

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

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the chemicals sector

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INTRODUCTION

We have renamed this newsletter *Asian Specialty Chemicals Newsletter*. The change reflects the increasing coverage we are devoting to China, India, Japan, Korea and Taiwan. We are working on chemicals transactions in all the countries covered in this newsletter and are well placed to assist in your business development efforts in the region.

We hope that you find *Asian Specialty Chemical 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 us in New York at (212) 265-5300 or in Singapore at (65) 533-8500.

Euan Rellie
Managing Director

CHINA/HK

Bayer is to establish two JVs with **Shanghai Zhonxi Pharmaceuticals**. The JVs will invest DM80m (US\$48m) in the expansion of production facilities for pyrethroid-based agrochemicals under the name **Bayer Zhonxi Agrochemical**, and household insecticides under the name **Bayer Zhonxi Consumer Care**. Bayer will hold a 70% stake in each JV. (January 11, 1999)

Bayer's Shanghai JV to produce cyfluthrin and betacyfluthrin is expected to start production in Q4 1999. Capacity will be 100 tpa of active ingredients. Chinese demand for Bayer's *Imidacloprid* is growing rapidly, though there are another 12 domestic producers and competition is strong. (December 21, 1998)

BP Amoco and **China Petrochemical Corp (Sinopec)** have opened a US\$200m acetic acid plant. The project, the **Yangtze River Acetyls Co**, is owned by BP Amoco, 51%; Sinopec, 44%; and **Chongqing Investment and Construction Co**, 5%. It is the largest on-stream acetic acid JV in mainland China, with a capacity of 150,000 tpa. (January 19, 1999)

Dow Chemical and **Asahi Chemical Industry** have officially opened their new polystyrene JV company, **SAL Petrochemical (Zhangjiagang)**. The new company will construct a 120,000 tpa PS plant in Zhangjiagang, China. SAL Petrochemical is owned by Styron Asia, an existing 50:50 Dow-Asahi Asia-Pacific PS marketing JV, based in **Hong Kong**. (December 28, 1998)

Jiangxi Changjiu Chemical Co Ltd (JC), in the eastern Jiangxi province, has listed 60 million A-shares for domestic investors on the Shanghai Stock Exchange. JC, a subsidiary of the **Jiangxi Changjiu Chemicals Group**, produces and sells synthetic ammonia, carbamide, methanol and polypropylene. 1998 profits were estimated at RMB34m (US\$4m). (January 20, 1999)

Mitsubishi Chemical Corp (MCC) is contemplating producing styrene in China, and may invest in a naphtha cracker there, as it believes China currently produces insufficient benzene and ethylene. This is in anticipation of increasing demand by its customers, in particular **Chi Mei**, in which MCC has a 17% stake. Chi Mei is building a 150,000 tpa ABS facility in Jiangsu province and plans to increase capacity to 250,000 tpa. It also has a 300,000 tpa polystyrene facility in the province. (January 18, 1999)

Montell is close to finalizing the stake it will take in **Maoming Petrochemical's** 140,000 tpa PP plant in Maoming. Montell said it may take less than a 51% stake in the facility. It is also planning a 200,000 tpa PP unit downstream of **Shell's** JV cracker project at Nanhai, which is expected to open in 2003. (December 14, 1998)

Rhodia, a 68% subsidiary of **Rhone Poulenc**, has announced plans to build a separation unit in China. The company will also start building a similar unit in Baotou, **Mongolia** in a JV with a local partner. This expansion is part of Rhodia's plan to reorganize its rare earths division in a bid to improve competitiveness. Rhodia controls 50% of the world's rare earths market and reported 1997 revenues of FRF1.2bil (US\$212m). (January 7, 1999)

Shandong Dongda Chemical Industrial Group, of China, and **Bayer** have agreed to jointly produce ion exchange resins, following the stay of the **Zibo Trade Promotion Team** in Germany. The project will require investment of DM70m (US\$42m). Bayer will contribute DM50m (US\$30m), and the Chinese side will add factory buildings and equipment. (January 6, 1999)

