



Does Abterra have a Noble-esque future?

Jaffe Lau, CEO of resource supplier and trader Abterra Resources, often laments in jest that local investors don't understand his business. "It makes us very upset," he smiles. "Our share price is trading way below net asset value and does not reflect our true worth."

In fact, Abterra's aim is to become a fully integrated supplier of coke, coking coal and iron ore in China, much like commodity supply chain manager **Noble Group**. Already, Abterra has accumulated stakes in several mines in China to ensure access to these raw materials, which are used mainly in the production of steel. In May, Abterra successfully acquired 22.8% of Zuoquan Xinrui Metallurgy Mine Co for RMB390.5 million (\$77.9 million), giving it access to two iron ore mines with the capacity to produce up to 400,000 tonnes of iron ore a year.

In 2007, Abterra acquired a 15% stake in Zuoquan Yongxing Coal Co, and a 24% stake in Shanxi Fenxi Ruitai Coal Investment Co two years later. The two coking coal mines currently have an annual capacity of at least 900,000 tonnes. Abterra also has a 45% stake in Tianjin Lant Development, a subsidiary of Tianjin Port Co, which provides logistics and storage services for iron ore, coke and coal. Abterra's stake in Tianjin Lant will give it berthing priorities at the port, saving the company as much as a day each time it docks by avoiding long queues.

Similarly, Noble owns mines and port facilities in Australia and even maintains its own fleet of bulk carriers to keep it insulated from volatile freight rates. Noble's prowess in the commodities space also extends into agriculture, where it owns farms and crushing facilities in Argentina, giving it control over the soybean supply chain. In comparison, Abterra lacks the transport and processing facilities to link its assets along the supply chain. As its profits increase, however, Abterra might be able to change that through more acquisitions.

After hunkering down and keeping a low profile for the past four years, Lau now says the expansion and upgrading of Abterra's mines is beginning to pay off and that the company could see a significant increase in its top and bottom lines from FY2011. When that happens, Abterra can justifiably call itself a supplier, rather than just a trader, of resources. "As a supplier of iron ore, coke and coking coal in China, we will be among the first to benefit from the country's demand and the government's initiatives to increase domestic production," Lau says.

For the six months to June 30, Abterra reported a 6% y-o-y decline in revenue to \$103 million, but a 251% jump in earnings to about \$6 million, due to larger volumes of iron ore, coke and coking coal traded on the back of an improving economy. Yet, the company's shares have traded sideways since the start of the year, closing last week at four cents each, valuing the whole company at \$211 million.

The market's indifference towards Abterra is reminiscent of Noble during its early days as a trader of commodities. When founder Richard Elman started the company in Hong Kong some 27 years ago, trading in Noble's stock was so thin that it was eventually de-listed in Hong

Kong, only to be re-listed in Singapore some years later. Shortly after, the commodities cycle began picking up as the world harkened to China's insatiable appetite for raw materials. Suddenly, shares in Noble — which was by then managing a complex supply chain of raw materials — were trading like hot cakes.

Today, Noble is a successful commodity supply chain manager with a market capitalisation of \$9.5 billion. Last year, Chinese sovereign wealth fund China Investment Corp spent US\$850 million



Lau sees the company becoming a 'mini BHP Billiton or Rio Tinto'

(\$1.2 billion) to pick up a 14.9% stake in the company. Emboldened by its growing heft and financial backing from CIC, Noble challenged the likes of **Peabody Energy** and **Xstrata** in a battle for Australia's **Macarthur Coal** earlier this year.

Much like Noble, Abterra has significant financial backers in China. It is 40%-owned by the General Nice Group, one of China's largest producers of metallurgical coke. That has enabled it to obtain a licence to mine for coking coal in Shanxi and the

right to export the coke — an advantage not even Noble has, according to Lau. "No other Singapore-listed company owns a coking coal mine in China," he adds. Furthermore, Lau says Abterra operates with significantly lower costs compared with Noble, "because we are based in China and much less well-known".

So, does Abterra have what it takes to turn itself into the next Noble? Lau is already thinking much bigger than that. He plans to keep Abterra focused on the minerals sector instead of branching into agricultural commodities like Noble. And, in the longer term, he sees the company becoming a "mini **BHP Billiton** or **Rio Tinto**".

Talk about ambition. E

