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OW Bunker collapse 'a terrible warning'

The chaotic collapse of the global shipping oil supplier OW Bunker is turning into a textbook example of how unplanned bankruptcies can destroy value.

Advisers working on the insolvency of the Danish-based group, which suddenly and unexpectedly collapsed after allegations of fraud emerged last November, say that if a client ever worries about the cost or delay of a consensual restructuring, they should take a look at the alternative; the unplanned nature of the OW Bunker collapse has led to no less than thirteen entirely separate local insolvency processes around the world.

It has also triggered over 100 separate pieces of litigation and arbitration, as banks, ship owners and oil suppliers battle it out for what little is left of what was, until last November, Denmark's second largest company by turnover.

By any measure, the value destruction at OW Bunker has been devastating. Its 2013 accounts showed it had a turnover of 17 billion euro, second only to Denmark's largest company, Maersk. It bought and distributed shipping oil in 29 countries, using 30 of its own bunker vessels.

In March 2014 OW Bunker raised US$1 billion in an IPO from the cream of Denmark's institutions. Just six months later the company announced it had been the subject of fraud in a Singapore subsidiary, prompting its banks to withdraw support. Insolvency followed.

The group filed with worldwide debts totalling almost US$1.5 billion (1.38 billion euro) of which approximately US$730 million related to unpaid fuel.

This month the Danish bankruptcy trustees announced they had failed to find a buyer.

> There will be no rescue, no Scheme, no operational turnaround. It's liquidation all the way, with shareholders wiped out.

The cost to creditors will also be high. One adviser working on the case, speaking on terms of anonymity, said that the difference between OW Bunker's going concern value and the liquidation value minus costs was "outrageous".

"There is an extreme difference between the value of a business like this as a going concern, and as a liquidation. It is in the order of difference between, for example, 300 million euro and 3 billion euro," said the adviser.

"The costs of liquidation, litigation and arbitration will be huge. All the creditors, banks and shareholders are suffering big losses."

The saga has been front page news in Denmark for the last five months. What lessons can be learned?

We look at these points:

- How the collapse happened
- The different office holders around the world
- How the collapse prompted over 100 pieces of litigation and arbitration
- The systemic risk to a 1 trillion euro receivables financing industry

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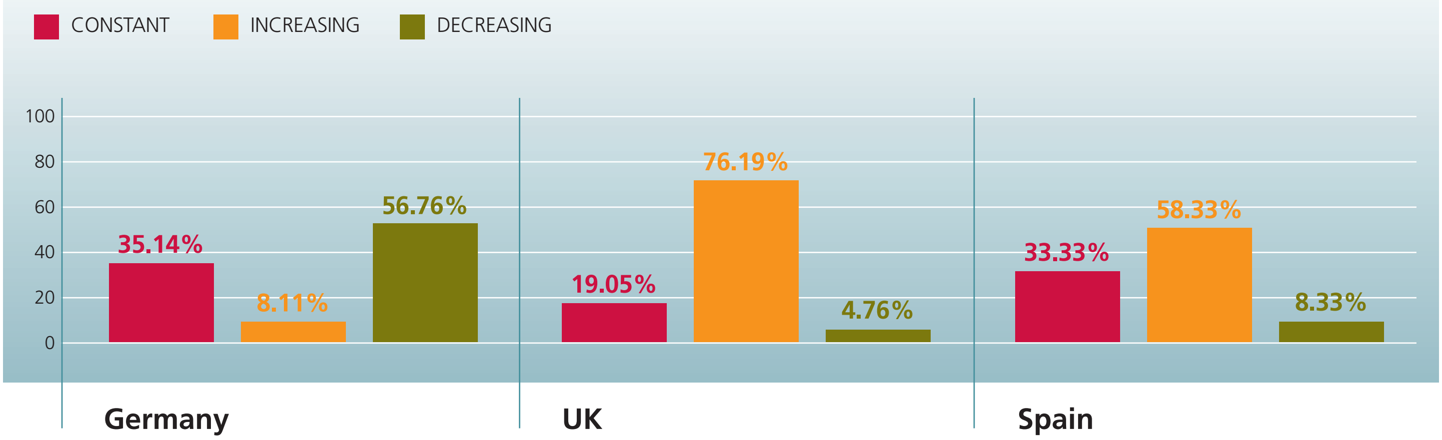
Germany expecting a boom in insolvencies – but a lull in restructurings

Two thirds of German restructuring experts polled at the end of last year expect an increase in the number of formal insolvencies in 2015, while the same proportion think restructuring activity will fall or stagnate.

Figure 1. How do you think the need for business restructuring will change in your country over the next year?



Expectations are the opposite in the UK, however, with over half expecting a fall in insolvencies and over three quarters expecting an increase in restructurings.

Meanwhile two thirds of Spanish respondents reckon insolvencies will fall or stagnate, while just over half expect an increase in restructuring.

These are just some of the findings from an internet survey carried out by Berlin-based turnaround boutique CIC Consulting-partner last November, in co operation with European Restructuring Solutions (ERS), a network of international restructuring specialists. The survey polled just over 150 experts from banks, PE houses and corporate executives in Germany, UK and Spain.

All respondents are heavily involved in the European restructuring market on a daily basis, making this survey an authoritative glimpse into the 'sharp end' of the industry.

