

China's Pesticide Industry Accelerated M&A and Restructuring in 2012

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In the first half of 2012, China's pesticides price first decreased and then rebounded considerably. In the first quarter of 2012, affected by persistent cold weather, the peak time for pesticide consumption in China was delayed, and the demand for insecticide and acaricides declined. In the second quarter, the domestic pesticide market improved rapidly and pesticide prices took an upward trend. Since the second half of 2012, outbreaks of major pests occurred in China's main crop regions. In particular, autumn diseases and pests were more serious than usual, so the seasonal demand for pesticides was brisk, and prices increased. Driven by herbicides, China's pesticide export volume rose drastically year-on-year, and the inventories of pesticide enterprises fell. In 2012 China's pesticide market rebounded steadily.

While increasing its financial performance, China's pesticide industry has responded to the needs for agricultural pest control, and made a positive contribution to domestic grain production.

The operation of the domestic pesticide industry in 2012 mainly had the following characteristics:

1. Output of pesticides grew rapidly

In the first 11 months of 2012, the accumulative output of pesticides in China reached 3.204 million tons, up 19.7% year-on-year. The growth was mainly in herbicides. China's output of insecticides was 734 thousand tons, down 9.8% year-on-year, and the inventories of pesticide enterprises decreased. The change in output of fungicides varied by type, but overall, the output of fungicides fell. With significant growth in fungicide capacity overall, the output of bulk fungicides like carbendazim remained stable, whereas the output of some fungicides like tebuconazole was reduced. China's total output of fungicides was 130 thousand tons, down 7.8% year-on-year and accounting for 4.1% of the total pesticide output. Driven by the bulk products such as glyphosate and 2,4-D, the domestic output of herbicides reached 1.485 million tons, up drastically, 42.3% year-on-year, and accounting for 46.3% of the total pesticide output. China's output of pesticides (100% active ingredient) in the first 11 months of 2012 is listed in Table 1.

Table 1 China's Output of Pesticides (100% active ingredient) in the First 11 Months of 2012

Variety	Output (kt)	Growth (%)	Proportion of total pesticide output (%)
Pesticides	3 204	19.7	
Insecticides	734	-9.8	22.9
Fungicides	130	-7.8	4.1
Herbicides	1 485	42.3	46.3

2. Import volume increased significantly and the average import price declined

In the first 10 months of 2012, China's cumulative import volume of pesticides (physical goods) reached 54.2 thousand tons, up 23.2% year-on-year, the import value was US\$482 million, a year-on-year growth of 18.0%, and the average import price was US\$8 893.0 per ton, down 4.6% year-on-year. Insecticides had the highest average import price among pesticides, US\$15.775 thousand per ton, up 5.2% year-on-year. China's import volume of pesticides was equal to 1.9% of the domestic pesticide output. In recent years, both the influx of patented varieties from multinational corporations and the introduction of a comprehensive plan of agrochemical products and seed technology have had an increasing impact on the domestic market. The imported herbicides with the largest price drops have restricted the sales of non-patent pesticide varieties in China, and narrowed the pesticide formulation market. Foreign patented products have occupied 50% of the rice herbicide market in Jiangsu province and around 80% of the rice insecticide market in the south of Jiangsu province, while the market share of domestic products has gradually decreased. If things go on like this, China's capability of disaster prevention and control will diminish. China's import of pesticides (physical goods) in the first 10 months of 2012 is shown in Table 2.

Table 2 China's Import of Pesticides (Physical goods) in the First 10 Months of 2012

Variety	Amount (kt)	Growth (%)	Value (US\$ million)	Growth (%)
Pesticides	54.2	23.2	482	18
Insecticides	7.1	26.1	112	19.9
Fungicides	20.4	27.1	226	36.3

