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Perwaja stuck in a stalemate

Latest restructuring plan fails to meet expectations of long-standing creditors

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THE latest restructuring plan to fix ailing steel maker Perwaja Holdings Bhd, which would have seen the entry of a diversified China-based group as a strategic shareholder, fell through because it did not meet the expectations of its long-standing creditors, sources say.

Perwaja, which has outstanding debts of about RM2bil, owes utility providers Tenaga Nasional Bhd (Tenaga) and Petronas Gas Bhd (PetGas) over RM400mil in electricity bills and gas supplied. It is also said to owe the government over RM200mil, with the rest owed to banks and other parties.

In 2013, Perwaja had entered into a settlement agreement with the two utility providers to pay up the entire amount owed.

However, at the time, Perwaja's major steel plant in Kemaman was still in operation, and the company had planned for its cashflow from the business to support this plan.

Later in August 2013, the group's main revenue contributor segment, the manufacturing and trading of steel billets ceased its operations when the gas and electricity supplies to the Kemaman Plant were cut.

"There was no more cashflow for the company to repay the debts as earlier agreed.

"Perwaja had no choice but to come up with a new plan to restructure all of its debt," the source said.

Even before the 2013 settlement agreement was signed, Perwaja was already in trouble.

In the early days, it had reported profits in 2006, 2007 and 2008, supported by high steel prices and the strong demand from China.

However, towards the end of 2008, the company was badly hit when the US sub-prime mortgage meltdown occurred, and Perwaja was never the same again.

Even today, the local steel industry continues to be hampered by the influx of cheap imported Chinese steel products which has pushed down domestic selling prices.

The situation is made worse by the global oversupply situation and slowing demand spurred by China, the world's largest steel producing country.

According to its latest quarterly report,

Perwaja's short term borrowings as at Sept 30, 2016 amounted to RM1.12bil, while long term borrowings stood at RM276.3mil, totalling about RM1.4bil.

It reported a revenue of RM0.08mil and a pre-tax loss of RM62.4mil, with the revenue derived from its training and education segment.

The pre-tax losses were mainly derived from interest expense of RM37.2mil and depreciation charges for the quarter, amounting to RM18.7 million.

For the financial year ended June 30, 2016, the group incurred a pre-tax loss of RM387.3mil, mainly due to fair value adjustment on payables of RM126.4mil, interest expenses of RM126.7mil, depreciation of RM75.5mil, unrealised forex loss of RM25.5mil, as well as legal claim of RM12.7mil and inventory write-off of RM6mil.

Back to Perwaja's latest failed restructuring plan, it seemed as though the scheme would finally put the company on track to resolving its problems.

The scheme would have seen the China-based group emerging as a strategic shareholder and its factory moving towards producing specialised higher value-added stainless steel products.

It was the latest move after years of failed attempts to revive the struggling company, and billions of ringgit spent on these efforts.

Earlier this month, Perwaja told the stock exchange that the parties which had signed a master framework agreement (MFA) for the scheme in July 2015, and the subsequent supplemental agreement in March 2016, had failed to fulfil the conditions precedent within the specified timeframe.

The signatories of the agreement were Perwaja, its major unit Perwaja Steel Sdn Bhd (PSSB) and Tianjin Zhiyuan Investment Group Ltd's unit Zhiyuan International Investment & Holding Group (Hong Kong) Co Ltd.

Under the scheme, the diversified Tianjin-based group, whose core businesses include alloy manufacturing, had planned to inject about RM1.8bil into Perwaja which is under the Practice Note 17 category. The Chinese firm would have ended up with a majority stake of over 60%.

The proposed regularisation scheme, which had been slated for completion by

June 2016, involved a proposed par value reduction and share premium reduction, a proposed special issue to Zhiyuan, and a proposed rights issue with warrants, as well as a debt restructuring exercise.

Earlier this week, Perwaja also announced that the Corporate Debt Restructuring Committee (CDRC) had ceased its mediation between the company, steelmaker Kinsteel Bhd, and their lenders.

Both Kinsteel and Perwaja had been notified of their removal from the committee's purview from Feb 7, 2017.

According to the source, the major reason for the failure of the plan was that Perwaja could not get all its creditors to agree to it.

While most of Perwaja's creditors had agreed, Tenaga and Petronas refused to support the new restructuring plan.

"It is understandable that they (Tenaga and Petgas) would not agree.

