

Emery Oleochemicals Expands

Entering a New Phase of Capacity Additions, Innovative Products

Emery Oleochemicals (Shah Alam, Malaysia), one of the biggest producers of oleochemicals from natural resources, is entering a new phase of growth with major additional capacity due to be brought onstream over the next two years. The company's sales are split 70-30 between basic oleochemicals and oleo specialties, but the focus for expansion is firmly on specialties that show strong growth potential. "Our strategy for long-term growth is for us to be a differentiated oleochemical company, natural based, value added," Emery Oleochemicals group CEO Kongkrapan Intarajang tells *CW*. The company was launched in 2008 as a 50-50 joint venture between Sime Darby Plantation, the world's leading palm oil producer; and PTT Chemical International, a subsidiary of PTT Global Chemical.

Emery Oleochemicals, like the rest of the chemical industry, is grappling with turbulence in the global economy as well as feedstock-cost volatility. The company had a strong first half of 2011 and a slower second half, reflecting recovery in the early part of the year from the last recession, followed by a stalling global economy in the rest of the year. "We had a good first half due to the market, but the second half was weaker due to the economic slowdown," Kongkrapan says. "So we'll likely have similar revenues in 2011 to last year." Emery generated sales of about \$1 billion in 2010 and has overall production capacity of about 1 million m.t./year. The company does not disclose earnings. "We probably made 60% of our 2011 revenues in the first half and the rest in the second half," Kongkrapan says.

Emery Oleochemicals' sales and production are currently divided about equally between Asia, Europe, and North America. Asia is the company's fastest-growing market with a rise in sales of 5%-6% expected this year, Kongkrapan says. He expects emerging markets, principally Asia, to account for about 60% of the company's sales in five years' time.

Emery Oleochemicals consumes palm oil and palm kernel oil as feedstock for its production in Asia, uses mainly tallow at its plants in North America, and consumes a combination of vegetable oils and tallow in



KONGKRAPAN: A differentiated, natural-based, value-added company.

Europe. "Crude palm oil prices increased rapidly in the early part of this year, but as of now they have dropped quite a lot," Kongkrapan says. He estimates that Emery Oleochemicals' overall raw materials bill is about 30% higher in 2011 than in 2010.

The company has been pushing through price increases to offset the raw material cost hikes. "For us, to transfer the cost increase to the market is crucial," Kongkrapan says. It has been more challenging for the company to achieve price increases for its basic oleochemicals than for its specialty products, and it takes on average 3-6 months to recoup feedstock cost hikes, he adds.

Emery Oleochemicals is in the process of changing its organization from a product-based structure to a market-based structure. The company's business units have until now been defined by products—basics and specialties—but it is transforming itself into a group of market-based platforms. "It's not a big reorganization," Kongkrapan says. "We have to align ourselves more to the market. The majority of our organization will be the same. It's just the business philosophy, the business structure that will change."

The company has so far announced the creation of two market-based platforms: home and personal wellness, and green polymer additives. "These will be our

largest platforms because of the existing business plus the projects that we are implementing, and any other platforms we create will be relatively small," Kongkrapan says. The new platforms will be formally established in 2012.

Emery Oleochemicals is starting up its first major capacity addition with the commissioning of a 20,000-m.t./year green polymer additives plant at the company's site at Telok Panglima Garang, Malaysia.

The company also announced two joint ventures earlier this year to accelerate its shift toward oleo specialties in the home and personal wellness arena. It formed a JV with home and personal care company AK ChemTech (Daejeon, Korea) to build a plant producing specialized co-surfactants, as well as thickeners and auxiliaries, also at the Telok Panglima Garang site. The plant is due to start operating in about two years. AK ChemTech will supply its technological know-how to the plant, which will receive feedstock from Emery's basic oleochemical units at the site.

The other JV is with specialty chemicals company Erca Group (Grassobbio, Italy) and is building a specialty ethoxylates plant at Moerdijk, the Netherlands. The plant will use Erca's technology and receive oleochemical feedstock from Emery in Asia. It will also take ethylene oxide feedstock from Shell Chemicals' Moerdijk plant.

Emery Oleochemicals is funding much of its current capacity expansion program through proceeds from a RM460-million (\$146 million) Islamic bond that is due to be issued in Malaysia early next year. The total costs of the first-phase expansion program are about \$200 million and part of those will be sourced from Emery Oleochemicals' own resources. "We have everything in place right now in terms of projects, including funding," Kongkrapan says. "We have a low debt-equity ratio so we had a few options to raise the funds. We decided to go with an Islamic bond because it matches our needs, the funding cost is quite competitive, and there is a big appetite for these investments in Malaysia." Expansion projects are expected to raise Emery Oleochemicals' sales to approximately \$1.6 billion/year in 2015.

The company has no plans to build basic

oleochemical plants in Malaysia but it will hike capacity for these products incrementally, depending on its captive-consumption needs. "Right now, we have sufficient capacity and we'd add capacity only by debottlenecking," Kongkrapan says.

Emery Oleochemicals' growth strategy is receiving support from the Malaysian government's Economic Transformation Program (ETP), a masterplan that aims to transform Malaysia from a developing country into a developed country. ETP focuses on adding value to Malaysia's key natural resources such as oil, gas, and palm oil by expanding downstream industries. "Oleochemical derivatives are in the plan," Kongkrapan says. "So what we are doing independently fits very well with what the Malaysian government wants companies in the country to do—create more value, bring in external technology to create higher-value products, and create more jobs, not just low-level jobs but technical jobs."

The new green polymer additives plant, the Emery Aekyung co-surfactants JV unit

with AK ChemTech, and a specialty chemicals plant are benefiting from government grants under the ETP. The government says it is assisting Emery Oleochemicals with projects to a total value of RM460 million.

The company, meanwhile, will continue to seek acquisitions and boost R&D spending. Any acquisition is more likely to be in specialties than upstream, but could equally be in Europe or North America as Asia, depending on where opportunities exist. "An acquisition has to fit into our strategy," Kongkrapan says. "We're looking more to market and customer needs in personal care and plastics."

Emery Oleochemicals spends about 2% of its total revenues on R&D and aims to boost that to 3%. "The focus is on home and personal wellness, and green polymer

additives, and we are working on R&D in areas such as environmentally friendly agchems, as well as biolubricants," Kongkrapan says. Emery Oleochemicals



ADDING CAPACITY: Emery Oleochemicals' Telok Panglima Garang site.

launched a long-term R&D tie-up recently with Platinum Energy (Kuala Lumpur) to develop nano carbon fibers using new technology based on renewable feedstock.

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