reducing the product range from 30 to 15 products. (July 13, 2001)

Nippon Zeon is to build a 5,000tpa unit in Mizushima, Japan to make cyclo-olefin polymers, which are dicyclopentadiene-based polymers. The company anticipates building an additional 10,000tpa unit in the near future. Like **Ticona's Topas** cyclo-olefins, Nippon Zeon's products are transparent and possess excellent optical characteristics. (July 11, 2001)

PPG Industries Inc, the world's second-largest maker of paint for automobiles, will make its debut on the Japanese market through an alliance with midsize print maker **Isamu Paint Co**. US-based PPG intends to sell eco-friendly, water-based paint to **Toyota Motor Corp** and other Japanese automakers. PPG and Isamu Paint are expected to sign an alliance by the end of the month. Isamu will produce paint developed by PPG at its plant in Shiga Prefecture, Japan. **PPG Japan Ltd** will market the product, aiming for a 5% share of the domestic market within five years. Isamu hopes production of paint for new cars, through the tie-up with PPG, will raise capacity utilisation rates at its plants. (July 24, 2001)

Rhodia's Phosphorus and Performance Derivatives division has formed partnerships with two Japanese companies, **Hokko Chemical Industry** and **Nippon Chemical Industrial**, to extend its range of phosphine products. The global market for phosphine derivatives, excluding phosphonium salts, is estimated at Eur280m (US\$260m) and is growing at a rate of 10%-15% per annum. (July 17, 2001)

Rohm and Haas has signed a production and distribution contract for certain isothiazolone biocides with Japanese specialty chemicals producer **Chemicrea**. Chemicrea technology will be used at plants in Jarrow, UK, Jiangsu Province, China and Onahama, Japan. (July 18, 2001)

KOREA

BASF of Germany acquired a styrene monomer plant from **SK Evertec Co.** of South Korea. The facility has a current capacity of 320,000 metric tons. It is located at the Ulsan petrochemical complex adjacent to BASF's styrenics site. The acquired plant is already connected by pipeline to BASF's facilities, which reduces logistics costs considerably. The purchase is consistent with BASF's strategy of backward integration along the styrene value-adding chain. Even after this acquisition, the company will remain a net styrene purchaser in Asia due to its high demand. (July 2, 2001)

LG Chemical of Korea and **M Dohmen**, a German distributor of specialty dyes, are partnering to form the fifth largest dye supplier in the world. LG Chemical will roll its dyes business into the partnership along with its stake in the Tianjin-based JV, **Tianjin LG Specialty Chemical**. It will subsequently acquire 49% or US\$34m worth of M. Dohmen's shares. The partnership anticipates revenues of approximately US\$140m, which is 4% of the global dyestuffs market. (June 26, 2001)

LG MMA Corp, a Korean-Japanese JV, which operates a 50,000tpa methyl methacrylate (MMA) production facility in Yocheon, has decided to build a second 50,000tpa MMA factory in Korea. MMA is an ingredient used in making optical fibre and laser discs. The decision is based on the view that the rapidly developing electronics and information materials industry in Korea will deplete the MMA supply in the domestic market. The partners in the planned

undertaking include Korea-based **LG Chem Investment Ltd**, **Nippon Shokubai Co.** and **Sumitomo Chemical Co Ltd**, both of Japan. According to the terms of the collaborative agreement, LG Chem Investment will hold a 50% stake in the venture while the remaining equity will be held by the Japanese firms. The new facility will be built in South Cholla Province and is expected to cost US\$78m to build. The project is scheduled for completion in 2003. (July 3, 2001)

Nissan Chemical Industries (NCI) of Japan has introduced a five-year management plan which will focus on electronic materials and pharmaceuticals. NCI has established an anti-reflective coating material bottling JV in Korea. The coating is used in the semiconductor sector. A 10% stake in the JV is held by the company's sales agent in Korea. In five years, NCI aims to increase annual sales of electronic materials to ¥16bn (US\$128m). (July 11, 2001)

MALAYSIA

BASF Petronas Chemicals Sdn Bhd has commenced operation of an oxo and syngas complex on an integrated 150 hectare site in Kuantan, Malaysia. The next addition to the site will be a 100,000tpa butanediol plant, which will be operational in 2002. A 50,000tpa formic acid unit is also being planned. (July 20, 2001).

Cray Valley, the resins business of France-based **Atofina**, is acquiring **Dynomer** of Pasir Gudang, Malaysia for an undisclosed amount. Dynomer, previously a subsidiary of the Finnish Group **Nordkemi**, reported sales of RM60m (US\$16m) in 2000. (July 13, 2001)

Synthomer Ltd of the UK will build a 40,000tpa nitrile butadiene rubber (NBR) latex plant in Johor, Malaysia, by Q1 2002. The plant's output is expected to reduce the local industry's dependence on imports

by up to 50% per annum. Malaysia's natural rubber production decreased by 10.8% to 145,086 tonnes in Q1 2001. Over 50% of the nation's natural rubber exports went to China, Korea, Belgium, Iran, France, Germany and the USA. Imports were down by 11.3% to 179,994 tonnes in 1Q 2001. (July 12, 2001)

SINGAPORE

Air Products of the US, a major producer of gases and specialty chemicals for chipmakers, has expressed its confidence that the electronics sector will pick up before the end of 2001. Not all companies in the sector agree. Chemical majors such as **Air Liquide** and **BOC** have witnessed the growth rate of chemical exports drop from 33.9% to 15.6%. To cut costs, more firms will shift their lower end and labour intensive operations to countries like Malaysia and China. (July 17, 2001)

