

Introduction

Notwithstanding a relatively low number of confirmed Covid-19 cases, the impact of Covid-19 on Thai businesses has been acute and has been magnified by Thailand’s economic dependence on tourism as well as globally integrated value chains. In this edition of Restructuring Services Insights we take a closer look at the Thai economy and markets as well as the impact of Covid-19 on three key sectors; automotive, aviation and tourism.

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Meet our new Thai Restructuring Partner



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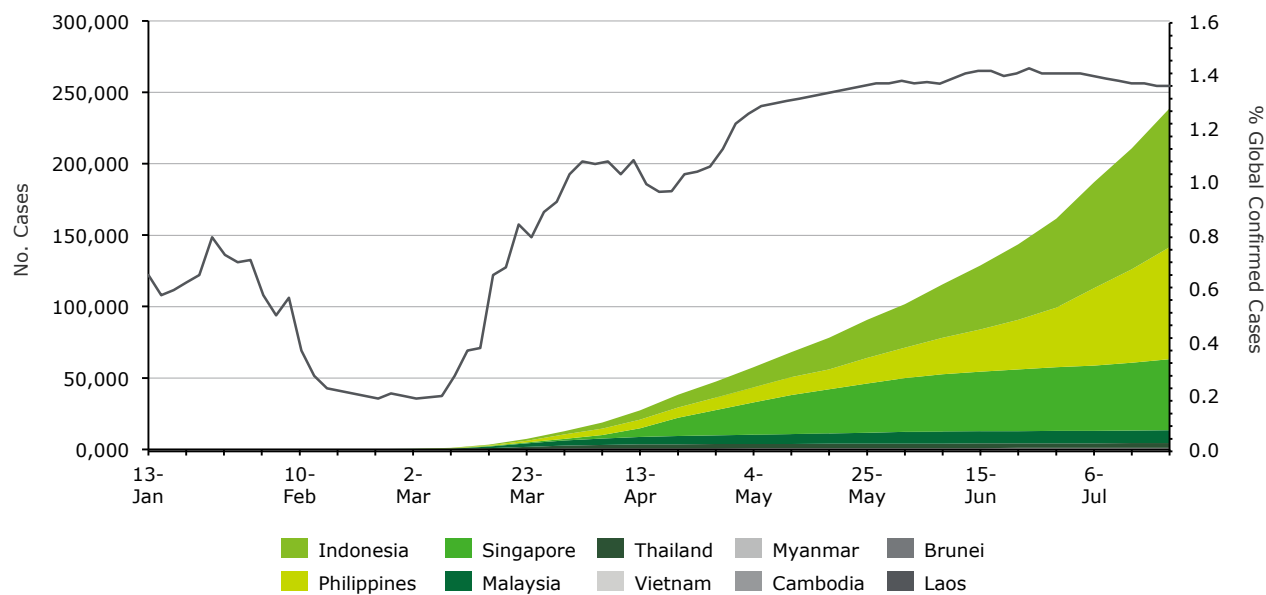
With more than 20 years’ experience in advisory services, Kamolwan specialises in restructuring and value creation services. Kamolwan has led several major projects involving debt restructuring, refinancing, turnaround, distressed M&A and formal insolvency administration by working alongside lenders, stakeholders and corporate management to deliver solutions in underperforming, stressed and distressed operating environments.



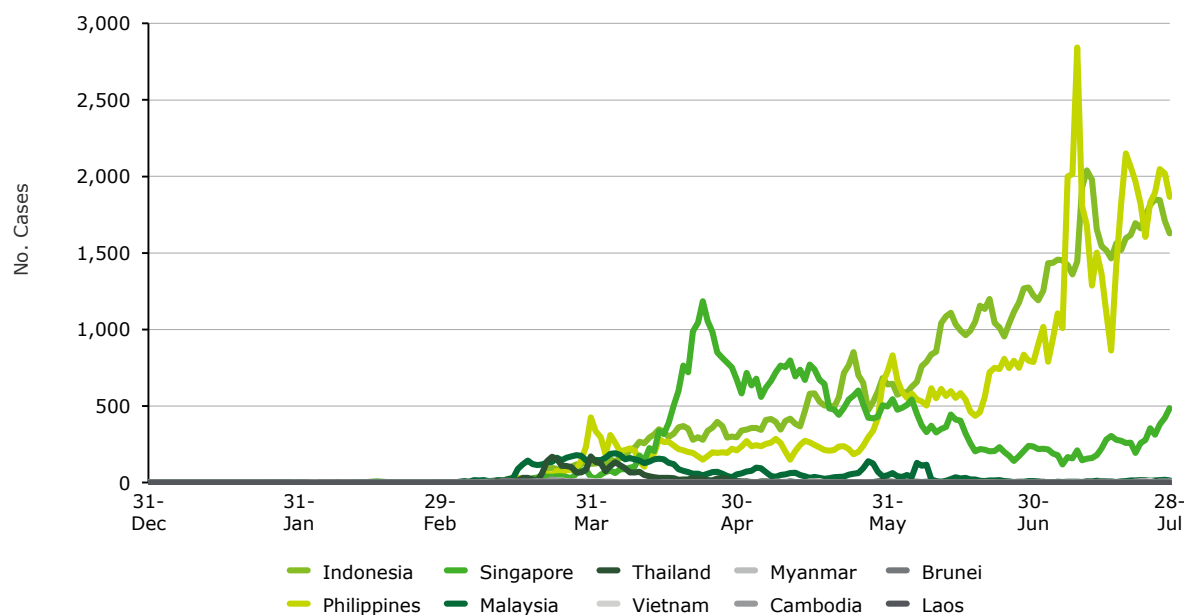
Covid-19 Update

Despite a recent surge in reported Covid-19 cases in Southeast Asia, the pandemic appears to have been relatively well controlled in Thailand which represents a small percentage of cases when compared to neighbouring countries. Notwithstanding the low infection rate, the economic impact is expected to be significant given the substantial contribution of tourism “exports” to the Thai economy (together with associated pull through revenue for the adjacent service and consumer industries).

