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BY **TAN SIEW MUNG**

Beleaguered Perwaja Holdings Bhd may see the light at the end of the tunnel soon as Tianjin Zhiyuan Investment Group Ltd (Zhiyuan) — its white knight from China — will start bringing in production machinery to upgrade its plant in Kemaman, Terengganu.

However, the steelmaker still needs to iron out some issues, among which is obtaining the approval of regulators for its restructuring plan.

Last Monday, Perwaja's share price, which was trading near record lows, gained some traction, almost doubling to 13 sen, from seven sen on Nov 17.

Buying interest was stirred after Zhiyuan signed an engineering, procurement and construction agreement on Nov 17 with China Minmetals Corp (CMC) and China Metallurgical Group Corp (MCC) for upgrading works at the plant,

While the development lent support to the steelmaker, the rally seemed to be short-lived. Last Friday, profit taking pulled down the counter, which ended the week at 9.5 sen.

Perwaja executive director Tan Sri Pheng Yin Huah tells *The Edge* that the group may need two to three months to get approvals from the regulator and creditors for its restructuring plan before the management can pass the baton to Zhiyuan.

According to him, the banks have accepted the restructuring plan but Petroliam Nasional Bhd (Petronas) and Tenaga Nasional Bhd, to whom the group owes RM132 million and RM250 million respectively, have yet to give the nod.

Pheng, however, does not foresee the two creditors blocking the plan as they would be able to recover 70% of their outstanding amount.

Perwaja and its subsidiary Perwaja Steel Sdn Bhd entered into a master framework agreement with Zhiyuan in July last year to formalise arrangements in relation to the proposed regularisation scheme. Zhiyuan is expected to pump in RM1.8 billion to revive the steelmaker.

According to sources close to Zhiyuan, the group will start to transfer facilities worth up to RM350 million to Perwaja in the next two months. After the regularisation plan has been approved, Zhiyuan will gradually repay the debts owed by Perwaja.

Perwaja, which has been in Practice Note 17 (PN17) status since 2013, had debts totalling RM1.4 billion as at Sept 30.

The steelmaker slipped into the red in FY2009, with net losses surging threefold to RM387.3 million in FY2016, from RM116.6 million in FY2009. For the first quarter ended Sept 30, 2016 (1QFY2016), the group incurred a net loss of RM62.39 million.

Pheng, however, is confident of the outlook for Perwaja, especially with the support of CMC — China's largest international metals and minerals group.

"I believe that CMC will assist the funding of Zhiyuan, and it may also lead to more investment to pave a better future for Perwaja," he says.

He adds that Perwaja will focus on manufacturing stainless steel, which

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has better margins than traditional steel products, which will make it competitive in overseas markets.

Pheng, who has pared down his stake in Perwaja, says he will remain on the board to assist the Chinese parties in restructuring the company.

Kinsteel Bhd has a 28.39% stake in Perwaja, while Equal Concept Sdn Bhd has 27.84%. Equal Concept is wholly owned by Maju Holdings Sdn Bhd, which is linked to Tan Sri Abu Sahid Mohamad. Kinsteel is 15.82%-owned by Maju Holdings.

After pumping in RM1.8 billion, Zhiyuan will emerge as the largest shareholder in Perwaja, with a 64% stake.

"Our focus now is not the shareholding, but on how to transform Perwaja," says Pheng, who is also the managing director of Kinsteel.

It may take 1½ years to upgrade Perwaja's plant in Kemaman, according to Robin Yang, managing director of MCC Overseas (M) Sdn Bhd, a unit of MCC.

He says setting up base in Malaysia will allow Chinese investors to benefit from the tax exemption for participating countries of the Trans-Pacific Partnership (TPP). China is not part of the TPP.

He is also of the view that production costs in Malaysia are actually lower than in China. "The production cost in China is increasing due to higher land value and power tariffs. Besides, Malaysia is closer to countries like Australia, which will save on transport," he adds.

Yang says imported steel from China is normally priced about 10% lower than local steel products, but when Perwaja starts operations, the prices of its products may be even lower.

He notes that the demand for steel in Malaysia is 18 million tonnes a year, more than 10 million tonnes of which is imported. Perwaja will be able to fill the gap apart from exporting to other countries, he adds.

Last year, CMC took over MCC as part of China's reform of state-run firms. CMC, headquartered in Beijing, has assets of over RMB700 billion, with overseas subsidiaries and construction projects in over 60 countries. In 2015, it registered sales revenue of RMB430 billion.

Although Perwaja has secured strong partners, it seems the steelmaker will need more time to convince the investing public.

"With the slowing economy and steel overcapacity in China, investors are still wary that history will repeat itself," comments a fund manager. Stainless steel is also not a new thing that will excite investors, he adds.

A local industry veteran says there are not many stainless steel manufacturers in Malaysia.

"Although there is a problem of overcapacity in China, it is less severe compared to that for traditional steel products," he tells *The Edge* over the phone. E

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