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Port Klang Free Zone

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Port Klang seeks soft loans to repay bonds

| BY EVELYN FERNANDEZ |

Port Klang Authority (PKA) is seeking a soft loan from developmental financial institutions to help meet financial obligations for the RM3.4 billion commercial bonds and asset-backed securities that were issued for the development of the Port Klang Free Zone (PKFZ).

To recap, in 2002, PKA acquired 1,000 acres of land in Pulau Indah for RM1.1 billion from Kuala Dimensi Sdn Bhd, a company associated with Wijaya Baru Global Bhd. Kuala Dimensi was then appointed as a turnkey contractor to build PKFZ's infrastructure and facilities — which included warehouses, light industrial units, office complexes, a customs complex and a business class hotel — at a cost of RM1.3 billion. Most of the development works were completed last September and PKFZ began operations in November.

Eight months on and PKA faces its first financial hurdle. It will have to cough up RM510 million as repayments towards the bonds.

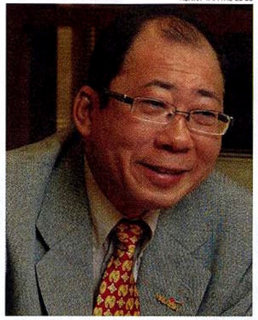
Although bondholders will only receive their first instalment payment in November this year, the bond agreements require PKA to deposit RM360 million at end of this month and another RM150 million at the end of next month with the bond issuers — Valid Ventures Bhd, Transshipment Megahub Bhd and Special Port Vehicle Bhd, all wholly owned by Kuala Dimensi.

"The first payment at the end of this month will not be a problem," Datuk Chor Chee Heung, PKA's new chairman tells *The Edge*. "PKA will pay for it out of its own cash and reserve funds."

For subsequent payments, however, PKA will need to secure a soft loan, he adds. "The government is in the midst of negotiating the terms of the loan at the moment... we would not require the full amount invested... once PKFZ takes off, it will [generate income] which will be more than enough to make repayments," Chor says.

While it is uncertain what PKA's current financial status is, its latest financial statements offer little comfort and raise questions over its long-term debt servicing ability. Going by its 2005 financial statements, the latest one available, PKA does not have enough cash to meet the entire first instalment on its own. At the end of December 2005, the port authority had RM230 million held in money market instruments and another RM4 million in cash.

KENNY YAP/THE EDGE



Chor: PKFZ will contribute to Pork Klang in terms of throughput and trans-shipment

Nevertheless, PKA has the government's backing for the free zone project and thus, bondholders are given an additional layer of comfort when it comes to repayments. The bonds carry an "AAA" rating by Malaysian Rating Corp Bhd (MARC).

However, one thing is certain, another loan in the name of PKFZ will only mean increased costs to PKA. Chor was unable to estimate the additional costs that PKA would have to incur for PKFZ. "It wouldn't be too much more as it is a soft loan, so interest charges on it would not be too high," he says.

As the bond repayments begin, public interest will narrow in on the success and viability of the multi-billion-ringgit project. Given that more than RM3 billion has gone into investments so far, focus on PKFZ's utilisation level and, in turn, its revenue generating ability, is only natural. Its bond repayments will stretch through the next 15 years.

A former deputy minister and parliamentary secretary, Chor was appointed as PKA chairman in May this year. Following his appointment to PKA, he resigned as chairman of Wijaya Global so as to settle arguments that his position at PKA was in conflict with his chairmanship at Wijaya Global, the company associated with the land sale for PKFZ.

As a free zone, PKFZ has been modelled after the Jebel Ali Free Trade Zone in Dubai. Jafza International, the managers of Jebel Ali, has been enlisted under a 15-year contract to market and manage PKFZ.

Since it commenced operations, PKFZ has attracted about RM468 million in investments, Chor says. These include RM465 million invested in lease agreements for 86 acres of open land, RM2.8 million for light industrial units and about RM510,000 for leased office buildings. However, as a percentage of total space utilised, its current take-up rate is still very small.

For instance, only 13% of the open land space has been leased out so far. PKFZ's largest investor to date is Aker Kvanner, the Norwegian oil and gas giant. And of the 512 warehouses, only two have been rented out, according to recent reports. However, says Chor, "I am very confident that three years down the road, 50% of the land will be occupied."

He adds that at least 21 other companies have already committed, though not signed up, to invest in PKFZ, promising another RM810 million in investments. "These are both local and foreign manufacturing and commercial companies involved in exports."

Construction of the free trade zone has stirred up heated public debate. Its lack of utilisation thus far, combined with the hefty investments incurred, have led detractors to describe it as yet another mega project doomed to failure. But Chor re-emphasises the need for the free zone. "This is an on-going national project, one that aims to create a national load centre and a regional trans-shipment hub.

"This is a supply-driven investment. We need to prepare the infrastructure to attract investors," he says. "If we have all this in place, it would definitely contribute significantly to the Pork Klang terminals in terms of throughput and trans-shipment."

Addressing complaints about the heavy bureaucratic red tape that make setting-up in PKFZ cumbersome, Chor says plans are currently being considered for a one-stop agency.

If this becomes a reality, it could help improve the attractiveness of PKFZ and hopefully, improve its take-up rate. Until then, the debate over its viability and investments will likely continue in the public spheres. E