

# Steel Sector In Distress

by

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# Agenda

1. Increasing Distress in PLC and Private Companies

2. Restructuring The Way Forward

3. Some Thoughts on Dealing with Distress

# Distress in PLC

- Large amount of capital at risk - RM24 billion
- Most of PLCs in the sector show signs of distress
- Prima facie they cannot act on white knights (i.e. mergers are difficult)
- Financing is a challenge for business purposes, more so for take over
- Cross border mergers are possible but challenged with opacity, no track record of M&A with regard to distress

PLCs Analysed by Segment and Duration in Segment

Z Score	Safe Zone	No companies in this segment, i.e. expected improving (lower likelihood of default)		<ul style="list-style-type: none"> <li>• AAA Berhad (7,7)</li> <li>• BBB Berhad (7,7)</li> </ul>
	Grey Zone			<ul style="list-style-type: none"> <li>• CCC Berhad (2,2)</li> <li>• DDD Berhad (8,2)</li> <li>• EEE Berhad* (5,5)</li> </ul>
	Distress Zone	<ul style="list-style-type: none"> <li>• III Berhad (8, 8)</li> <li>• RRR (8,8)</li> <li>• JJJ (8,8)</li> <li>• KKK Berhad (4,7)</li> <li>• LLL Berhad (4,6)</li> <li>• NNN Berhad (2,2)</li> <li>• OOO Berhad (3,8)</li> <li>• PPP Berhad (1,7)</li> </ul>	<ul style="list-style-type: none"> <li>• FFF Berhad (6,5)</li> <li>• GGG Berhad (2,8)</li> <li>• HHH Berhad (6,8)</li> </ul>	<ul style="list-style-type: none"> <li>• QQQ (3, 1)</li> </ul>
		Distress Zone	Grey Zone	Safe Zone
		<b>Z" Score</b>		

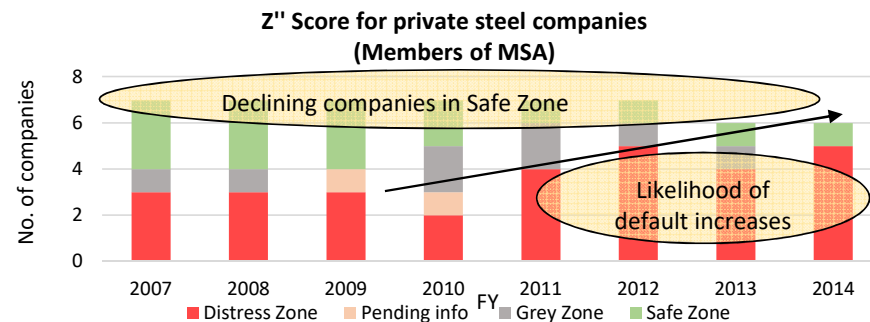
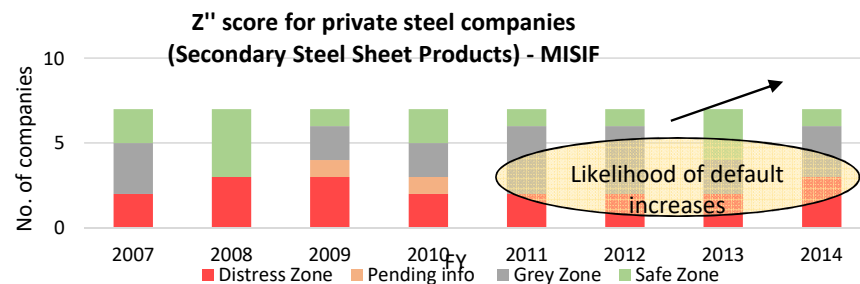
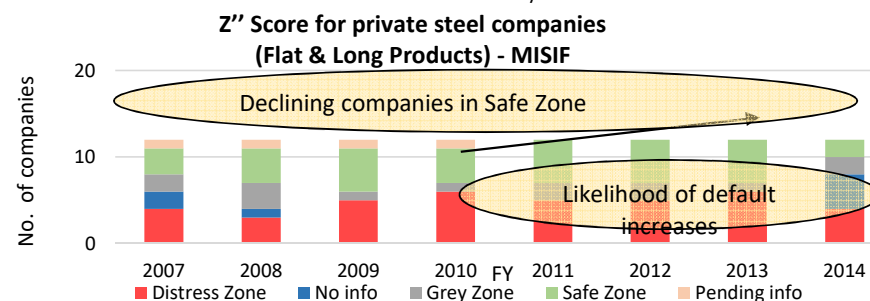
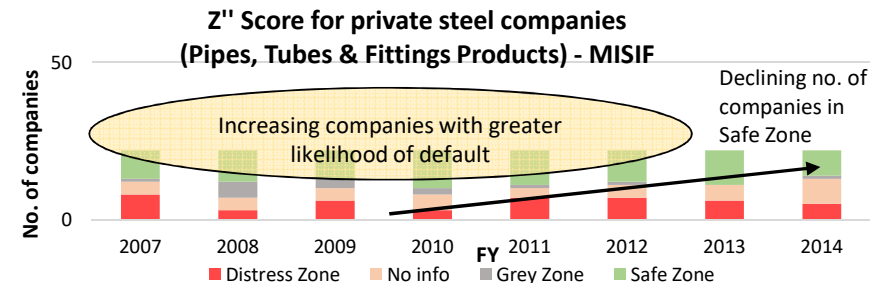
Legend:  
(x, y) denotes period being in the same zone for current ratings

