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Bankers await assurance on Tung interests

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Creditor banks of the so-called private Tung shipping interests are anxiously awaiting an interim report from the merchant bankers appointed as financial advisers to the group.

While bankers to the listed Orient Overseas (Holdings) Ltd have been assured of sustained interest payments, at least until formal negotiations begin, no such assurance has been forthcoming on the private interests, widely viewed to be the primary source of the group's problems.

Shearson Lehman Brothers, a division of American Express International, has been appointed adviser to the private group, but a local Shearson executive was yesterday unable to confirm or deny suggestions in the banking sector that a holding statement is imminent.

He said executives from the New York office were handling the assignment, and they could not be contacted yesterday.

A week ago, Hambro Pacific, financial adviser to Orient Overseas, issued a placatory statement to the listed company's bankers, pointing to the group's essentially profitable ongoing operations, and asking the

banks to delay any principal claims.

Many of the 40 banks with exposure to Orient Overseas are also creditors in the private group, and the critical issue now is whether similar assurances of debt servicing will be forthcoming from the private entity.

One banker, whose group has an exposure to both sides of the Tung group, said he would hope to see similar treatment with regard to the private debt as had been arranged for Orient Overseas.

"If the banks are unable to get assurances regarding interest payments the writs could start flying," the banker said.

The one tenuous barrier Orient Overseas (and the private group) has between it and bankruptcy right now is the co-operation of the banks.

As soon as any danger of outright collapse emerges, the banks will be at each other's throats to withdraw security.

Banking sources said they expect some indication of the private group's intentions today or early this week.

"We expect an arrangement along the lines of that proposed for Orient Overseas," one banker said.

The Tung group's problems are ticking away as a potentially destructive and huge timebomb, with the Hongkong Bank finding itself in the uncomfortable position of having to consider the issue from more than a purely commercial perspective.

The bank has already provided a US\$150 million lifeline to Orient Overseas, in

the form of a standby credit, and by the time the saga approaches its climax the total involvement is likely to be measurably greater than that.

None of the banks involved has been prepared to detail its exposure, and estimates of Hongkong Bank's risk were last week ranging from \$2 billion upward.

Efforts to establish the present effective control structure of the listed Orient Overseas have been complicated by the fact that the company's scrip "is scattered as pledges in bank vaults all over town," one banker said.

The Tung family nominally controls 65 per cent of the listed company, but reliable sources say a great proportion of this stake has been farmed out to provide additional security.

Bankers familiar with the Tung group say the root of the problem is in the private group, and until there is clarity regarding Island Navigation and other privately held entities the overall picture will remain confused.

With a history of 50 years in the shipping business the Tung family had built up strong links with its bankers, and a substantial proportion of the outstanding debt is believed to be secured by nothing more than "own recognisances".

For some of the US and European creditor banks there will be less incentive to rescue the ailing company than for Hongkong Bank, which has more at stake in terms of the potential effect on local confidence.

This "enlightened self-interest" is seen in some quarters as a growing cause for unease, if not serious concern, although other observers are more sanguine.

At the one end of the spectrum a market analyst said the bank's capacity to absorb shocks had been seriously impinged through its exposure to the Carrion group, and while the consensus is that Hongkong Bank has adequate reserves to cope with anything it may face as a result of the Tung group's woes, the psychological impact of another major corporate failure is already weighing heavily on the market.

However, another analyst questioned this interpretation, citing the treatment by local banks of the property crash three years ago as an example of the efficacy of socio-economic decisions to Hongkong.

"If the banks had pulled the plug on every property company in trouble they would now be the biggest landlords in Hongkong.

"As it is, the property sector has been nursed back to health and it's business as usual."

This view is not necessarily shared by the foreign banks exposed to the shipping sector, many of which have opted for the most extreme route of liquidating and selling any resultant assets.

The contrary view would be to hold on to the assets, in the hopes of a recovery in the market, and eventually to benefit, possibly to the extent of profiting, by the exercise.