3. Export volume increased constantly but growth declined

In the first 10 months of 2012, China's cumulative export volume of pesticides (physical goods) reached 748.9 thousand tons, up 12.6% year-on-year, and accounting for 26.1% of domestic pesticide output. The export value of pesticides was US\$2.36 billion, and the average export price was US\$3 151.3 per ton, up 4.3% year-on-year. China exported 497.9 thousand tons of herbicide technical, up 21.0% year-on-year, and accounting for 66.5% and 37.7%, respectively, of the export volume and herbicide output. The average export price of herbicides reached US\$2 737.5 per ton, a year-on-year growth of 6.4%. Both the volume and value of fungicide exports declined constantly. In the first 10 months of 2012, the trade surplus of pesticides was US\$1.879 billion, up 17.1% year on year, and compared with the same period of 2011, the growth of both the volume and value of pesticide exports declined considerably. In October 2012, the growth rate of both the volume and value of pesticide exports rose considerably, compared with September 2012. Like the previous year in which the export volume of pesticide formulations exceeded that of pesticide technical, in the first 10 months of 2012, China's export volume of pesticide formulations continue to grow rapidly, further accelerating China's pesticide brands to enter the international market. China's export of pesticides (physical goods) and trade surplus in the first 10 months of 2012 are listed in Table 3.

Table 3 China's Export of Pesticides (physical goods) and Trade Surplus in the First 10 Months of 2012

Variety	Export Amount (kt)		Growth (%)		Value (US\$ million)		Growth (%)
Trade surplus	Value (US\$ million)		Growth (%)				
Pesticides	748.9	12.6	2 360	17.3	1 879	17.1	
Insecticides	161.7	-5.4	650	11	538	9.4	
Fungicides	59.6	-7.5	281	-9.9	55	-62.3	
Herbicides	497.9	21	1 363	28.2	1 267	32.3	

4. Profit of China's pesticide industry increased rapidly

In the first 11 months of 2012, China's pesticide industry accomplished a total industrial output value of RMB219.35 billion at current prices, up 23.2% year-on-year, a total sales value of RMB212.69 billion at current prices, up 22.6%, a sales/production ratio of 96.5%, down 0.42 percentage points. In the first 10 months of 2012, the total profit of China's pesticide industry reached 11.69 billion, a drastic growth of 33.9% year-on-year, and the average sales profit ratio reached 6.1%, considerably higher than in the same period of 2011. The number of enterprises with financial losses fell by 6.2%, and the combined loss was RMB650 million, down 5.2% year-on-year. All these show that the financial performance of the pesticide industry has improved considerably.

5. Strengthening enterprises and accelerating M&A and restructuring

The lowest revenue of top 100 pesticide sales enterprises continue to rise drastically from RMB170 million in 2010 to RMB200 million in 2011, reflecting the enhancement of scale and strength of enterprises. The top 100 firms' sales revenue totaled RMB61.86 billion in 2011, up 24.5% year-on-year. Large enterprises have played an increasingly important role in the adjustment of economic and industrial structure, and the market is also gradually rebounding.

During 2012, the number of pesticide enterprises with considerable scale in China increased from 773 to 800. Thirteen mergers or acquisitions took place in the domestic pesticide industry, after only six events in 2011. M&A and restructuring in China's pesticide industry is accelerated and is laying a new foundation for the pesticide industry to be larger and stronger. Statistics of big M&A and cooperation events in the domestic pesticide enterprise in 2012 are shown in Table 4.

Table 4 Statistics of M&A and Cooperation Events in the Domestic Pesticide Enterprises in 2012

