



Restructure with Foresight: Potential, Challenges & Outlook in APAC

Q&A with the speakers

Question: Looking back at the last financial crisis, how do you think the APAC M&A market will be able to rebound after the COVID-19 crisis? (especially given that the countries in APAC have varying degrees of recovery, e.g. HK no new cases for 20 days, Singapore cases still increasing, Malaysia extended lockdown, Japan looking to lift emergency declaration, etc.)

Luc Mongeon, Managing Editor, Debtwire Asia-Pacific

Normally we would see a higher level of M&A activity that is linked to distressed situations - but bank forbearance, central bank liquidity injections and government regulations aimed at supporting economies has meant that otherwise insolvent companies haven't been forced to sell assets. However, we've already seen a number of situations where company management has realised there is a need to deal with their debt problems proactively and realistically and this has led to a number of M&A opportunities in Singapore, China and Australia.



Question: We've seen a substantial number of deals or bids being aborted/suspended since January this year with little visibility on when the parties will revisit the transaction. Some indicated sometime in Q4. What is the outlook to China outbound investments for 2020/2021 considering that their economy has been recovering at a speedy traction?

James Dilley, Partner, PwC China

It was already difficult to predict a strong year for Chinese outbound M&A even before COVID-19 hit. The appetite to invest overseas given the health risks of travelling and perceived relative weakness of foreign economies (vs. China which is a couple of months ahead in its recovery) will mean demand remains weak. We are more bullish on China domestic M&A.

Question: Countries and institutions, banks included, have still not figured out how to deal with the SECOND Covid wave and how to deal with the implications of that. Have we used too much powder too soon?

James Dilley, Partner, PwC China

I don't know enough about the science to really quantify a risk of a second wave. I think the re-opening up of borders will take longer to happen than many expect. For example - in HK - we seem to have the virus under control (touch wood) but as soon as travel restrictions are lifted, this is clearly a high risk. This is why I think the larger domestically focused economies will be in a better position.





Question: From the discussions among panelists and some of our peers, as well as market data showing a 7 percentage points increase in distressed projects, it seems full-blown restructuring has not yet begun. However, we are seeing companies make the initial preparations in terms of compiling and organising the required information and documents. Is this typical for the APAC market or is it unique to the current situation?

Luc Mongeon, Managing Editor, Debtwire Asia-Pacific

Certainly, Asian corporates and banks have historically had a tendency to be less proactive in dealing with looming operational and balance sheet problems. One reason for this is that creditors in many Asian jurisdictions don't have the kind of legal recourse that lenders and bondholders have in say, Australia, the UK or the US. If, as a debtor, you know that banks don't have the ability to force you to take certain actions, then you will deal with matter in your own time and in the manner you want. Another reason is that many Asian central banks and regulators have historically not required banks to be stringent in provisioning for questionable bad loans. Amend-extend-and-pretend is the name of the game for many banks.

Question: Will China now be less willing to allow failure of SOEs to reduce impact on the economy and jobs?

James Dilley, Partner, PwC China

China has always been very conscious of the impact of any corporate failure on jobs and the local / provincial economy - whether that company is a SOE or otherwise.



Asian corporates and banks have historically had a tendency to be less proactive in dealing with looming operational and balance sheet problems.

Luc Mongeon



Question: Are there any particular sectors that are performing better across APAC despite the COVID-19 pandemic? Are any of tech, healthcare, life sciences, biotech, pharma, online learning, and similar companies ‘benefitting’ from the crisis?

Luc Mongeon, Managing Editor, Debtwire Asia-Pacific

The divisions at law firms and advisory firms that specialise in turnarounds and insolvencies are likely to perform very well over the next couple of years.

Question: Edward what will be the catalyst that persuades the major family owned enterprises interested in more disclosure, so that we can add liquidity and activity in that segment?

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

Good question. I’ve been waiting to see this change for decades. There are cultural imperatives that see, even in public companies, family members being entrenched in the management structure, regardless of whether they have the right skills and talent. That makes it difficult for the non-family cadre of management to do anything other than toe the line. Innate deference to seniority is also an issue. So, there is too little separation of ownership from control. Regulators do what they can but, in too many parts of Asia, the regulators and legal systems that support them are too weak; without committed, robust, laborious enforcement there is little incentive for behaviors to change. And, even then, regulators are often based in jurisdictions where the individuals that would need to be brought to book are not. So, I don’t see there being an identifiable catalyst.



Question: Some of our webinar panelists seem to think that government assistance/efforts across APAC are just delaying the inevitable (just kicking the can down the road). Do you agree? Should governments do something else and what do you think would have better results?

Luc Mongeon, Managing Editor, Debtwire Asia-Pacific

Everyone needed the breathing room to adjust to the unprecedented circumstances brought about by Covid-19. It's obviously easier to adapt in a relatively stable environment than in a situation where there is chaos and anarchy.

Question: The bigger institutions in the region will need to pick the winners / losers in their portfolios, but will the big foreign banks in Asia significantly scale back (as they focus on problems back home) leaving most of the burden with local banks and government to prop up their own markets to preserve employment?

