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Headline	Perwaja heads for meltdown		
MediaTitle	Focus Malaysia		
Date	18 Feb 2017	Language	English
Circulation	20,000	Readership	60,000
Section	News	Page No	8,14
ArticleSize	765 cm²	Journalist	N/A
PR Value	RM 39,516		

Perwaja heads for meltdown?

Time running out for ailing steelmaker to come up with new rescue plan after deal with China's Zhiyuan falls through

by Lim Cian Yai

ONCE a symbol of the country's quest to be a regional industrial power, Perwaja Holdings Bhd is fighting an uphill battle to keep itself afloat. And time is fast running out for the ailing steelmaker.

In the 80s and 90s, Perwaja was grabbing the headlines with its ambitious and grand plans. Today, without a rescue plan in place, many expect this could spell the end of efforts to salvage Perwaja.

For the last two years, Perwaja's board and management had worked tirelessly to conclude a rescue package with its Chinese counterparts. However, shareholders' hope for light at the end of the tunnel was shattered by the recent termination of the agreement between Perwaja and Zhiyuan Intl Investment & Holding Group (Hong Kong) Co.

For a while, it seemed Perwaja's regularisation plan took a significant leap forward when Zhiyuan roped in China Minmetals Corp and China Metallurgical Group Corp three months ago to help restructure Perwaja's plant in Kemaman, Terengganu, which had ceased operations since August 2013.

On Feb 8, Perwaja terminated the master framework agreements it entered with wholly-owned subsidiary Perwaja Steel Sdn Bhd and Zhiyuan, leading to talk that this could be the end for the steelmaker's rescue plan.

Perwaja said the parties involved were not able to fulfil the conditions set within the stipulated timeline. As such, the proposed regularisation schemes announced in July 2015 and March 2016 have been aborted.

Perwaja, however, did not elaborate on what conditions the company and Zhiyuan were unable to meet. The announcement formally put a stop to Perwaja's efforts over the last 18 months to revive its operations.

Zhiyuan was expected to inject RM1.8 bil into Perwaja under a corporate exercise that would see the Chinese firm emerging as a major shareholder of the steelmaker. The injection of funds was vital to keep Perwaja afloat.

Over the last two years, shareholders had been clinging to the hope that financial support would be forthcoming from the Chinese white knights. On numerous occasions, they were told by Perwaja's management that there was "light at the end of tunnel", yet nothing materialised.

The debt restructuring scheme was to address Perwaja's Practice Note 17 status, triggered on Nov 26, 2013.

Speaking to ***FocusM***, Perwaja director Tan Sri Pheng Yin Huah reckons the collapse of the deal stemmed from several issues, including non-fulfilment of obligations by Zhiyuan.

"It (Zhiyuan) made some promises but (they) did not materialise. We could not hold back the plan any longer as we have been waiting for their financing facility for some time," adds Pheng, who is also managing director of Kinsteel Bhd which holds 28.39% of Perwaja.

Rejection by main creditors

However, a source close to the matter says the restructuring plan was thwarted in part by Tenaga Nasional Bhd's (TNB) and Petroliam Nasional Bhd's (Petronas) tough stance. It is learnt that the creditors turned down Perwaja's proposals in a meeting with the Ministry of Finance, despite the ministry's efforts to mediate in the restructuring talks.

As of June 30 last year, Perwaja owed about RM439 mil to TNB and Petronas for the supply of electricity and dry gas, respectively.

"They (TNB and Petronas) question Zhiyuan's capability to execute the scheme. Because of their objections, Perwaja could not wait any longer for the cash injection," says the source.

The steelmaker has till March 30 to submit a new regularisation plan to Bursa Malaysia, or apply for a fresh extension. The current extension was granted on Nov 14.

Nevertheless, Pheng says Perwaja has a "Plan B" to put in action. "We have (a) new plan, a new party is ready to come in. Though its terms are stricter compared to Zhiyuan's, it has sufficient financial resources to help us.

"They are aware that the steel industry is a capital-intensive business and are well-prepared for it," he says.

It is learnt that the potential partner from China does not have experience in the steel business. For it to collaborate with Perwaja, the company will have to look for the right fit to lay out a ground plan.

Pheng declined to comment if Perwaja would eventually be delisted from Bursa Malaysia should it fail to obtain an

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extension to submit a regularisation plan.