Cumulative reported COVID-19 cases, Southeast Asia (as of 27 July 2020)



New COVID-19 cases SEA (3 days moving average)

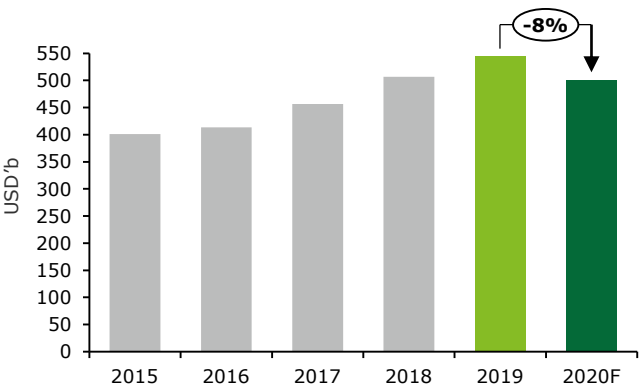


Sources: World Health Organization, Our World Data, Deloitte Research and Analysis

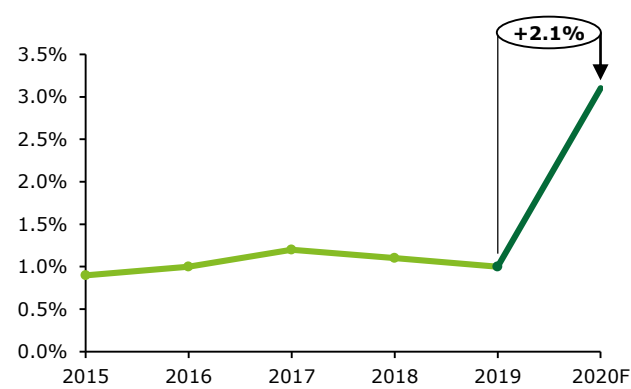
Thailand in Focus | Macroeconomic Indicators

Thailand is the 2nd largest economy in Southeast Asia. Tourism is a key driver of GDP and as a result of Covid-19 the Bank of Thailand expects GDP to contract 8.1% in 2020. Employment in the tourism industry accounts for almost 22% of total employment in Thailand and economists predict there will be a sharp rise in unemployment. The Thai Current Account Balance dropped sharply in 2020 as global lockdowns and supply chain disruptions cause exports to fall sharply. The Thai Government has announced various fiscal stimulus and eased interest rates in response to growing concerns.

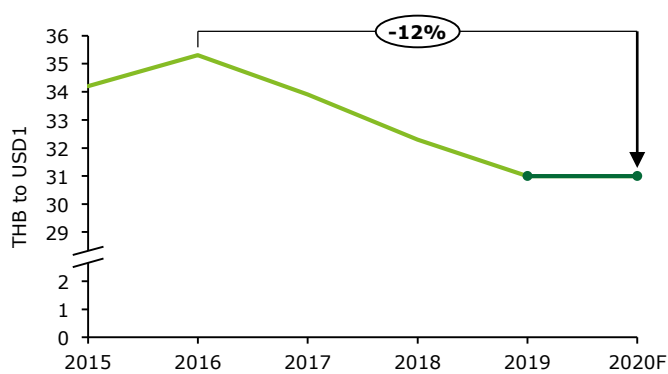
Gross Domestic Product



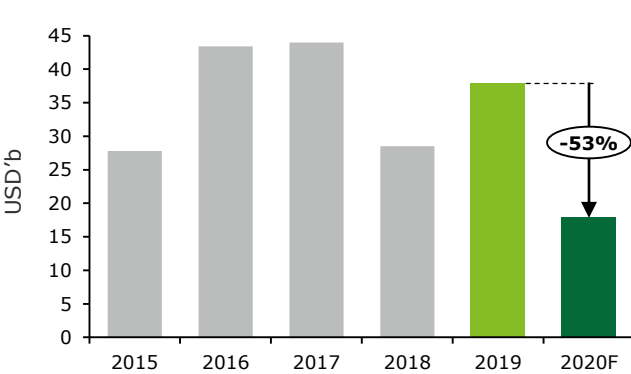
Unemployment Rate



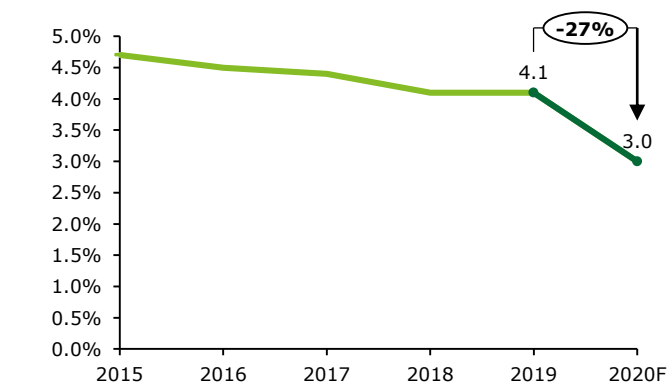
Exchange Rate (THB:USD)



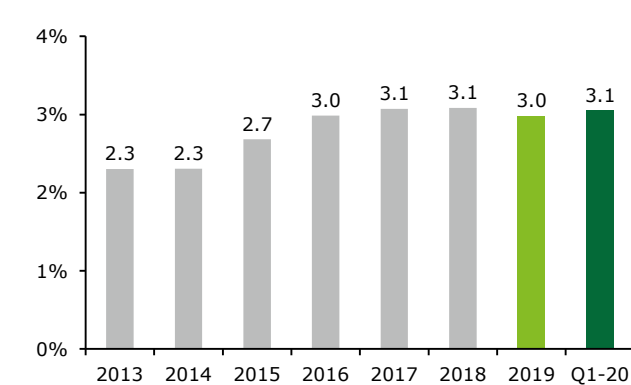
Current Account Balance



Interest Rates (BIBOR)



