

A REVIEW OF CORPORATE RESTRUCTURING

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When the Korean economy was faced with an unprecedented economic turmoil two years ago, the IMF, international organizations and many economists home and abroad strongly believed that one of the root causes of Korea's economic crisis lay in the corporate sector and thus Korean companies needed to reform themselves. Problems including excessive production capacity, high debt-to-equity ratio and unsound financial structure called for extensive restructuring. Coupled with the IMF policy prescription, the Korean government's reform program put corporate restructuring in the right direction. Big business groups have complied with the government's measures in accordance with the restructuring timetable.

Improving the Debt Ratio and Big Deals

From the first quarter to the third quarter of 1999, the top four Korean conglomerates, excluding the insolvent Daewoo, have carried out the restructuring plan much earlier than the scheduled dates in most categories. They raised 26.8 trillion won for recapitalization fund, which was 80% of this year's goal. In addition, issues of resolution of cross-unit debt guarantees, spinoffs of non-core businesses and enhancement of corporate governance among others have been executed as originally planned.

In the process of corporate restructuring, special attention has been focused on the 200% debt-equity ratio standard. The big business groups were enforced to agree with

Table 1. Top 4 Groups' Restructuring

	planned		performed		(C/B, %)	(C/A, %)
	during 1999 (A)	1/4~3/4 quarters (B)	1/4~3/4 quarters (C)	3/4 quarters (D)		
Independent Fund-Raising (trillion won)	33.6	22.2	26.8	10.0	120.6	79.8
Asset Sales	13.7	8.8	10.9	4.4	124.7	80.0
Increase of Paid-in Capital	19.9	13.4	15.9	5.6	117.9	79.7
Foreign Capital (100 million)	71.9	50.9	61.6	35.6	121.0	85.6
Elimination of Cross-Unit Debt Guarantees (trillion won)	2.7	1.6	2.7	0.2	166.2	99.2
Spinoffs (number)	173	131	427	141	326.0	246.8
Sales of Subsidiaries (number)	84	55	61	11	110.9	72.6

Source: Financial Supervisory Services

their creditor banks on the schedule and the method to meet this standard. Creditor banks are checking the process each month, giving advanced warnings to companies whose plans are unfeasible and constantly confirming due dates of self-imposed restructuring as written in the agreement. Companies not complying with the agreement will immediately receive strict discretion including the repayment call from the banks.

Enforcing this standard, the government authority implemented some flexibility. That is, some industries like trade or maritime industry will be exempted from this standard. Also big business group is being applied to this standard only on the "group-average" base not on the "individual company" base. Through such efforts, the four business groups will be able to lower their debt-to-equity ratio to meet the 200% requirement by the end of this year.

Notwithstanding the debt-equity ratio, the top four groups have been well implementing their original restructuring plans. In the case of Hyundai, its burden of restructuring had been higher than other groups, because the acquisition of Kia Motor and LG Semicon increased its debts in 1999. However, up to the third quarter of this year, Hyundai is expected to raise about 10 trillion won, achieving more than its goal (106%) through asset sales, increase in paid-in capital and other measures by the end of the third quarter.

The Big Deals, which is business swaps among big business groups, are generally proceeding in a smooth manner. Until now, basic negotiations have been almost

completed for industries such as oil refinery, semiconductor, rolling stock, aircraft, and petrochemical. That is, in these industries, major problems such as who is going to stay in the market and who is out, and who will be the major shareholder are resolved. However, since some cases involve luring foreign investors as major shareholders, it would take some time to complete the full process of negotiations.

Hyundai to Break into Five Mini Groups

Hyundai will concentrate its management resources on five core businesses, which are ranked among the top 10 global competitive companies, or the G-10. The core businesses are automobile, electronics, heavy industries, construction and finance/services, which Hyundai intends to foster into world best companies. To that end, non-core businesses, regardless of their profitability, are going to be separated from the group. Petrochemical, rolling stock, aircraft and power generation facilities, which are non-core businesses, have been disaffiliated from the group already.

The automobile business will be disaffiliated from the group by the first half of 2000, one and a half years earlier than first planned. The break-up of Hyundai into small independent groups centering around core businesses will complete its structural adjustment in line with the government policy. **VIP**

Table 2. Current Status of Big Deal

Industry	Result
Oil Refinery	Hyundai Oil Refinery completed acquisition of Hanhwa Energy (June 1999)
Semiconductor	Hyundai Electronics completed acquisition of LG Semicon (July 1999)
Rolling stocks	Consolidation of Hyundai, Daewoo and Hanjin completed (July 1999)
Aircraft	Consolidation of Hyundai, Daewoo and Samsung completed (October 1999)
Petrochemical	Negotiations for consolidation of Hyundai and Samsung in progress