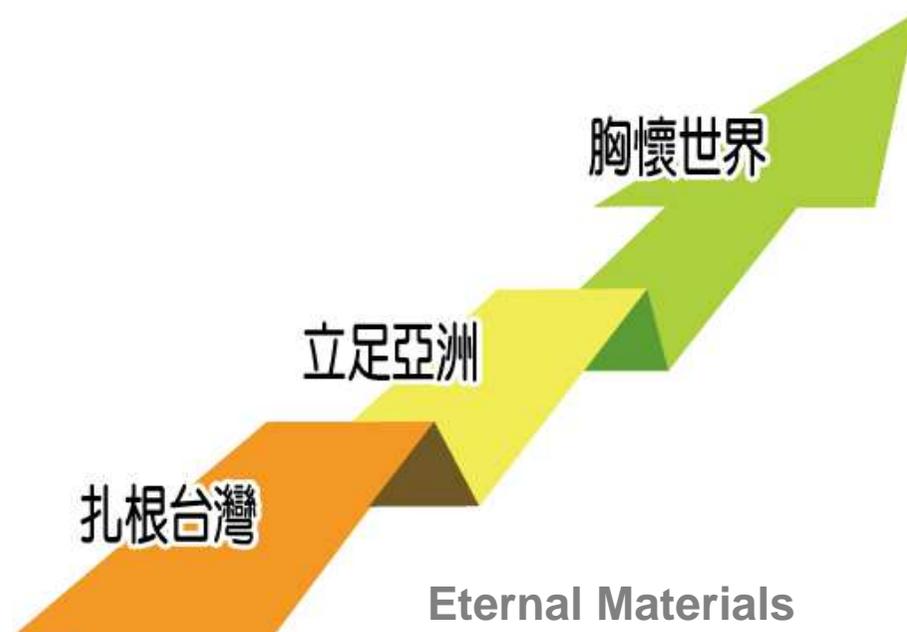




# The Impacts and Opportunities Facing the US-China Trade War

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Director, Synthetic Resins  
13 Dec 2018



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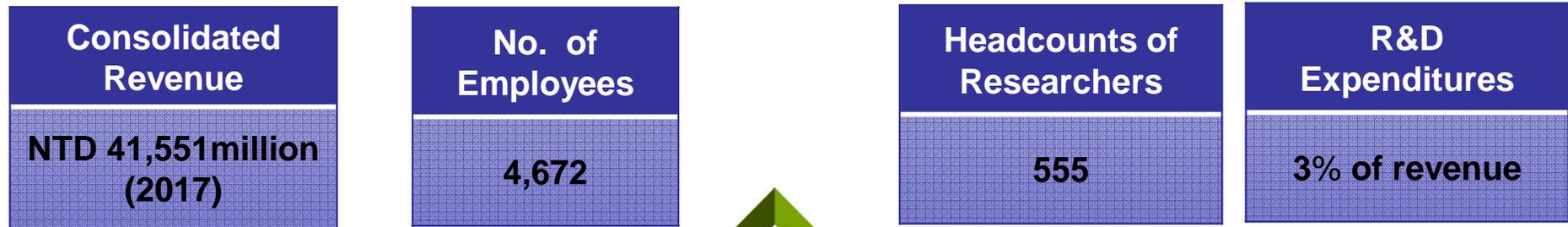
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# Profile

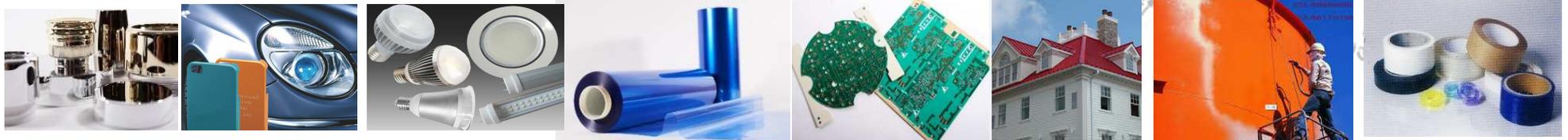
**Core Business**  
**Year of Establishment**  
**No of Production Sites**

**Manufacturing, processing and sales**  
**1964**  
**24**

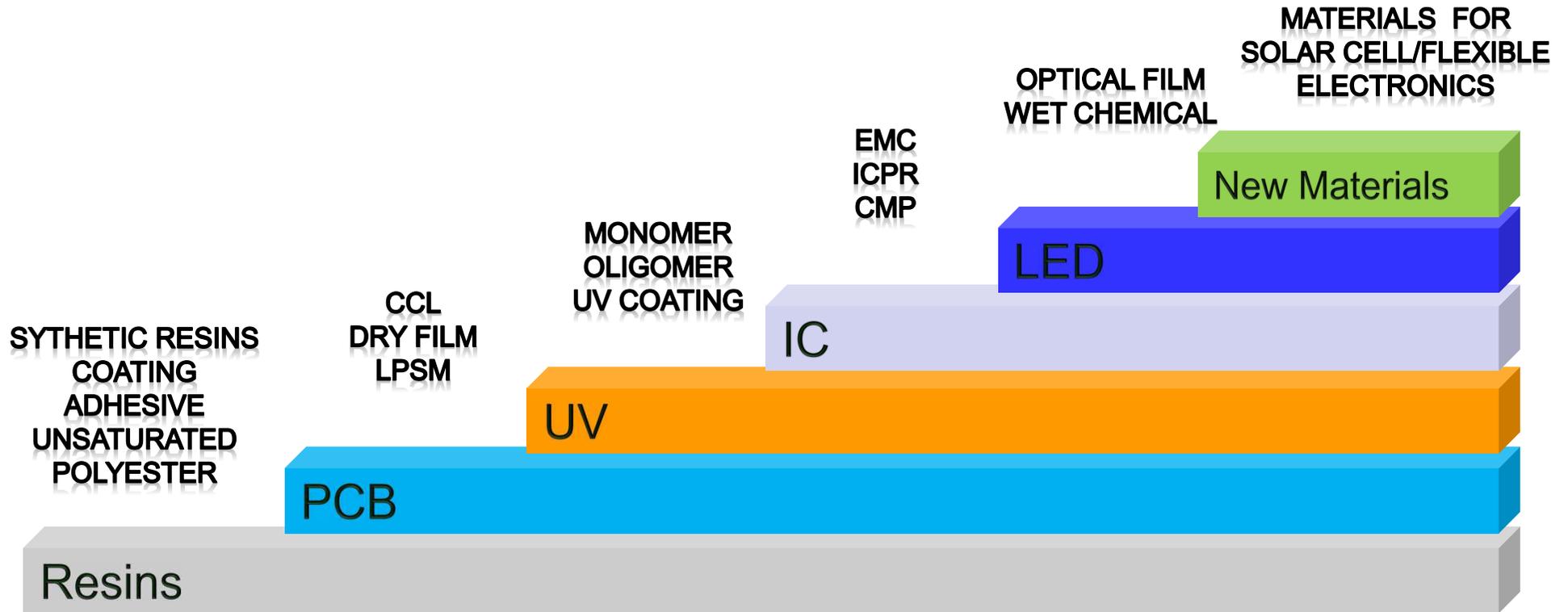
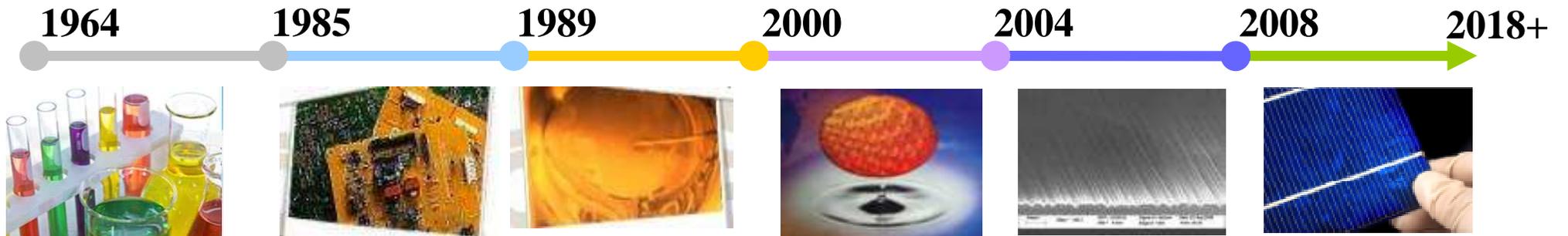


