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A Bold Approach in Commodities Paid Off

Chief executive of AMG says the materials company zigged while others zagged



Heinz Schimmelbusch saw something happening in China that others didn't. PHOTO: DAN HALL/PRESTIGE PHOTO

By **SIMON CONSTABLE**

June 5, 2016 10:01 p.m. ET

The chief executive officer of Amsterdam materials company AMG Advanced Metallurgical Group NV, Heinz Schimmelbusch, once at the center of a controversial derivatives trade that cost a staggering \$1.3 billion (see related article), is back and bucking commodities-market trends.

While other companies have suffered stock drops and cut dividends, AMG shares have soared (up 33.5% in 2015) and the firm paid its first dividend last year. Shares of rivals such as Rio Tinto PLC, Alcoa Inc. and Glencore PLC, meanwhile, were hammered.

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Schimmelbusch and his team at AMG—which makes lithium for car batteries and heat-resistant coatings for jet engines, among other things—foresaw the commodities slowdown in 2012 and started an austerity program to reduce capital expenditure and working capital, and retire debt. Four years later, the firm is debt-free and ready to expand.

In an interview, Dr. Schimmelbusch explained how the move has paid off. Edited excerpts follow:

Spotting a discrepancy

WSJ: *What did you see in the metals markets that others didn't?*

DR. SCHIMMELBUSCH: In 2012 we saw a discrepancy between what our business partners were telling us about conditions in China and what the official statistics said.

When we asked Chinese-company leaders what was going on they said that they felt the official statistics didn't necessarily reflect what was happening on the ground. They were also pessimistic about the availability of bank loans to private enterprises.

We then started to compare the import-export statistics, which didn't seem to match with the gross-domestic-product announcements. There were so many uncertainties about what was happening and it didn't fit with the optimism that some of our colleagues in the industry had.

We knew that Chinese long-term growth was the reason for the commodity boom. If that was interrupted, the commodity boom would be interrupted, and therefore we started the austerity drive as a hedge against that.

The program reduced capital expenditure, shrank working capital and we paid down our debt. We also reduced our risk positions by entering into long-term contracts with our customers.

WSJ: *Economists—and you hold a Ph.D. in economics—have a terrible reputation for forecasting. How did you make sure that your anecdotal evidence was correct?*

DR. SCHIMMELBUSCH: Here on our board we have economist Steve Hanke, and he is informed and knowledgeable about the global currency markets and monetary policy. We compared notes on my observations about China, and our views reinforced each other's. [Prof. Hanke saw a credit crunch for China's private sector developing, which augured a huge slowdown in that country.]

As part of the process, he ran a model on commodity markets and market participants. We ended up pretty sure of ourselves.

WSJ: *The markets for all commodities are volatile, but it's also true that for your products it's more so. Would you explain why that is?*

DR. SCHIMMELBUSCH: The volatility of the price of critical materials follows a certain pattern. When you have an increase in demand, such as the demand for lithium for use in batteries, then prices explode because the supply of the materials cannot increase quickly enough to keep up with demand.

Eventually there will be an increase in the supply, and an effort by the end users to use less of the materials. As that happens, the price explosion comes to an end.

WSJ: *Even if China's consumption of commodities doesn't rebound, you see a sustained long-term demand for your products. Why?*

DR. SCHIMMELBUSCH: Our success will be a function of long-term technology trends, because we provide materials that enable these technologies to work.

For instance, we produce graphite and lithium for batteries, and titanium alloys tailored to the aerospace sector. When you are a producer of titanium alloys you don't need China. You need the aerospace industry, which is global. When you produce tantalum, you are depending on the smartphone industry, which isn't regionally defined.

Austerity to expansion

WSJ: *AMG introduced its first dividend last year. Do you think commodities markets have hit bottom?*

DR. SCHIMMELBUSCH: Our balance sheet has improved enough to have shareholders participate without disturbing our ability to finance our growth plans.

The dividend also allows those asset managers who are restricted to buying dividend-paying stocks to invest in our shares.

The important thing now is that we are changing from austerity mode to an expansion strategy because we feel the opportunities are pretty obvious. We are currently deeply involved in an expansion of our lithium resource in Brazil, partly because the price for the metal is spiking and growth in demand is stable. The lithium we own was a byproduct of tantalum production, which is used in smartphones. The huge benefit here is that much of the extraction costs for the lithium have been covered by the tantalum mine.

WSJ: *The mining and metals industry has a reputation of being dirty; you see it as green. Please explain.*

DR. SCHIMMELBUSCH: Our products enable the aerospace industry to coat turbine blades with ceramics, which provide a thermal barrier coating. It means the nickel-alloyed engine blades can be used at higher temperatures, raising the fuel efficiency and reducing emission of carbon-dioxide.

Other materials we produce, such as graphite and lithium, allow for energy storage in batteries.

The same thing is true for titanium alloys, which can replace nickel alloys in the engines. They are lighter-weight than nickel alloy and very heat resistant.

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