

COMPANY PROFILE

Vietnam: rapid growth in tissue from a small base

A large population, combined with strong economic advancement, seems to indicate that prospects for the tissue business are good in Vietnam.

Hugh O'Brian

For those of you who haven't been following Vietnam very closely, you may be forgiven for thinking that this nation is still in the economic Stone Age. Well, yes, it is a very poor country with an average per capita income of only about US\$ 2,500 but it is also a rapidly developing one with an economy that appears to be on the verge of strong expansion. With 87 million people it is the 13th most populated country in the world and economic growth has averaged 6-8% per year for the past five years.

Perini Journal recently visited Vietnam to get a feel for what's going on in the paper and tissue industries. What we found is that, although tissue consumption is still at a very low level, investments are coming along at an increasing pace. There are two large new high-technology tissue machines which started in 2009-2010, as well as several second hand machines. With the economy growing, per capita tissue consumption is also moving up, and demand for higher grade tissue is outstripping supply.

INCREDIBLY FRAGMENTED MARKET. The fact that the 'retail' market in Vietnam is highly fragmented becomes unavoidably clear when you simply take a taxi ride from Hanoi's Noi Bai airport into the city center. As you get closer to the city, you start to see shop after shop after shop, selling absolutely everything. Bikes, clothes, motorcycles, food, spare parts, spare ribs, cigarettes, helmets, boxes, wood, paper, tires, toys, toilets, toilet paper, locks, keys, signs, animals, and more. They are lined up for as far as you can see.

"Every house is a shop in this country," observes Dr. Vu Ngoc Bao, Secretary General of the Vietnam Pulp and Paper Association (VPPA). "But, as we develop economically, we see there is a shift beginning to take place. These small shops are today still the most important for distribution, but the larger chains are starting to come into the market. Today supermarkets are seen as a place to buy luxury items. However, as in most other countries, we can see that they will soon have more importance."

TISSUE CONSUMPTION LESS THAN 1KG PER CAPITA. Total tissue consumption in Vietnam is estimated by the VPPA to be about 70,000 tons in 2010. This works out to around 0.8 kg per capita per year, which is of course incredibly low if you compare it with the USA (24 kg) and Western Europe (15 kg) or China (3 kg).

Demand for tissue products in Vietnam is very high, compared to supply, says Dr. Bao, with consumption increasing 15-20% per year over the past few years. There is a tissue grading structure based on A, B, C, D, E, and F scale. The A grade is naturally the highest quality brands, such as Pulppy from New Toyo, Bless You from Saigon Paper and Watersilk from Song Duong.

"There are brands," explains Dr. Bao, "and then there are labels. And we have millions of small labels. It's like mushrooms after the rain."

TRANSPORT A CHALLENGE AS WELL. In addition to the very fragmented retail structure, distribution is another very challenging issue for tissue products makers. Vietnam is a very long country, stretching a similar distance as from Copenhagen to Madrid, or the entire west coast of the USA, from Seattle to San Diego. Thus there are large distances to cover for nationwide coverage. In addition, the cities are very crowded, with Ho Chi Minh City having about 9 million people and Hanoi around 7 million.

COMPANY PROFILE

Motorbikes are a very major means of transport in Vietnam. They are everywhere, and widely relied upon. You will see everything, including the occasional split pig carcass, being transported. Motorbikes are stacked high with fruits, vegetables, chickens, newspapers, canned goods, tissue rolls and more, as they weave their way through the sometimes chaotic, and often scary, city traffic in Hanoi and Ho Chi Minh City.

FOREIGN INVESTMENT WELCOME. Right now, says Dr. Bao, there are four paper mills in Vietnam that are backed by foreign investors, with two of them in tissue and two in paper board and packaging grades. The ones in tissue are New Toyo and Pulppy Corelex. In paper based packaging, operations with foreign backers are Nine Dragons/Cheng Yang and VinaKraft, backed by SCG Paper of Thailand and Rengo of Japan.