INDIA

Röhm, of Germany, looks set to take a 50% stake in the planned Rs3.3bn (US\$77.8m) JV methacrylates facility of **Indian Petrochemicals Corp Ltd (IPCL)** and **Vinmar** in Dahej, Gujarat. The JV, **Indian Petrovin**, should be finalized at the end of Q1 1999, and will likely be renamed **Röhm Petrovin**. IPCL and Vinmar will have 26% and 24% ownership respectively of the 30,000 tpa facility which will produce methyl methacrylate and polymethyl methacrylate. (December 18, 1998)

INDONESIA

DyStar, the German dye manufacturer, has announced that it is looking to expand its reactive dye production capacity in Indonesia to 6,000 tpa by the year 2000. (January 12, 1999)

PT Pupuk Kujang, the state-owned fertilizer producer, has begun construction of a new plant adjacent to its existing facility in Cikampek, West Java, in order to meet demand in the province. The new plant, expected to come onstream in 2001, will double the existing capacity of 570,000 tpa of urea and 330,000 tpa of ammonia. The existing plant was built in 1978 and ran at 99% capacity in 1998. (January 13, 1999)

Pupuk Sriwijaya, Pupuk Kaltim, Pupuk Iskander Muda, Petrokimia Gresik and **Pupuk Kujang** are six state-owned fertilizer companies which the Ministry of State Enterprises plans to restructure and privatize through mergers, IPOs and introductions of strategic partners, by the end of 1999. The Government hopes to raise Rp8,890bn (US\$1.1bn) from the sale of its stake in these firms. (January 18, 1999)

JAPAN

Mitsubishi Corp (MC), the leading Japanese chemical maker, has announced that it will acquire **Tokyo Tanabe (TT)**, a medium sized drugs manufacturer, in a deal valuing the company at Y28.5bn (US\$250m). MC already owns 24.3% of TT, which last year generated profits of Y1.46bn (US\$13m) on sales of Y43.4bn (US\$383m). (January 20, 1999)

Tosoh Corp, Daido Hoxan and Tateho Chemical Industries (TCI) have formed a JV to produce inorganic flame-retardants. The ownership will be Tosoh, 50%; TCI, 40%; and Daido Hoxan, 10%. The 12,000 tpa plant will be built at Tosoh's complex at Nanyo, Japan. Construction will commence in February 1999 and will be completed in March 2000. Production will begin in April 2000. (January 18, 1999)

KOREA

Hyundai Petrochemical is set to merge with **Samsung General Chemicals** at the Daesan petrochemical complex in an effort to position itself more competitively after a damaging 1998. Hyundai and Samsung would become the third largest ethylene producer in Asia, with a combined ethylene capacity of 1.5 million tpa. **Mitsui & Co**, of **Japan**, may also seek to take a 20-50% stake in the merger. (February 1, 1999)

Phelps Dodge Corp has announced an agreement to acquire 85% of **Korea Kumho Petrochemical Co Ltd** for US\$73.1m. **Colombian Chemicals Co**, a wholly owned subsidiary of Phelps Dodge Corp, will assume management and operating responsibility of the business including the 110,000 tpa manufacturing plant in Yeosu. The JV will produce rubber and carbon blacks. (January 4, 1999)

Uniroyal Chemical of the US has acquired **Dongbu Fine Chemicals'** 50% share of their JV rubber chemicals business in South Korea. The business, **Unikor**, is now a fully owned subsidiary of Uniroyal. The plant, in Ansan, produces antizlonants. The 50:50 JV started in 1989. (December 15, 1998)

MALAYSIA

Aromatics Malaysia has secured a US\$235m loan from the **Japan Export-Import Bank** to help finance the construction of its aromatics facility in Kerteh, Terengganu. The facility will produce 420,000 tpa of paraxylene and 145,000 tpa of benzene when it comes onstream in Q1 2000. (January 14, 1999)

Chemical Company of Malaysia Bhd (CCM) is to sell its 32% stake in **CCM Bioscience Bhd** to **Expo Electronics Sdn Bhd** for RM33.7m (US\$9m). CCM said the proposed divestment would allow it to focus on its core businesses of manufacturing and marketing chemicals and healthcare products. (January 17, 1999)