Number	Enterprise	Event	Type of enterprises	Remarks
1	Jiangsu Lanfeng Biochemical Co., Ltd	Merged Taicang Otsuka Chemical Co., Ltd	Pesticide technical	Taicang Otsuka Chemical Co., Ltd, owned by Otsuka Chemical of Japan and established in the 1990s, produces insecticides like carbofuran technical (98%) that complement the insecticide products of Jiangsu Lanfeng Biochemical Co., Ltd
2	Shandong United Pesticide Industry Co., Ltd	Merged Taian United Biotechnology Co., Ltd	Pesticide technical	The change of ownership
3	Jiangsu Pesticide Institute Company Ltd	Merged Nanjing Suyan Kechuang Agrochemical Co., Ltd	Pesticide technical	The change of ownership
4	Jiangsu Good Harvest-Weien Agrochemical Co., Ltd	Merged Jiangsu Shenghua Pesticide Co., Ltd	Pesticide technical	The hot products like 2,4-D as well as dicamba technical of former Jiangsu Shenghua Pesticide Co., Ltd will bring drastic operation improvement for Jiangsu Good Harvest-Weien Agrochemical Co., Ltd
5	Hubei Sanonda Co., Ltd	Merged Sanonda (Jingzhou) Pesticide Chemical Co., Ltd	Pesticide technical	The change of ownership
6	Hunan Nongda Haite Agrochemical Co., Ltd	Merged Yantai Jinnuo Bio-Engineering Co., Ltd	Pesticide formulation	The resource integration of Huizhou Sino-Quick Group's subsidiary in Hunan province
7	Hunan Sino-Quick Agrochemical Co., Ltd	Cooperation of Hunan Hongcheng Bio-tech Co., Ltd and Hunan Fengtian Crop Science Co., Ltd	Pesticide formulation	The resource integration of Huizhou Sino-Quick Group's subsidiary in Hunan province
8	Chengdu Kelilong Biochemical Co., Ltd	Merged Shaanxi Tianfu Tengda Crop Protection Science Co., Ltd	Pesticide formulation	The resource integration of Huizhou Sino-Quick Group's subsidiary in Sichuan province
9	Gansu Huashi Agricultural Science and Technology Co., Ltd	Acquired Shanxi Lvzhou Agricultural Science and Technology Co., Ltd	Pesticide technical	The change of ownership

10 Henan Yuanjian Agricultural Science and Technology Co., Ltd M&A and restructuring of Zhengzhou Dahe Agrochemical Co., Ltd and Wfoe Safe Technology Co., Ltd Pesticide formulation The change of ownership

11 Jinan Zhongke Green Bioengineering Co., Ltd Merged Shandong Zhongbang Pesticide Co., Ltd Pesticide formulation The change of ownership

12 Shenyang Hetian Chemical Co., Ltd Merged Beijing Zhongnong Kemei Chemical Co., Ltd Pesticide formulation The change of ownership

13 Chongqing Huapont Pharm. Co., Ltd Acquired Hangzhou Qingfeng Agro-chemical Co., Ltd Pesticide technical Chongqing Huapont Pharm. Co., Ltd will rely on Hangzhou Qingfeng Agro-chemical Co., Ltd to extend its strategic basic resources

6. Investment maintains rapid growth

In the first 10 months of 2012, the growth of accumulated investments in China's pesticide industry reached 23.3%, up around 10 percentage points year-on-year. The patents of bulk hot products like 2,4-D and glyphosate as well as azoxystrobin have just expired, and a number of pesticide technical products, some with a global sales value of over US\$100 million, have become an investment focus. According to the investment cycle and growth characteristics of the industry, in 2013 the investment in China's pesticide industry will still grow rapidly, exceeding 20%.

7. Domestic pesticide industry has gradually recovered

Since 2012, the market of bulk products with glyphosate as the representative has gradually recovered, driving bulk pesticide prices up. However, the number of major glyphosate enterprises has increased from 8 in early 2012 to more than 20, fragmenting the country's capacity considerably. In addition, a lot of pesticide enterprises have planned to expand capacity, and the problems of excess capacity and malignant competition will become more serious.

Projection of China's pesticide market in 2013

In 2013, China's output of pesticide technical will maintain a slight growth and is expected to reach 3.6 million tons. In the domestic market, driven by the brisk demand for herbicides, China's demand for pesticides is expected to increase by 4.68%. In the international market, with the constant export increase, the number of anti-dumping cases lodged by overseas countries against Chinese products has increased constantly. Two dumping investigations on China-made glyphosate formulations were launched by Australia in 2012 and show that the target of anti-dumping actions by other countries has shifted from pesticide technical to pesticide formulations, and the pesticide makers have faced grim foreign trade situations. It is expected that export growth in 2013 will not be faster than in 2012.

SOURCE China Chemical Reporter