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A Titan no more?

By Ayu Aziz

AS MALAYSIA'S first and largest integrated olefins and polyolefins producer, Titan Petrochemicals & Polymers Bhd seems to be in the limelight for all the wrong reasons.

Despite being in the black with a revenue of RM2.7 billion and a net profit of RM154 million for the financial year ended Dec 31, 2003, the company has to contend with speculation that it may be subject to a weak liquidity position, following its decision not to proceed with a US\$ 300-million notes issue.

This is not the first time that Titan, a joint venture between The Chao Group International and Permodalan Nasional Bhd (PNB), has come under scrutiny. It first attracted media attention when it sought the help of the Corporate Debt Restructuring Committee to restructure its loans totalling about RM800 million some five years ago.

'The press release by S&P raised some alarm bells among people who do not understand the facts. We have working capital lines of over RM700 million. These are self-liquidating lines, which for an ongoing, viable concern like ours will be repaid and available for redrawing in accordance with our needs. These lines are also subject to periodic reviews by banks in line with customary banking practice. There is no reason to believe that banks which supported Titan through its most difficult years will not renew working capital lines at a time when Titan is experiencing strong profitability,' says Francis Pereira, Titan's vice president of corporate affairs and company secretary, in reference to a credit rating by Standard & Poor's.

Last March, the rating agency gave Titan a 'BB-' long-term rating with negative implications. It said a successful completion of the proposed bond issue would have eased the potential liquidity strain on Titan and that 'the delay in the debt restructuring plan is likely to weaken its liquidity and liability profile sufficiently to warrant a lower rating'.

Titan originally planned to raise US\$ 300 million in bonds with the purpose of repaying part of its term loan and financing its expansion capacity. 'A US\$ bond issuance was one of the several options being explored by Titan of its own volition. Ratings were sought for no other purpose than to support the bond issuance. The downgrade by S&P and the withdrawal of the rating by Moody's because we chose not to proceed with the issuance has no impact whatsoever on Titan,' says Pereira.

Nonetheless, as one thing led to another, the scraping of the bond issue sparked questions on how Titan would raise funds to end or buffer its future debt obligations. According to some media reports, Titan plans to go ahead with its listing plans sometime in the third quarter of this year, provided conditions are 'right'. But after the poor rating, many are wondering whether there would be takers for the shares if the company goes ahead with its initial public offer this year.

Pereira says reports on its listing plans have been taken out of context. 'A BMB (Bursa Malaysia Bhd) listing has been a major objective of Titan's founding shareholders. This was, in fact, conveyed to the-then Prime Minister Tun Dr Mahathir Mohamad by Titan's founder Datuk T T Chao as far back as April 1990. The proviso has always been that such a listing would be timed and driven by Titan's corporate objectives. The statement in a recent media report that Titan is pursuing a listing because of a liquidity crisis is both incorrect and mischievous,' he says, adding that

the company is fully aware of the implications should it list anytime soon.

A local analyst believes that Titan should be given the benefit of the doubt on its ability to settle its dues. 'The company is confident that its positive cash flow is sufficient. Perhaps Titan has other strategies in place, or is in a better condition than what the foreign analysts perceive,' she says. Furthermore, there is growth in the industry and this would provide room for the company to increase its turnover, she adds.

Pereira says Titan has been operating on a positive cash flow basis despite the losses it incurred in 2001 (RM300 million) and 2002 (RM84 million). 'Titan has shown strong, positive cashflow growth, especially in the past year. The company's payment commitment in the future must be viewed pragmatically against this backdrop and its cashflow forecasts,' he adds. Pereira denies speculation that PNB, which holds about 45% of the company, is cashing out due to its mounting debts, saying that PNB has made a commitment to a long-term investment in Titan and is very unlikely to sell its shares.

Considering its mammoth scale of investments, totalling about RM6 billion, the losses it suffered in both years cannot be seen as 'spectacular' compared to a business with lower investment figures, he argues further. 'The losses suffered in 2001 and 2002 were symptomatic of the state of the industry. It was not unique to Titan and the company was, in fact, cashflow positive throughout the entire period,' says Pereira, who has been with the company since it began operations in April 1990, reaffirming his belief that the future is far from bleak for Titan.

The positive outlook is based mainly on the currently improving economic climate. The petrochemical and polymer industry's growth depends largely on the growth of the gross domestic products (GDPs) of countries. In China and India, growth in the industry is about three times that of the domestic GDP.

Titan invested a total of RM5.5 billion in developing its highly efficient and integrated manufacturing facilities in Pasir Gudang, Johor. The plants were developed in phases and cover over 120 hectares of land. The plants are also equipped with two Co-Generation Plants that generate and supply electricity and steam to the Titan Petrochemical Complex at Pasir Gudang and Tanjung Langsat in Johor.

National petroleum company Petronas and other international companies like ExxonMobil, BASF and Mitsui, which have facilities in Kertih, Terengganu, are not seen as Titan's competitors. 'Titan produces seven different products while Petronas only produces one,' says Pereira. Its main threat comes from foreign players, especially from Middle Eastern countries and neighbouring Thailand and Singapore.

To date, about 50% of its output is exported to China while the rest is sold to Bangladesh, Pakistan, Iran and the local market. Despite the fierce competition, Titan projects its turnover would increase to RM3 billion from RM2.7 billion by the end of this year. Contributing factors would include the country's improving economic climate and the 5% growth in the GDP that will fuel the growth in the fabrication industry.

Regardless of the positive outlook the company has on its future, analysts feel that conditions would only improve in the medium term because the global petrochemical and polymer industry is intensely competitive. Products in the industry are treated as commodities and are sensitive to industry cycles.

Apart from The Chao Group International and PNB, Titan's other shareholders include SC Polymer Inc, a US subsidiary of China National Chemical Import and Export Corporation (Sinochem) of the People's Republic of China. Sinochem, the largest trading company in China, is Titan's

gateway to the Chinese market.

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