

CAN THIS MAN REBUILD CORPORATE THAILAND?

For three years he battled to implement a restructuring plan at Thai Petrochemical Industry, the country's biggest and most recalcitrant corporate debtor. Now following a landmark ruling from the Central Bankruptcy Court he has seized control of the corporation on behalf of creditors. Can Anthony Norman pull off the most important restructuring case in Thailand's recent corporate history? By Ben Davies.

The lift stops at the 21st floor of a plush Bangkok office block on Sathorn Road. We are ushered past a security guard into the spartan reception area bearing the name of Ferrier Hodgson, parent company of Effective Planners, the firm that has been at the centre of one of Thailand's biggest restructuring battles. Beyond a wooden door with a numbered code is a conference room with 14 leather seats set around a wooden table. There we await the arrival of the man whose three-year crusade against the controlling shareholders of Thai Petrochemical Industry (TPI) has culminated in its seizure by creditors.

Anthony Norman enters the room with little ceremony. Sporting a light blue shirt and a tie stamped with polar bears, he exudes a disarming confidence. Norman has the steely nerves of a former paratrooper and the charm of a seasoned diplomat – a combination that has proved crucial in his dealings with lawyers, creditors and TPI's bitterly opposing family shareholders.

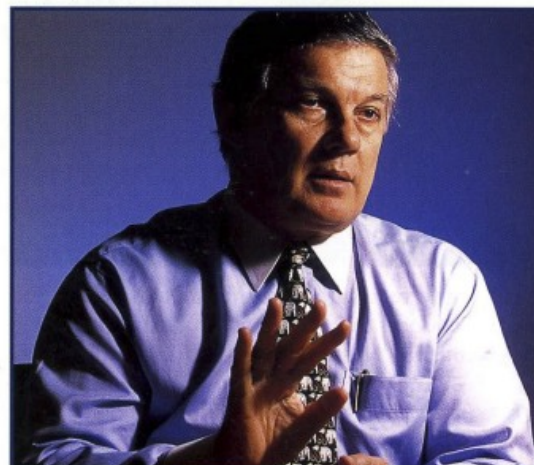
In his own way Norman has become something of a legend in Thailand. His name has been splashed over the front page of every local newspaper. His every move has been observed and debated. But unlike his opposite number, Prachai Leophairatana, the founder and former chief executive officer of TPI – who vigorously courts the media – Norman keeps a relatively low profile.

Known facts about Norman are that he is a bachelor of commerce graduate from the University of Auckland, a member of the Australian Society of Practising Accountants and a veteran consultant in financial management whose previous postings have included South Africa, Papua New Guinea and the UK. One other thing we know; Anthony Norman is no pushover. Despite unprecedented criticism from Prachai and the spectre of intimidation from TPI workers, unions and even politicians, the 50 year-old head of Effective Planners has stood his ground.

On November 16 2000, what had been a bad dream for Norman turned into a nightmare. As the company's credi-

tors were holding a meeting at the glittering Queen Sirikit National Convention Centre on Ratchadapisek Road, TPI workers stormed past a barricade, forcing court officials to halt the proceedings. It took another four weeks and several more appeals before the Central Bankruptcy Court threw out 40 pages of legal objections from Prachai, and on December 15 endorsed the US\$3.7 billion rehabilitation plan drawn up for TPI by Effective Planners. The historic ruling was the first major test case under Thailand's new bankruptcy laws, which were enacted in 1998.

Now the Supreme Court has agreed to hear an appeal from Prachai who is calling for a revamp of the rehabilitation plan. Judging by previous cases, it could take up to a year before a final ruling is made. In the meantime, Norman has made it clear that he will begin to implement the rehabilitation



Yuan Cohen

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plan. In the weeks and months to come, the world will once again be watching to see if Norman can restore the faith of investors and creditors in corporate Thailand.

Asiamoney: To what extent does the approval of TPI's restructuring plan on December 15 mark a final resolution to the case?

