

# Shaanxi's market leader

**by West China Cement Ltd,  
China**

In October, Ankang plant, the third production facility of West China Cement (WCC), a cement production and sales company headquartered in China's Shaanxi Province, will be near its full capacity. The total capacity of Shaanxi's second largest cement producer has grown significantly from 1.5Mta in 2004, to the current capacity of 5.3Mta.

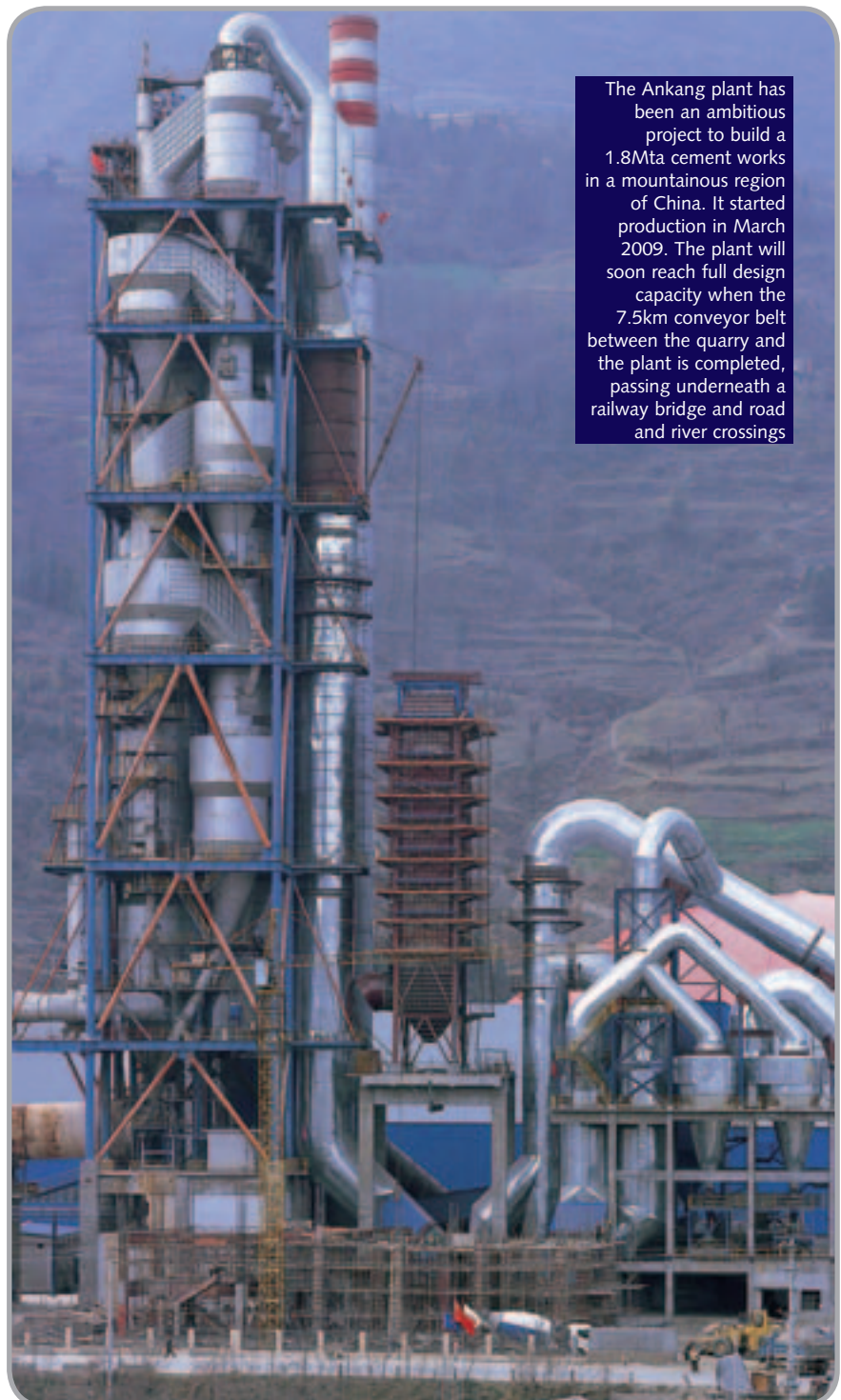
Mr Jimin Zhang, founder and CEO of WCC, who has over 30 years of industry experience, is confident that the advantageous locations of WCC's plants are able to capture the opportunities of rising cement demand driven by government projects in the region. He comments: "WCC's production facilities are strategically located throughout the Shaanxi Province. As well as having accessible raw materials, the plants are in close proximity to the appropriate infrastructure needed to transport the cement. In addition, we have recently been able to capture opportunities that have arisen from the huge government spend which we are seeing on projects throughout Shaanxi and beyond."