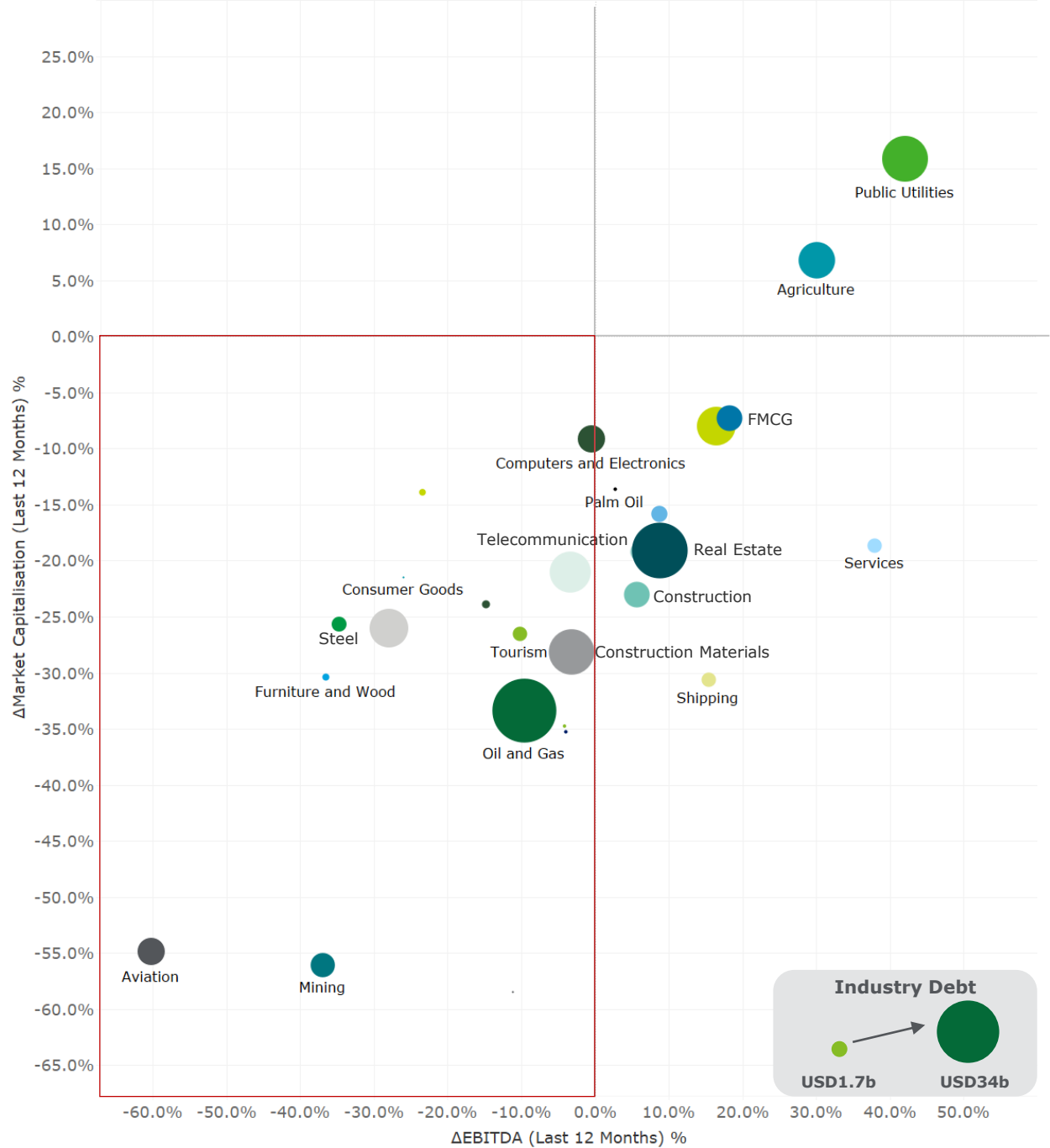
Non-Performing Loans (% of total)



Thailand in Focus | Equity Markets

A majority of industries experienced a cumulative decline in market capitalisation in the 12 months to 30 June 2020 (with the SET plunging 16% in the first 6 months of 2020). As expected, the Thai aviation sector was among the hardest hit industries with a ~55% decline in market capitalisation and a 60% decline in EBITDA largely driven by Covid-19 travel restrictions. Conversely, the Thai agricultural sector performed well with earnings improvements driven by higher crop yields and improving rice prices.

Debt Radar: SET Market Scan as at 30 June 2020

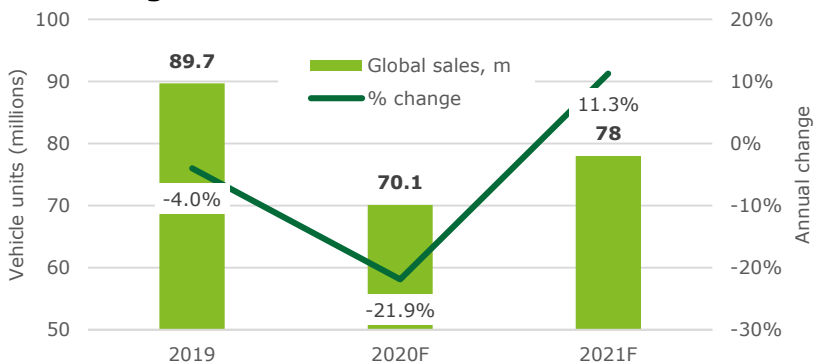


Source: S&P CapIQ, Deloitte Research and Analysis
Restructuring Services Insights | Thailand in Focus

