

CORPORATE

EnGro's GGBS plant in China. Slag, the byproduct of iron processing and in the past deemed worthless, is now used to create a speciality cement by firms like EnGro.



# EnGro to broaden speciality cement business in China through JVs

BY ANGELINE CHEONG |

EnGro Corp's proposed joint venture (JV) last week to produce an eco-friendly speciality cement in China may seem like an opportunistic move to ride on China's recent RMB4 trillion (\$886 million) stimulus package, but CEO Tan Cheng Gay sees the latest development differently. "It's not because of the stimulus package... but the result of the sound partnership we have established," he emphasises.

Seven years ago, EnGro, formerly known as Ssangyong Cement, was making losses amid a slump in the local construction sector. To diversify its market, EnGro turned to North Asia, in particular China, to tap its demand for ground granulated blastfurnace slag (GGBS), which is made from slag generated as a byproduct of iron production, and is used to make ready-mixed concrete (RMC).

With the emphasis on environmental protection in China, EnGro saw opportunities to supply GGBS to the growing Bohai Rim region, which covers Beijing, Tianjin, Qingdao, Dalian and Jinan. In 2003, EnGro commissioned its first JV GGBS plant in China, with an annual production capacity of 600,000 tonnes, with partner Tangshan Iron & Steel Group (TISG).

Thus, the proposed memorandum of understanding last week with Hebei Iron & Steel Group (HBIS) will be an extension of its existing partnership with TISG, which merged with Handan Iron & Steel to form HBIS last June. "It symbolises the great confidence that our partner has in [our seven-year] partnership," says Tan.

Under the MoU, EnGro will invest RMB32 million and take a 40% stake in the JV company to manufacture GGBS. On the benefits for both partners, Tan says the JV company will buy almost all of HBIS's raw slag output, thus reducing the latter's handling or storage charges for its disposal. HBIS will also enjoy potential earnings from the sale of GGBS, the recycled product.

For EnGro, the JV will be an opportunity to supply GGBS to Hebei province and the northern parts of Henan province, which are seeing a rise in demand from the growing construction sector. The proposed plant is expected to have an annual capacity of 2.4 million tonnes, lifting the company's total annual capacity to 6.6 million tonnes. The plant is expected to reach 1.2 million tonnes per annum under the proposed first phase by next year.

## Infrastructure spending drives demand for GGBS

The recent stimulus packages will open up more opportunities for EnGro. With rising demand from earthquake reconstruction in Sichuan and China's economic stimulus package, SinoPac Securities expects cement demand in China to increase from 1.38 billion tonnes to 1.5 billion tonnes in 2009.

GGBS is 10% to 40% cheaper than ordinary Portland cement (OPC). Further, it is more durable, showing greater resistance to attack by chloride chemicals, and suitable for the construction of the core structures of railways, highways and other buildings exposed to corrosive environments such as sewerage treatment plants, as well as underground structures. Slag cement has been proven to extend the lifespan of buildings to 100 years, or about twice that of OPC, says Tan. "It will save a lot of maintenance cost in time to come."

With a presence in three provinces in China — Hebei, Shandong and Jiangsu — near the Bohai Rim Region and the Yangtze River Delta, EnGro supplies GGBS under the VCEM brand for projects, including the Beijing-Shanghai High Speed railway, through its JV companies. "Our brand binds our JVs together... A reliable brand, if established, can give you extra mileage," says Tan.

Apart from serving the China market, EnGro's plant near Jingtang Port exports GGBS overseas, including to Singapore, South Korea and the Middle East. This ready source of GGBS enables EnGro to secure its raw material for the production of RMC in Singapore. EnGro supplies to projects such as the MRT Circle Line, Marina Bay Sands integrated resort and Pasir Panjang Port Terminal from its two concrete batching plants in Tampines and Tuas under its RMC arm Top-Mix Concrete, which has an annual capacity of 500,000 cu m. This is about half the capacity of Jurong Cement.

Despite the vast market potential of China, Tan says the company remains committed to Singapore, where the government has earmarked spending on infrastructure projects of \$18 billion to \$20 billion this year. "How can we forget our roots?" Tan says. While the market may be small, EnGro has chosen to base its central R&D lab in Singapore, a leader of new construction standards like the Green Label accreditation scheme. As such, EnGro will have an edge when it wants to expand into other



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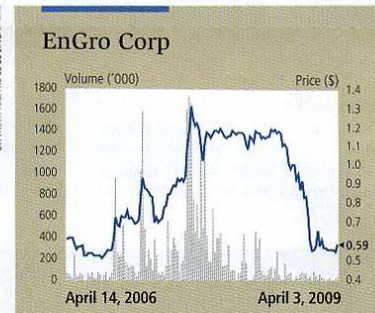
countries that adopt similar standards. EnGro also aims to tap demand from the Sino-Singapore Tianjin Eco City project.

## Diversified business

EnGro was formed in 1973 as a JV between DBS Bank, South Korea's Ssangyong Cement Industrial Co and Afro Asia Shipping Co, an investment vehicle belonging to the family of CEO Tan. In 1983, the company listed on the Mainboard and, in 2005, EnGro took on its current name, three years after Ssangyong exited as a shareholder. Current shareholders include property and construction group Ho Bee Investment's CEO, Chua Tian Poh.

Since 1985, EnGro has also invested venture capital in technology-driven businesses. EnGro's current speciality polymer business segment actually originated from such a venture-capital investment.

However, the company's wide range of investments has crimped the strong performance of its GGBS and RMC businesses. In FY2008, earnings fell 21.6% to \$6.6 million, despite an 8.9% rise in revenue to \$137.8 million. This was mainly due to a \$3.3 million impairment loss on investments, particularly with a US-based venture capital-backed company. Reve-



nue from the speciality polymer segment also fell 34% to \$49.5 million, owing to weak demand from the automotive and manufacturing sectors. This led to losses of \$2.9 million, from earnings of \$271,000 in FY2007. Meanwhile, contribution from its JVs in China helped lift overall earnings, with a 60% y-o-y increase in share of profits from associates to \$8.6 million in FY2008.

In the long run, however, the limited supply of raw slag may cap the growth of GGBS. Apart from fluctuations in production levels, steel mills supplying raw slag now realise the value of the waste material. "In the past, [steel mills] used to have to pay to dispose of the product... Now, everybody realises it's such good material, so there's competition," Tan says.

However, he does not intend to diversify into the use of other waste materials as an alternative to raw slag. "We tried to study [other waste materials] way back in the 1980s. We have found that [raw slag] is the best, because you can play with the technology to improve on the performance [of the product]."

Strong demand and tight supply of GGBS have supported prices. Tan reckons the ex-factory price is RMB150 to RMB200 a tonne, and he sees the price gap between GGBS and OPC narrowing.

With continued expansion of production facilities, Chen expects the production capacity of GGBS in China to grow from 4.2 million tonnes to 4.8 million tonnes by year-end, translating into a market share of 12% to 15%.

EnGro's shares are relatively illiquid. Based on the last-traded price of 59 cents on April 3, EnGro is trading at 10 times FY2008 earnings and offers a dividend yield of 5%. ■