SP CHEMICALS – PERFECTLY POSITIONED FOR PROSPERITY

About 200 kilometers northwest of Shanghai in China's Jiangsu province, there is an economic development zone dedicated to the production of fine chemicals.

Chan Hian Siang
SP Chemicals CEO

SOME OF THE WORLD'S largest chemical companies such as AkzoNobel, SNF and Noviant have opted to set up a shop there, in what is now a significant sectoral hub officially known as the China Fine Chemical Industry Taixing Park (CFCITP). It is also home to SP Chemicals, a company with its headquarters and roots in Singapore.

Founded in 1990 after its CEO Chan Hian Siang visited Shanghai as a member of a delegation from the Singapore Chinese Chamber of Commerce & Industry, the company has since grown into one of China's largest producers of Chlor-Alkali, an industrial process used to produce the caustic soda that is needed to make everything from rayon and cellophane to soap, pulp and paper.

Last year, SP Chemicals turned over more than RMB 7bn (U.S.$1bn) with a domestic sales footprint stretching across the three provinces of Jiangsu, Zhejiang and Shangdong, and its clients include both multinational corporations and state-owned enterprises operating in a number of industrial segments ranging from petrochemicals and textiles to paper and pharmaceuticals. Among these are household names such as BASF and Dow Chemicals, not to mention, of course, some of its neighbors in Taixing.

"Being the largest producer of chemical raw materials in the CFCITP means that we are best placed to be the principle supplier of caustic soda and chlorine to new and downstream producers setting up production facilities in the park," explains CEO Chan Hian Siang. "Most of our customers in the PRC are located within a 300km radius from our production plant, which gives us the added advantage of low transportation costs. It also makes it easier for us to guarantee supply."

Chan and his colleagues have also taken advantage of their plant's access to the ports on the East China Sea to open up export markets in the US, India, South-east Asia and Australia and they are also exploring a listing of SP Chemicals on Shanghai Stock Exchange in the near future.

Even though demand for chemicals on China's domestic market has slowed down from the double-digit growth that it enjoyed in the past decade, a recent McKinsey report predicted that China could still account for something around 60% of global demand over the course of the current decade; and, while market conditions may prove to be more competitive than those experienced in recent years, companies such as SP Chemicals with established track records look set to enjoy continued growth.

Chan's company is also well positioned to benefit from the improving trade relations between China and Singapore and from China's One Belt, One Road initiative to establish faster intermodal land routes between Asia and Europe. "We may not be actively involved with such initiatives because we are producing raw materials," Chan concedes, "but if the Chinese companies that are producing the end products prosper, then so will we."

"BEING THE LARGEST PRODUCER OF CHEMICAL RAW MATERIALS IN THE CFCITP MEANS THAT WE ARE BEST PLACED TO BE THE PRINCIPLE SUPPLIER OF CAUSTIC SODA AND CHLORINE TO NEW AND DOWNSTREAM PRODUCERS SETTING UP PRODUCTION FACILITIES IN THE PARK."

It has also been taking steps to ensure that it can compete on the international market and three years ago commissioned DuPont USA chemical company to help it improve its safety standards. Over the past two years, it has in addition spent RMB80m (U.S.12.5m) reducing sulphur and nitrogen emissions from its coal-fired power plants due to their proximity to Shanghai. Considerable effort, in the meantime, is being put in to ensuring that the workforce is up to scratch. "Our industry is not like, say, shoe manufacturing," Chan says, "and you need a certain level of technical skill. The Chinese are very conscientious when it comes to studying, however we still make sure that they receive a first class on-site training."

Chan and his colleagues have also been exploring means of diversifying their activities up the petrochemical chain. While the company already produces downstream products such as Vinyl Chloride Monomer and Styrene Monomer, it is now looking at the upstream opportunities that the new availability of cheap propane and ethane from the US may present.

"To move into petrochemical production we have traditionally needed access to ethylene," Chan explains, "but the market is mainly controlled by Japanese traders like Mitsui and Mitsubishi, because you need extremely sophisticated tankers that can transport it at its liquefaction temperature minus 104°C. But now with shale gas revolution in the US there is a lot of cheaper ethane and propane feedstock coming onto the market, so upward integration remains one of our main goals." In the meantime, SP Chemicals has been in talks with the Chinese authorities about the possibility of moving into olefins production.

Either way, Chan is confident that within the next few years he and his colleagues will have succeeded in turning SP Chemicals into a vertically integrated company – and a thriving, public listed company offering a great rate of return to its investors. ♦