

Firms seen missing deadline in debt talks

SUN - 1 DEC 2001

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KUALA LUMPUR: The Lion Group, Johor Corp and other companies are set to miss yesterday's government deadline on restructuring US\$8 billion (RM30.4 billion) of debt, denting confidence in a shrinking economy and efforts to revive growth.

Datuk Azman Yahya, hired four months ago to head state-run mediator Corporate Debt Restructuring Committee, had told companies to agree on plans to repay their debts by yesterday, or face sanctions, including government-imposed management changes.

However, the size of the companies and the reluctance of creditors and debtors to take losses, have delayed agreements, investors said.

"It's not going to happen," said Scott Lim, who helps manage US\$92 million (RM350 million) at CMS Dresdner Asset Management.

"We are talking about some of the largest

debtors with huge overdue debt, like Lion Group and (state investment agency) Johor Corn. with hundreds of subsidiaries." The two owe more than US\$2.6 billion (RM9.88 billion).

Johor Corp and Lion Group declined comment on the talks.

Any delay will test Prime Minister Datuk Seri Dr Mahathir Mohamad's resolve to clear bad debts, a step he says is needed to revive an economy which shrank 1.3% in the third quarter, its first decline in two years.

Resistance

It's also bad news for domestic banks, which saw bad loans rise by a fifth in the year to October.

Clearing bad loans may spur lending, which rose 5.4% in October from a year ago, below an 8% government target.

Still, some debtors have been resisting Mahathir's drive, because it would mean realising losses and selling assets.

"Some borrowers aren't willing to take any haircuts," said Louis Paul, the general manager of Bayerische Landesbank's branch in the offshore finance centre, Labuan, which is a creditor to some of the companies.

Paul cited Lion Corp, owner of the nation's largest publicly traded steelmaker and the second biggest debtor, and developer Land & General Bhd, where talks have been difficult.

"Management changes must be initiated at companies that constantly fail

to deliver," said Nik Azhar Abdullah, who helps manage US\$500 million (RM1.9 billion) at Commerce Asset Fund Managers.

In July, Mahathir ordered a state takeover of United Engineers (M) Bhd as part of efforts to wrest control of Renong Bhd from tycoon Tan Sri Halim Saad, a protege of former Finance Minister Tun Daim Zainuddin, to speed repayment of US\$5.3 billion (RM20.14 billion) at the country's largest debtor.

Largest debtor

Management at several Renong units has been changed.

"I'll be crossing swords with all sorts of tycoons," Azman, a chartered accountant and former investment banker, told Bloomberg last month.

Still, there are signs Azman's pressure is beginning to pay off, and that debtor companies will fall into line.

The government yesterday completed a plan to take over two rail companies and convert US\$1.4

billion (RM5.32 billion) of overdue loans into bonds in the nation's biggest corporate rescue, led by the Corporate Debt Restructuring Committee.

Bayerische Landesbank, RHB Bank Bhd, Malayan Banking Bhd and the Employees Provident Fund received bonds from the government, the bankers said.

Resolution of the country's debt problems would go some way to restoring the confidence of overseas investors.

Foreign creditors have seen defaults in the past two years of US\$933 million (RM3.5 billion), with companies from Technology Resources Industries Bhd, the nation's largest mobile phone company, to developer Sunway Holdings Inc asking for more time to pay bonds.

"Foreign bankers and bondholders that we talk to are getting tired of the delays in debt restructuring efforts," Commerce Asset Fund Managers' Nik Azhar said. "especially among the larger companies." Bloomberg