JAC’s restart impeded by messy stakeholder structure

If shareholders fail to agree on the way forward, S’pore’s largest aromatics facility by capacity may be in for a financial nightmare: observers

By Chan Yi Wen

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Trouble in Paradise

Naphtha-Paraxylene spread

Singapore

AS of now, operations at the Jurong Aromatics Corporation (JAC) have been stalled longer than they have ever been running.

It has been almost a half year since JAC closed its petrochemical complex on Jurong Island for maintenance, having fallen victim to poor market conditions less than five months after its August 2014 launch.

The economics for aromatics production have since improved, and the maintenance work was completed in March, but new issues have cropped up to stall the restart of the US$2.4 billion plant — and this is even as the company is estimated to have at least two million barrels of condensates sitting in the Jurong Rock caverns.

The main driver of JAC’s petrochemical facility is the production of paraxylene, an aromatic used to make polyester. The facility, which consists of a condensate splitter and an aromatics complex, can also produce aromatics such as benzene and oxylene and petroleum products such as light naphtha and jet fuel.

But what was once seen as a strategic marriage for JAC — one which brought together a diversified group of stakeholders comprisingfeedstock suppliers and product off-takers — is now bogging down its restart; divergent views are protracting talks, preventing the company from moving forward.

JAC’s largest shareholders are South Korean conglomerate SK Group (30 per cent) and Chinese polyester maker Jiangsu Sanfa Yangtze Group (25 per cent); other shareholders are Singapore’s Economic Development Board (EDB), which holds 5 per cent; entrepreneur Vijay Goel of human-based chemicals firm Vinmar Group; Swiss trader Glencore; Indonesia’s Sirojaha family; Thai KK Industry Co and India’s Essar Group.

Meanwhile, oil major BP is the provider of JAC’s subordinated debt facility, as well as its supplier and off-taker; in April 2011, 10 banks had also taken part in a US$1.56 billion debt financing package launched by the company.

Conversely, prices of aromatics were pulled down by oversupply and by the plunge in crude oil prices. The economics did not make sense.

But in the past few months, margins have improved. Paraxylene spreads over naphtha, a product of condensates, are mostly hovering above US$100 per tonne, the standard reference for paraxylene units to sustain operation, said Anu Agarwal, vice-president of chemicals at market data provider Argus Media.

She attributed the recent improvement in paraxylene prices to the April explosion of Dragon Aromatics and to the absence of JAC’s paraxylene supply in the market, which ran into the May demand peak for polyester in China.

ICIS paraxylene markets editor Samaril Wong said that the current average spread for naphtha paraxylene was about US$364 a tonne, above the “healthy levels” of US$350 per tonne. Others are less optimistic. Darryl Xu, a chemicals research analyst at Wood Mackenzie, told The Business Times that it is hard to see a significant rebound in paraxylene and benzene prices. “The market capacity is way in excess of demand for now. We don’t expect that to diminish at least within this year.”

High-end car dealers launch

Audi, Mercedes-Benz dealers

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HSBC continues to wind back the clock

By Peter Thal Larsen

Hong Kong

HSBC is cutting back on credit risk-weighted assets by a quarter and shedding tens of thousands of employees. After he has finished, HSBC will have gone a long way towards reversing decades of international expansion.

When Mr Gulliver took charge in 2010, HSBC had more than 300,000 workers, almost US$2.5 trillion of assets, and a return on equity of 9.5 per cent. After years of fraught cost-cutting and disposals the bank has 70,000 fewer people, but has added US$180 billion in assets, while ROE has slumped to 7.3 per cent.

True, the goal posts have shifted. Global interest rates have remained lower for longer than anyone expected, weighing on deposit-funded banks like HSBC. Like many rivals, it underestimated the cost of complying with new regulations and paying for past transgressions."Flows and settlements have tumbled 1.4 per cent off ROE every year since 2011. Capital demands mean keep going up: the bank now sees its equity Tier 1 ratio rising as high as 13 per cent — 2.5 percentage points above the level it expected in 2011. That means HSBC will need to raise more equity and be more efficient, while showing that the US$22 billion in revenue it derived from its global network last year justified the extra costs. Mr Gulliver is shedding units in Turkey and Brazil, investing in automation, and redeploying risk-weighted assets from the investment banking to areas with better returns.

HSBC sees scope to expand in China's Pearl River Delta and in South-east Asia. Leaving aside the wordiness of a bank founded in Hong Kong and Shanghai 150 years ago talking about a "pivot" to Asia, this is a sensible strategy. The aim is now to get ROE above 10 per cent.

Nevertheless, investors will have to be patient. HSBC shares are trading around the 1.4 per cent level as when Mr Gulliver unveiled his first restructuring in 2011. One factor weighing on the valuation is the bank's decision whether to move its head office back to Hong Kong, the home market it left in 1994. Though HSBC expects this decision this year, the process could take until 2017. Nothing would better demonstrate Mr Gulliver's determination to wind back the clock than starting from zero.

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There isn't any justification for prices to increase unless another plant like Dragon Aromatics gets into trouble — but those are just temporary shocks."

BT understands that there have been talks between JAC and its stake- holders about a possible third party processing agreement, in addition to JAC's existing off-take agreements and on financing issues following an overall shutdown of 2014 for Asian aromatics production margins.

But Ms Agarwal said that, even with better margins, it is really difficult to agree on anything when so many parties are involved in the negotiations: "No matter which option the shareholders choose, the shareholders and the banks need to be in agreement."

Mr Xu said: "A single entity will find it easier to make a decision. JAC has a messy stakeholder structure and the market is too unstable for the company to be able to make a decision on when to restart." Ashish Pujari, senior j侍 on at IHS Chemicals, told BT that a third-party processing agreement could entail leasing JAC's complex over a certain period. "Under such an agreement, JAC will purely be the operator and will not be exposed to the business risks. This will allow stakeholders to keep the asset running. But stakeholders may drag their feet possibly over a disagreement on off-take charges, on product-off-take volumes or on day-to-day working capital from banks and financial institutions to support JAC's restart," said Mr Pujari. Rumours have even been swirling in the market about Jiangsu Sanfanguang Group seeking to exit the venture, but failing to find buyers.

For Mr Pujari, even a July restart could prove daunting: although the company has the capacity in storage, the plant will still need at least 30 days to get up and running, he said.

Should the stakeholders fail to arrive at a collective decision, a financial nightmare will ensue for JAC.

Mr Pujari said: "Usually, the project should have a repayment holiday for about a year after commissioning, and failing to find buyers and going by the fact that the plant started up in August 2014, the institution would expect repayment to start in the next few months. We hope the operators will sort this out, rather than having the banks sort this out." EDB declined to comment and JAC did not respond to BT's queries.