Eternal is:

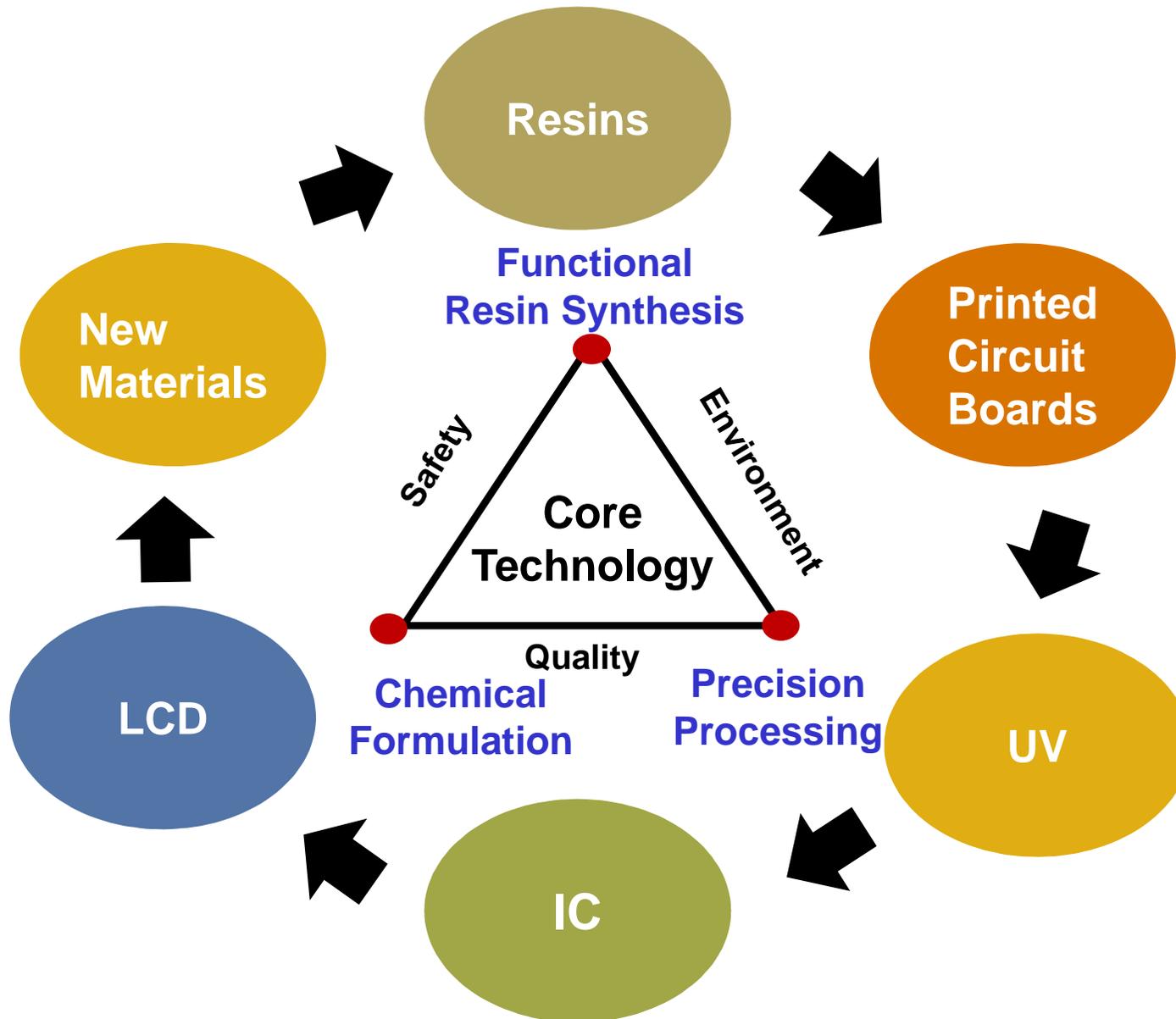
- One of the leading suppliers of dry film photoresist in the world.
- One of three largest UV curable Monomers & Oligomers material suppliers.
- One of the leading suppliers of synthetic resin in Asia.



