Saudi Oger faces huge debt restructuring

Govt ends rescue talks for construction giant

DUBAI/RIYADH: The Saudi Arabian government has ended talks aimed at saving construction giant Saudi Oger, which is now facing the prospect of a multi-billion-dollar debt restructuring to stave off collapse, according to sources aware of the matter.

Oger, owned by the family of former Lebanese Prime Minister Saad Hariri, was one of two mega-contractors charged with implementing the grand infrastructure and development plans of the kingdom, building everything from defence installations to schools and hospitals. The fall in oil prices since mid-2014, and the consequent sharp state spending cuts, have weighed heavily on the kingdom's construction industry but in particular Oger, given its size and reliance on government contracts.

The numbers are stark: the government owes Oger about 30 billion riyals ($8 billion) for work it has completed, according to a Saudi-based source with knowledge of the matter, in a sign of the strain on state finances. This huge backlog of payments has left Oger struggling to meet its obligations, including 15 billion riyals of loans, billions of riyals owed to contractors and suppliers, and 2.5 billion riyals to workers in back and severance pay, according to the source and a second Saudi-based source.

Oger and the Saudi finance ministry both did not respond to requests for comment for this story.

The sources declined to be named due to the sensitivity of the matter. It is unclear why Riyadh might have ended the talks aimed at saving a company whose collapse would send shockwaves through the Saudi banking system and wider economy. The 15 billion riyals of loans equate to around two-thirds of the combined profits of all Saudi banks in the first half of 2016 - though the lenders' strong capital positions and low levels of non-performing loans would mean writing off this debt would not threaten the system.

A collapse of Oger could also trigger a wave of defaults among its huge network of sub-contractors and suppliers, which are also Oger creditors. The humanitarian aspect of the company's woes is perhaps most pressing: Oger's pay backlog is affecting thousands of workers from South Asia contracted by the firm, many of whom have been left in desert camps. Several camps had stopped receiving food, electricity, maintenance and medical services from the firm, workers told Reuters last month.

OPTIONS DISCARDED

Oger has had close links with Saudi authorities since it was established in 1978 by Hariri's father Rafik, a former Lebanese premier whose strong ties to the Saudi royal family helped make it the go-to construction firm for key projects, along with Saudi Binladin Group. The decline in oil prices has changed this arrangement, with Saudi Arabia delaying infrastructure projects and payments for existing work: a development which has also caused Binladin severe financial difficulty.

One mid-level Oger manager said the ministry of finance had not made payments on his multi-billion-riyal government project for nearly a year. In total, according to the first Saudi-based source, Oger is owed 10 billion riyals which the government has already approved payment of, but for which the money has not been transferred, and more than 20 billion riyals for work completed and subsequently billed to the state.

The situation facing Oger - one of the kingdom's largest private-sector firms - reflects the complex and entrenched role the government plays in the economy, with problems partly caused by one part of the state apparatus being addressed by another.

Talks between the company and Saudi authorities to find a solution to Oger's financial problems have been taking place this year, though the exact start date is unclear.

The discussions had explored and then discarded a number of options, including the government buying into the company and the sale of real estate assets or a stake in Oger to Nesma, another Saudi construction firm, according to the sources plus two other banking and industry sources.

It was not clear why the options were rejected and whether the decision was driven by Oger or Riyadh. The first Saudi-based source said the last plan on the table had been for Oger to sell investments such as Oger Telecom - which owns majority stakes in Turk Telecom and South African operator Cell C - and a 20 percent holding in Jordan's Arab Bank, with Saudi state-linked entities likely buyers. However, around the time of the holy month of Ramadan, Oger was informed by the government it was ending all negotiations, according to the first two Saudi-based sources. Ramadan lasted a month up to July 6.

No reason was given for why the government walked away, and some sources said there was still belief among creditors the state was open to further negotiations.

However, the government had been "aggressive" in its negotiations with Oger, according to one banking source, which would make striking a deal much harder if they returned with the same approach. The relationship between Riyadh and the Hariris, and also the kingdom and Lebanon, is not as close as it was. The political deadlock in Beirut has allowed the Hezbollah political and militia movement - which is backed by Saudi Arabia's arch-rival Iran - to wield increasing influence in the country.

ANXIOUS CREDITORS

While a deal may still be possible, the attention of company executives and creditors is increasingly switching to how the company can save itself, with sources indicating a debt restructuring seems the only viable option. Should it go down this route, it is likely to appoint advisers and ask banks for a standstill agreement - which would protect it from new legal action to allow for debt talks to take place - later this year, according to the two Saudi-based sources.