The survey started as an attempt to gauge people's views on the causes and course of the global financial crisis, and how this was shaping the company rescue market going forward.

Over 70 per cent of the participants in Germany believe that the equity ratio of German companies has improved since the crisis in 2008. In the UK it was almost 50 per cent. In contrast, in Spain over 60 per cent thought that the equity ratio of Spanish companies had decreased.

When asked what the prospects were for their economies, the Germans were the gloomiest, with a majority believing it would stagnate, compared to the British and Spanish who were both anticipating a recovery.

These answers were given before the sharp fall in the oil price over the New Year and the recent sovereign debt crisis pitting Greece against the rest of the Eurozone. It would be fascinating to repeat this poll later this year.

The restructuring market also divides opinion **(see Figure 1)**: The majority in Germany expect a decline, while UK and Spain believe the numbers will increase.

All three countries agree however that an increase in interest rates by the ECB would lead to an increase in restructurings. The ECB has of course just started a course of quantitative easing by buying government and private sector bonds to the tune of 60 billion euro a month so any rate rise would appear to be some time in the future.

As for formal insolvencies (see Figure 2) two thirds of the German respondents expect a rise this year, while just under half the British and a third of the Spanish expect a fall.

European governments hoped that the stress

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tests carried out by the ECB would draw a line under the banking crisis once and for all, enabling institutions to clear out dead wood and investors to gain confidence that banks were finally adequately capitalised.

Basel III measures were also designed to strengthen bank balance sheets, boosting confidence in the sector still further.

Will the stress tests and Basel III prompt more companies to restructure **(see Figure3)**? The Germans are the most sceptical, while nearly half of both the British and Spanish expecting the measures will produce more restructurings.

Lastly, when asked whether an increase in the sale of distressed assets by banks will increase the amount of restructuring work, nearly 60 per cent of Germans thought it would have little or no effect.

In the UK by contrast nearly 86 per cent thought distressed asset sales would force more companies to restructure.
Only 14 per cent thought it would have little or no effect.

The Spanish were evenly divided over the question.

Big opportunities for distressed investors

Funds of all types have been disappointed at the lack of distressed deals at the right price since the global financial crisis hit Europe. That is about to change in the southern part of the continent, according to Michael Schmitt of CIC, the Frankfurt-based restructuring expert who helped put the survey together.

Since the survey was completed in November economic problems have dramatically intensified, according to Schmitt; "Everyone thinks Greece is going out of the euro, stockmarkets are over-rated, and the situation in southern Europe is getting worse."

"I am sure restructurings and insolvencies will rise again."

> As for distressed investors, Schmitt says: "This is a big opportunity for the whole of the southern European market."

Schmitt sees opportunities for investors in Italy, Spain, France and Portugal, as well as Greece. This is in contrast to Germany, he says, where "there are not so many distressed companies available for sale. The wave is over."

In Italy, by contrast, Schmitt says his Italian colleagues have told him of an upsurge in M&A activity for distressed companies. This has come from distressed businesses searching for new investors, as well as some shareholders trying to sell their stakes in distressed companies.

"There are interesting opportunities for distressed investors," Schmitt concludes.

Figure 2. Do you think there will be an increase in the number of formal insolvencies in the next year?

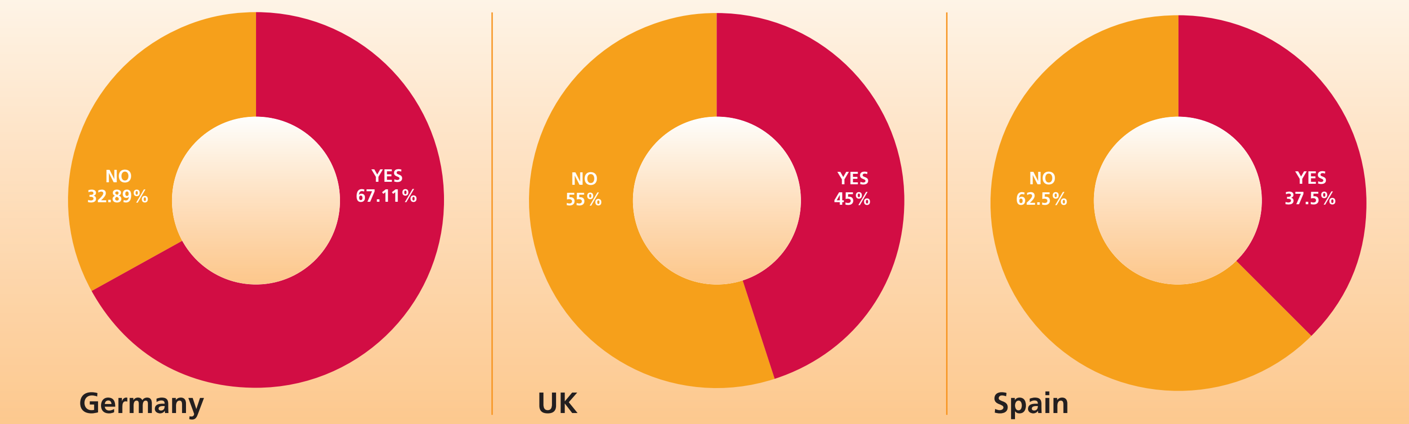

Figure 3. Do you think the current bank stress tests and the forthcoming requirements of Basle III will prompt banks to insist more companies restructure?