West China Cement shares plunge following deal collapse

Shares in struggling West China Cement plunged as much as 34% on Monday, 4 July, after a much-needed merger deal with the country's largest cement maker collapsed last week.

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Major rival Anhui Conch Cement offered nearly $600m for a controlling stake in the firm late last year, but China's commerce authorities failed to approve it by the June 30 deadline, scuttling the deal, Anhui Conch said on its website Thursday, 30 June.

Hong Kong-listed shares of West China Cement dropped as much as 34% to HK$0.71 when it resumed trading Monday morning, compared to the previous close at HK$1.07. It was trading at HK$0.81 at 11am (0300 GMT).

It was believed the merger was part of an effort by Beijing to tackle overcapacity in the industry, which is dominated by inefficient, largely state-owned firms. A merger with Anhui Conch would also have given West China Cement, which posted losses of 309 million yuan ($46m) last year, a boost with better financing access.

Analysts believe the deal collapse is a "business decision" given the firm's weak books.

"Investors had doubted about its accounting practices... It was trading down for a very long time until an upcoming Anhui Conch deal gave it a boost. Now the stamp of confidence is gone," Jackson Wong, associate director for Simsen Financial

Group in Hong Kong, told AFP.

Rumours the deal was in danger saw its shares plunge 33% in Hong Kong on Tuesday before they were suspended from trading. It has lost half its capitalisation in the last two trading days, according to Bloomberg News.

Wong said he believed Beijing would continue restructuring efforts despite the collapse of the deal.

"The Chinese government is still trying to push bigger players to merge with smaller players to improve capacity and efficiency," he said.

China's cement industry boomed during the country's three decades of massive investment in highways, airports, apartment buildings and office blocks, bloating to more than 3,300 firms.

Restructuring has been difficult as most major industrial firms have powerful political backers, making efforts to shutter or merge them particularly challenging in the face of vested interests.

Source: AFP