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Perwaja under PN17: More questions than answers

THAT day has finally come. On Nov 26, national steel-maker Perwaja Holdings boldly stepped off the cliff and plunged into the deep end. The company placed itself under Practice Note 17 – a label Bursa Malaysia puts on all companies that are financially-stricken and in need of intensive care.

For months, Perwaja's board and top management had tried to avoid the inevitable, trying their best not only by putting on a brave front, but also to calm concerns and jitters in the market that its end was in sight. Perwaja has always been viewed as a national project of political significance – one that was to kickstart the country's move into heavy industrialisation. So, national pride tends to over-ride economic viability and corporate profitability. But, as it has always been said, you cannot live on fresh air and sunshine alone; or in this case, on political rhetoric.

For any corporate entity to survive in a competitive world that is becoming more of a single global village, it still boils down to ringgit and sen. A corporate entity cannot keep incurring losses, and yet fulfil the socio-political needs of its political masters. The line between profit motivation and socio-political needs can be very vague, and it requires very special skills to juggle the two opposing objectives. For a national project, more so one initiated by former prime minister Tun Dr Mahathir Mohamad, failure is obviously not an option. But under dire circumstances where the board and top management are forced to the wall without a clear, generous helping hand from the project's promoters, failure seems the only way out.

Now that Perwaja is a step away from the inevitable, its failure will nevertheless provide major fodder for the Opposition lawmakers who are always too happy to shoot from their hips in Parliament.

The collapse of Perwaja, if at all it comes about, will certainly be one of the biggest disasters in Malaysian corporate history, comparable to the RM1.6 bil lost in cornering the world tin market in the Maminco-Makuwasa affair; or, in the RM30 bil that disappeared in the foreign exchange battle to support the British pound; or in the RM10 bil that evaporated in the tragic Bumiputra Malaysia Finance scandal that resulted in the Bank Bumiputra brand disappearing from the local banking scene.

The exact losses at Perwaja are still very much in debate. Though Perwaja was reported to have lost RM2.56 bil from its operations since it started, there were reports that Mahathir had admitted publicly in 2002 in a dialogue with Malaysians in London that Perwaja lost RM10 bil, due largely to alleged misappropriation and mismanagement. While some may believe that there is still hope for Perwaja as it is now on life-support, many are not so optimistic, arguing that it will need a gargantuan effort, with lots of cash infusion, and of course, luck, to see even a faint ray of light at the end of the tunnel.

The question on everyone's mind is: Could Perwaja avoid reaching this

point of putting itself under PN17? What happened to all the talk about Perwaja's "final negotiations" with local banks for extra financing? Or, that the Ministry of Finance was agreeable to extending repayment of its outstanding loans to Perwaja? In July 2013, Malaysian Rating Corp downgraded Perwaja's 10-year murabahah medium-term notes to BBID from BBB-ID due to the latter's near-term liquidity concerns, poor operating performance, and a significantly weaker profile.

Following this, there was a report, though unconfirmed, about a default on repaying the notes was unlikely due to "new financing arrangements being made". It added Perwaja was "in final negotiations" with several

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banks to secure a loan of up to RM350 mil – enough for working capital and to cover the RM50 mil tranche maturing on Nov 29. Yet on Nov 26, Perwaja announced that it had defaulted in repaying the tranche “as the electricity at the company’s Kemaman plant has been disconnected by TNB”, and that there was “no visibility” when this note would be repaid. What the rating agency predicted had come true.

But what happened to the negotiations with the banks? Perwaja was so confident that it would get the loan. Or, was the news a misleading piece of reporting? Further, Perwaja’s 2012 annual report stated that negotiations with the government to defer paying the latest tranche of a RM106.8 mil loan had been successful, and was waiting for the official letter. What happened to the letter, as there had been no news at all on it? Did this mean the government was not agreeable to Perwaja’s request, and that it believed it was not in its best interest to continue supporting the steelmaker? And with no letter forthcoming from the government regarding its loan, it was obvious that commercial banks too were reluctant to lend more to Perwaja.

To add salt to the wound, Perwaja’s latest quarterly results cast an even darker shadow over its financial troubles. For the three months ended Sept 30, 2013, Perwaja incurred an after-tax loss of RM227.13 mil, bringing total loss for the first nine months to RM319.78 mil. The accumulated losses to Sept 30, 2013, of RM886.16 mil, inclusive of comprehensive expenses of RM319.78 mil, wiped out the paid-up capital of RM560 mil. The latest quarterly results also triggered one of the prescribed criteria under PN17,

namely Perwaja’s shareholders’ equity based on a consolidated basis as at Sept 30, 2013, “is less than 50%” of its paid-up

capital.

Already, Perwaja’s auditors had expressed “an emphasis of matter” on the company and its subsidiaries’ ability to continue as a going concern in the 2012 annual report. Perwaja directors expect further losses, as existing banking facilities have been frozen, and the steel-melt shop and the reduced-iron plant have both ceased operations pending a successful restructuring or a fresh injection of funds. Directors also added in a filing to Bursa Malaysia that Perwaja had engaged lenders and major creditors for the restructuring exercise, while a scheme adviser had also been appointed. Under PN17 rules, Perwaja is required within 12 months to submit a regularisation plan to

the Securities Commission, if it resulted in a “significant change” in the business, or to Bursa Malaysia, if it does not. Should Perwaja fail to come up with a plan, trading in its shares would be suspended and then delisted.

Major shareholder and former chairman of Perwaja Tan Sri Abu Sahid Mohamed said Perwaja need not go to shareholders yet for money, as the company still has assets and there was a plan in action to raise margins and profitability. So far that plan has not been made public. Meantime, stocks are piling up at Perwaja’s warehouses, though production could have been curtailed somewhat, due to the disputes over payment for gas from Petronas and power from Tenaga Nasional.

In the third quarter 2013, revenue dropped to RM236.01 mil but operating expenses at RM300.05 mil were still higher. Cumulatively for the nine months to Sept 30, 2013, revenue hit only RM899.21 mil, but operating expenses still ballooned to above RM1 bil. It certainly looks more and more likely that Perwaja would need to seek its shareholders’ help in raising fresh funds.

Abu Sahid was proud to say that he was called upon to do a “national service” in taking over and trying to turn Perwaja around. His 10-year tenure at Perwaja should be a period in his life that he

should never forget. When he took the job, upon a request from Mahathir, he must have thought that it was well within his capability as a corporate turnaround saviour. But luck was not on his side; and as some even said, the past ghosts of Perwaja returned to haunt the new owners and management.

The hat was obviously too big for Abu Sahid. Of course, today, he would say without reservation that he had left it to the professionals to finish the work he had started. With the global steel market still in turbulence, and with more headwinds on the horizon, Perwaja’s future could be far dimmer than many would like to believe. Despite that, there is always a ray of hope even from darkened skies. **FocusM**

PY Chin, an economics graduate, is a retired veteran journalist, having worked for about 30 years covering business. Comments: editor@hckmedia.com

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Third Eye

BY PY CHIN