Norman: I think that the court's sanction of the rehabilitation plan is a clear resolution. I am of course aware that an appeal has been lodged with the Supreme Court by Khun Prachai, the former chief executive officer, but I view this as a peripheral process. To my mind a resolution is implementing an agreed rehabilitation strategy, and that is precisely what I am doing at the moment.

Asiamoney: But if TPI is a litmus test of Thailand's willingness to restructure, it is hardly likely to gain the confidence of the international business community.

Norman: Some may be discouraged by what I have had to endure. But at the end of the day it is results that motivate people. And I believe that nothing will disturb the sanction of this plan and therefore its implementation.

Asiamoney: Over the past three years you have been accused of unfair treatment of shareholders, collusion and lack of transparency. Is the rehabilitation plan fair to all parties?

Norman: Let's be clear about one thing. You cannot enter the rehabilitation process unless you are considered to be insolvent by the courts. What that means – using the Thai definition of insolvency – is that TPI's liabilities exceed its assets. It is axiomatic therefore that the shareholders' equity has been lost. And yet this plan leaves shareholders with a 25% stake in the company. That is why it is fair to the existing shareholders.

Asiamoney: What about the price that creditors are paying for their equity? Prachai puts book value at Bt17 (about 4 US cents) per share, but creditors are paying just Bt5.5 per share.

Norman: It is true that as of December 1999 if you did your sums on TPI's financial statements, you would end up with Bt17. However not only were these accounts not qualified by the auditor, but the auditor said that he couldn't offer an opinion at all because of a series of doubts about the integrity of the numbers. Furthermore, Prachai is comparing Bt17 in undiluted share value against Bt5.5 in fully diluted share value – which is the equivalent of comparing apples and oranges. If we compare apples and apples, the creditors are actually paying Bt21 on an undiluted basis compared with Bt17 on an undiluted basis. In effect, the creditors are paying fully for these assets.

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The rehabilitation plan drawn up for TPI by Effective Planners was a landmark case under Thailand's new bankruptcy laws. But the plan may be shortlived if Prachai's appeal to the Supreme Court succeeds.

Asiamoney: During the 1980s and early 1990s, banks were only too willing to lend to TPI despite the fact that the company had no real track record in upstream petrochemicals. These banks took the risk. Why aren't they taking a haircut?

Norman: As a planner, you have to analyze the competing arguments. Did the banks contribute to the problem through their aggressive lending or does the responsibility lie with the borrower? My view is that some of the blame can be attributed to each side. There has to be a balance, which is what I have achieved in this plan.

Asiamoney: So why all the allegations of collusion?

Norman: That is a complete fiction in the mind of Khun Prachai. There has never been a conspiracy between any particular stakeholder and myself and there isn't one now. I determined what I believed to be a fair balance in this plan for all stakeholders. The creditors, who are the only people to vote, agreed with this and the court is satisfied that the due process has been

followed.

Asiamoney: Thailand's new bankruptcy laws, which were enacted in 1998, were supposed to facilitate restructuring. Why all the delays?

Norman: Undoubtedly the main force at work here is the character of Khun Prachai. If you look at the appeals and the other forms of litigation with which we have been assaulted, you will find that these activities are fundamentally without merit. Nonetheless it is a process that we have had to endure. The important point for me now is that we are getting on

with implementing the court sanctioned rehabilitation plan and there is nothing tentative about that.

Asiamoney: But the Supreme Court has accepted Prachai's latest appeal. Is there any way that the rehabilitation can be reversed?

Norman: If the appeal succeeds, which I think is a remote possibility, the Act specifically says that anything that the plan's administrator does whilst the appeal is being heard is legally binding. What that tells you is that there is nothing tentative about our appointment.

Asiamoney: How much longer are we going to have to wait for that ruling?