Among the factors that Dr. Bao says are positive for development of the general paper industry in Vietnam are an increasing forest area, good economic growth which is leading to more manufacturing and an increased standard of living, and a very large and generally young population. Growth in tissue consumption is certainly expected. But financing is the challenge says Dr. Bao. "We need foreign capital to help carry out the large investments that are needed for big jumps in size and scale of the production units."

A selection of some of the key tissue companies in Vietnam includes:

IN THE NORTH

PULPPY CORELEX. Located 40 km from Hanoi, this is a new joint venture company formed between San-Ei Regulator (Japan); Japan Pulp and Paper Co., Ltd.; and New Toyo International (Singapore).

There is a modern new 30,000 tpy A.Celli tissue machine which started in June 2009, with a maximum speed of 2,000 m/min. Raw material is only recycled fiber, with the DIP and stock prep lines coming from San-Ei Regulator. The tissue is between 12 to 45 gsm and the tonnage is mainly jumbo rolls for toilet, facial, and napkin products, explains Mr. Masahiro Takamatsu, General Director of Pulppy Corelex (Vietnam) Co., Ltd. "Our main products are Jumbo rolls for exporting to overseas at the moment. We are also converting to finished OEM products for New Toyo Pulppy, which is a subsidiary company of our shareholder, New Toyo International."

"As far as the market growth rate, we don't really know what it is, but we believe consumption will expand year by year. Of course, the volume is not so big in Vietnam presently. But, for example, INAX, the well-known Japanese toilet maker, has established a fifth new factory in Vietnam this year. This means flush toilets are becoming more popular in Vietnam at least."

SONG DUONG. Producers of Watersilk brand. Located about 10 km from Hanoi, this mill has one 20,000 tpy PM from Hansol, Korea, running at about 700 m/m. The mill is state owned by the Vietnam Paper Corporation, which also owns the famous Bai Bang fine paper mill. Raw material is imported wood pulp plus fine paper cuttings from Bai Bang. A new 20,000 ton per year DIP line from Comer started up at Song Duong in 2010 and the plan is to sell about 12,000 tons and use the other 8,000 tons at the mill. A further expansion of 20,000 tons per year tissue making capacity is being considered, with this most probably being installed at the Bai Bang site, which is about 120 km from Hanoi.

Mr. Nguyen Van Quan, General Manager at Song Duong, says that he believes the tissue market is growing by around 20% a year. "We don't have solid data or market numbers on this growth, we just feel it. The challenge for us now is the changing distribution landscape. If I have a production or technical problem, I can simply call experts to fix it. But distribution is a more complex and challenging situation. The big chains are starting to come and we will have to see what changes that means for us."

DIANA PAPER JSC. First tissue machine for this tissue converting and hygiene company. Located on a 10 hectare site in Bac Ninh, about 30 km east of Hanoi, where a second hand Overmeccanica tissue PM is to be started in 2010, with capacity around 20,000 tpy. Deinked pulp is raw material, with new Andritz line installed. The project cost is expected to total some US\$ 20 million.

TRUC BACH. Producing the Truc Bach brand, the mill 10 km outside Hanoi makes 3,000 tpy from two rather small machines, one of which was imported from China in 2003 and the second was built by the mill and started in 2009. Raw material is imported primary pulp, as well as tissue broke, combined with DIP pulp produced on a line from China. Mr. Le Quang Hung, chairman, says "productivity is low and we need to buy new equipment to expand but we also need financial resources. Therefore we are looking for possible foreign investors."

IN THE SOUTH

NEW TOYO PULPPY. Located 70 km from Ho Chi Minh City (Saigon) in Binh Duong at Vietnam Singapore Industrial Park, New Toyo Pulppy has 2 tissue machines which were started in 2000. They now have around 30,000 tpy total

COMPANY PROFILE

capacity. Each is 3.3 m wide and running at about 500 mpm. A fire in April 2009 caused extensive damage and temporarily cut production sharply.

When New Toyo was considering adding capacity in the Hanoi area, instead of going it alone, it decided on a JV which became Pulppy Corelex as described above.

