

Company profile: A global force

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Hong Kong-based Chiho-Tiande has emerged as a multinational, large-volume scrap recycler thanks to its acquisition of Scholz AG' s European assets.

When Chiho-Tiande CEO Qin Yongming spoke as a panelist at a November 2016 scrap recycling conference, he said he was aware the Hong Kong-based firm' s recent takeover of Germany-based Scholz AG had the appearance of "a snake trying to swallow an elephant," with Scholz having a sales volume roughly 10 times that of Chiho-Tiande.

Subsequently, Qin and the leadership team at Chiho-Tiande have been managing the process of integrating the extensive Scholz network of European scrap facilities and trading offices with the firm' s Hong Kong and China-based operations.

The company' s Chief Investment Officer Goh Kian Guan says the combined group now "includes more than 300 processing facilities [with] a total of more than

7,000 employees.”

SPANNING THE GLOBE

Chiho-Tiande’ s origins involve connecting European and Asian scrap markets, as the word “Chiho” was created when the firm was founded in 1995 to denote a trading link between China and Holland.

Initially, says Goh, the firm was “mainly engaged in imports of scrap metal and motors, and thus processing motors into recycled metal products was our main business.” The company operated from a site in Hong Kong’ s New Territories.

In 2000, says Goh, the company set up a site in the city of Taizhou in China’ s Zhejiang Province to expand its operational capabilities.

Chiho-Tiande became publicly listed on the Hong Kong Stock Exchange in 2010, and from 2012 to 2015 one of its major shareholders was Australia and United States-based Sims Metal Management. The company’ s ownership situation changed in the spring of 2015, says Goh, when it “issued 456.9 million new shares to USUM Investment Group (Hong Kong) Limited to raise funds of \$530 million.”

Goh adds, “USUM Investment Group has also become the controlling

shareholder of the group." The USUM website notes that the firm was "initiated by [the] Chongqing Municipal Government and [the] Chongqing Federation of Industry and Commerce."

The \$530 million investment was driven by Tu Jianhua, a financier based in Chongqing, China, who serves as the board chairman of USUM Investment Group.

"I was born poor and grew up in the mountains of Chongqing," Tu says. "In order to make a living, I left my home early and started my business."

Tu says he is grateful for the economic reform that coincided with his business formation activities, which started in 1983. "China's early reform and opening up created the opportunity if I was willing to work hard. I made a pot of gold through the steel trade, and gradually developed my career," he says.

Tu continues, "In the next two to three decades, my career gradually developed and covered high-end industrial manufacturing, finance, construction and real estate, the environmental protection industry and car sales and service."

As USUM has grown, Tu says so too has his responsibility to make the right investments. "The reason that leads me to this stage is the desire to make a successful career, and a sense of responsibility for tens of thousands of people who

depend on our success—my employees and their families.”

The Scholz acquisition may have involved risk in the form of taking over a large company in one bite, but Tu and Goh say there also is a risk mitigation factor to the strategy.

“One of the purposes of the acquisition of Scholz is to take into account the layout of global trade,” Goh says. “Through the global layout, we can lessen the impact when a single country or regional economic development cyclical fluctuation occurs.”

Chiho-Tiande has made moves to diversify geographically beyond the Scholz acquisition, says Goh, noting that in 2015 the firm entered into a joint venture with Itochu Corp., whom Goh calls “the largest metal recycler in Hokkaido, Japan.”

Likewise, the company has diversified well beyond its initial focus on motor recycling, and now processes and trades the full range of ferrous and nonferrous metals. This includes the operation of auto shredders, an electronic scrap processing facility and the operation of a furnace to produce aluminium alloy ingots.

Patrick Zhu, the company’s vice president and chief operating officer, says the

infusion of capital and the series of acquisitions and joint venture projects has created a vastly different company from what Chiho-Tiande was just two years prior.

As of mid-2017, the Hong Kong-based firm is well positioned geographically and operationally to take advantage of scrap recycling opportunities as they emerge, the company's leaders say.

THE WIDER ENVIRONMENT

With a global network of scrap facilities in place, the management team at Chiho-Tiande now finds itself engaged in a trading environment that presents challenges along with the opportunities.

Goh cites protectionism as one such challenge. "Macroeconomic downturns breed protectionism, and the phenomenon of protectionism has been rising in many of the world's major countries," he states. The acquisition of Scholz, along with the Japanese joint venture, "help us avoid some of the risks entailed by the implementation of trade barriers in Europe or the United States."

On the regulatory side, Goh says ultimately recycling should benefit from a global "attitude and position around the world" whereby "everyone wants to

leave a blue sky for future generations, clean water and no contaminated soil.

Increasing resource recycling will be able to effectively reduce the demand for primary minerals and avoid the environmental damage caused by [mining] minerals.”

Goh says the scrap recycling industry must continue to spread the message that it creates positive impacts on the environment. “I prefer to use the word recycling industry, rather than the word waste recycling industry,” he comments.

“The literal difference between the two words is that one represents the status quo while the other points toward a better future.”

With popular sentiment favoring a cleaner environment, and with the right message, Goh says the scrap recycling industry can receive a boost in momentum.

“I am for the cause of environmental protection,” he states.

Tu says environmental protection helped to motivate him to make his major investment into the scrap recycling industry. “China has undergone a period of rapid development and industrialization,” he comments. “This stage of Chinese development has caused serious damage to the environment, which needs to be resolved as soon as possible. Recycling can reduce the demand for raw minerals and fossil fuels, and have a positive effect on our ecology and the environment.”

Both Tu and Goh say there is ample opportunity for China's domestic recycling industry to grow. "As people's living standards improve, it also means that people's demands for better living conditions are also increasing, such as the quality of the air, the quality of drinking water, the cleanliness of the environment, and the handling of waste," Tu says. "Recycling is thus naturally a very good investment object."

Goh says, "China's domestic waste and recycling system is not perfect. There are many self-employed, non-compliant firms handling materials. The result is that secondary pollution and tax evasion occur frequently." Additionally, he says "Some laws and regulations are out of date, making a legitimate recycling business difficult to operate."

Despite the challenges, Chiho-Tiande's leaders say there are many reasons to look forward to the future.

"The market has provided the opportunity to grow, and what we need to do is to seize this opportunity for development, planning, layout and implementation of our established development direction," states Goh.

"We have more than 20 years of experience in the scrap recycling industry, continually improving our technology for handling materials and developing the

facilities used to recycle scrap metal while carefully adjusting our use of manpower and technology to create the most efficient and maximum revenue stream," he continues.

As the snake continues to swallow the elephant, to use Qin' s metaphor, Goh says Chiho-Tiande' s task will be to "enhance our management level toward becoming one the world' s largest and leading renewable companies going forward."

Goh concludes, "After the acquisition of Scholz, we have been busy further integrating. It' s a process of digestion, but also finding synergies. The future will continue to be about integration that serves our customers and quite likely even further broadens our product range."