

# 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  
yiwenc@sph.com.sg  
@ChanYiWenBT

## 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.

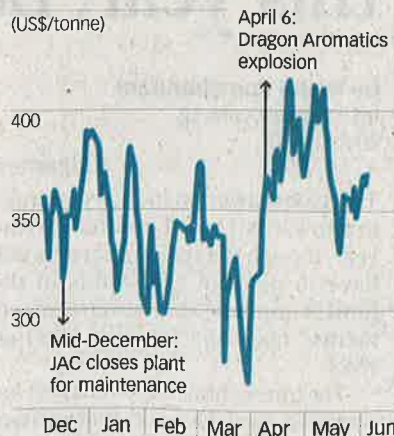
The economics for aromatics production has since improved, and the maintenance work was completed in March, but new issues have cropped up to stall the restart of the US\$2.4 billion plant – and this is even as the company is estimated to have at least two million barrels of condensates idling in the 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 orthoxylene and petroleum products such as light naphtha and jet fuel.

But what was once seen as a strategic marriage for JAC – one which

## Trouble in Paradise

### Naphtha-Paraxylene spread



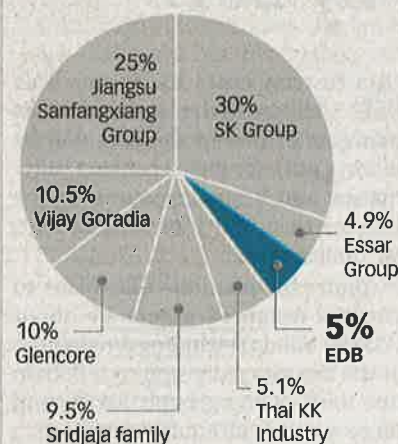
### US\$1.56b project financing

- Australia & New Zealand Bank
- BNP Paribas
- DnB NOR Bank
- DZ Bank DGBGg.F.
- ING Bank
- Intesa san Paolo
- Korean Development Bank
- Natixis
- Royal Bank of Scotland
- Standard Chartered Bank

### Provider of subordinated debt facility

- BP (British Petroleum)

### Shareholders



Source: Argus Media

brought together a diversified group of stakeholders comprising feedstock suppliers and product off-takers – is now hampering 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 Sanfangxiang Group (25 per cent); other shareholders are

Singapore's Economic Development Board (EDB), which holds 5 per cent, entrepreneur Vijay Goradia of Houston-based chemicals firm Vinmar Group, Swiss trader Glencore, Indonesia's Sridjaja 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 fi-

ancing package launched by the company.

Bruce Macfarlane, who led the financial advisory team at ING Bank, one of the banks, told Reuters: "It's a complex project with a complex commercial and financial structure."

In mid-December last year, JAC suspended operations amid poor market conditions. Condensates had started trading at a premium to crude oil as a result of over-demand from the startup of Asian aromatics plants.

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 condensate, are mostly hovering above US\$300 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 improvements 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 Samuel 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.

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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 stakeholders about a possible third-party processing agreement, in addition to JAC's existing off-take agreements

and on financing issues following an overall dismal 2014 for Asian aromatics production margins.

But Ms Agarwal said that, even with better margins, it is really difficult to agree on something when so many parties are involved in the negotiations: “No matter which option they choose, all 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 shareholding structure and the market is too unstable for the company to be able to make a decision on when to restart.”

Ashish Pujari, senior director 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 op-

erator, and will not be exposed to the business risks. This will allow stakeholders to keep the asset running.”

But stakeholders may be dragging their feet possibly over a disagreements on the third-party processing charges, on product off-take volumes or a delay in 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 Sanfangxiang 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 condensates 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 going by the fact that the plant started up in August 2014, the institutions would expect repayments 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.