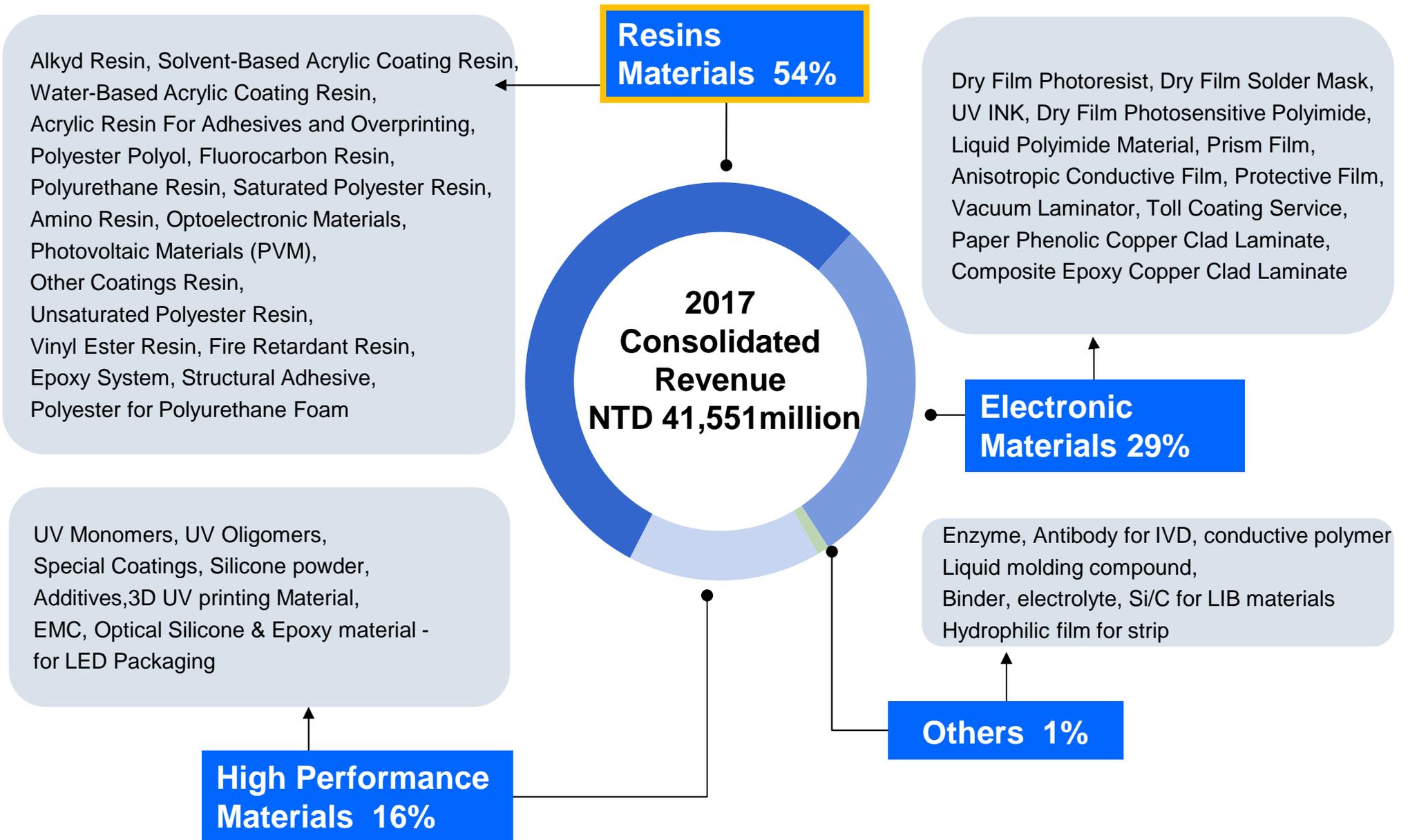
# Development Milestones



# Core Technologies



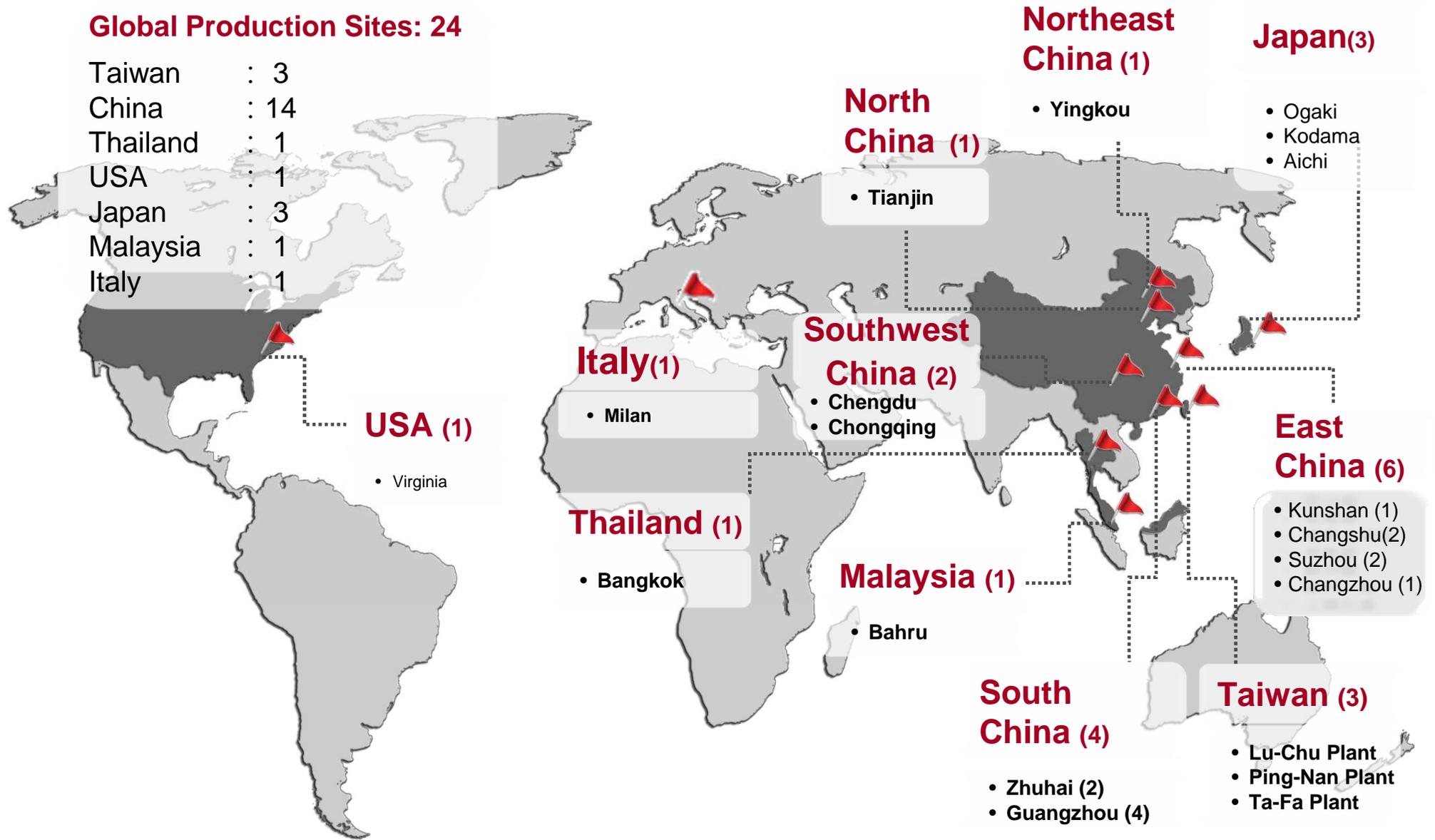
# Main Products



# Global Production