Publication	TheEDGE Singapore
Date	12.06.2015
Description	Authored article by Mr. Nirgunan Tiruchelvam

OPINION

A brief history of rubber and why it might bounce back into significance

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This region owes much to Henry Wickham, an English thief who died in 1928. Though the Singapore economy is now driven by financial services, this was not always the case. Rubber is at the root of this country's wealth.

In the 1870s, rubber grew wild in the jungles of South America. Brazil was the principal supplier and jealously protected seed from foreign encroachers. Britain, the pre-eminent industrial power, was worried that rubber was a jungle crop extracted by means that no Westerner understood.

Wickham saw rubber's immense potential. He stole 70,000 seeds from the rubber trees in the Amazonian jungles. The seeds were then smuggled to the Royal Botanical Gardens at Kew, England. The officials in Kew sent the seeds to Ceylon and British Malaya, which then included Singapore.

The seeds flourished in Asia. They were much more productive than in Brazil, where only about four rubber trees sprouted per hectare. In Ceylon and British Malaya, rubber trees sprouted in groves. By the 1920s, Brazil, which had monopolised rubber in the 19th century, was producing just 3%. Malaya had become the world leader in rubber.

Rubber had then found a killer app. Henry Ford revolutionised the automobile industry in the US by making them so affordable just about every family had one. In 1927, there were more cars in the US than bathtubs. And, each of those cars needed four rubber tyres that wore out every 2,000 miles. At that point, more than 80% of the world's rubber was consumed in the US.

Singapore was the conduit for the vast Malayan rubber industry. The plantations were financed from Singapore. Fortunes were made by rubber traders based in Raffles Place. British companies such as Harrisons & Crosfield became behemoths. Asian family groups such as Lee Rubber built their fortunes.

Today, rubber is scarcely mentioned. The world is focused on other industrial commodities such as oil and iron ore. In fact, rubber has collapsed more precipitously than oil in the recent commodity rout. It is now at a 10-year low, and more than 70% below its 2011 peak.

Much of the recent collapse has to do with the fear that emerging markets are slowing. Yet, some 70% of the world's natural rubber is still used for tyres. And, demand for cars in China today is as relentless as it was in the US in the 1920s. Only a third of China's families have a car, which is less than half the level in the US nearly a century ago. If the car population doubles in China in the next decade, rubber supply will have to rise 50% to meet demand.

Rubber's prospects are not only allied to car demand in China. It is also a vital industrial commodity that is virtually indispensable. Without rubber, planes would not be able to land and trucking would be obsolete. The medical profession would be paralysed without rubber gloves. Family planning would be harder in the absence of rubber.

Yet, the supply of rubber cannot be increased quickly if there is a surge in demand. Rubber trees take seven years to mature and another three to reach peak production. As many rubber plantations are bleeding, Thailand, Malaysia and Indonesia have imposed a moratorium on rubber planting this year. These three countries represent three-fourths of the world's rubber supply. While there are synthetic alternatives to rubber, these still use some natural rubber as an input.

So, how can an investor play a turnaround in rubber prices? As in the 1920s, the answer could be in Singapore. Some of the few listed proxies for rubber are listed on the local market. Among them is **GMG Global**, which has rubber operations in West Africa and Indonesia. It manages more than 78,000ha of plantations in Ivory Coast, Cameroon and Indonesia. The company was founded by the Gondobintoros, an Indonesian family who ceded control to **Sinochem**, a Chinese trading company in 2010. The stock is now trading at half its book value.

Another rubber play is **Halcyon Agri**, which has more than 10,000ha of rubber plantations in Indonesia. Halcyon Agri also processes 7% of the world's rubber supply. The stock is trading at nine times earnings, according to Bloomberg. Then, there is Thailand's **Sri Trang Agro-Industry**, another rubber processor. Its earnings are broadly correlated with the rubber price. At 0.8 times book value, its shares are considerably cheaper than that of other commodity traders.

There are also a number of small rubber plantation companies listed in Sri Lanka, where rubber made its debut in the colonial era. Among them are Bogawantalawa Tea Estates and Watawala Plantations. Their shares are trading at five-year lows, but lack trading liquidity. Also, the companies are relatively small, with market capitalisation of less than US$25 million.

The thief who helped bring rubber to this region is long gone, but investors now have a chance to get into rubber plays for a steal. E

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