

## MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 524989-M)

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THE current impasse has come after its leaders' (two brothers and major owners) major disagreement over the company's direction.

The younger Amin Halim Rasip, appears to be in control of the company after his brother, former director and co-CEO Harun Halim Rasip, recently sold his entire 22.12% stake in Integrax to Tenaga Nasional Bhd (TNB) for RM106mil or RM1.60 per share, giving rise to the entry of TNB as a major shareholder.

The next development will be the EGM that will be convened tomorrow to remove three directors – Datuk Onn Hamzah, Wongjoon Hian and Chan Kok Keong – and then a move to appoint five new directors.

Despite the elder Harun now out of the picture, normal service has yet to be restored to Integrax, since its potential expansion into a 10-year transshipment contract with Brazil's Vale International SA could be back on the cards.

But before exploring Vale, TNB's entry in itself deserves mention.

TNB said that its decision to buy 22% in Integrax was driven by fuel security. That is, to ensure the delivery of coal to its plant in Manjung for its subsidiary, TNB Janamanjung plant.

Integrax owns Lumut port, which comprises two terminals – Lekir Bulk Terminal (LBT) and Lumut Maritime Terminal (LMT). LBT contributes more than 90% of Integrax's earnings and provides coal-handling and coal-delivery services to TNB's Manjung power plant. LBT is Manjung's only viable

# Integrax at major crossroads

means of unloading the coal. For this, Manjung pays LBT a fixed and variable rate in a 25-year Jetty Terminal Usage Agreement amounting to about RM85mil a year, and this is a contract which expires in 2028.

Should TNB have bought this stake? TNB seems to think so, since any disruption in the supply chain process affects Manjung. The decision was made more crucial since it is undergoing a further 1 x 1,000MW capacity expansion, scheduled to come on-stream by March 2015.

Manjung may be LBT's single largest customer, but the legal rights over the jetty remains with LBT and hence Integrax. Thus, in a hypothetical scenario, Manjung's coal-handling process could potentially face capacity constraints and be de-prioritised if Integrax goes ahead with Vale's iron ore transshipment proposal, and thus would play second fiddle to Vale's needs, unless a deal can be struck.

Vale is the second-largest mining company in the world, and one of Brazil's largest logistics operators. With revenue of US\$46.5bil and net income of US\$17.2bil in 2010, it is no surprise that the Perak and the Malaysian government would welcome them.

Integrax's role (and which was captured in an agreement in December 2009) was to provide transshipment services over a 10-



COMMENT  
RITA BENOY BUSHION

year period to Vale.

This could have meant expanding its existing facilities at LBT, costing between RM250mil and RM300mil.

As discussed, LBT is Integrax's main earner – more than 90% of its earnings come from TNB Manjung, in the form of coal-handling and coal-delivery services. LBT's jetty has a capacity of 12 million tonnes of coal a year, and it is currently receiving an average of 5 million tonnes of coal a year, which is utilised by TNB Manjung – implying a utilisation of 50%. This is expected to rise once Manjung is expanded.

In defence of the Vale deal, Amin in his presentation after the EGM held on April 25 stated that there was a minimum take or pay on volume clause in the transshipment agreement which would assure Integrax of a steady cashflow, and that he expected an internal rate of return (IRR) of 15% within 10 years. Beyond that he had also argued that LBT could be turned into a multi-purpose port with future opportunities in palm oil, limestone, coal, cooking coal and biomass.

Amin and Harun had difference of

opinion on this project due to the cost of setting up the facility, and risk that Vale set its own facilities.

Harun had also added that Vale's purchase of land in the area underlined the short-term nature of its contract with LBT, and heightened the risk of a premature termination of the contract before the end of the 10 years when Vale's own transshipment terminal would be ready for service.

And, with the agreement only for a 10-year period, significant loans to finance the project would need to be fully repaid before the period expired, not to mention the potential for unutilised capacity at the end of the 10-year agreement.

Will Vale be a positive catalyst for Integrax from a value-accrue standpoint?

The issue for TNB perhaps is that Vale's entry might prejudice the reliable supply of coal to its Manjung plant. After all, after buying Harun's shares, TNB is now the single-largest shareholder of Integrax, followed by Perak Corp Bhd with a 14.9% stake. Amin has a 13.59% equity interest.

Integrax is profit-making. In 2010, it gave shareholders RM37mil in after-tax profits, a 41% return on the RM91mil in revenues.

The current board structure of Integrax comprises three non-independent directors and three independent directors. Out of the three non-independent directors, two of

them represent TNB while the other is Amin himself. MSWG had raised questions in the past about best practice of corporate governance in the company, including separation of chairman/co-CEO, independent review on the company's investment decision and having an independent chairman. The board had taken MSWG's suggestion. The chairman, however, resigned earlier this year for reasons only known to him.

What is in store for the shareholders, especially at the coming EGM?

1) The shareholders need to assess the suitability of any new appointment of independent directors as they were proposed by one of the major shareholders, Golden Initiative Sdn Bhd, a company controlled by Amin and another shareholder, Chang Bar Kieu;

2) The shareholders need to be vigilant and find out why the existing independent directors need to be removed;

3) The said independent directors should be given the opportunity to tell their side of the story. The new independent directors proposed to be appointed should also state their side of the story, such as why they wish to be appointed to the board and how they could provide value to the company; and

4) For Integrax's shareholders, the coming EGM provides an excellent platform to hear out both sides and vote accordingly.

● Rita Benoy Bushion is chief executive officer of Minority Shareholder Watchdog Group.