Norman: It could take a long time. In some of the English language papers, they are talking of six months being the norm. On the other hand, the Supreme Court can move quickly when it sees the need. Look at the way they dealt with Khun Prachai's attempts to disqualify all bankruptcy judges. It was dealt with in 24 hours – unprecedented in Thailand.

Asiamoney: Will the judgement by the Supreme Court really mark the end of the road?

Norman: Realistically I don't expect an abrupt end to these activities. I think there will be a gradual decline in these types of distractions.

Asiamoney: As a foreigner do you feel that the odds have in any way been stacked against you?

Norman: No, I believe in the judicial process. I admit that it is a bit slow and I admit that there are areas where the laws could be usefully reformed for practical reasons but, at a fundamental level, this new bankruptcy law has withstood an acid test in this case.

Asiamoney: Now that you have won control of TPI, how long is it actually going to take to turn the company around?

Norman: From an operating standpoint TPI is fairly efficient, although there are some areas – like production planning and capital expenditure – where its efficiency could improve. The reason it needs restructuring is that it has the wrong funding structure. To improve debt service, the plan will convert US\$700 million of debt into equity. It will also standardize interest rates and provide for debt service and debt repayment to be aligned to the forecasts for operating cash flow. It will take four years to reduce debt to a comfortable serviceable level.

Asiamoney: TPI employees claim that you have a secret agenda

and that you plan to sack large numbers of staff and sell off substantial chunks of the business. Is there any basis for those claims?

Norman: There are no plans for layoffs at TPI. There never have been and I don't foresee any. As for selling certain assets, yes, the plan is to sell some assets, but these can be used on a continuing basis. To give you an example, we are planning to dispose of TPI's electric power generating assets. Because these are essential to running the petrochemical refinery we will sign an off-take agreement with the new owner to purchase all the electricity that they produce. Interestingly, TPI needs more electricity than it can actually generate at the moment, so we are likely to require the new owner to build another significant power station so that TPI will have all the electricity it needs. There is no way that TPI could afford that capital expenditure. So here is a solution that solves an operating problem as well.

Asiamoney: Will you sell TPI's stake in TPI Polene?

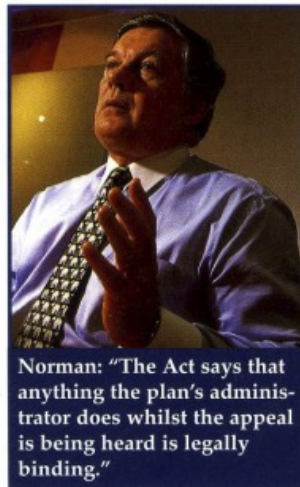
Norman: The company currently holds 53% of the issued shares of TPI Polene, which is the third largest cement manufacturing company in Thailand. As there is no strategic reason why TPI needs to have an investment in a cement factory it is my intention to sell the shares. However, as usual there are some complications. One of them is that TPI Polene owns the LDPE plant, which is an integral part of TPI's petrochemical operations. Therefore any move to sell the Polene shares must involve TPI re-acquiring the LDPE assets.

Asiamoney: At the end of the four year plan, how much of TPI's debt will need to be refinanced?

Norman: By 2004, TPI's residual debt is expected to have fallen from US\$3.7 billion to US\$1.8 billion. At that time we project that the company will be generating operating cash flow of about US\$450 million a year. If you look at petrochemical plants around the world you will find that the ratio of debt to operating cash flow is around 3.5 to four times – which puts us right on the benchmark. My view is that refinancing should be no difficulty. Frankly if everything goes to plan I would expect this to be a very attractive credit proposition for many financial institutions.

Asiamoney: Creditors are scheduled to receive their first interest payment at the end of the month. Will that go ahead as planned?

Norman: At the moment the first interest payment in cash is due at the end of January 2001. We will be making that payment on time – certainly as far as tier one is concerned,



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and possibly for tier two. That depends on a number of variables including the availability of new working capital lines, crude prices and shipping schedules.