Automotive in Focus

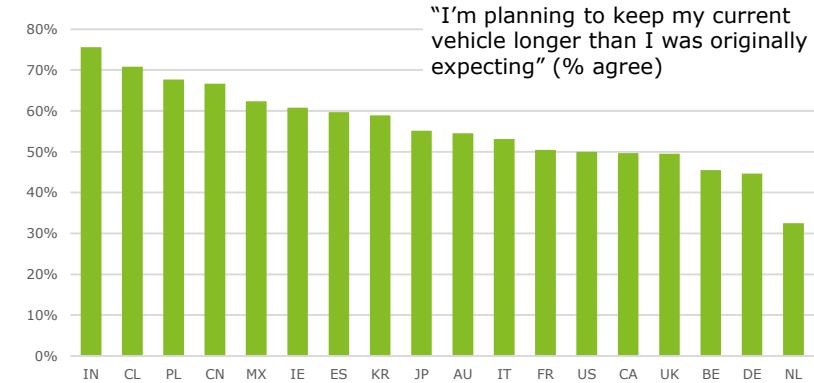
Thailand has the largest automotive manufacturing industry in Southeast Asia. Virtually all of the world's leading automakers, assemblers and component manufacturers have an established presence in Thailand. Covid-19 shocks to the automotive industry are expected to be more severe than the 2008/2009 global financial crisis. Although positive signs have emerged in China, where demand is recovering as the economy emerges from lockdown, recovery in other key Western demand markets may be delayed due to local restrictions and recession uncertainties, with consumer discretionary spending on automotive expected to remain weak.

Global Light Vehicle Sales



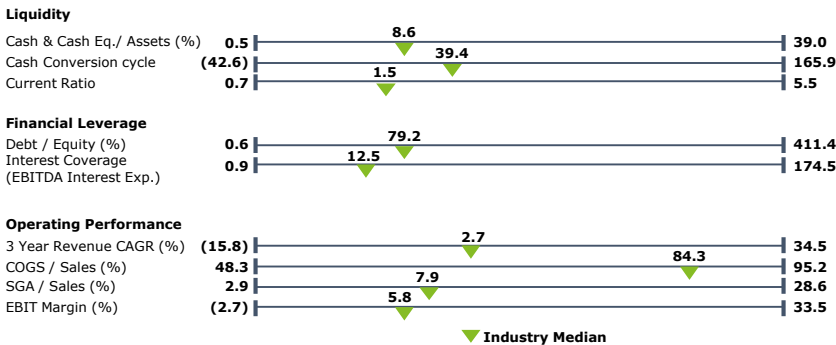
- Sales:** Global light vehicle sales expected to be down by 22% in 2020. This compares to an 8% decline during the 2008/09 crisis.
- Production:** Global light vehicle production is also expected to fall 23%. However, several automakers are moving into recovery mode. Component supply will influence production.
- Public transport:** Expected consumer shift towards individual mobility from public transport due to health concerns.
- Dealers:** Impacted by lockdowns and social distancing, dealerships are struggling to move target order quantities and are announcing major staff reductions.
- Supply chains:** Reduced volumes have led to suppliers increasing component prices, further adding to financial pressures on the cash strained supply chains for manufacturers which are running production lines at lower speeds to allow physical distancing by factory workers. OEMs are taking increasing steps to identify and address supplier resilience risks.

Consumer Sentiment



Note: percentage of respondents who said 'agree' or 'strongly agree'

Supplier Financial Health Analysis of 63 automotive suppliers

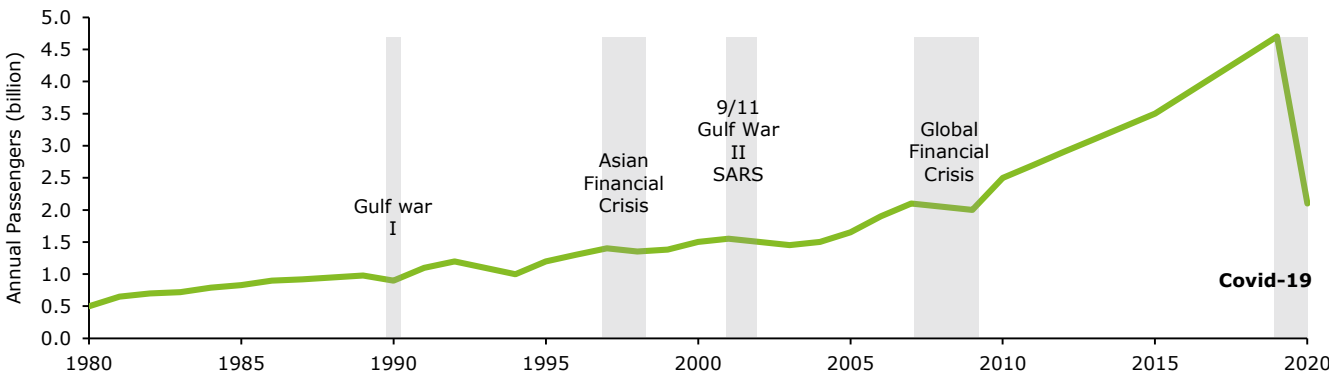


Sources: IHS Automotive, Reuters, Financial TimesMoody’s forecasts, Financial times, Guardian, SMMT, 2020 Deloitte Global Automotive Consumer Study, Deloitte Automotive Industry Research