Time will tell if Pheng's Plan B materialises, but shareholders are expected to continue enduring the pain of seeing their investment in the company flounder.

For Pheng, it is better for him to focus his energy to revive the fortunes of fellow steelmaker Kinsteel Bhd, which has been badly affected by the beleaguered Perwaja. Kinsteel took control of the company about a decade ago when it bought a 51% stake.

Since 2006, Kinsteel has also invested heavily in the debt-laden Perwaja, and any changes made by the company for a new beginning will be much better without Perwaja in its fold.

Pheng had, in an earlier ***FocusM*** report, said the takeover of Perwaja has taken a financial toll on Kinsteel and he is willing to give up Perwaja for the right price and on the right conditions.

The clock is also ticking for Perwaja to convince the stock exchange and creditors to give it more time. However, some critics say it should not be given a stay of execution after various futile attempts in the past.

Sceptics say Perwaja, in which the government has poured billions of ringgit over the years, has reached the end of the road and it can no longer be salvaged. Yet there are some who feel the company can still be rescued.

Whether the stock exchange grants another extension to Perwaja ultimately boils down to the feasibility of the new corporate proposal, says the CEO of a local fund management company. Factors to be considered include the potential benefits that can be generated if more resources are deployed to keep the firm alive.

Though time is running out for Perwaja

▸ Continues on page 14

What do the creditors want?

▸ From page 08

to piece together a rescue scheme all over again, there is a slight chance that it might succeed in extending the lifeline, adds the fund manager.

"The schedule is quite tight but anything could happen. If they really work on it, probably they can finish (a new plan) within one month. But there are too many hands in the pot causing a lot of uncertainties.

"The crux of the matter is what do the lenders and creditors want from Perwaja? Since they have rejected the earlier proposal, what are their demands?"

Perhaps, the key question now is should Perwaja be granted more time or should the authorities let the beleaguered steelmaker finally bite the dust?

What next?

In the event the company fails to obtain an extension of time from the bourse, what are the other options left, if any?

"Right now, I think the public would like to know what is the worst outcome should there be no other proposal and no extension is given," the fund manager says.

Liquidation is the last resort to consider if the steelmaker fails to present a next course of action. "We have to look at the debt structure, whether there is a charge or any asset that can be divested to repay the debt.

"Then it leads to the question of who will be the buyer and at what price assets can be sold. If there are any assets Perwaja can monetise, I do not think it will be liquidated, which is usually the last thing to do," he adds. A charge is a security given to the lender for the loan secured.

As of Sept 30 last year, Perwaja had RM907.31 mil worth of assets with the bulk of them being property, plant and equipment. Meanwhile, total liabilities stand at RM2.86 bil, translating into a debt ratio of 3.15 times.

Perwaja incurred a net loss of RM387 mil for the financial year ended June 30, 2016, down from RM688 mil and RM1.21 bil recorded in FY15 and FY14, respectively.

Alternatively, the fund manager raises the possibility of a debt swap, whereby debt is exchanged for a predetermined amount of equity. The value of the swap is determined at market rates, but the management may offer a higher exchange value to entice debt holders to participate in the exercise.

Nevertheless, a debt swap is an unlikely scenario given that Perwaja has been served with three winding-up petitions by TNB. The power utility is demanding a total payment of RM131.52 mil.

The hearing of the winding-up petitions was adjourned to Feb 16 and 17. FocusM

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Pheng tells of a Plan B, with a new party ready to come in

PERWAJA HOLDINGS BHD

KEY BOARD MEMBERS AND MANAGEMENT
DATUK ONG TEE THONG (chairman)
DATUK PHENG CHIN GUAN (executive director)
TAN SRI PHENG YIN HUAH (director)

MAJOR SHAREHOLDERS

Kinsteel Bhd	28.39%
Equal Concept Sdn Bhd	27.84%

MARKET CAP (Feb 16)	RM36.4m
SHARE PRICE (Feb 16)	6 sen
52-WEEK HIGH (April 3, 2016)	15 sen
52-WEEK LOW (Feb 11, 2016)	5 sen

FINANCIAL RESULTS (Q1 ended Sept 30, 2016)

REVENUE	RM82,000
NET LOSS	RM62.39m