PHILIPPINES

Petron has signed an engineering and construction contract with **Hyundai Engineering** for its mixed xylenes unit at its refinery in Limay. The new unit, Petron's first petrochemical investment, will produce 165,000 tpa of mixed xylenes and is scheduled to come onstream in Q4 1999. (December 29, 1998)

Philippine Resin Industries' 70,000 tpa suspension PVC plant came onstream in December 1999 at Bataan, and is producing on-spec material. The company hopes that the weak domestic market will pick

up before Q2 1999, when Government spending is expected to boost demand for PVC construction materials. 1999 Government budget funds have been allocated for housing improvement. (January 18, 1999)

SINGAPORE

BASF and **Shell Chemicals** are setting up a 50:50 JV to produce styrene monomer and propylene oxide. The JV plant, to be located on Seraya Island, will have a capacity of 250,000 tpa propylene oxide and 550,000 tpa styrene monomer. Production is scheduled to begin in Q4 2001. (January 13, 1999)

Eastman Chemicals has finished its US\$200m oxo chemicals manufacturing complex on Pulau Sakra ahead of schedule. The company has also commissioned its *Texanol* ester-alcohol and *TXIB* plasticiser plant, the first of the complex's five plants. The remaining plants, including a 150,000 tpa oxo aldehydes plant, a 2-ethylhexanol plant and an n-butanol plant, should come onstream in the next five months. (January 18, 1999)

The **Economic Development Board (EDB)** has taken a 10% stake in **Teijin Polycarbonate**, which is building a 60,000 tpa polycarbonate plant in Singapore. Teijin Polycarbonate was originally a 50:50 JV between **Teijin Ltd** and **Teijin Chemical Ltd**. They will each reduce their stakes to 45%. **EDB Investments** paid S\$7m (US\$4.2m) for its 10% stake in the S\$600m (US\$357m) project, which is due to start up in July 1999 and eventually produce 150,000 tpa of polycarbonate. (January 18, 1999)

Exxon Chemical Singapore Pte has announced that it is proceeding towards startup of an ethylene complex construction project valued at US\$2bn. The project will include an 800,000 tpa ethylene plant and downstream plants with capacity to produce 480,000 tpa of polyethylene, 275,000 tpa of PP and 150,000 tpa of oxo alcohol. (January 13, 1999)

Phillips Petroleum Singapore Chemicals (PPSC) is researching whether to expand its two Singapore petrochemical plants to take advantage of the forthcoming ethylene expansion by **Petrochemical Corp of Singapore (PCS)**. PPSC has invested a total of US\$165m in Singapore, mainly on high-density polyethylene (HDPE) plants sited at the PCS complexes. HDPE also manufactures piping, fibers, oil containers and paper. (January 18, 1999)

TAIWAN

Nan Ya Plastics Corp's 300,000 tpa ethylene glycol facility in Mailiao, Taiwan, a 50:50 JV with **China Manmade Fibre**, has been delayed. It will now start up in 2002 instead of 2000. (December 8, 1998)

The Taiwanese government has given the go-ahead for **Chinese Petroleum Corp (CPC)** to revive its inactive No 2 cracker in Kaohsiung. There are doubts as to whether the cracker, which closed in 1994, can restart due to environmental opposition. The government had earlier promised that the cracker would remain closed after the 400,000 tpa No 5 cracker started up. (January 18, 1999)

Union Petrochemical (UP) is searching for opportunities for JVs in the electronic chemicals sector, following its recent JV. The PTA and dioctyl phthalate producer announced in July 1998 that it had established a 50:50 JV with **Ashland Chemical Co**, of the **US**. UP forecasts greater growth rates in electronic chemicals than for petrochemicals. It forecasts a 1999 net profit of NT\$11m (US\$3.4m). (January 8, 1998)

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THAILAND

Indorama Group, an Indonesian-Thai group, has delayed its decision on whether to proceed with a planned monoethylene glycol (MEG) project in Mab Ta Phut, Rayong, given the change of presidency at **National Petrochemical Co**, a potential investor and supplier to the project. The fate of the proposed US\$220m facility, to produce 300,000 tpa of MEG by 2001, will be decided by May 1999. (January 18, 1999)