**Z > 2.99 - "Safe" Zone**  
**Z < 1.81 - "Distress" Zone**

**Z" > 5.85 - "Safe" Zone**  
**Z" < 4.35 - "Distress" Zone**

# Distress in Private Companies

- Show similar patterns as
  - Flat steel
  - Long products
- Increasing trend of distress
- Financing becomes more challenging



# Restructuring The Way Forward

## Relevance of viability

Diagram 1 : Asset Management and Disposition

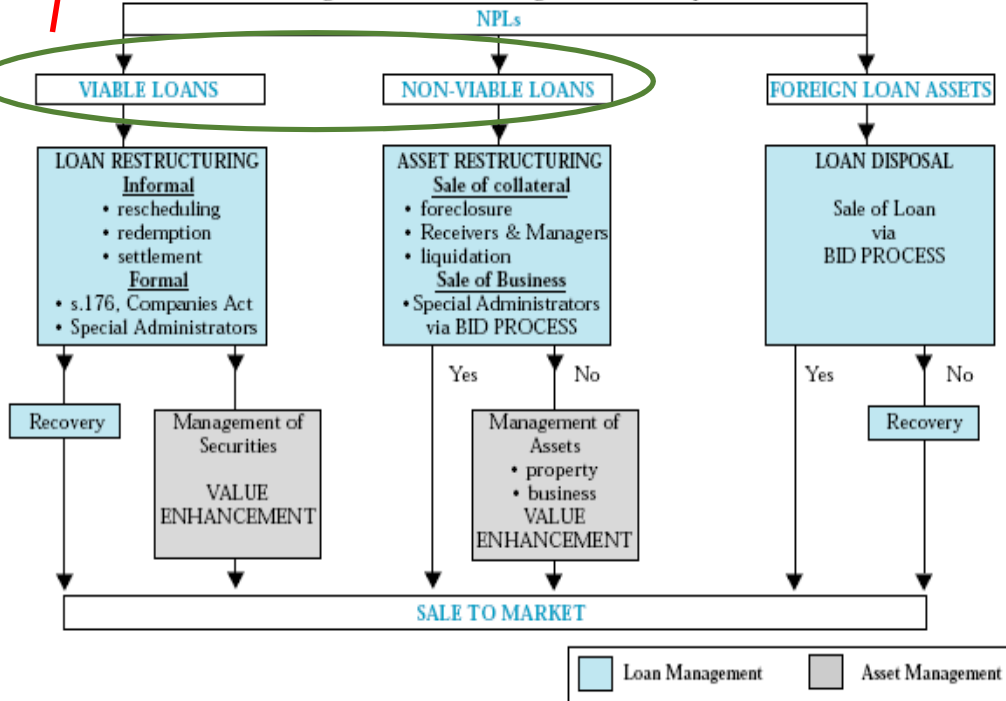


Table 3: Analysis of recovery from various recovery methods as at 30 September 2005

Recovery method	*Adjusted LRA RM billion (a)		Recovery RM billion (b)		Recovery rate (%) (c)=(b)/(a)	
	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs	Acquired NPLs	Managed NPLs
Plain loan restructuring	1.07	3.77	0.86	3.58	80%	95%
Settlement	3.55	8.55	3.11	6.41	88%	75%
Schemes of arrangement	3.14	6.82	1.84	4.32	59%	63%
Appointment of Special Administrators	1.66	2.59	0.84	0.58	51%	22%
Foreclosure	9.12	3.69	2.62	1.65	29%	45%
Others	3.81	3.29	1.74	2.60	46%	79%
Legal action	0.28	1.08	0.06	0.14	20%	13%
<b>Total</b>	<b>22.63</b>	<b>29.79</b>	<b>11.07</b>	<b>19.29</b>	<b>49%</b>	<b>65%</b>
<b>OVERALL</b>	<b>52.42</b>		<b>30.35</b>		<b>58%</b>	

\* Comprising total LRA of RM47.68 billion and accrued interest of RM4.74 billion.

Source: Danaharta Annual Report 2005

Where Borrower is involved & inherent viability

Collaboration: Borrower/White Knight

Borrower exits

Is it possible to improve the outcome by applying/encouraging the factors that support resolution of distressed PLCs portfolios, in particular with new monies?

