Abterra secures supply of coke, plans further expansion

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Mahesh: The acquisition of Shanxi Loudong will boost the trading activities of Abterra

| BY ANGELINE CHEONG |

Abterra, a supply chain manager of iron ore, coal and coke, is expected to complete its acquisition of a 49.9% stake in Shanxi Loudong General Nice Coking & Gas from its parent Hong Kong-based General Nice Resources (GNR) by year-end.

This deal will ensure a steady supply of coke and give a "tremendous boost to the trading activities of Abterra", says Mahesh Mehta, executive director of Abterra. Also, with Shanxi Loudong injected into the balance sheet of Abterra, Mahesh says it would be easier to secure funding from banks to expand further into areas like mining.

Under the agreement inked in March, Abterra will issue up to 1.9 billion new shares to GNR at 9.3 cents each in two tranches for the $180.9 million stake in Shanxi Loudong. As part of the deal, GNR will also provide a profit guarantee of 185 million renminbi ($37 million) for the period from April 2007 to March 2008.

The acquisition of Shanxi Loudong is important, given its capacity to produce 1.8 million tonnes of metallurgical coke a year. "If we don't secure the supply, we have a problem straightaway," says Mahesh.

Apart from Shanxi Loudong, Abterra also has a 15% stake in Zuoquan Yongxing Coal, a coal mining and coke processor company that has awarded Abterra the right to market coke when its plant starts production next year.

To ensure operational efficiency, Abterra has a 45% stake in Tianjin Lant Development, which provides iron ore, coke and coal bulk-handling services at the port of Tianjin. Thus, with these three key stakes, Abterra has put in place a full supply chain, from the supply of coking coal to the export of metallurgical coke.

Formerly a construction firm known as Hua Kok Internation-

CONTINUES ON PAGE 21

Abterra increasing trading activities in Indonesia and India

FROM PAGE 19

al, Abterra took on its present name when it switched its core business to iron ore trading in 2005 after Hong Kong's Prosperity Steel bought over the company.

However, Abterra continued to incur losses until GNR took up a 65% stake in it in October 2006 from Prosperity Steel.

GNR belongs to the General Nice Group, one of China's largest importers of iron ore and coke and is 20%-owned by Abterra's CEO Lau Yu and 80%-owned by General Nice Development, which is in turn owned by the family of Abterra's chairman Cai Sui Xin.

The new management succeeded in turning Abterra around for FY ended June 30, 2007 with a profit of $1 million. More recently, earnings jumped from $100,000 in 1H2007 to $5.2 million in 1H2008 on stronger demand for iron ore, coal and coke and its ability to secure supplies at competitive rates. Revenue tripled to $217.6 million while gross margins inched up to 4.6%.

In terms of shipping tonnage, Abterra expects its volume for iron ore to increase to 600,000 tonnes in FY2008 from 172,000 tonnes in FY2007, while coke and coal are expected to touch 700,000 tonnes from 93,000 tonnes in FY2007.

However, trading activities were hit by the temporary ban in production at certain factories in preparation for the Beijing Olympics as well as congestion at Chinese ports. Otherwise, Mahesh reckons, shipment tonnage for both segments could have been higher.

Mainly, Abterra uses iron ore imported from India and coking coal from Indonesia. It also exports metallurgical coke to global markets, particularly the mid-tier segment.

Coking coal is used to make metallurgical coke, which is in turn used as fuel and a reducing agent in the smelting iron ore to make steel. To make a tonne of steel, 1.6 tonnes of iron ore, 0.4 tonne of coking coal and 0.6 tonne of metallurgical coke are required.

While price caps have been placed on thermal coal in China, discussions by the National Development and Reform Commission to impose price caps on steel, coking coal and coke to help manufacturers deal with rising costs have so far remained inconclusive.

But, even if prices soar, margins would remain about the same as the trading business is driven by volume, explains Mahesh. Margins are likely to be sustainable as long as the prices of coking coal and metallurgical coke do not diverge. So far, prices of metallurgical coke have risen more than coking coal, which means higher margins for Abterra.

According to Datamonitor, the volume of Asia-Pacific's steel market grew at a compound annual growth rate of 13.7% to hit 733.2 million tonnes from 2003 to 2007, driven by China, the world's biggest consumer of steel with a GDP that grew by 10.1% in June.

Singapore-based Mahesh, who trained as an accountant, says his role is to help Abterra establish itself in countries like Indonesia and India. "In Singapore, we have businessmen, miners and traders from Indonesia and India who come into Singapore more often than into China."

Abterra has also been increasing its trading activities at its offices in Indonesia and India, becoming the international arm of GNR. The company has also introduced more innovative forms of financing, including inventory financing. Previously, a lot of trade was done using letters of credit that could not guarantee the shipment of supplies, says Mahesh.

Now, by stockpiling inventory and financing, Abterra is able to enjoy pricing advantages and ensure the quality and quantity of the product.

"The idea is not to carry inventory but to address the issue of quality and a shippable quantity all the time," explains Mahesh.

For now, Abterra is likely to continue expanding aggressively. "I think, given the current market conditions, we will just continue; I don't think we will slow down," says Mahesh. Also, with the limited supply of coke, Abterra is looking to diversify into other minerals like lead. ■