



INTERVIEW: Darco Aims For 2-3 Taiwan Water Projects A Yr

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SINGAPORE (Dow Jones)--**Darco** Water Technologies Ltd. (5CB.SG) is aiming to secure two to three new municipal water projects a year in Taiwan, and continues to have discussions for an international engineering company to take a minority stake, said chief executive KM Thye.

The Singapore-listed water treatment company also affirmed the consensus forecast for 2006 net profit of S\$7.2 million to S\$7.3 million (\$4.6 million) for 2006, with Thye saying the estimates are "reasonable."

Darco is bidding for several projects in Taiwan worth \$30 million to \$60 million each, Thye told Dow Jones Newswires in a recent interview.

The bulk of **Darco** Water's revenue has traditionally come from industrial water treatment, but it is moving into larger municipal wastewater projects in China and Taiwan.

Darco is building two wastewater treatment plants around Hsinchu city in northern Taiwan worth S\$46.2 million and S\$29.3 million.

Thye said the water treatment industry is entering a period of consolidation, and he would like a company such as General Electric, Siemens, or France-based Veolia Water to buy a stake in **Darco** of about 30%.

"Any large company who wants to buy a piece of **Darco** I'm happy to do that" but **Darco** doesn't want to be taken over, he said. "We are always having friendly chats with a number of people about this."

It could be two to three years before **Darco** attracts a big investor as the company needs "to grow a bit more first," said Thye.

A cornerstone investor could help finance build-operate-transfer ownership projects, which require large capital expenditure up front and generate revenue over an extended period.

Darco's Taiwan plants are turnkey projects, meaning municipalities pay for the delivery of a facility, while its China plants are BOT projects, meaning **Darco** operates the plant itself and collects water tariffs for a period of 15 or more years to earn profits.

Thye is confident in the outlook for municipal water treatment in China, but cautious about the business environment there, especially the process of dealing with municipal governments.

"It is often more important to resolve a problem politically rather than go through the legal system."

"Our answer is to select a project which is small enough, and where the decision making process is with a small group of people, such as in counties rather than cities," he said.

While some Singapore-listed water treatment companies are taking on municipal projects all over China, **Darco** is focusing only on Deqing county in eastern Zhejiang province for the time being.

Deqing was selected because of strong industrial and population growth and its proximity to the prosperous cities of Shanghai and Hangzhou.

"I believe it is where the Chinese middle class will live in the future," Thye said.

Darco finished construction of a wastewater treatment plant in Deqing county in May, and it recently signed letters of intent for two new projects there.

"Our strategy is, if I get the first project in a county, I want to convince them to let us manage all the water for the whole county," Thye said.

"And when I have done that, I will try to get them to help me to work with the neighboring counties."

One plant will supply local residents and industries with purified water, costing **Darco** S\$19.2 million to build and generating S\$5.5 million to S\$7.0 million a year in revenue for 15 years.

Thye expects construction of this plant to begin within two months and to be finished by the end of 2007.

A second plant, which Thye said may begin construction in one to two years, will be the second phase of the just completed waste treatment plant, costing S\$9.6 million to build and providing revenue of S\$4 million to S\$5 million a year.

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