Marubeni Corp and **Mitsui Chemicals**, both of Japan, have denied reports that they have held talks with **Petroleum Authority of Thailand (PTT)** to buy a stake in **Aromatics Thailand Co (ATC)**. A Marubeni source disclosed that they had briefly talked with PTT but were not interested in an investment. Mitsui said it had no plans to get into the paraxylene business. Mitsui and **Siam Cement** will commence their JV purified TPA plant in Q2 1999. (January 4, 1999)

OM Group Inc (OMG), of Cleveland, has acquired **Thai Olechemicals Co Ltd**, a producer of organic metal specialty chemicals for paints and coatings, plastics, resins, textiles and other industries. The company will be known as **OMG Thailand**. OMG is the first major carboxylate and PVC additive producer to move into the region. (January 20, 1999)

Bara Chemical Co, the Thai JV partner of **Sumitomo Chemical Co**, is pushing market development of paper-processing resins, rubber adhesives, fiber-processing resins and its florescent whitening agents. Bara hopes to expand sales to Bht1bn (US\$28m) in 2000. (January 12, 1999)

TPI Polene is selling its 40% stake in **Ube Nylon** to its JV partners **Ube Industries** and **Nissho Iwai (NI)** for Bht50m (US\$1.3m). The company said the sale of 999,996 shares for Bht50 per share was higher

than the book value of Bht37.69 (US\$.90) per share. Ube's stake will increase from 51% to 85% and NI's will rise from 9% to 15%. The two year old JV produces nylon-6 resins at its 15,000 tpa plant in Rayong. (January 4, 1999)

Vinythai Plc, a Thai-Belgian JV and a major PVC producer, has announced that it expects PVC demand to resume growth in 1999, after two years of contracted consumption. Vinythai plans to export (mainly to **China, Indonesia, Malaysia** and **the Philippines**) 90,000 tons of PVC powder, representing half the production capacity of its Rayong plant. (December 24, 1998)

VIETNAM

CGS Group, of the UK, has received its license to manufacture methanol in Vietnam, worth US\$280m. A plant will be constructed in Ba Ria in Vung Tau and will use gas from the Rang Dong and Hong Ngoc fields. The Government is also reviewing another license application, for a US\$350m methanol JV in the same area, between three foreign firms and two Vietnamese companies. (January 18, 1999)

FOCUS:

China's Chemical Industry

Chemicals is the third largest industry in China after textiles and machinery. The Ninth Five-Year Plan (1996-2000) set out objectives and targets for the chemical industry ensuring it keeps in line with China's 'Long-Term Target of 2010.' The plan sets out focus sectors to maintain consistency with national economic policy. The plan strives for 9% annual growth in the industry of and sets out a number of goals to be reached by 2000:

- Annual output value of chemical businesses under the direction of the Ministry of Chemical Industry to reach US\$45bn.
- Inclusion of petrochemical companies and rural factories to increase this figure to US\$89bn.

The Government recognizes the need for foreign investment and technology if it is to succeed in these aims and set out the following goals:

- Chemical industry to earn more than US\$10bn in foreign exchange by 2000.
- By the same time foreign investment is to exceed US\$410bn.
- At least 100 world-market oriented businesses to be established.

The agricultural sector is a significant supporter of the Chinese chemical industry. **Fertilizers, pesticides** and mineral raw materials are needed if China is to attain its goal of becoming self sufficient in grain supply.

- By 2000 China plans to produce 170 million tons of **fertilizer**.
- Much emphasis will be placed upon the production of **potash, phosphorous** and **sulfur** minerals to satisfy domestic fertilizer requirements.
- There are plans to upgrade **pesticide** production, both in terms of type and quality.

Plastics, such as agricultural films, woven plastic bags and plastic shoes, are an important part of China's mix of chemical products. It is hoped that production will reach 8 million metric tons by 2000. The export of plastic products is a large source of foreign exchange.