Sites

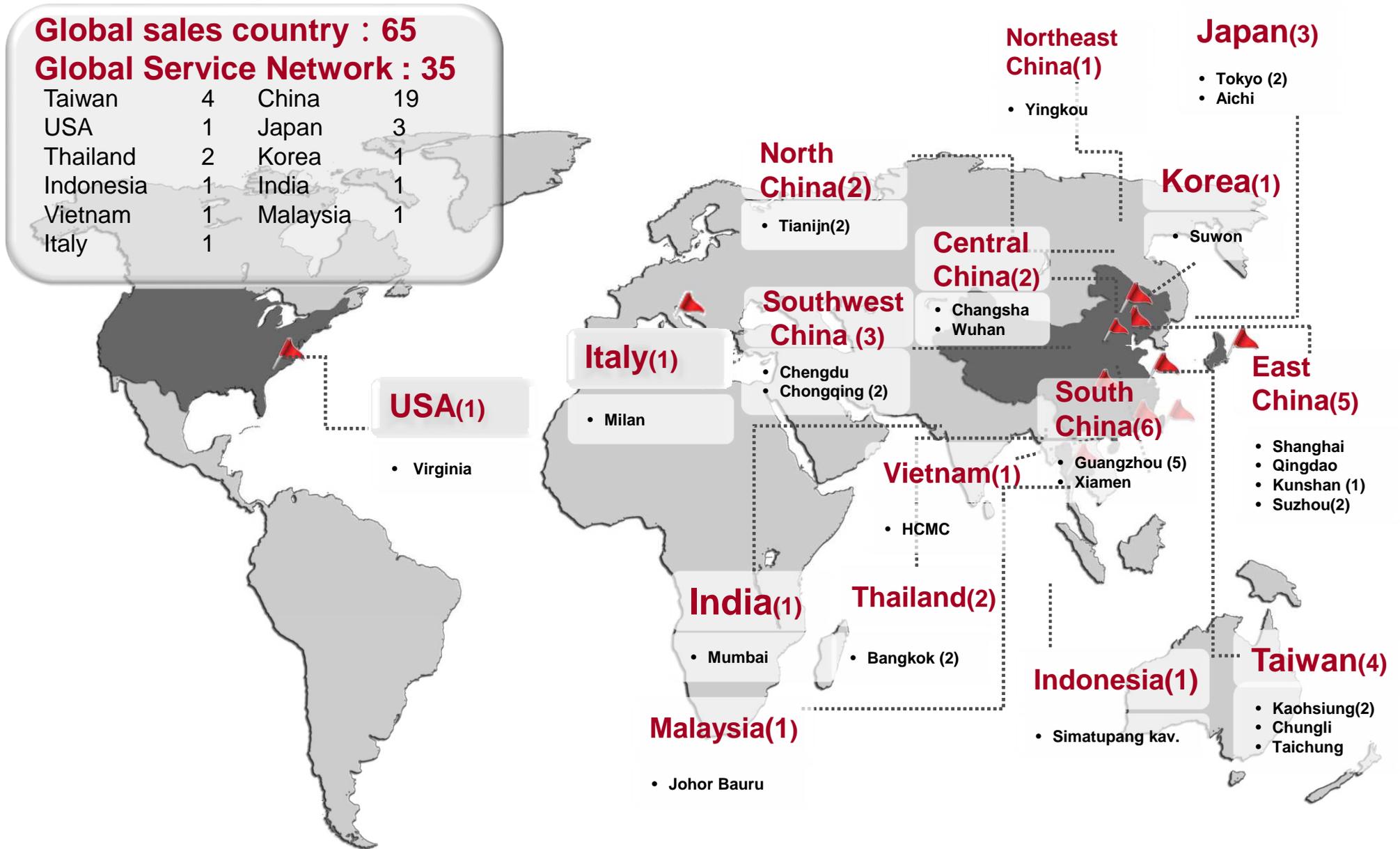
## Global Production Sites: 24

- Taiwan : 3
- China : 14
- Thailand : 1
- USA : 1
- Japan : 3
- Malaysia : 1
- Italy : 1