Asiamoney: As of today do you have any dealings with Khun Prachai?

Norman: No, not really. We have met only once since I was appointed. I spoke to him about the possibility of an ongoing advisory role. However he rejected this. A week after my appointment I removed his right to use the chief executive title and I also removed his executive authority. I did this by correspondence because he would not meet with me. We have no need to speak at this moment in time, but if the need arises I will have no problem contacting him.

Asiamoney: Will other members of the Leophairatana family be involved in the running of TPI?

Norman: I have asked them whether they can support the rehabilitation plan and they have not responded to my satisfaction either, so it is possible that they will also not be involved.

Asiamoney: The newly elected Thaksin administration has said that it will consider amending the bankruptcy and foreclosure laws to increase the bargaining power of debtors. Is that setting a dangerous precedent?

Norman: Naturally it depends on what they end up doing. But most creditors whom I speak to think that the bankruptcy and foreclosure laws in Thailand are already sufficiently debtor-friendly. They do not generally hold the view that there needs to be an adjustment in the direction of further support for the debtor.

Asiamoney: But what if the legislative changes you refer to go through?

Norman: If such an adjustment took place I presume it might affect foreign investment and foreign lending. But in terms of TPI I don't foresee any impact. There is no precedent in Thailand's history for retrospective legislation and it would therefore be highly unlikely for this transaction to be revisited legislatively. The only other possibility is that somehow the TPI debt could be folded into a national asset management corporation. My view is that it is very unlikely. TPI's debt is the subject of an approved restructuring plan. I would be amazed if it made sense from a political or any other perspective to undo that.

Asiamoney: You have held down one of the toughest jobs imaginable. What has been the driving force?

Norman: To be frank, you do not just wake up one morning and suddenly find yourself in a tough environment. Rather it has been a gradual process. And as a matter of course once you are the planner the law makes no provisions for you to resign. But that is procedural. Clearly I had weighed up the issues before I took on the job. Certainly it has been more difficult than I ever imagined. But it got to the stage where my own reputation, and perhaps the reputation of Thailand itself, were linked to the transaction. Added to that is my own sense of what is right and proper in a commercial sense. I believe that people who borrow money should have to repay it. It was for that batch of reasons that I persevered with this transaction, although I must admit that there were times when I pondered the wisdom of that decision.

Asiamoney: But do you believe that you have made a difference?

Norman: I do think I made a difference, yes. This is a global transaction and the financial creditors come from 40 different countries.

Asiamoney: Do you think that foreign creditors be more willing to lend in the light of what you have achieved?

Norman: I think that there will be mixed reactions. On the positive side creditors may become more comfortable with lending in Thailand because they see that in the event of something going wrong there are remedies available. But

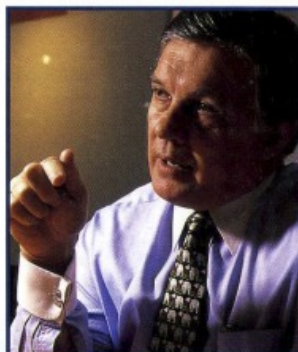
on the negative side this plan took three years to implement and it has been a rocky road. If you are a foreign lender, say from Europe or the US, and you are looking at Asia, you can opt to do business in a number of different countries. In a sense Thailand needs to be more competitive with other countries in Asia in terms of the comfort it offers to lenders, and indeed to foreign investors.

Asiamoney: What about the situation amongst domestic creditors?

Norman: Already there are signs that bankers' propensity to lend is more prudent than it was before. And I think that borrowers' propensity to borrow is also a bit more cautious to the extent that there is not any particular traffic between the two at the moment.

Asiamoney: Is the final ruling by the Supreme Court going to change that?

Norman: I don't think so, but it is the subject of a court process, so am not in any position to comment on that. We will see what happens. But in terms of the position now, this transaction has set a precedent. **am**



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