The Ninth-Five Year Plan targets **fine and specialty chemicals**, in which China has a weak base. The plan budgets US\$1.2bn for development of new products, new technologies and larger scales of manufacturing.

Petrochemicals, spurred on by the production of **ethylene** and **aromatics**, as well as major downstream materials like **fibers, plastics** and **rubbers** will play a key role in the industrial development of China. **Ethylene** produc-

tion in China had been increasing at a rate of around 10% per annum during the first half of this decade.

The **State Administration of Petroleum and Chemical Industries (SAPCI)**, established in March 1988 by Prime Minister Zhu Rongji, is finding itself under ever increasing pressure to reach the goals laid out in the Ninth Five Year Plan. SAPCI is now aiming for a long term annual growth rate of 8% in the petrochemical industry.

In January 1999, China postponed plans to expand production of basic petrochemicals, which is a blow to foreign investment. Low international prices are making it more difficult for the industry to make money. In comparison with other developed countries, China produces a higher portion of heavy crude oil. Ethylene feedstock is therefore heavier in China, making investment in new facilities more costly.

Resources are being focused on the restructuring and construction of chemical plants. The overall plan is to build 18 chemical parks and zones throughout China in areas close to large cities. Chemical industry capital expenditures are expected to reach US\$32bn by 2000, US\$10bn of which will be contributed by Chinese firms. The government authorized 5,500 foreign-funded chemical ventures, and concluded long term agreements with 12 overseas chemical firms. More than 80% of the top 50 largest chemical and petroleum corporations have set up sole invested or JVs in China.

Although China encourages foreign investment in its chemical industry, it also wants to insure that plants and projects remain in Chinese control. Thus, foreign companies have been forbidden from contributing more than 50% of funding needed in the expansion of ethylene plants. This legislation, however, has negatively impacted various cracker operators, forcing them to postpone revamping plans due to lack of funds. **Tianjin United Chemical Corp, Maoming Petrochemical**, and **Qilu Petrochemical** have all delayed plant restructuring efforts. This may effect the Government's announced goal of increasing ethylene capacity to 5.5 million tpa by 2001.

In the first three weeks of 1999 the value of H-shares fell 20%. This continuation of 1998's depressed trends can be attributed to the uncertainty of the financial crisis in Brazil, and to the shock after the Chinese Government permitted the failure of the Guangdong International Trust and Investment Co (GITIC) in mid-January. Following this in-

cident, investors began to speculate on the insecurity of similar Chinese stocks listed on the Hong Kong stock exchange.

Warnings of profit losses were made by various Chinese chemical companies, mainly due to excessive imports that undercut the price of products furnished by domestic companies. In response, in mid-1998 the Government banned imports of finished oil products and crackdowns began on illegal imports. Due to the decrease in smuggling, earnings in main chemical companies grew during H2 98, but did not increase enough to offset the H1 losses.

Shanghai Petrochemical Co (SPC) announced that compared with 1997 profit of RMB714m (US\$89m), 1998 earnings could decrease by as much as 92%. Polyester manufacturer **Yizheng Chemical Fibre** predicts a full year loss of RMB220m-RMB250m (US\$27m-US\$30m), compared to its 1997 profits of RMB44m (US\$5.5m). Local compa-

nies are lobbying the Chinese government to go further in its efforts to curb illegal chemical imports.

Year-end profits of **Beijing Yanhua Petrochemical Co** sunk from RMB686m (US\$86m) to RMB70m (US\$9m), and **Jilin Chemical Industrial Co** believes it will merely break even in 1999. Due to large amount of Yen-dominated loans, Jilin incurred foreign exchange losses in 1998 as the Yen strengthened against the Renmenbi. **Zhenhai Refining and Chemical** also expects profits to sink from RMB668m (US\$83.5m) in 1997 to RMB465m (US\$58m) in 1998, although it benefited the most from the September ban on finished oil products.

The recent failure of GITIC will slow the flow of foreign loans to Chinese companies. Those firms in need of cash for facility upgrades and capital expenditures will now be more receptive to investment from foreign firms in the form acquisitions, JVs and alliances.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in South East Asia. BDA specializes in the chemical industry and helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Shanghai. 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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