

Compounder China XD talks about US listing, expansion plans

PLASTICS NEWS

Posted August 4, 2009

NEW YORK (Aug. 4, 12:35 p.m. ET) -- After years of preparation, automotive compounder China XD Plastics Co. Ltd. earlier this year achieved its goal of becoming China's first plastics material company listed on a U.S. stock exchange.

Chairman and CEO Jie Han in Harbin, Heilongjiang province, and Chief Financial Officer Taylor Zhang in New York recently spoke with Plastics News in a phone interview, offering insight into the company's performance, expansion plans and market trends in China's auto industry.

Q: Plastics News first reported Xinda's plan to go public in the U.S. back in 2006. The company eventually started trading on the Over the Counter Bulletin Board in January 2009 through a process called reverse acquisition. Please share with us your experience in making this happen.

Han: I always believed that going public is an essential process for a company to grow in both scale and degree of globalization. Being listed on a U.S. stock exchange is a good stepping stone for XD to enter the global market. It certainly also helps provide funding for the company's growth.

January 2009 was the rock bottom of the ongoing global financial crisis. But the costs associated with a U.S. listing were also at all-time low in many years. Since XD was ready to go public in terms of scale, transparency and market prospects, we weighed the pros and cons and went ahead to grab the opportunity.

Reverse acquisition was not only a convenient technique we used to go public, but also an effective process to improve our team and accumulate experience.

Q: With the financial crisis, especially the collapse of the U.S. stock market in September 2008, some question whether a U.S. listing remains attractive compared to emerging markets, such as China. How would you describe and evaluate XD's performance and market response during the past seven months?

Han: It takes time for investors to get to know a new company. In general, our stock (CXDC.OB) has been on a positive, upward trend.

Zhang: Going public is by all ways a long-term plan. Just like the previous financial crises, the current one will eventually be over. The U.S. and global economy will recover and rebound. Only those prepared will be able to take advantage of the next growth cycle.

During the past six months, we've seen improved capital flow, among other things. With an excellent management team and high growth potential, we are confident that XD will gain more popularity in the investment community.

The IPO benefits the company in many ways. It supports the company growth by providing funding. We are also able to attract more global talent with such incentives as stock options.

Q: How do you position the company in China's market for supplying compounds for automotive applications? Are you competing with multinational suppliers on high-end materials?

Han: China's fast growing auto market and massive consumption base spur the demand for plastic resin and compounds. With an independent R&D institute, XD currently owns 122 material certifications from auto makers, covering interior, exterior and functional components of auto parts. Our products are positioned to replace high-value added imports. Compared to MNC products, we offer more competitive prices and service with guaranteed high quality.

Q: As multinational players start to make resin and compounds in China, is XD losing its low-cost production advantages?

Han: Compared to those transplants within China, XD's production cost advantages come from 1) large scale (154 million pounds annually), 2) low-cost feedstock/materials from large-scale Chinese petrochemical suppliers, and 3) optimized management.

Q: XD is headquartered in northeast China, a traditional auto production base. What steps is the company taking to cover other important regional markets within China? Besides the domestic market, is Xinda exporting to overseas markets?

Han: We've made a milestone progress by entering the north China market this year. We have signed a distribution agreement with Tianjin Huapu Co., an important partner with extensive network in the region. The north region accounts for approximately 10 percent of the total market demand for automotive compounds in China, while northeast accounts for about a quarter.

We plan to enter the East China region (particularly the Yangtze River Delta) in 2013.

Speaking of markets outside of China, the U.S. market is faced with unprecedented challenges, which present unprecedented opportunities for Chinese auto companies with global vision. We will consider using merger and acquisition to explore the North American, European or Japanese/South Korean markets. This is an important reason why XD chose to go public in the U.S., not in China.

Q: What's your take on the state and growth of China's auto industry? Any specific market trends worth noting?

Han: China's government stimulus policies have been a real boost to the market this year. We understand that subsidies will be a short-term practice mainly on low-end, small vehicles. XD positions itself to supply mid-to-high end vehicles, which I believe will maintain 10 percent growth in the years to come. The growth rate of the auto parts market will exceed that. Also, China is bound to overtake the U.S. and become the world's largest auto market this year.

Q: Tell me more about Xinda's operations in China and expansion plans.

Han: With our current annual capacity at 70,000 metric tons [154 million pounds] of compounds, XD will increase the capacity to 100,000 tons [220 million pounds] by 2010, 200,000 tons [440 million pounds] by 2011. We plan to establish a 100,000-ton [220 million pound] production base in east China by 2013.

In terms of workforce, our headcount was 1,200 in 2006. As we implemented automation, that number was reduced to 400 in 2007. I expect it to grow to about 500 by next year and 1,500 by 2013.

We are also making special efforts to extend our portfolio from compounds for the auto industry to high-value-added engineering resins for a variety of end markets. We've made major breakthroughs in the production development of modified nylon. We expect to commercialize that production soon and will release more detailed information then.

###