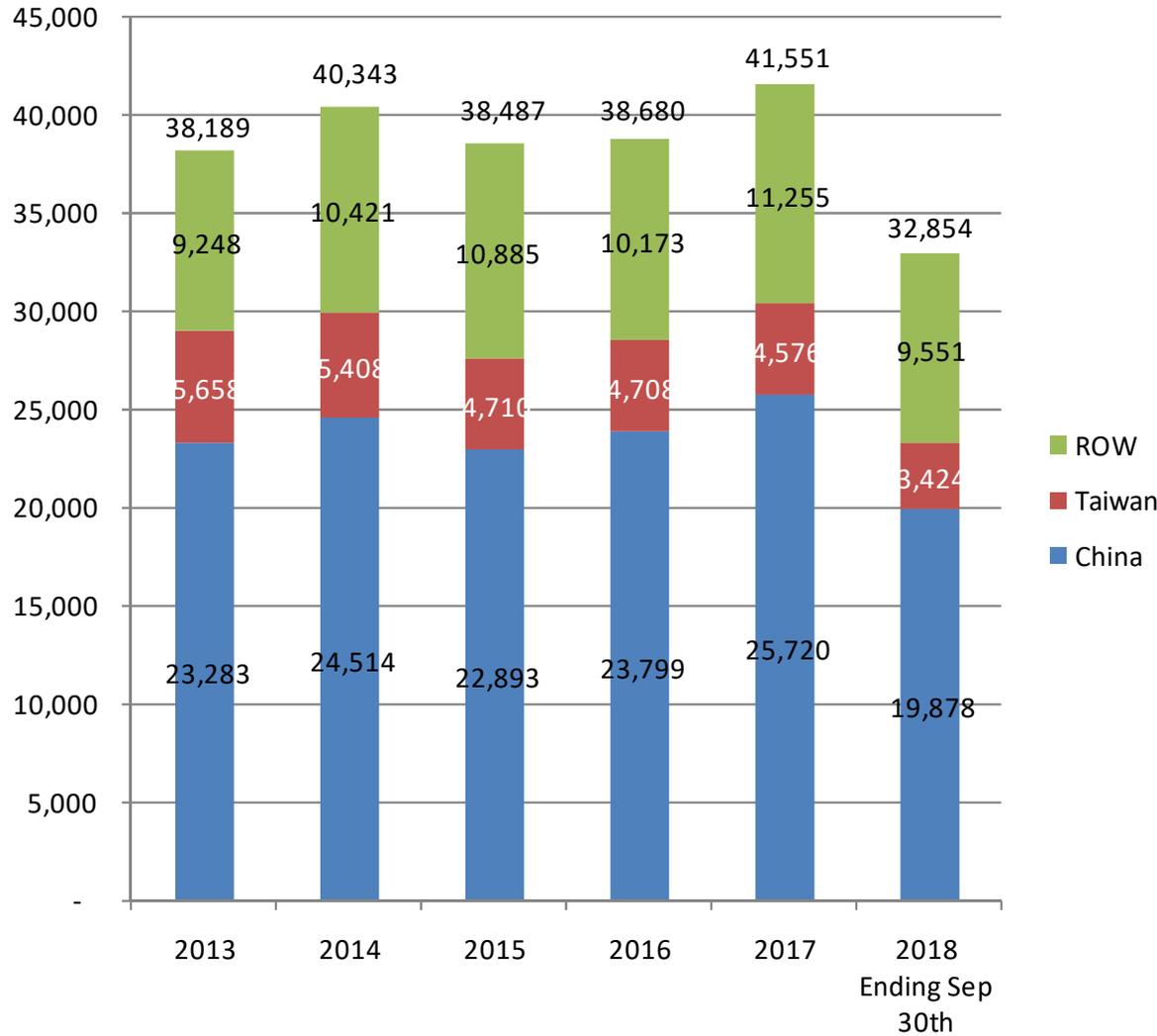


Remark "Changzhou plant" in preparation  
**Eternal Materials**

# Global Service Network

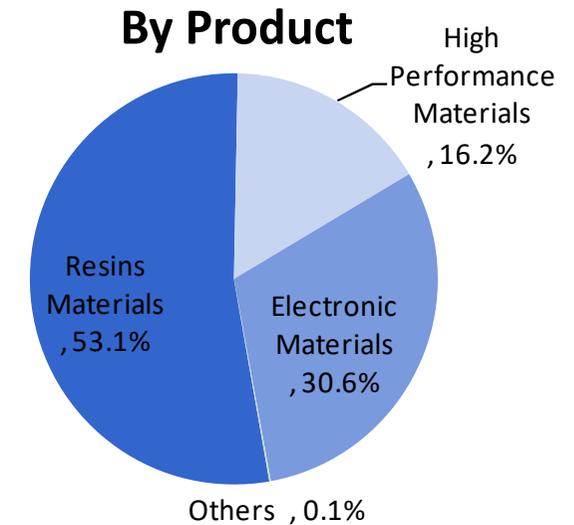
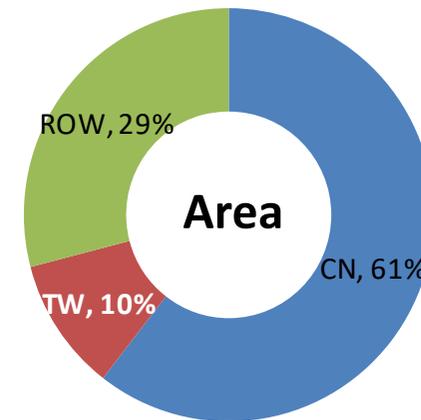


# 2013-2018 Annual Sales



Unit : NTD million

## Sales during Jan to Sep , 2018



# Operating Performance

Unit: NTD Million

<b>Account Names/Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018 Ending Sep 30<sup>th</sup></b>
Revenue	38,189	40,343	38,487	38,680	41,551	32,854
Gross profit	6,845	7,780	8,747	8,582	7,438	5,617
Operating expenses	4,508	4,954	5,349	5,453	5,576	4,095
Operating income	2,337	2,825	3,397	3,129	1,862	1,522
Net Income	1,930	2,303	2,872	2,606	1,864	1,305
Earnings per share	1.94	2.25	2.81	2.38	1.65	1.09