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

This is a good point. It is certainly something that we have seen before, in the aftermath of the Asian Financial Crisis (AFC) when we did see large numbers of international and regional banks hunker down in their domestic markets. So, we could see that again; first signs of massive provisioning are already coming out of European banks. But, that said, I do think that the regional banks in Asia came out stronger after the AFC, better capitalised and regulated, and with different approach to risk. The evidence for that is the relatively limited (= it might have been much worse) impact that the GFC of 2008 had on the banks in this region. As a result (and without doing the statistical analysis to support the theory), it seems to me that the big regional banks have redressed somewhat the balance of power between them and the big international guys.

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I do think that the regional banks in Asia came out stronger after the AFC, better capitalised and regulated, and with different approach to risk.

Edward Middleton



James Dilley, Partner, PwC China

The big foreign banks in Asia have been cutting their exposures / retrenching to “core” geographies over the last decade - long before COVID-19. So, this scaling back has already been happening. There is certainly a risk that the “anti-globalisation” rhetoric gets louder throughout the rest of this year and COVID-19 / the subsequent travel restrictions act as a further catalyst for retrenchment to home geographies.

Question: Regarding the issue of due diligence - I cannot imagine that distressed single asset transactions could be executed entirely through virtual data rooms. Plant visits, management meetings, relationship building will continue to be important.

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

I agree. That lesson was learnt in the early years post-Asian Financial crisis when the much-reduced availability of bank finance led, in large part, to the influx of alternative capital providers, either through the bond markets, PE or private lending. Often, investment decisions were made from a desk far away from the asset, without anywhere sufficient diligence being done. But many of these providers have now realised the importance of “boots on the ground”, relationship-building, etc., and I think that type of approach will continue to be massively important, and will only get to be less so if and when issues such as disclosure in major family owned enterprises which I discussed in the previous question are addressed.

James Dilley, Partner, PwC China

Agree that on-the-ground due diligence is a key part of closing transactions and elements of this will never be completely replaced by video conferences / technology etc.





Desmond Chua, Head of Region, APAC, Datasite

Yes, I agree it may not work with a distressed asset although there may be exceptions with size of deal, sector, transaction type, existing relationship with adviser/asset as also recently quoted in a GS report (April 2020).

Question: Credit evaluation criteria have not changed. Banks will struggle to justify new lending to companies or even sectors (e.g. O&G) in distress. What and how can this be updated to allow funding to flow to companies that are viable / were viable pre Covid-19?

James Dilley, Partner, PwC China

This is creating the opportunity for private credit investors!

Question: Are the panel seeing special situations funds already actively seeking acquisition opportunities or are the uncertainties as to operational restart timing too big a hurdle as things stand?

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

Certainly, internationally many of my firm's clients have been telling us that they are surprised at what they regard as the slow pace at which opportunities are presenting; many seem to have capital to deploy and are anxious to deploy it. My guess is that they won't have too much longer to wait - and then they'll be complaining that they have far too many deals coming across their desks!



James Dilley, Partner, PwC China

I have a slightly different view: the special situation funds are already busy, although I agree there isn't yet a flood of distressed deals in the market. There will be some deals that can't close due to physical travel restrictions, but many are progressing with the aim of crossing the t's and dotting the i's once travel restrictions ease.

Question: Are funds looking for higher returns than prior to COVID crisis, for same level of risk?

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

Remains to be seen, I think, but none of the funds I've spoken to recently have suggested that they are adjusting their return requirements. But, if they look for higher returns, perhaps that suggests that they are seeing a different risk profile?

James Dilley, Partner, PwC China

The volatility in the high yield bond markets mean that publicly traded debt is (on balance) yielding a premium vs. pre-COVID 19. These are used as a benchmark and so we are seeing (in private transactions) investors applying a higher bar to reflect the need to get a better relative return.

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James Dilley



Question: People talk more about deglobalisation now. More countries have enacted CFIUS type laws. What is the Panel's view on this?

Edward Middleton, Managing Director, Hong Kong, Houlihan Lokey

I think this is one of the big questions that will get seriously looked at in the aftermath. It must be likely, for example, that governments will both take a tougher stance and, possibly, extend the number of sectors that get subject to these laws - healthcare (if it is not one already) being among the most obvious (it won't be politically acceptable going forward for, for example, the UK's NHS to be so dependent on international suppliers). But, generally speaking, even outside of CFIUS, it is possible to see some fundamental reworking of supply chains; basically, bringing more production closer to markets (eastern Europe for European economies, for example). And maybe there will have to be a move away from just-in-time inventory management; the speed with which many auto factories were forced to stop production for want of parts was really quite revealing.

James Dilley, Partner, PwC China

It does look as if we are moving towards an era of more barriers, although this will be somewhat driven how the political rhetoric evolves.





Question: Data rooms, no matter how sophisticated, cannot replace F2F and on-the-ground DD. It will be a brave investor who will buy based on a data room!

James Dilley, Partner, PwC China

Agree. Remember the investor can outsource DD / some of the face-to-face elements of deals to local teams or advisors with a local presence. We are currently working with international clients and using PRC-based colleagues to conduct the asset inspections in PRC real estate lending deals. I acknowledge there are limitations to this, but partial workarounds do exist that allow things to progress in the background.

Desmond Chua, Head of Region, APAC, Datasite

Yes, I agree although there may be exceptions with size of deal, sector, transaction type, existing relationship with adviser/asset as seen with the link below. Increasingly, (outside of APAC), we have seen requests for datarooms to secure and host drone footages, virtual conferences/site visits, interactive Q&A as advisers are trying to adapt with the persisting effects of the crisis.



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Desmond Chua



Expert Insights

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