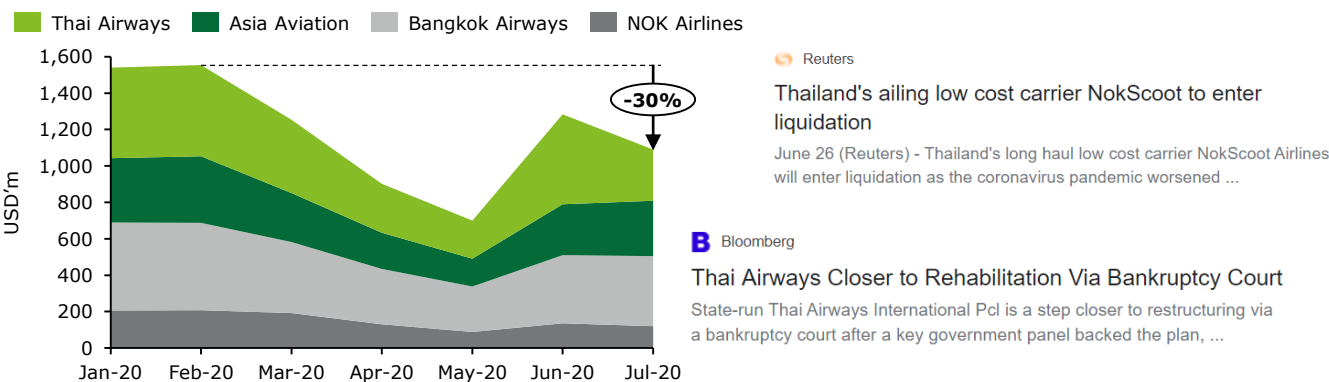
Aviation in Focus

Two major Thai airlines have filed for formal insolvency protection so far in 2020. Full year global passenger demand is forecast to fall by 48% in 2020 from 2019 levels. Globally, airlines have been forced to park over 17,000 passenger jets (around two thirds of all those in service) and to cut large portions of the workforce as well as seek government bailouts (in some cases). Airlines are seeking to cancel orders and deliveries are estimated to drop by 50% in 2020 YoY.

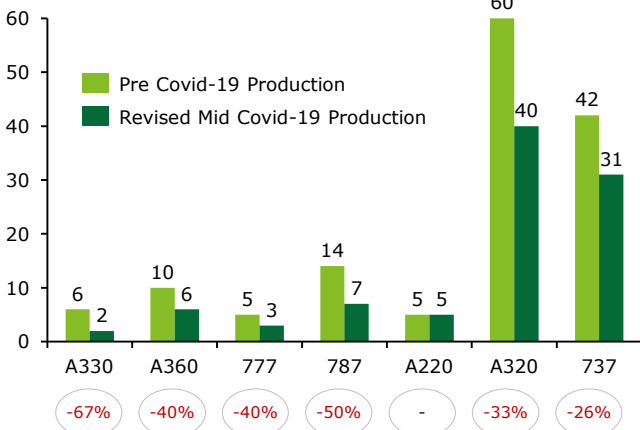
Global Air Passenger Volumes
1980 – Forecast 2020



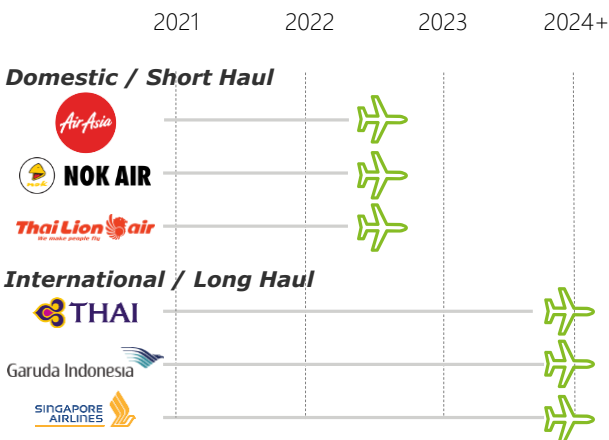
Market Capitalisation of Thai Aerospace Companies



Aircraft Production schedule per model
(per month 2020)



Airline Estimates on Industry Recovery

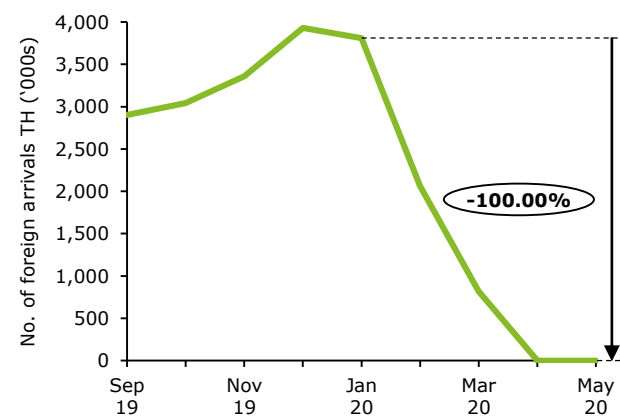


Sources: Airbus, Financial times, Bloomberg, Reuters, Sky, Boeing, Planespotter, IATA
Restructuring Services Insights | Thailand in Focus

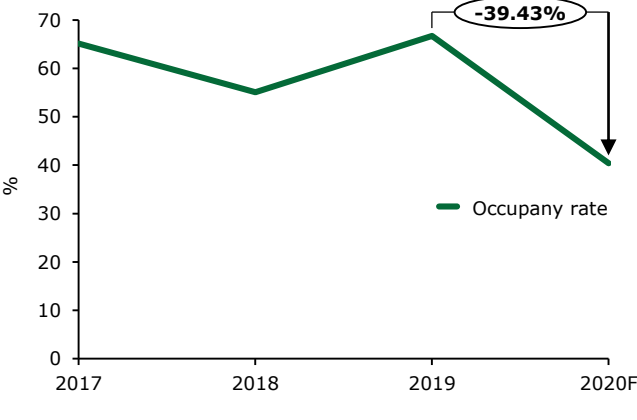
Tourism in Focus

International tourists generated USD66bn in direct revenue in 2019. Thailand recorded zero foreign tourist arrivals for the second straight month in May 2020 due to border closures. According to studies done by Fitch, annual tourist arrivals are forecasted to drop to 16m in 2020 (a 58% reduction YoY). Beyond the aviation and hotel industries, Thailand's economy is highly dependent on tourism. The drop in Chinese tourist numbers from January to April 2020 alone caused losses of over USD3 billion, according to Tourism Authority of Thailand (TAT).