# Honors

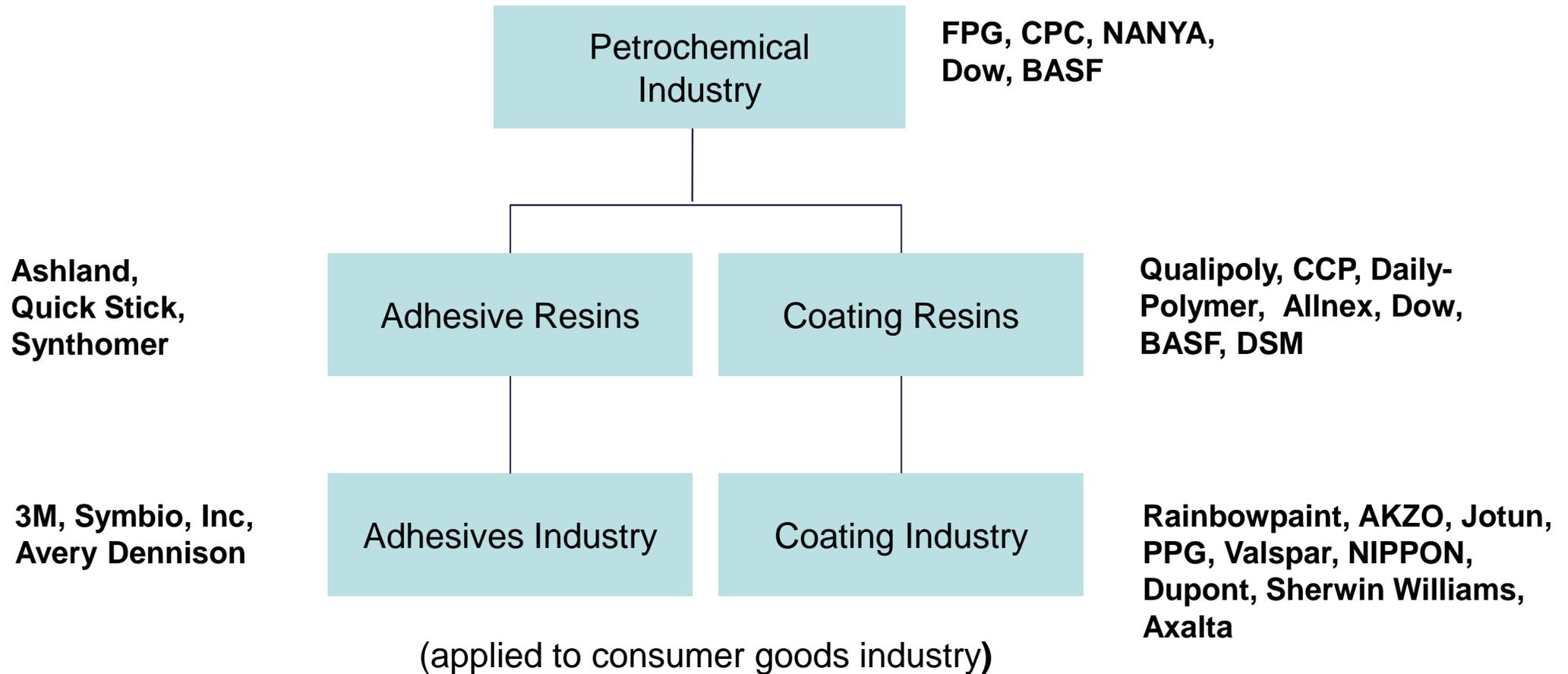
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- 2001 Distinguished Award for Industry Technology Advancement, the highest honor granted
- 2003 Set up Industrial Technology Innovation Center approved by Ministry of Economic Affairs
- 2005 Honored NBIA International Incubation Award from Open Laboratory /Incubation Center of ITRI
- 2007 Awarded Innovation Elite Prize of Taiwan nanotechnology (Industry Award) by Taiwan Nanotechnology Industry Development Association
- 2008 Awarded Industrial Contribution Prize in TCIA Industrial Excellent Award 2008
- 2008 Awarded "Long-Standing Enterprise for 40-year upward " by Ministry of Economic Affairs, R.O.C
- 2009 Awarded "National Standardization Award" by Ministry of Economic Affairs, R.O.C.
- 2010 Awarded Outstanding Enterprise Innovation Award by Taiwan Nanotechnology
- 2013 Awarded "Taiwan Mittelstand Award" by Ministry of Economic Affairs, R.O.C.
- 2015 Awarded Talent Quality Management System(TTQS) enterprise version Gold Medal by Ministry of Labor , R.O.C
- 2016 Awarded "National Defense Industry Contribution Award" by NCSIST
- 2018 Awarded "20<sup>TH</sup> Technology Management Award" by Chinese Society for Management of Technology**

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# SYNTHETIC RESINS DIVISION

# The Supply Chain of Synthetic Resins



# Products & Applications – General Industrial

## Adhesive Resins

- Acrylic resins for PSA
  - Water Borne
  - Solvent Borne
- Polyester polyol
- Peelable Mask
- PU for Adhesives

## Applications

- Tapes
- Graphic Arts
- Labels
- Protective Films



# Products & Applications - Coatings

## Coating Resins

- Alkyd resins
- Oil-free polyester resins
- Acrylic resins
- High molecular weight polyester
- Fluoro resins
- Amino resins
- Phenolic resins

## Applications

- Architectural paints
- Decorative paints
- Wood coatings
- Industrial coatings
- Can coatings
- Coil coatings
- Automotive coatings
- Marine and protective coatings



# Production Sites of SR Division

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Remark “Changzhou plant” in preparation

# Certificates of SR Division



- ISO 9001
- ISO 14001
- OHSAS18001 / TOSHMS
- ISO 50001
- Verification Statement Carbon Footprint
- Green Factory Stamp Certificate
- National Workplace Safety And Health Week Series Activities Implementation Plan Participation Certificate
- The Third Place In The Enterprise's Addictive Substance Internal Promotion Competition
- CPR+AED Certificate
- Green Building Stamp Certificate
- Verification statement water footprint



# The Outlook of Synthetic Resins

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## ◆ New products and applications

- High Performance Electronics Products
- Solar & Wind Power Resins
- Environmental Friendly Resins

## ◆ Expand overseas markets

- Particularly Southeast Asia, USA, the Middle East

## ◆ Develop value-added products for:

- Heavy-duty
- Weather resistance
- High performance



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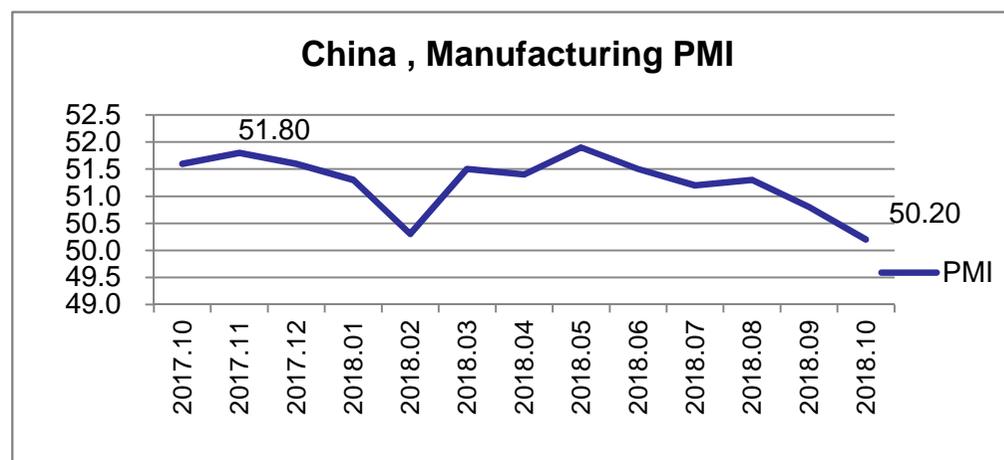
# **THE IMPACTS AND OPPORTUNITIES FACING THE US-CHINA TRADE WAR - SYNTHETIC RESINS**