Shell Chemicals is likely to meet the 15% return on capital it set when it launched its major portfolio restructuring in late 1997. Shell continues to study its options for expanding olefins production in Singapore. Return on capital rose from 12% in early 1998 to 14.8% in early 2001. Capital employed fell from US\$12.7bn to US\$8.5bn. Shell targets Asia-Pacific and the Middle East to account for 35% of employed capital by 2010, compared with 25% at present. (July 10, 2001)

Stella Chemifa of Japan is going to invest ¥3bn-¥4bn (US\$24m-US\$32m) in a new 20,000tpa production facility for high purity hydrofluoric acid and ammonium fluoride. This will be located on Jurong Island, Singapore. Completion is due in August 2002. Output from the facility will be supplied to local semiconductor manufacturers and will also be exported to Malaysia, as well as other parts of Asia and Europe. In due course, the company is considering production of ammonium hexafluorophosphate, which is used in lithium batteries. (July 18, 2001)

YCH Group of Singapore has been appointed by **Ciba Specialty Chemicals** of Germany to be the exclusive distributor of Ciba's products in Southeast Asia and southern Asia/Pacific. The exclusive five-year contract comes after a two-year alliance between the two companies, and contains options for a further five year extension. (August 5, 2001)

operation to develop and make specialty chemicals used in manufacturing TFT-LCD panels. Through expanding into the production of the new product items, Tuntex Petrochemicals hopes to lower its PTA revenue share to 70%-80%. (June 21, 2001)

TAIWAN

Air Products of the US and its Taiwanese JV **San Fu** have been selected to supply Taiwanese **AU Optronics Corp's** flat-panel display facility in Lung Tan city, Taiwan, with on-site nitrogen and other bulk gases. AU Optronics is the newly-formed merger company of **Acer** and **Unipac Optoelectronics** and will produce 30,000 4.0 generation motherglass liquid crystal displays per month when it ramps up this fall. (July 31, 2001)

Chi Mei Group of Taiwan is shifting its focus from petrochemicals to electronics and telecommunications, with 90% of overall sales derived from the new sector. It has already completed and undergone the second phase of an expansion of a facility for the production of TFT liquid crystal displays. Annual production capacity has been increased from 100,000 units to 250,000 units. Housing and coloured ink products are being handled by a new subsidiary, **Chi Lin Technology Co.** New subsidiary **Himax Opto Electronic Corp** will design driver integrated circuits. (July 19, 2001)

Tuntex Petrochemicals Inc., a leading Taiwanese PTA (purified terephthalic acid) manufacturer, plans to expand into the production of highly profitable specialty chemicals used in making TFT-LCD (thin film transistor-liquid crystal display) panels. Currently, more than 90% of the company's revenues come from PTA production. In light of the intense domestic competition in PTA, the company is negotiating with local manufacturers of TFT-LCD panels and colour filters, a key component of TFT-LCD panels, a co-

THAILAND

The Petroleum Authority of Thailand (PTT) announced that it will boost its stakes in its major subsidiaries to more than 50%, in a stated attempt to achieve total control and to bolster competitiveness. PTT is trying to increase its 44% stake in **Aromatics Thailand**, a benzene and paraxylene producer, which is undergoing a US\$210m debt restructuring. PTT has announced that it will inject US\$65m in new capital into **Thai Olefins**, an ethylene producer. (July 19, 2001)

Sumitomo Chemical plans to increase its share in the JV **Bara Chemical Thailand** to 50%. The remaining 50% is owned by Thai company **Bara Windsor & Co.** Bara Chemical Thailand is a fine chemical company specialising in fiber processing resins and chemicals, fluorescent dyes and paper processing resins. Increasing its stake in Bara will strengthen Sumitomo Chemical's presence in the fine chemical sector in South East Asia. (June 26, 2001)

Thai Polyacetal, a JV between **Mitsubishi Gas Chemical** and **TOA Chemical**, is investing about ¥6bn (US\$48.5m) to increase its polyacetal resin capacity from 20,000tpa to 45,000tpa at Mab Ta Phut, Thailand. The expanded facility will be on stream in Q2, 2003 and will primarily supply China. The market for polyacetal resins is expected to grow by up to 5% per year. Mitsubishi Gas Chemical also makes polyacetal resin in Yokkaichi, Japan, 20,000tpa and in South Korea, 60,000tpa. (August 3, 2001)

REGIONAL

Clariant, the Swiss specialty chemicals group headquartered near Basel, will sell its polyvinyl alcohol (PVA) and polyvinyl butyral (PVB) facility in Hoechst/Sulzbach near Frankfurt in Germany to Japanese synthetic fibres manufacturer **Kuraray**. According to Kuraray the purchase price is approximately ¥30bn (US\$242m). These operations have 250 employees, with revenue of SFR200m (US\$116m) in 2000. Kuraray already operates corresponding facilities in the Far East and aims to expand its market presence in Europe with the

acquisition. The Japanese company will take over the workforce. (July 18, 2001)

Degussa AG of Germany plans to double its sales in the Asia-Pacific region by 2006. The company aims to elevate the region from a current 12% of its worldwide sales to 25% over the next three years. For 2000, Degussa's Asia-Pacific revenues were about US\$1.7bn out of a global total of US\$14.5bn. The announcement comes on the heels of Degussa's recent acquisition of LaPorte, whose assets make Degussa the world's second largest manufacturer of fine chemicals. The company's total revenues of fine chemicals are now valued at US\$861m, up from about US\$675m before the deal. (July 2, 2001)

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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 and acquisitions. 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, contact BDA at any of the numbers listed below.

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