

Govt taking the lead in corporate restructuring

STAR 30 JUL 2001

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THE pace of restructuring of Malaysia's corporates is picking up, with the government taking the lead.

Given that Prime Minister Datuk Seri Dr Mahathir Mohamad is also the Finance Minister, analysts say economic and financial directives will now come from a single source and that's expected not only to instil investors confidence in policy decisions, but such decisions can be expected to be executed expeditiously.

A case in point is Khazanah's RM3.8bil takeover offer of United Engineers (M) Bhd. In their briefings to the media and analysts, those who have been entrusted to implement the takeover have made it clear that the decision to take over UEM (as a first step to restructuring the Renong group) comes from the Prime Minister's office and has the support of the prime minister.

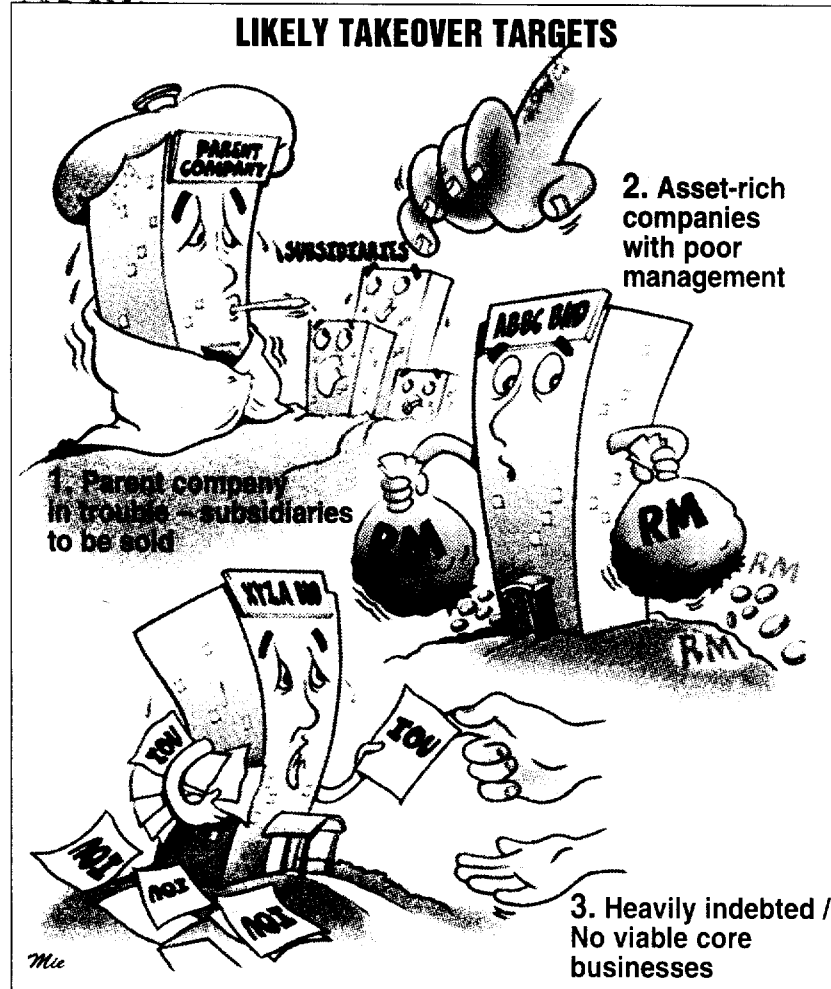
The government feels that the log-jam involving the Renong group, and other financially troubled sectors such as the Kuala Lumpur transport system and the steel industry, is hindering the return of investors confidence in the economy and the stock market.

To speed up the pace of corporate restructuring, the government last week appointed Datuk Azman Yahya as chairman of both Pengurusan Danaharta Nasional Bhd and the Corporate Debt Restructuring Committee.

Following the Asian financial crisis in 1997, the government amended the Companies Act to allow distressed companies to avoid liquidation and to buy time for restructuring by coming under Section 176.

However, there is a feeling that too many companies have sought protection under Section 176, without making any sincere efforts to turn their businesses around or to make efforts to satisfy their creditors.

"We have the proper rules and regulations in place. But if the government does not enforced them in the spirit they were created we will still



be back to square one," said a research manager.

Azman's appointment to Danaharta and CDRC has been widely welcomed by analysts.

"He has a good track record in Danaharta, and this raises hope that he can also do a good job at CDRC," said an analyst.

CDRC has so far helped to restructure 37 groups of ailing companies to restructure corporate debts amounting to RM28.5bil.

Analysts attributed the recent strong uptrend on the local stock market to an anticipation of more

corporate restructuring and merger and acquisition activities.

Many are saying that the recovery in the share prices on the KLSE has created a conducive environment for corporate restructuring to take place.

Improved sentiment on the stock market boosts beliefs that there is good value in public-listed companies.

"Compared to other crisis-hit Asian countries, Malaysia has made better progress. But a lot still needs to be done.

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Indebted second board firms need white knights

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“If the restructuring momentum can continue, that would be very good for the country,” said C.K. Ngu, research head of TA Securities.

In general, there are three types of companies expected to be involved in corporate restructuring exercises inclusive of takeovers:

● The first group will be those which have valuable assets in hand but poor management of these companies has somehow jeopardised their financial position. Most of them are suffering from over-expansion or diversification into non-core businesses.

Examples of this are Malaysian Resources Corp Bhd, Lion group as well as UEM and Renong Bhd.

Asset divestment is one way to solve their problems as these companies can sell assets to raise cash for debt repayments.

● The second type of companies are those with profitable businesses and healthy balance sheets.

However, the parent companies are financially stressed.

Bumi Armada is an example of such a company whose major shareholder Land and General Bhd is laden with short-term borrowings.

● The third type is companies that have no viable core businesses or core businesses making losses. They may also be heavily indebted.

Many second board companies fall in this category. Repco Bhd and Westmont Industries Bhd are two of the many companies.

This category needs “brave white knights” to take over and turn them around. Most of these companies are affected by the KLSE Practice Note 4/2001.

Many eyes will be on the companies that are affected by the Practice Note as they face the possibility of being delisted.

“The implementation of the *harsh KLSE ruling* is a crucial step to show that the authorities are serious in cleaning up these companies,” said an analyst.

“Is it going to be an opportunistic move to acquire them or is a case of throwing good money after bad,” said a corporate adviser.

In many cases, financially stressed companies would dilute the asset value of white knights, he said, “because you are going to have to cover their debts for them.”

He said the main problem stemmed from majority shareholders refusing to let go of ailing companies and let in new shareholders.

These shareholders refuse to admit that the current value of their companies are actually lower than what they perceive them to be.

The corporate adviser feels that delisting one or two companies from the KLSE will not necessarily result in a chain reaction and loss of confidence among investors.

On the other hand, it may actually serve as a wake-up call to some owners to really consider their companies’ true worth, he said, and hence step up the pace of ne-

gotiations.

Despite the recent spate of corporate developments, a director of a public listed entity feels that current conditions make it difficult for reverse takeovers. Not only has the economic slowdown resulted in very few white knights with few viable projects, but conditions set by the Securities Commission have made it even harder for white knights to emerge, he said.

Aside from MTD Capital Bhd’s rescue of Dewina Bhd, few white knights have charged forward with rescue plans for the more than 80 public listed companies which fall foul of the KLSE’s Practice Note 4/2001, requiring all listed entities to meet certain minimum financial conditions.

Few rescuers qualify under the authorities’ stringent requirements for rescue schemes, he said, adding that there has to be a collective shouldering of the problem, with creditor banks and relevant authorities ready to face the issue head-on.