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Perwaja bail-out not without precedent

THE Government's taking over of Perwaja Group's accumulated losses - estimated at RM2.985 billion - has a precedent in the United Kingdom and Japan where the state had to step in to help the strategic steel industry.

In a recent interview, Maju Holdings Sdn Bhd executive chairman Abu Sahid Mohamed said the notable example was the 1980s case of British Steel PLC.

Under then Prime Minister Margaret Thatcher, the British Government wrote off more than STG4 billion (RM17.2 billion) in accumulated losses for the then ailing steel firm before privatising and subsequently listing it.

As a result, British Steel has since under private hands become the world's third largest steel maker with a healthy balance sheet, said Abu Sahid, adding that a similar occurrence had also taken place in Japan.

Both the British and Japanese Governments were later able to recoup the debts that they had absorbed - through taxes paid by the revived firms on profits made and also upon listing the steel firms' shares.

Abu Sahid made these observations during an interview at Kemaman last month. On Wednesday Prime Minister Datuk Seri Dr Mahathir Mohamad confirmed that the Government was absorbing Perwaja's debts.

Though the Government's position had yet to be known then, Abu Sahid had said some sort of financial restructuring was needed so as to allow the rescue exercise for Perwaja to work.

This response was echoed by analysts contacted by Reuters, which reported them as saying the Government's move should make the troubled national steel firm more attractive to prospective investors.

"This will make it become more attractive for whoever's taking it over," said Audrey Ho, head of research at Mohaiyani Securities.

Reuters reported yesterday that analysts were not surprised that the Government had stepped in to back Perwaja, given its large vested interest.

The State Government of Terengganu, where Perwaja's billeting plant is, has a 19 per cent interest in the firm while the Federal Government owns 30 per cent.

The Government and local banks also hold large portions of Perwaja's debt, with RM1.2 billion from the Government, RM2.5 billion with local banks and RM3.1 billion with foreign financial institutions.

"It would be unfair if Perwaja were to palm off its losses to the bankers," said Muzni Mohamed, chief analyst at Nikko Advisory.

Though a medium-sized steel producer in Malaysia, Perwaja's output is still critical for the rapidly growing country, analysts note.

Perwaja makes about 600,000 tonnes a year in billets as compared to the Lion Group's Amsteel Corp Bhd, which makes 750,000 tonnes. In long products, Perwaja turns out 450,000 tonnes a year compared to Lion's 850,000 tonnes.

"If Perwaja stops, we would have a deficit," said J.M. Sassoon investment analyst Louie Ooi, who said steel was in high demand in the booming construction industry.

Estimated domestic demand for steel is 3.2 million tonnes a year, which is rising by about 15 per cent annually. Total capacity is 3.6 million tonnes "but plants don't produce at 100 per cent", Ooi said.

Analysts say a shored-up Perwaja might attract investors to take up the

Government's equity stake.

"I do not foresee the Government's stake in the company being a long-term holding," Muzni said. "I believe there are still some bidders who are very keen on Perwaja."

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