# The Impacts on China's Economy

Date	USA	China
2018	34B USD	34B USD
7.06	818 Items	545 Items
	25% Chemical, Vehicles, Aircraft, Vessels, Panels and optical instruments, etc.	25% Soybeans, agricultural products, Vehicles, Sea Food, etc.
2018	16B USD	16B USD
8.23	279 Items	333 Items
	25% Petrochemical materials, Articles of iron or steel, Machinery, Electrical products, etc.	25% Fuel, Copper & Aluminum Waste materials, Transport Equipment, etc.
2018	200B USD	60B USD
9.24	5,745 Items	5,207 Items
↓	10% Farm and fish, Processed food, Chemical, Plastics & Rubber, Machinery,	5% Aircraft, Computer
	↓ 25% Electrical products, Optical Apparatus & Parts, Transport Equipment, etc.	10% Wigs, textiles, etc.
2018		20% Parts of Chemical Products, stove, paper
12.02	(hold)	25% Meat, Wheat, wine, liquefied natural gas
<b>Total</b>	<b>250B USD</b>	<b>110B USD</b>

Source : Bureau of Foreign Trade, Taiwan / United States Trade Representative / Ministry of Finance of the PROC

- Since the second half of 2018, China faces the threat of economic downturn.
- China's stock market falls rapidly due to the depreciation of RMB which combats investors' confidence and affects consumer behaviors.
- **China's GDP growth of 6.5% in the 3rd quarter of 2018<sup>1</sup> is the lowest since 2013.** IMF forecast it will going down to 6.2% in 2019<sup>2</sup>.
- **As announced in October 2018, China's manufacturing PMI is dipped to 50.2%<sup>1</sup>, also the lowest in recent years.** It reflects a slowdown in China's manufacturing. The trade war and environmental policies impact on business prospects to the lowest level this year for the next 12 months.



Source:  
Remark 1, National Bureau of Statistics, China  
Remark 2, IMF, Oct 2018, World Economic outlook

# The Affected Industries in China

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The business sectors under threat include tools and machinery, motors, electrical and electronic instruments, furniture and lighting equipment, automotive components, rubber products, leather products, and steel (aluminum).

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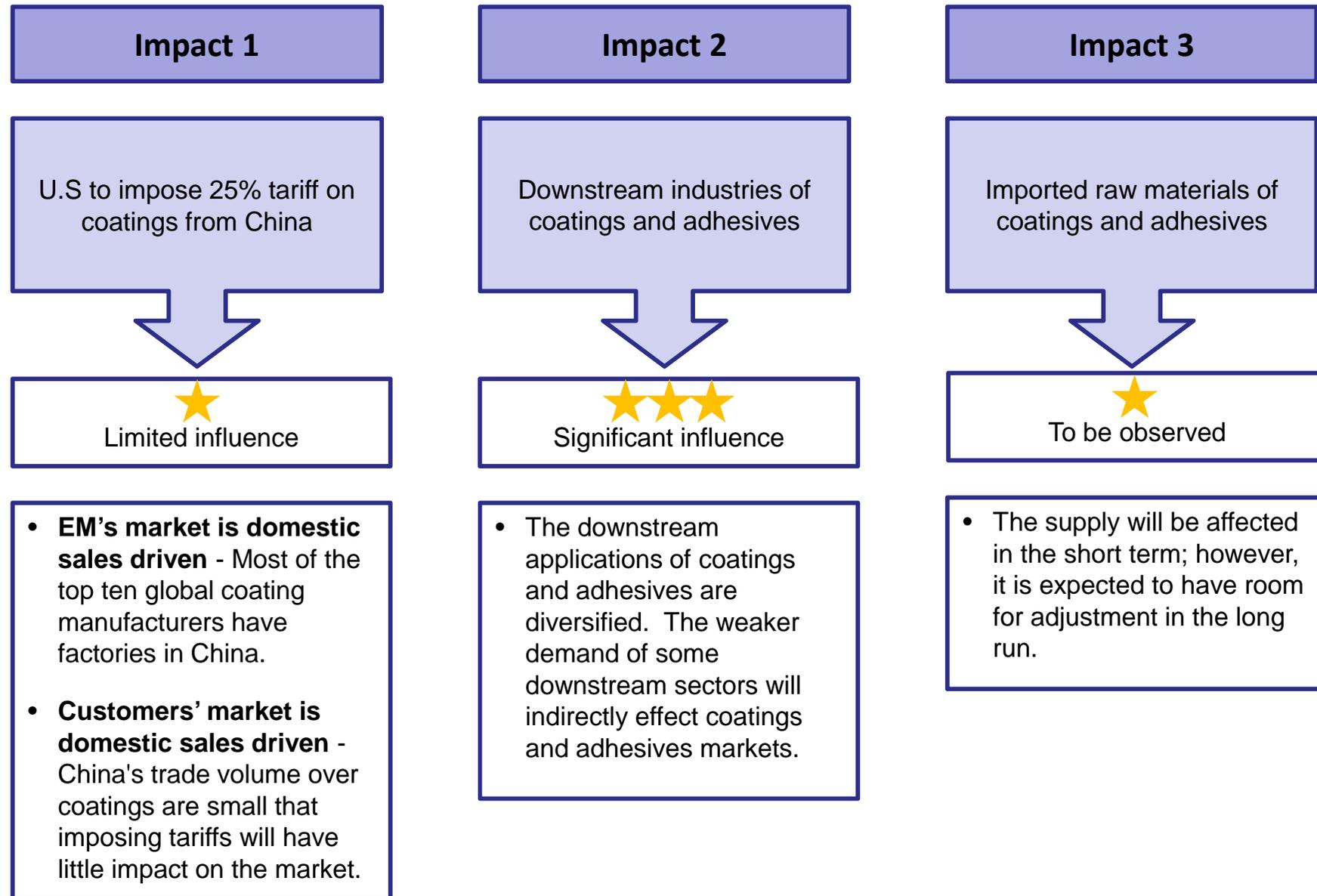
## US tariffs on products from China