"There was already the agreement made in 2013 with Perwaja for the debts to be paid in full.

"They would be forced take a haircut on the amount owed to them under the new plan - and of course they are not agreeable to this. They insist on full payment.

"Unfortunately, unless all creditors agree to a restructuring plan, Perwaja will not be able to move forward as no new investor will come in unless there is a restructuring done," he adds.

He adds that the Chinese firm was also discouraged by the fact that the creditors had not agreed to the scheme.

He says there are only two options for Perwaja - either liquidation, or a debt restructuring - and they can only do this if they remain listed.

If the company gets delisted, creditors will never accept a restructuring.

In November 2013, Perwaja lapsed into Practice Note 17 status - a category for cash-strapped companies.

Since its inception in the early 1980s, there were several attempts to save Perwaja, but all these attempts failed. Reports estimate that over RM15bil has been spent on these attempts.

The company, set up in 1982, was the brainchild of former Prime Minister Tun Dr Mahathir Mohamad to lead Malaysia's movement into the heavy industries segment.

The move to set up an integrated steel plant was spurred by the shortage of steel in the country at the time.

During the initial years, Perwaja continuously lost money, mainly due to the global recession, lower steel prices and softer demand for steel.

Government-owned Hicom Holdings was the original major owner of Perwaja Steel with a 51% stake, which it divested in 1988.

A year later, Nippon Steel of Japan gave up its 30% stake to the Malaysian government, paving the way for a major restructuring of the company.

The government pumped some RM2bil into the company, and new facilities were built in Kemaman, Terengganu, and Gurun, Kedah.

Despite this and several more capital infusions by the Government, Perwaja still suffered losses.

Later in 1995, the Government put Perwaja up for sale and after a delay due to the Asian Financial Crisis, Tan Sri Abu Sahid Mohamed's Maju Holdings emerged as Perwaja's ultimate holding company in 2003, in a deal valued at RM1.305bil.

Abu Sahid formed an alliance with another steel producer, Kinsteel, in 2005.

Kinsteel bought a 51% stake in Perwaja from Maju Holdings' unit, Equal Concept Sdn Bhd, for RM197.6mil in 2006.

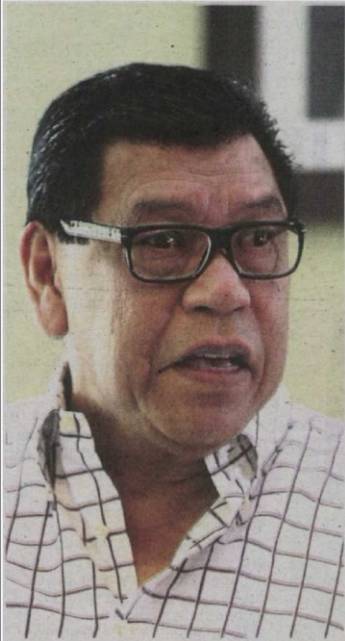
According to the company's annual report 2016, Abu Sahid has 60.21% deemed interested in Perwaja by virtue of his shareholdings in Kinsteel Bhd, Maju Holdings Sdn Bhd, Equal Concept Sdn Bhd, ASM Properties Sdn Bhd, SPTJ Development Sdn Bhd and MH Consultancy Services Sdn Bhd.

The second largest shareholder is Tan Sri Pheng Yin Huah, with 0.4% direct interest and 28.92% deemed interest through his shareholdings in Kinsteel Bhd, Perniagaan Kin-Kee Sdn Bhd, Kin Kee Holdings Sdn Bhd, Kin Kee Transport Sdn Bhd, Kin Kee Hardware Sdn Bhd, Kin Kee Metal Sdn Bhd and Kien San Metal Sdn Bhd.

Kinsteel currently owns 28.39% of Perwaja, followed by Equal Concepts Sdn Bhd with 27.84% and Maju Holdings with 3.87%.

Perwaja was listed at an initial public offering price of RM2.90 on Aug 20, 2008. The share price is now 7 sen.

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Largest shareholder: According to the company's annual report 2016, Abu Sahid has 60.21% deemed interest in Perwaja by virtue of his shareholdings in six firms.



Payment defaults: Perwaja's Kemaman plant was forced to shut down in August 2013 after its energy supply was cut, as the company had repeatedly missed payments to Tenaga and Petronas.