# Entrepreneur in Preserving Value

## Liquidation invariably leads to destruction of value:

- Destruction of viability inevitable
- Assets are likely to be sold piece-meal due to possible varying charges thus driving down value of each individual asset
- Business cannot be sold as a going concern
- Concessions will be excluded
- Benefits of tax losses eliminated
- Host of licenses may need to be surrendered
- Loss of franchise + goodwill
- Loss of relationship with existing customers + suppliers

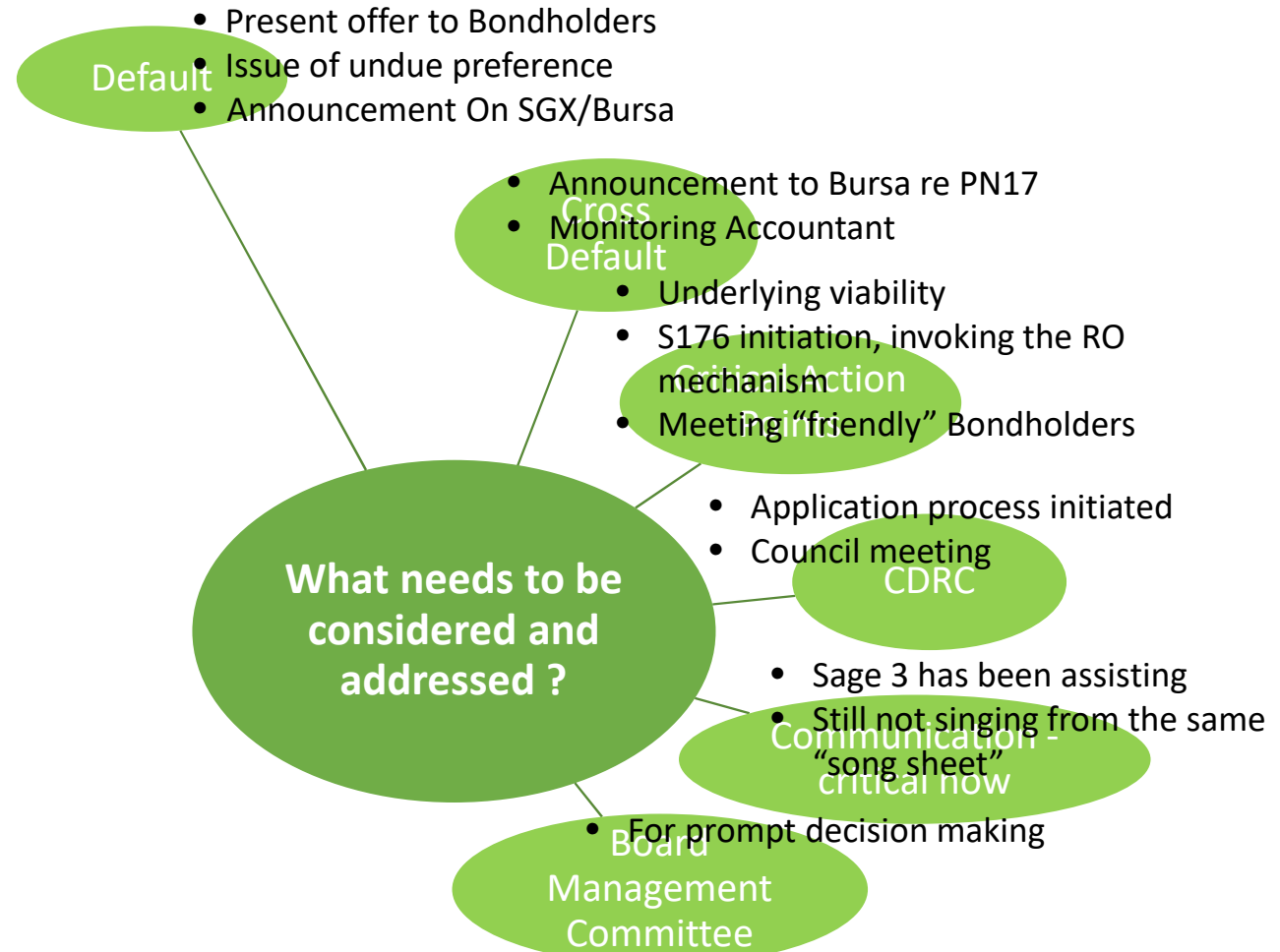
## Why Entrepreneur involvement is so key ?

- Plays key role in maintaining viability (EBITDA +ve)
- Has invested and risked their capital (+ other people's money) in pursuit of profit
- Possesses institutional knowledge
- Imbued with ambition, self-belief, passion and energy to secure business success
- Most capable of raising new monies
- Leveraging on entrepreneur's hunger, business acumen & experience is unquestionably a critical success factor in debt restructuring

# Some Thoughts on Dealing with Distress

- Do not wait till the last moment
- Set aside funds for restructuring effort
- Get professional advice
- Do not get into situation where operations have ceased

## Crisis Management



**Thank You!**