SAIGON PAPER CORPORATION. 70 km from HCMC, this company is undertaking an extensive US\$ 100 million investment which involves installation of three papermachines. One is a tissue PM, a new Andritz machine which should come on stream late 2010, with Kadant DIP and stock prep line. Presently the company has 10 small tissue machines making 55 tpd total. A more complete report on Saigon Paper follows.

Saigon Paper Corporation makes big investment for future

Saigon Paper got into the paper business in a very roundabout way. Mr. Cao Tien Vi, the owner, was originally running a small transport company which had a fleet of three wheeled vehicles that were used to collect wastepaper. From this transport company he made the jump into actually running a paper collection business, which has become what is now the largest wastepaper collection company in the southern part of Vietnam, with 12 warehouses and collections centers spread through the region.

After establishing the business in wastepaper, the company decided to get into papermaking and in 1997 the Saigon Paper Workshop was formed. This was a small scale operation employing around 15 people. The first big investment in paper making came in 2003 when the company name was changed to Saigon Paper Corporation (SGP) and it set about building a mill at the My Xuan Industrial Park about 11/2 hours away from Saigon. This was a US\$ 30 million project known as My Xuan 1 which included machines for tissue, testliner and corrugating medium production. That operation today includes 10 very small tissue machines that make an average of about 55 tons per day, as well as three board machines making testliner and medium for packaging grades. The tissue machines include 9 tiny units from China and one slightly larger machine from Japan. Converting takes place on very simple winders and log saws, with packaging being done by hand.

GERMAN EXPAT LEADING THE PROJECTS. David Maier, a German who has been working in papermaking for all of his 40-year career, has spent more than a decade in Vietnam working on paper projects. He came to Saigon Paper in 2003 when Mr. Vi hired him to run the My Xuan 1 project. Prior to coming to Saigon Paper he had been working for 21/2 years at New Toyo Pulppy where he helped build and commission that mill.

After experiencing the success of the My Xuan 1 project, Saigon Paper decided in 2007 to expand the My Xuan mill enormously through a US\$ 110 million investment that includes a new Andritz tissue machine, as well as second hand machines for production of coated board, from Spain, and corrugated medium, from the USA.

The company sees demand for all three grades increasing sharply and more domestic production is needed. The medium machine will also be upgraded with a Clupak unit to make sack paper as well. Sack paper is in strong demand in Vietnam for uses such as cement sacks and at this time all sack paper is imported. Thus SGP sees this as a very interesting market.

David Maier is now the project executive for the My Xuan 2 project. "We have a lot of things going on here," says David "We are installing the PM 4 medium and sack paper machine from the USA, the PM 5 board machine from Spain as well as a brand-new 2.8 m wide tissue machine from Andritz in Austria. As far as the tissue machine, we were looking at both new and secondhand machines but in the end we decided Andritz was the best choice."

David says the project was delayed several times during the financial crisis of 2008-09 and that the budget is extremely tight for such a large complex project of installing three paper machines at one time for around US\$ 110 million. On top of this, he adds, getting things done in Vietnam is not always as easy as in some other countries. Startup of the tissue machine is expected to be in October of 2010 although there is some concern that it may be a little later than that. A very real problem that faces companies in Vietnam which install large paper machines is finding qualified operators. "When it comes to operating paper machines," says David, "people are certainly not as skilled here as in places like Europe or America or even China. It is really hard to find skilled, experienced people to run the machines. Actually it is nearly impossible."

BRANDS DOMINATE. The main players on the Vietnamese market, according to Luu Quy Phuong, Corporate Communications Manager at Saigon Paper, are New Toyo and Saigon Paper. The two companies both provide three product lines to cover all market segments (see the table at page 63).

COMPANY PROFILE

“New Toyo and Saigon Paper account for more than 60% of market share,” says Phuong, “with Watersilk made by Song Duong in third position with a much smaller share. There are several imported brands, such as Kimberly-Clark’s well-known Kleenex facial tissue, as well as other imports like Cellox from Thailand and Paseo from Malaysia. These imported products, however, are expensive and can only be found in big supermarkets.” •

We are very sorry to report that David Maier died suddenly shortly after our visit. We send our most sincere condolences to his family and also to his colleagues at Saigon Paper.