

Confident Akzo can 'just keep busy for years' with an Australian billion-dollar claim



Pien van Engen

AkzoNobel will appear before an Australian court from Monday in a series of hearings on a billion-dollar claim. Two subsidiaries are said to be responsible for affected coatings on the pipework network of the large natural gas project. What is at stake?



LNG is extracted on the Ichthys drilling platform in the Timor Sea. The pipelines, coated with an AkzoNobel paint product, are said to be 'discolored' and 'affected'. Photo: Inpex

In brief

- AkzoNobel will be before the Australian court for the coming months in a major claims case.
 - The company supplied coatings for off-shore and on-shore platforms, but the pipe network has been damaged, according to the operator.
 - The paint giant rejects the claims totaling €1.5 billion and is 'not concerned' about the outcome.
 - Nevertheless, the case makes investors uncertain, says the VEB.
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About 220 kilometers northwest of the Australian coast, a yellow-red steel structure of more than 15,000 square meters stands in the Timor Sea. Gas has been extracted on a large scale via this drilling platform for several years. The sea - located between Australia and the Indonesian island of Timor - is known for its fossil resources.

LNG project Ichthys (an Ancient Greek word for fish that symbolizes Jesus Christ in Christianity) is the brainchild of, among others, the Japanese oil company Inpex (66%) and the French TotalEnergies (26%). The almost AUD 50 billion operation came into operation in July 2018 and pumps out around 9 million tonnes of LNG, liquefied gas, every year. This needs to continue until at least 2048.

But the lifespan of the project has been jeopardized by damage to the pipework network. According to Inpex and TotalEnergies, 890-kilometres of pipework has been 'discoloured' and 'degraded' since its construction. The necessary repair and remediation costs reportedly amount to €1.5 billion, which the operators want to recover from the supplier of the coating: the Dutch multinational AkzoNobel.

These are so-called *cross-claims*. AkzoNobel has been sued by oil company Inpex and the other shareholders. Akzo then filed a counterclaim against the engineering firm JKC Australia, which was hired to design and build the LNG platform and modules. The claims are subject to Australian Consumer Law.

Because the court-ordered mediation between the parties last February came to nothing, the case will go to trial. The first hearing is this Monday, the last is scheduled for August. A ruling is not expected before the end of 2025. The case is being heard in Perth District Court.

Ichthys lng



By the way, another Dutch company contributed to the Australian billion-dollar project. Dredger Boskalis played a central role in the transport and construction of the drilling platform. That company is not involved in the claims case.

Expensive Repairs

Inpex Operations Australia confirms to the FD that it is taking legal proceedings against 'various AkzoNobel branches' in Australia in connection with the coating product known as Intertherm 228, or 1228 for short. Costs have been incurred to repair the damage and the company expects to continue to spend money on it in the future.

According to Inpex, this amounts to a total of AUD 2.5 billion, equivalent to around €1.5 billion.

Vice president of operations Bill Townsend says the encroachment of corrosion has not yet posed any safety concerns, but the remediation work is "important for long-term conservation" and the safety of workers. Gas extraction has not

come to a standstill either.

'There is no legal basis on which AkzoNobel is liable for the reported condition of the project's steel'

AkzoNobel spokesperson

AkzoNobel disclaims all liability. "*There is no legal basis on which AkzoNobel is liable for the reported condition of the project's steel, which was originally coated with our product by JKC subcontractors*" a spokesperson said.

According to the paint giant, Intertherm 228 'has been used on more than a hundred projects around the world since 1999 without similar problems'. '*So there is no large-scale product problem.*'

If the judge rules in favor of Inpex, Akzo wants to hold JKC responsible for the costs through the cross-claim. That company in turn commissioned other companies to apply the coatings.

Finally, the Dutch paint multinational questions the amount and extent of the damage. According to Akzo, the amounts demanded for '*possible future damage have been significantly exaggerated*'. CEO Gregoire Poux-Guillaume previously said that the company is well insured for any costs.

