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Debt concept eases recovery pain

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While the Asian crisis has caused major headaches for those tackling the billions owed to creditors, one Hong Kong company is offering a debt workout concept that it says can alleviate some of the pain of the recovery process. Asia Debt Management (ADM) said it was negotiating two significant deals which involved the creditor outsourcing distressed debt to ADM.

Under such a deal, the debt would be transferred into an ADM-managed fund and the creditor - banks or fund managers - would receive shares in the fund.

Director Robert Appleby said that before the Asian crisis, banks were raising money for corporations in the region in the form of syndicated loans, bonds and promissory notes.

"Then the crisis came as something of a shock and they were left with these on their books... they were left with quite a large position in a particular bond or loan," Mr Appleby said.

"People have these bad loans and bad bonds on their books so they say, 'let me go here and I'll speak to the agent that bought the bonds. I'll talk to the initial borrower and see what they'll do about paying us.' Sometimes they'll see you and sometimes they won't."

"At the end of it, it leads to an awful lot of time and expense and unnecessary frus-

tration and people feel that they have better things to do."

Banks or fund managers could sell their debt into the marketplace, but for the past two years, there had been more sellers than buyers, he said.

"You could come to ADM and say, 'here's my problem, deal with it, it's the last I want to hear about it,'" he said.

ADM receives a management fee during the process. The company is negotiating deals with a bank and a finance company.

Director Christopher Botsford said outsourcing the distressed debt to the company could speed up the process by cutting out an intermediary.

"Quite a lot of people have advisers (to work out debt), but that adviser is working for someone else," he said.

"With us, the bonds or what have you are put into our fund and it's under our control. The borrowers know this so they're much more responsive."

Cameron McKenna corporate recovery and restructuring lawyer David Kidd said it was an attractive concept.

"There is an awful lot of work (in the region) and there is not an awful lot of expertise here," Mr Kidd said.

A Prudential-Bache fixed-income head in Hong Kong said ADM's approach was "an innovative concept" but it was too early to say if it had been a success.

"Much of their work is in Indonesia and Thailand and

that's probably been a very difficult environment to deal in," he said.

ADM was formed in Hong Kong during the worst of the economic crisis.

Last year, the company set up the Mytilus Fund, named after a brave melrose that lives at the bottom of the sea feeding on detritus.

The name stemmed from Mr Appleby's days as a marine biologist.

He later worked as managing director of the Asian-based income division at Credit Agricole Indosuez.

The idea behind Mytilus is to pool all the distressed assets into one fund, giving them greater leverage at the negotiating table.

In July last year, ADM had US\$125 million invested in the group's funds. It now has \$350 million invested in its funds at face value.

Mr Botsford said the wholesale funds created by the company were not available to the public.

Since Mytilus, the company has also worked on the establishment of several funds, including the Tetra Fund, although this may now not go ahead.

Tetra was proposed to deal with the \$1.3 billion in debt owed by troubled Indonesian conglomerate Baktiric & Brothers to creditors.

"We might not bother with the Tetra Fund... we're still thinking about it," Mr Botsford said.

"It's become less attractive as one of the biggest as-



Anthony Diskson

Fresh approach

Robert Appleby (left) and Christopher Botsford say their company can help ease the problem in recovering bad debt.

ssets that they had was tremendously and the price of that has absolutely collapsed."

Jrdium is a troubled satellite telephone company in which Baktiric had a minority

shareholding. Mr Botsford said they had expressions of interest of about \$100 million, "but our concern remains about the long-term value".