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Abterra completes purchase of coal firm stake

By LYNETTE KHOO

ABTERRA has completed its acquisition of a 49 per cent stake in a China coal mine for 188 million yuan (S\$39.7 million). The coal mine, Shanxi Tai Xing Jiao Zhong Coal Industry Company (Tai Xing), produces high quality semi-hard coking coal through its Jiao Zhong Coal Mine in Shanxi province.

Abterra chief executive Lau Yu said Tai Xing complements the group's trading businesses and is in line with its plan to secure upstream assets.

'We are not only able to secure a steady supply of high-quality semi-hard coking coal which sells at a premium compared to thermal coal, this acquisition also provides us with a platform to participate in the booming PRC resources industry,' he added.

'Tai Xing will start to make contributions to Abterra in 2009 but we expect to reap the maximum benefits in 2011 after we finish upgrading the facilities, which will increase our processing capacity from 150,000 tonnes to 900,000 tonnes per annum,' Mr Lau said.

Following a coal exploration programme in the Chinese government's restructuring of the mining sector, significant coal reserves have been added, bringing the current coal reserves of Tai Xing from 10.23 million tonnes in 2007 to 50 million tonnes.

The acquisition has been fully paid and there is no immediate plans to inject more funds into this coal mine, as it is already revenue-generating.

Mr Lau told BT that the group is targeting two more acquisitions of coking coal mines to raise its production capacity to five million tonnes per annum in the next two to three years.

It is currently undertaking an acquisition of a 22.8 per cent stake in Zuoquan Xinrui Metallurgy Mine Co Ltd, which it hopes to complete by this year.

Zuoquan Xinrui has two iron ore mines with a total mineable reserve of about 27.9 million tonnes and an annual capacity of at least 300,000 tonnes.

Mr Lau noted that coking coal prices have recovered from the lows of 800 yuan/tonne this year to 1,100 yuan/tonne and he foresees little downside from here.

'I think the coking coal prices in the Chinese market will be stable because the government has already closed down so many small mines,' he said.

For the iron ore business, Abterra plans to acquire one iron ore mine, Mr Lau added.

But the timing will be pegged to an improvement in macroeconomic conditions, given continued weakness in steel prices.

The trading of coke and coal accounts for 70.6 per cent of the group's revenue, while iron ore

makes up another 18.5 per cent of group revenue.

For the first quarter ended March 31, 2009, Abterra's net profit dipped 16 per cent to \$1.67 million, despite a 49 per cent jump in revenue to \$65.85 million due to a change in sales mix.

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