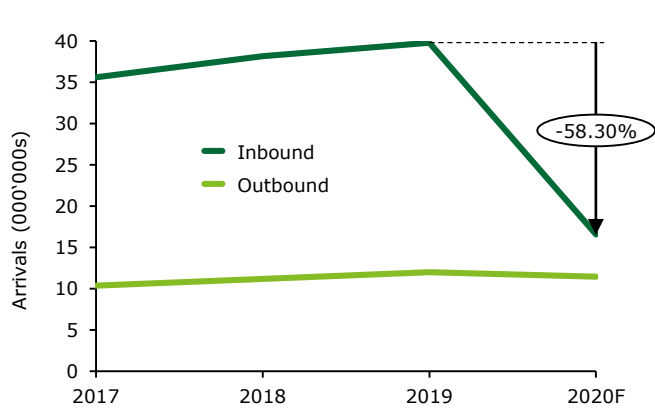
Inbound Tourists to Thailand



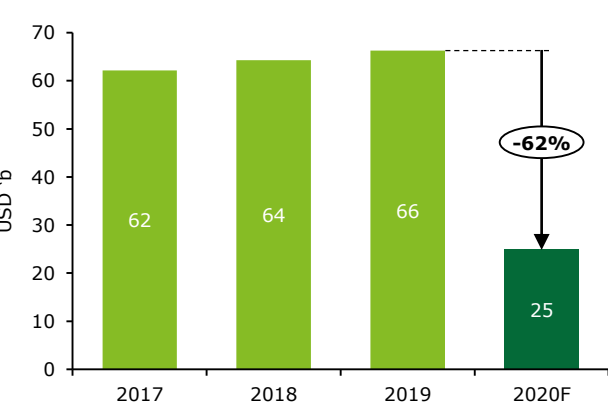
Occupancy Rate



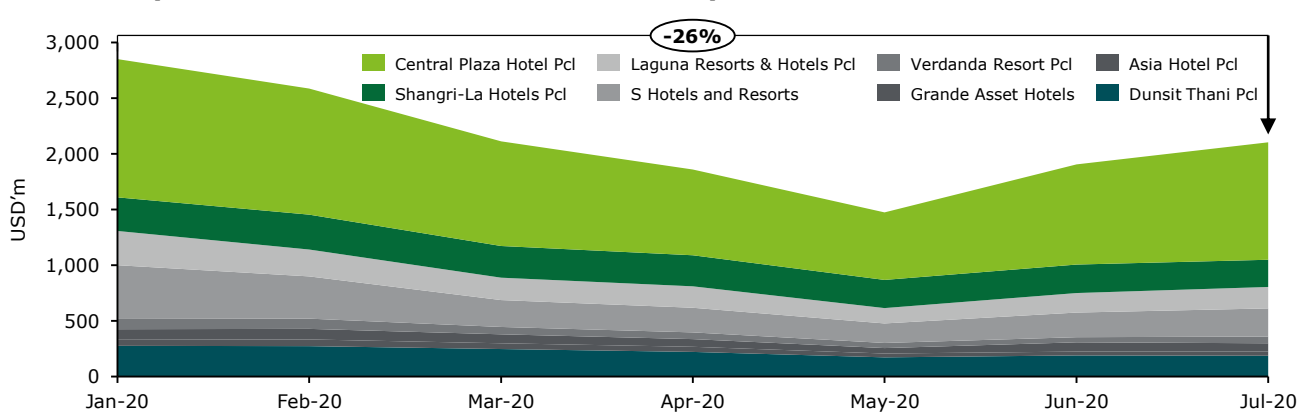
Traffic flow of Thai Airports



International Tourism Receipts



Market Capitalisation for Public Thai Hotel Companies




Sources: Tourism Authority of Thailand, Bank of Thailand, Fitch, Deloitte Research and Analysis

Thai Government Stimulus


Like other countries, the Thai government is implementing both monetary and fiscal policies to mitigate the impact of, and stimulate the economy during, the Covid-19 pandemic. The cabinet has approved a three-phase Covid-19 relief and recovery package worth THB2.2t (USD70b / 12.9% of GDP) aiming to provide liquidity support for vulnerable households and businesses.

Summary of government stimulus packages




Monetary policy

- Policy rate slashed to a historic low at 0.5%
- FIDF rate cut from 0.46% to 0.23% of deposit base



Tax reliefs


- Filing deadline extension for several tax payments
- Reduction of withholding tax rate for 2020/21
- Expanded corporate income tax deductions for interest expenses and wage expenses
- Expanded personal income tax deduction for health insurance payments and super savings
- Early tax refund/return
- Customs and import duty exemption for all imported products to fight against COVID-19
- Tax exemptions/allowances for health workers
- Tax and fee exemption to support debt restructuring of non-financial creditors



Tourism stimulus campaign

- Subsidies for 5m nights of hotel accommodation at 40% of normal room rates (limited to THB3k per night for 5 nights)
- Subsidies for other services, including food and capped at THB600 per room per night
- Subsidies for \$40 of air ticket costs