Unfortunate Timing

AkzoNobel made the case public earlier this year. In the first quarter results, the company announced that the matter will be taken to court. The timing of this is unfortunate for the Dutch paint multinational, as the company was able to report better results than expected.

In the first months of this year, Akzo reported organic volume growth of 2% in both decorative paints and coatings. This seemed to turn the tide after several difficult years for the paint giant, which can benefit from falling raw material costs, among other things. In the first quarter of 2024, it saw its margins increase compared to the same period last year.

In addition, the company is working on an extensive cost-saving program that should ultimately save €250 million. To this end, the company is closing several locations in Europe in order to increase the occupancy rate in the factories. It was recently announced that the company is closing a location in Groot-Ammers in South Holland, resulting in the loss of 120 jobs. A branch is also closing in Ireland. Akzo is expected to share more details about the 'streamlining of industrial processes' this summer.

Despite the more positive than expected results on the one hand and the upcoming hearings in Australia on the other, the company is not compromising its 2024 targets. Akzo is still aiming for an adjusted operating result between €1.5 billion and €1.65 billion and a debt ratio of 2.3 times EBITDA, Poux-Guillaume said earlier.

Cautious Investors

The top management of the Dutch multinational may be confident about the Australian claims, but investors on the stock exchange are reacting more cautiously. The AkzoNobel share price fell by about 7% on the day of the announcement. As a result, the paint giant lost around €867 million in market value.

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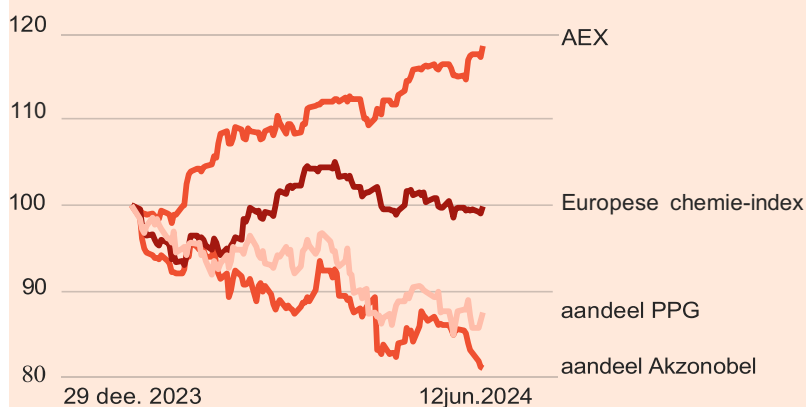
David Tamie, Association of Securities Owners

'These types of claims hang like a dark cloud over a company. As an outsider, it is difficult to estimate how serious the issue is and that makes investors uncertain,' says economist David Tamie of the Association of Securities Owners (VEB). 'You also saw this earlier around the Philips apnea affair or, for example, the money laundering investigations at ING and cartel investigations at DSM-Firmenich. As a company, it can easily keep you busy for a few years.'

The stock is currently trading at around €61 each. In any case, AkzoNobel is performing less well this year than other European listed chemical companies and other AEX companies. The same downward trend can also be seen at American competitor PPG.

Aandeel AkzoNobel presteert minder dan andere AEX-bedrijven

Ook concurrent PPG en Europese chemiebedrijven doen het beter op de beurs



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In the run-up to the hearings in Perth, analysts are sticking to their previous advice regarding AkzoNobel. A number of them told the FD that they were following the case with a close eye. "I will see what the ruling is, but we should not overestimate the risk" says Wim Hoste of KBC Securities. 'It is a very high amount. The chance that such a large fine will be imposed seems slim.'

ING analyst Stijn Demeester refers to an earlier explanation from financial director Maarten de Vries, who said that the company often receives large claims, but that they amount to nothing. 'There are more cases where major claims have come our way that are frivolous. Recently there was a Xena claim that did not actually relate to AkzoNobel, but to Nouryon (the former chemical branch of AkzoNobel that was sold in 2018). So this happens more often' says De Vries.

No Dutch delegation travels to Australia to defend the company's interests. AkzoNobel is represented by a lawyer from the Australian law firm Clayton Utz.

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