Section	Subsections
Food and Beverages, Tobacco	Seafood, dairy products, wheat and cereals, nuts, dried fruits, fruit juices, mineral water, wine, forestry, seasonings, tobacco, vegetables, meat, seeds, beverages, and others
Chemical or Allied Industries	Chemical products and materials
Electrical Equipment	Household electrical equipment
Textiles and Apparel	Leather, bags, fur products, wool, cotton, synthetic fibers, textiles, knitted and knitted goods, feathers, hats and headwear
Metal and Machinery	Precious metals, alloys, iron ore and steel products, copper, nickel, zinc, tin, repair tools, parts, internal combustion engine, air conditioning equipment, hydraulic jacks, cranes and pipes, aluminum, other metals, stone, fuel and others
Transport Equipment	Bicycles, tractors, trailers, automotive and auto parts, and boats
Furniture and Antiques	Chairs, seats, sofas, mattresses, tables, paintings, sculptures, antiques, wood, bamboo, ceramics, glass and others

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Source: Bureau of Foreign Trade, Taiwan / United States Trade Representative / Ministry of Finance of the PROC

# The Impacts on Eternal Materials



# The Impacts on Eternal Materials

**The affected sectors - export demand will be weaker; re-allocation of production sites.**

Affected products	Industry	Descriptions	Impact on
Electrical Equipment (Consumer Product)	Electronics, Electrical Equipment, Motors	China exports household appliances to the US of \$ 14.4 billion, accounting for about 20.1% <sup>(1)</sup> . The home appliances are affected while the large appliances are relatively unaffected. Long term impact is less significant.	Coil coating, Heavy-duty, Industrial coatings, Adhesives resins...etc
Textiles and Apparel	Leather, Textile	Textile, clothing, and leather exports account for around 13% of China's total exports, of which exports to the U.S. accounted for 12% <sup>(2)</sup> . The imposition of such tariffs will shift the orders from China to Vietnam, Mexico, India, Bangladesh, Cambodia, etc.	Adhesive resins, PUD
Metal, Machinery	Parts, Equipment	The U.S. import rate from China is about 13.6% <sup>(1)</sup> . Raising the tariff may cause orders shifting and declined demand.	Industrial coatings, Adhesives resins...etc
Transport Equipment	Automobile, and its components, bicycles, industrial vehicles	Since July 2018, China auto production fell compared to the same period in 2017, especially it has dropped by more than 10% in Sept and Oct <sup>(3)</sup> . and reflects China's economic downturn.	Car coating and refinish coating
Furniture; Antiques	Furniture, wood Products	The proportion of US imports from China is about 4.18% <sup>(1)</sup> . . However, China exports to the U.S. is 22% <sup>(2)</sup> . The U.S imposes tariff on furniture , forcing China's orders transfer to Vietnam or the other countries of ASEAN.	Wood Coatings

Source: All of the above rates are for 2017

1 : Bureau of Foreign Trade, Taiwan

2 : General administration of customs PROC

3 : China Association of automobile manufactures.

# The Impacts on Eternal Materials

## The Influence of Imported Raw Materials

### ■ Phase I: Soybeans, Ethanol

- Of all the imported soybeans, US imported soybeans account for 36% in 2017. If China is to impose the tariff on soybean imports, it will push the cost of solvent born alkyd resins in the short-term, driving the demand to shift to the waterborne wood coatings. China is more likely to reduce its dependence on soybean imports from the U.S. in the future by replacing those from Brazil, Argentina, Russia and other origins.
- China's ethanol capacity is insufficient so that it will still rely on imports from the U.S. in the short term, and affect the price of ethyl acetate.

### ■ Phase II: Propane

- China imported 13.35 million tons of propane in 2017, of which imports from the U.S. accounted for 25%. Once China is imposed with the tariff on propane, the price of its downstream precursors such as propylene, subsequently acrylic resins, butanol & octanol will be affected in the short-term.

**Except for the short-term effects of the above chemical raw materials imported from the U.S., there are alternative sources for other raw materials in coatings and adhesive industry. Therefore, the impact is relatively limited.**

# The Opportunities for Eternal Materials

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- ◆ **The short-term demand is weaker in China; however, the long-term demand remains positive. (Short-term bearish; long-term bullish)**
  - **Short-term outlook:** The demand of certain segments has diminished in Q3 2018. Whether the trend will remain weak is to be observed in Q4 2018.
  - **Macro-control:** China government has attempted to reduce the impact of the trade war by means of economic incentives, such as tax reduction, interest rate cut and qualitative easing.
  - **The long term domestic demand will be growing:** China's counter economic plan by infrastructure and domestic demand expansion will stimulate the growth of coatings and adhesives markets.

# The Opportunities for Eternal Materials

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## ◆ Alleviate the impact on export

- RMB depreciation will alleviate the impact of the tariffs.
- China adopts new macro economic policies, such as **increasing export sales tax rebates** on 397 items to mitigate private sectors' pressure.
- Transit trade through processing in third-party areas, such as Taiwan or ASEAN to avoid the U.S Tariffs.

## ◆ Changes in the global supply chain

- In response to the potential tariff imposition, some Taiwanese enterprises transfer their production back to Taiwan.
- As surveyed by AmCham China, 18% of U.S. firms with production sites in China are moving to ASEAN countries in anticipation for setting up an alternative supply chain.
- Increased foreign direct investment (FDI) is observed in ASEAN due to the restructuring in the regional supply chain.
- China offers more open incentives to Europe and Japan, such as decreasing tariffs and lowering entry barriers, to allow these foreign investors to expand their market shares from its American rivals in automotive, aerospace, chemical industries.

# Proactive Approach

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## ◆ Opportunities and threats in the trade war

- Eternal Materials to grasp the opportunities rising from the shift of the value chain from China to Taiwan, whose position lies between China and the US.
- Eternal Materials Taiwan with close proximity to China and economical and political advantages can increase proactive business cooperation with China and US downstream customers.

## ◆ Leverage the risk

- Strengthen the deployment with European and Japanese coating and adhesive manufacturers.

## ◆ Regional production sites coupled with global sourcing

- Eternal Materials Malaysia has been in operation since May 2018 and can support the emerging demand shift between China, Taiwan, and ASEAN countries by offering reactive supply in response to market changes.
- Given China's policy to promote export sectors, Eternal Materials will be able to further leverage its regional raw material procurement in Asia Pacific, acquiring the most competitive cost advantage.

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# Q & A



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Thank you