Illustrative Stimulus	THB billion
Soft loans by GSB and SSF (phase 1)	180
Measures to assist people affected by COVID-19 (phase 1)	20
Emergency loan without collateral (phase 2)	40
Special loan with collateral (phase 2)	20
Loans by SMEB	10
MOF's Decree to borrow to fund all relief cash transfers, medical response and economic and social rehabilitation	1,000
BOT's Decree to provide soft loan to SMEs via commercial banks and SFIs	500
BOT's Decree to stabilize financial market by setting up BSF	400



Support for individuals

- Reduced social security contributions
- Water and electricity bill concessions
- 50% of salary as unemployment compensation from Social Security Fund (SSF)
- Cash hand-out to farmers, affected workers, and part-time employees, not covered by SSF
- Emergency loan without collateral by Government Saving Bank (GSB) and Bank for Agriculture and Agricultural Cooperatives (BAAC) – THB 10,000 per person
- Special loans with collateral by GSB – THB50,000 per person
- Lower interest rate of 0.125% per month at State-owned pawnshops



Support for businesses

- Soft loan by GSB
- Soft loan to promote employment by SSF
- Soft loan by Small and Medium Enterprise Development Bank (SMEB) to affected SMEs
- Soft loan for SMEs by Bank of Thailand (BOT)
- Lower social security contribution
- Reducing and delaying service fees and rents of State Properties
- A moratorium on principal payment, interest cuts and payment term extensions for debtors of Specialized Financial Institutions (SFIs)
- BOT's easing of debt-classification criteria to help affected debtors and give more flexibility to banks to approve the loan



Recovery measures

- Special Government Fund to support healthcare and public health
- Special Government Fund to support and strengthen the community's economic activity, promote and stimulate private and household consumption and private investment and invest in infrastructure at a community level
- Corporate Bond Liquidity Stabilisation Fund (BSF) to invest in newly issued investment grade private sector debt securities to redeem the maturing securities

Sources: Ministry of Finance, Bank of Thailand, The World Bank

Recovering From Covid-19

A comprehensive crisis management framework should include practical steps to ensure protection of stakeholders, preservation of business continuity and preparation for the “new normal” in the post Covid-19 world. We are actively helping businesses in Southeast Asia to respond, recover and thrive through the operational and financial disruption caused by Covid-19.

A Phased Approach to Business Transformation for the “New Normal”



01.

Protect
People

Protect People

- Implement comprehensive immediate as well as long term action plans to protect key stakeholders, including employees, customers, partners, and the community.
- Ensure Day 1 Command Centre brings together scenario planning, strategy, end-to-end operations, execution.



02.

Preserve
Business
Continuity

Cash and Working Capital

- How much liquidity does the company need to restart?
- Optimising current usage and visibility
- Financing as well as sources and diversity of funding. Government support incl. tax reliefs and incentives
- Covenant position with lenders, how will they react, alternative lenders
- Options to raise external finance (asset disposals, sale / lease back etc.)
- Sequencing of funding sources

Supply Chain Continuity

- Assess supplier financial health for critical components
- Scale up supplier risk function in purchasing, likely to be multiple supplier failures, prepare options
- Systematic monitoring of inventory in the supply chain. Stagger production speed to fill supply chain
- Ramp up production slowly to fill supply chain, focus on key SKUs / high demand variants
- Right size per strategy, swift action



03.

Prepare for
the “new
normal”

Strategic (Turnaround) Response

- Prepare a detailed approach to transformation, including plans to:
 - Navigate short-term operational and financial challenges
 - Amend business objectives and operating model to win in the future, making difficult decisions in an uncertain market
 - Operate in “new normal” environment with new competitive dynamic
 - Fund strategic response

Rightsizing and Operations Optimisation

- Dispose non-core operations and assets
- Footprint and facilities review and implementation
- Re-evaluate/ effect make vs buy decisions
- Opportunistic acquisitions for seizing market opportunities and assets from troubled competitors
- Tactical acquisitions to manage cash flows
- Delivery of cost and commercial synergies

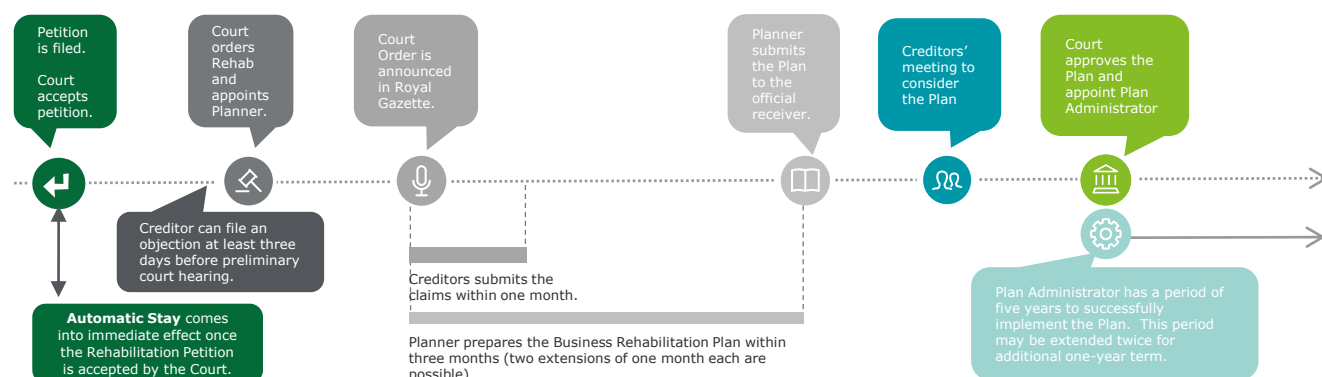
Business Rehabilitation in Thailand

The formal Business Rehabilitation Process (“BRP”) was first introduced in Thailand in 1998 and is widely used to solve situations when companies face financial challenges. The BRP provides breathing space from creditors to allow a recovery plan to be developed and implemented to improve stakeholder outcomes. The Covid-19 pandemic has brought the BRP back into the spotlight with fourteen petitions filing with Thai’s Bankruptcy Court since March 2020 (including two major airlines) indicating a level of stress not seen since the Asian Financial Crisis.