Creditors are becoming increasingly anxious though. Samba Financial Group in July became the first lender to seek a court judgment against Oger to reclaim its dues, according to the second Saudi source. It has the second-largest exposure to Oger among lenders behind National Commercial Bank, according to the source and a separate banking source.

Samba did not respond to requests for comment. Much of Oger's bank debt is held by Saudi banks, although Lebanese, Gulf and international banks are also exposed - mostly through a $1.03 billion loan that is due to mature in February. The move by Samba could precipitate further legal claims against Oger from banks, according to industry and banking sources, although laws governing companies in distress in the kingdom are opaque and largely untested, making enforcing such court actions tricky.

The only real precedents for Oger would be the debt woes of conglomerates Saad Group and Ahmad Hamad Algosaibi and Brothers (AHAB). In that case, bank creditors secured court judgements recognizing their claims but a negotiated solution is still to be secured, more than seven years after the initial default. Any Oger debt restructuring though would dwarf those of Saad and AHAB in magnitude, said the second Saudi-based source. Despite its complexities, bank creditors would likely accept a formal restructuring process instead of forcing Oger's liquidation, said banking and industry sources.— Reuters

BANGKOK: A Thai woman prepares a floral arrangement in a shop in a whole sale market in Bangkok yesterday. — AFP

News in brief

Dinar exchange rate against dollar stable

KUWAIT: The exchange rate of the US dollar against the Kuwaiti dinar was stable at KD 0.301, and the euro at KD 0.338 yesterday, compared to Wednesday's rates. The Central Bank of Kuwait (CBK) said in its daily bulletin that the pound sterling dropped to KD 0.402, as the Swiss franc stayed at KD 0.310, and the Japanese yen was unchanged at KD 0.002. Meanwhile, the Sterling recorded its lowest rate against the US dollar and the euro in the UK on Wednesday. The currency was affected by reports on weak performance in the industrial sector in July, in the wake of the Brexit vote. According to the UK's Office for National Statistics, the performance of the industrial sector dropped by 0.9 percent on monthly basis, while economic experts had expected a further drop of 0.4 percent.

Moroccan govt expects economy to grow by 4.5%

RABAT: The Moroccan government expects the country's gross domestic product to grow 4.5 percent in 2017, up from less than 2 percent in 2016 after the worst drought in decades, a government source said yesterday. A budget deficit of 3 percent of GDP is expected, down from 3.5 percent in 2016, as the country continues to repair its public finances after huge deficits in 2012. Morocco's drought slashed its cereal harvest to 3.35 million tons, down 70 percent from 2015's record 11 million tons. The source said the government has forecast the 4.5 percent growth in the 2017 national budget, which will be based on a medium cereal crop of 7 million tons.

Aluminium Bahrain ups line 6 loan to $1.5 bn

DUBAI: Aluminium Bahrain (Alba) said yesterday it had received financial commitments worth $1.5 billion from banks to finance its line 6 expansion project. Alba plans to become the world's largest single aluminium smelter complex, boosting its annual output by 540,000 tons to 1.5 million tons, by adding a sixth "potline" used to produce the metal from raw materials such as bauxite. The company was initially aiming to borrow between $500 million and $750 million from banks, but has decided to raise the amount after strong interest, Alba said in a bourse statement. The two-part loan will consist of an unsecured conventional tranche of $882 million and an Islamic tranche of $618 million, and is expected to have a tenor of seven years, Alba said. It did not specify when the loan would be signed, but said it expected the interest rate to be 325 basis points over the London interbank offered rate.

Turkey needs more reforms to boost growth: Deputy PM

ANKARA: Turkey needs to implement further economic reforms to set it on a path of higher growth and aims to drive up household and corporate savings, Deputy Prime Minister Mehmet Simsek said yesterday. Simsek, who has oversight for the economy, has previously said Turkey would not achieve its goal of 4.5 percent growth this year, although like others ministers he has been playing down the impact on output from a failed coup in July.

Economists say the government needs to speed up reforms to boost productivity in education, labour, governance and taxation. They also say savings need to rise to shift the reliance for growth on consumption. "We need to show an effort for more reforms to place Turkey on a high growth path," Simsek told a business conference. "With very strong incentives, household savings will increase, and the reforms will encourage corporate savings as well."

He did not detail specific policy measures, but said research and innovation would lift output. He also said the government would "keep it tight" and avoid any unnecessary budget spending. Weighing on the outlook, Turkish industrial production fell a calendar-adjusted 4.9 percent year-on-year in July, the Turkish Statistics Institute. Turkey's Finansbank said this was bigger than the 3 percent fall it had predicted, while BGC partners said it was broadly in line with its forecast. — Reuters