Anticipating that the rising demand for cement in Shaanxi would continue, the company planned a fourth facility in Hanzhong, Southwest Shaanxi. Two new cement plants are currently under construction, each with a capacity of 1Mta.

The Yangxian and Mianxian projects are provisionally scheduled to be completed by 2Q10 and 3Q10 respectively, following which, WCC's total capacity is expected to be approximately 7.3Mta, a 38 per cent increase from the current capacity of 5.3Mta.

Mr Zhang further comments: "Due to the devastating impact the 2008 Sichuan earthquake brought to the region and beyond, our Yangxian and Mianxian plants are well placed to be able to assist with the reconstruction of that area which is being sponsored by the government's CNY4trn fiscal stimulus package."

*West China Cement Ltd is ideally located to help meet the rising cement needs of China's Shaanxi Province. It has already built a new kiln line at Ankang, and is also constructing new facilities at Yangxian and Mianxian. Nanjing Research Institute and the Tianjin Research Institute have helped build the company's plants at Pucheng, Lantian and Ankang, while Sinoma has supplied the main equipment for these cement works.*



The Ankang plant has been an ambitious project to build a 1.8Mta cement works in a mountainous region of China. It started production in March 2009. The plant will soon reach full design capacity when the 7.5km conveyor belt between the quarry and the plant is completed, passing underneath a railway bridge and road and river crossings

## UK listing

Since the company's listing on London's AIM market in December 2006, WCC has experienced tremendous growth. In September this year, WCC announced strong interim results that showed a rise of 70 per cent in sales revenue of CNY575m (UK£51.7m/€59.27) and operating profit increasing by 121 per cent to CNY225.2m (UK£20.2m/€23.15m) – reflecting higher cement prices and margins and a maiden contribution from the Ankang plant.

"We aim to become the market leader in the Shaanxi Province," said Mr Zhang. "Being a public company has given us access to capital which has enabled our recent growth. Our image and reputation has been heightened and we are in a good place geographically and strategically to help meet the demand for the cement needed for these infrastructure projects and further developments beyond."

With a history dating back to 1977, the company has seen many changes and developments in Chinese cement production and has implemented improvements along the way to increase efficiency and remain competitive.

Prior to the listing in December 2006, West China Cement was operating three cement production plants in Pucheng with a combined production capacity of 1.5Mta since 2003. However, as the demand for cement

in the region increased, a new plant running two cement production lines, funded by money raised at the IPO, opened in Lantian in 2007 with a production capacity of 2Mta. The company's 1.8Mta Ankang project in the southeast of the province, which started manufacturing clinker earlier this year and producing and selling cement in March. With the main equipment supplied for this plant by Sinoma, it has recently reached full capacity as predicted.

## A company in demand

The Chinese Government has pledged to pour CNY4trn primarily into infrastructure, in which CNY1.5trn and CNY1trn will be spent on basic infrastructure and post-earthquake reconstruction, respectively. The package clearly underscores the government's priority to develop the infrastructure and rebuild affected areas in the western provinces of China. WCC is well-positioned to benefit from these government initiatives.

This year, WCC has won contracts for the Shitian Expressway and the Baotou-Xi'an Railway Line. The company competed for

and won 84 per cent of the total sections up for tender for the Shitian Expressway, which was a result of the determination of WCC's successful team. Those are significant projects for the provinces involved with large scale investment which will enhance productivity distribution and economic development for all the regions involved and beyond.