Key Features

- **Automatic Stay:** Upon the submission of the petition and acceptance by the Court, an automatic stay will come into effect and serve as a temporary shield for debtor in order to maintain the ordinary business operations during the BRP. Conversely, as a protective measure for creditors, the stay imposes restrictions on the ability of the debtor to dispose of, distribute, transfer or create any encumbrance over its assets or to repay pre-BRP debts unless doing so would be a continuation of the ordinary course of business.
- **Appointment of a Planner:** Upon commencement of the BRP, the powers and duties of the debtor’s directors in managing the business as well as the legal rights of shareholders (except the right to receive dividends) are vested in the newly appointed Planner and Plan Administrator. The Planner has two main functions; managing the business and preparing a rehabilitation plan. This introduces a restructuring professional to the situation to assist with rescuing the business.
- **Voting:** The rehabilitation plan must be approved by a special resolution of either i) each class of creditors; or ii) at least one class of creditors who carry not less than 50% of the total debt. The same voting rules also apply to actions to approve revisions to the plan, remove the plan administrator, and / or to appoint a creditors’ committee for implementation of the plan.
- **Priority Rescue Financing:** Funding advanced during the BRP is afforded a priority over pre-BRP debts. This increases the confidence of new financiers or investors injecting new money for maintaining the going concern and for future growth.
- **Potential Future Cross Border Recognition:** Thailand is not a party to an international treaty on insolvency or rehabilitation of foreign judgements. However, the Legal Execution Department under the Ministry of Justice is in the process of adding new provisions that are in line with the UNCITRAL’s Model Law to address such pending issues.

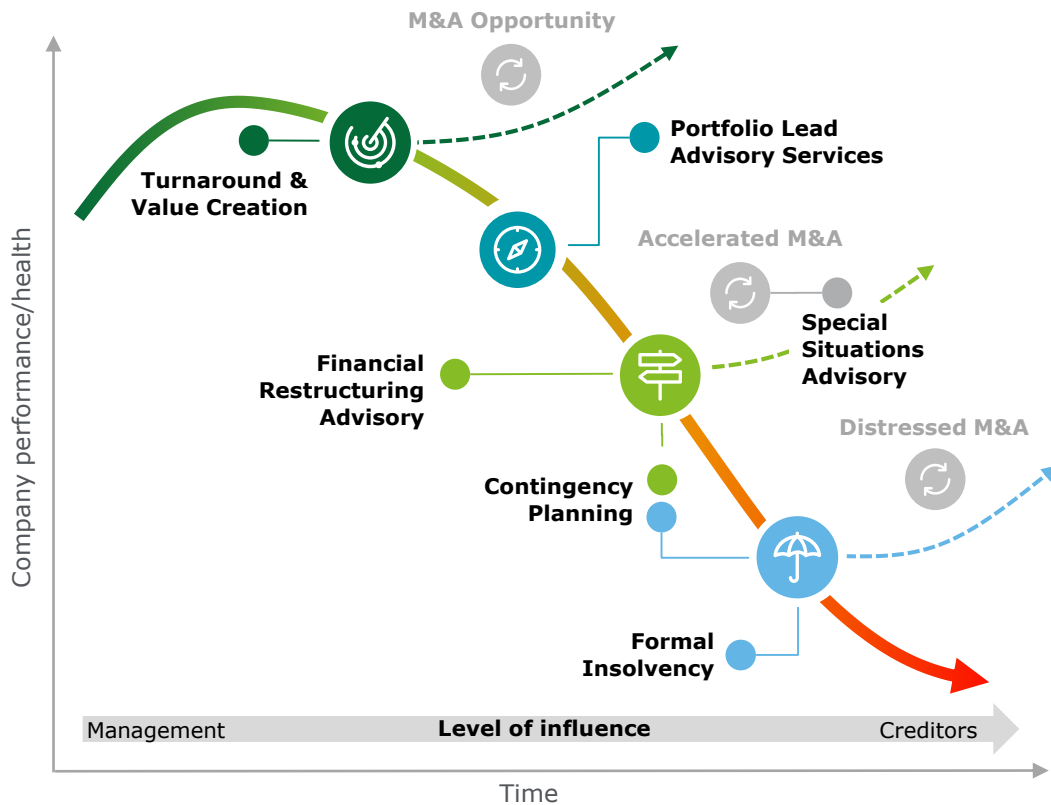
Overview of the BRP



Deloitte Restructuring Services

We work with clients to improve outcomes across the stress spectrum ranging from companies seeking to turnaround short term underperformance to those in deep financial distress requiring crisis management. We are actively helping businesses around Southeast Asia (including in Thailand) to turnaround, transform and grow their businesses even in the most challenging circumstances.

Deloitte Restructuring Services



- **Turnaround & Value Creation Services** for underperforming businesses using M&A, restructuring and private equity techniques to deliver performance improvement ...fast
- **Portfolio Lead Advisory Services** deleveraging and loan portfolio sale transactions acting sell-side / buy-side and providing strategic advisory to maximize value from non-core assets
- **Financial Restructuring** business reviews and options assessment to establish a foundation to assist stakeholder negotiations in corporate refinancing, restructuring and M&A situations
- **Special Situations Advisory** accelerated capital raising, M&A, debt advisory and structuring assistance in complex cross border multi-stakeholder special situations
- **Contingency Planning** before and during complex restructurings, supporting with options analysis and "plan B" scenarios to drive a consensual deal or provide a bridge into insolvency
- **Formal Insolvency** where a consensual restructuring is not possible; we can provide assistance to debtors and creditors through formal corporate insolvency processes

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