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Thai Hua to expand rubber plantations in Indochina

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PETCHANET PRATRUANGKRAI
THE NATION June 25, 2012 1:00 am

Rising operating costs in the Kingdom have led Thai Hua Rubber to shift its focus to less developed Indochina, where it plans to enrich the company not only in supply but also exports to take its place among the world's largest rubber producers and traders by 2020.

By the end of the plan, the company will manage business in four countries - Laos, Cambodia, Myanmar and Thailand - with a combined total rubber-plantation area of 400,000 rai (64,000 hectares), double from 200,000 rai now, and achieve annual sales revenue of Bt120 billion. Thailand will still be the biggest income generator, estimated at Bt80 billion to Bt90 billion, with net profit predicted at Bt2 billion (from Bt80 billion in sales) depending on rubber prices.

Investing in those three less-developed Indochina countries will allow the company to enjoy lower production costs not only from low wages but other factors as well. The plan will also help it concentrate its business in Thailand on trading and manufacturing finished products. Chief executive officer Luckchai Kittipon said the company had considered not only how to benefit from Asean integration but also how to achieve efficient production. Investing in neighbouring countries will help the company achieve competitive costs and prices in the future.

"Having rubber plantations outside Thailand will enhance our cost-control management, and the most important thing is that we don't want to compete with small rubber growers [in Thailand] in purchasing land. Our strategy here is to focus on expansion of manufacturing rather than of plantation area," Luckchai said.

Wages are one of the most important cost considerations now, with daily wages in Myanmar at Bt50, and Bt120 in Laos and Cambodia, compared with Bt300 in Thailand.

The company has been growing rubber in Laos since 2006 and forecasts yielding latex next year. It was granted permission from the Laotian government to grow 200,000 rai and so far has 140,000-150,000 rai in five provinces, namely Vientiane, Savannakhet, Khammuan, Salavan and Buasri Khamxai.

Rubber tapped in Laos will be directly exported to China, India and other countries. Thai Hua also plans to set up its first processing plant in Laos by next year with a primary production capacity of 10,000 tonnes of rubber.

In addition, Thai Hua's investment in Cambodia will be operated under the company's joint venture with Indian interests to manage 62,000 rai of leased land to grow rubber trees in Kampong Thom province. It plans to start growing trees next year.

As for Myanmar, the company is waiting for its government to announce clearer regulations both on investment and the financial system. It hopes to access the country by next year to develop deforested land through a concession of 125,000 rai. If the concession is granted, the company will have to complete the plantation area within four years. It plans to invest US\$1.5 million (Bt48 million) in Myanmar. The plantation will be in Tanao Si (Burmese Tanintharyi) region, opposite the Singkhon border checkpoint in Thailand's Prachuap Khiri Khan.

Initially, Thai Hua will acquire about 12,500 rai for growing rubber next year. It will be able to extend the contract to 125,000 rai through the maximum 60-year contract. Luckchai said the company needed clearer regulations before confirming the project as Myanmar will enact its revised Foreign Investment Law next month.

Myanmar has one of the highest potentials for growing rubber as its climate is similar to that of Thailand's Southern region, while it still has plenty of denuded forestland that its government plans to turn into valuable farming areas for rubber and oil palm, he explained.

It is a good time for Thai investors to explore opportunities in neighbouring countries as many foreign investors from China and Vietnam have also penetrated Cambodia and Laos to grow cash crops.

Last year, Thai Hua's sales were Bt40 billion and it reported net profit of nearly Bt800 million. The company projects sales of Bt50 billion this year. Currently, about 20 per cent of its net profit is contributed by rubber farming, and the rest from processed rubber supported by 15 plants in the Kingdom.

Looking forward to 2016, Luckchai expects 50-60 per cent of the company's income to come from its rubber-plantation business. It will expand a plant every year and will set up a large plant with a production capacity of 50,000-60,000 tonnes of rubber in 2015 after the full implementation of the Asean Economic Community.

For a small-scale rubber plant, it needs at least Bt20 million in initial investment capital, while a large-scale factory needs at least Bt300 million. Each plant needs up to Bt2 billion as working capital.

Luckchai, who is a third-generation member of the rubber business begun by his grandfather, said the rising cost of land and labour in Thailand had encouraged Thai Hua to expand its business overseas. Also, the company wants to give small farmers the opportunity to grow rubber rather than taking over their businesses and farms in the Kingdom. The cost of land in Thailand is at least Bt50,000 per rai, while in neighbouring countries it can be rented for Bt24 per rai.

Luckchai's grandfather moved the family and his rubber business from Malaysia to Thailand's Southern region 70 years ago because Malaysia had limited land for growing rubber.

To promote the growth of the company, Luckchai said it would focus more on research and development to produce higher-value-added rubber products in the next few years. The company plans to invest up to Bt100 million for R&D.

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