Demand for cement in China has remained strong despite the short-term economic

slow down resulting from international financial crisis. The cement demand in China increased 13.5 per cent in the first half of 2009 compared to that of 2008. The growth rate was 4.9 per cent higher than that of last year. However, there are geographical discrepancies in cement consumption.

While China's Eastern Coastal area is still experiencing an excess supply of cement despite the economic recovery, demand in Western and Central China is exceeding supply largely due to infrastructure and earthquake reconstruction.

Per capita cement consumption is a good indicator of the degree of saturation in different areas. In the Eastern coastal area, per capita cement consumption was over 1t in 2007 but it was below 1t in West and Central China. In the regions covered by WCC, namely Xi'an, Pucheng,



West China Cement Ltd's headquarters building in Xi'an, provincial capital of Shaanxi Province



Ankang is West China Cement's third cement plant to come online, following Pucheng and Lantian



The Lantian works has two kiln lines producing 2Mta of cement

Lantian is just 35km away from Xi'an and is well situated to offer competitively priced cement to the provincial capital with low transport costs



The Yangxian facility in Hazhong district will add 1Mta cement capacity to the West China Cement company. When the Mianxian works is also completed West China Cement will have a total cement capacity of 7.5Mta



Lantian, Ankang and Hanzhong, the cement consumption was way below other developed regions in China. The lagging economic development makes those regions a priority in Shaanxi government's development agenda, thus bringing huge growth opportunities in the demand for cement.

The discrepancy of supply and demand balance in different areas of China can also be reflected in the price trends. While cement prices in Western China have maintained at a consistent high level, prices in the Eastern coastal area have dropped this year. Cement producers in Western China still record significant growth but producers in the East and South China do not seem to fare so well.

WCC will continue to benefit from both infrastructure and housing, but its main focus is still on the infrastructure projects which promise to be large scale and will span over several more years to come.

In addition to capacity improvements and new sites, WCC has carried out some technical upgrades at its Pucheng plant. The New Cyclone Preheated Process Technology (NCPPT) production line has

a 2500tpd capacity which was put into production in 2003. To maintain efficiency, technical upgrades and energy saving and emission reduction measures have been implemented.

### Environmentally responsible

A topic that is high on WCC's agenda, and which has received time and resources, is that of environmental improvements. These consist of alternative fuels and power generation. This ensures that energy is generated in a more environmentally-friendly way and rubbish is simultaneously being disposed of.

WCC is committed to the Circular

Economy development model which aims at environmental protection, pollution prevention and sustainable development. The Lantian plant is one of the pilot production units of Circular Economy in Shaanxi Province. WCC has invested in two main areas in its Lantian plant:

1. To build a pure low temperature waste heat power plant with an expected annual electricity generating capacity of  $5472 \times 104\text{kWh}$ , saving about 20,000 TCE every year. The power plant has been operating since late 2008.
2. To build an urban and industrial waste treatment system with estimated annual capacity of 200,000t. WCC carried out a feasibility study including government support and subsidies.



Lantian's waste heat recycling plant was completed in August 2008, generating 20.6GW hours of electricity in 1H09

### Market consolidation

WCC will continue to benefit from the Chinese government's policy on market consolidation and closing the inefficient and polluted facilities.

The Chinese government has announced in the 11th Five-Year Plan that inefficient cement production facilities, with a total capacity of about 250Mt, will be disposed of by 2010. In Shaanxi, 39 outdated and inefficient cement producers with a total capacity of 5.017Mt will be eliminated by the end of this year.

The cement market in

China is going to consolidate over the next few years with further development of the cement industry. Therefore, it is the companies with the upgraded technology which keeps them running efficiently that are going to be the survivors and achieve high quality and economies of scale to a certain degree. With the recent improvements, WCC, the leading cement producer in Shaanxi, is in a competitive position and is remaining efficient. \_\_\_\_\_



Pucheng plant has a NCPPT production line with a clinker capacity of 2500tpd