

# KUDUN & PARTNERS



Thought Leadership | Business Rehabilitation

## Kudun & Partners leads largest group of creditors in Thai Airways business rehabilitation proceeding

In August 2020, Kudun & Partners was appointed to represent the largest group of creditors, consisting of 87 savings cooperatives, in the wake of the recent Thai Airways' petition for rehabilitation. Taken together, these investment entities hold 65% of the airline's total debenture debt, making them the largest group of creditors.

Since taking on the role, the Bangkok law firm has used this majority position to protect the interest of the creditors it represents in the proposed rehabilitation plan, helping to bring together the Federation of Savings and Credit Cooperatives of Thailand (FSCT), Electricity Generating Authority of Thailand (EGAT) Saving Cooperative, Provincial Electricity Authority (PEA)'s Employees Saving and credit Cooperative Limited, Chulalongkorn University Savings Cooperative Limited, PTT Saving and Credit Cooperative Limited, The Thai Red Cross Society Saving and Credit Co., Ltd. and other cooperatives with Thai Airways executives for discussions and negotiations. For its part, the FSCT was able to inform Thai Airways' debenture cooperative investors that there would be no 'haircut' connected to the proceedings.

The plan to rehabilitate Thai Airways is necessarily ambitious, as the company's total debt burden is well in excess of THB 300 billion, including a debenture debt of more than THB 70 billion. The goal, however, is for Thai Airways to turn a profit again as early as 2024.

## No more runway: How Thai Airways found itself facing bankruptcy

Founded in March 1960, Thai Airways enjoyed a long period of expansion through the end of the 20th century, though more turbulent periods were to follow, partly due to external factors such

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as political events and the fluctuating price of fuel. At its peak, the airline flew to over 100 destinations in 37 countries, and at the start of 2020 it had over 22,000 employees.

As with other companies in the industry, Thai Airways was devastated by the widespread grounding of air travel due to the pandemic, ultimately leading to the company petitioning for rehabilitation in May 2020. But even prior to the pandemic, the company's decline was already accelerating due to other problems beneath the surface.

Summarizing the results of an investigation by Thailand's Ministry of Transport, Thailand Business News diagnosed the company's problems bluntly: **"Thai Airways International's bankruptcy was mainly caused by the national flag carrier's own mismanagement, graft, widespread corruption and workers ripping the company off,"** it wrote.

From alleged corruption at the management level to highly suspicious payroll irregularities, the survival of Thai Airways would have required a significant course correction even without the pandemic. Although earlier profits and substantial external funding had given the airline much room to work with, subsequent mismanagement alongside adverse market conditions put the company into a near freefall for much of the past decade.

### **Maintenance needed: Debt restructuring and a new path forward**

Thai Airways' reorganization petition was granted by the Central Bankruptcy Court on September 14, 2020. Over the months that followed, a series of discussions and presentations by concerned parties has resulted in a detailed plan to turn the company around. This plan has thus far been well received by creditors, and some form of the strategy outlined below is likely to be implemented over the coming months and years.

The current proposal includes the following actions:

- **Simplify the offering:** Reduce the fleet from 12 types of aircraft to 5; reduce the engine types from 9 to 5; and reduce the number of pilot groups from 5 to 3. By keeping operations as simple as possible, and focusing resources on what works best, services can be more easily managed and streamlined.

## **About Us**

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### **Dispute Resolution: Restructuring and Insolvency Practice Group**

#### **Our latest engagement**

Kudun and Partners has been officially appointed to represent a total of 87 savings co-operatives in their capacity as creditors of Thai Airways International Public Company Limited in Thailand's largest-ever business rehabilitation proceeding to date, with debts estimated to be in excess of THB 352.49 billion (approximately USD 11.34 billion).

Together, the co-operatives represent the largest group of creditors of Thai Airways, holding an aggregate debt of THB 45.65 billion or approximately 65% of the airline's debenture debts and 13% of the airline's total debt.

Our firm is also representing several other notable creditors of Thai Airways, including AEC Securities PCL., Country Group Securities PCL., Srisawad Finance PCL. (BFIT), and Volvo Group (Thailand) Co., Ltd.

- **Optimize routes:** Through the use of an advanced digital system, analyze flight routes alongside customer behavior patterns. Insights from the data will allow pricing and service decisions to be refined to better effect.
- **Add value through improved HR:** Rebalance employee and management compensation to better reflect market expectations, encourage team loyalty, and attract new talent to key positions. By inspiring greater motivation and buy-in among its people, the airline can improve its overall service quality, thereby increasing its competitive advantage within the industry.

By saving money on aircraft management, focusing on high-quality transportation services for people and goods, it is believed that Thai Airways can re-enter service and begin turning a profit by 2024. This effort will receive a credit line boost of THB 50 billion, even as near-term layoffs will help to reduce employee costs from 23% to 13% of total expenses. As part of the proposed agreement, debenture debt will be extended to six years, at an interest rate of 1.5%.

The proposed restoration of Thai Airways to its former prominence will be the biggest and most ambitious business rehabilitation project in Thailand's history. Yet the details have not all been finalized – and in its role representing the largest group of creditors (i.e. 87 savings cooperatives), Kudun & Partners will have substantial bargaining power as it continues to help set the terms of this debt restructuring.

The airline's rehabilitation will largely be organized and overseen by EY Corporate Advisory Services, working alongside six Thai Airways Directors. The debt restructuring process will not be painless; Thai Airways has already laid off nearly 8,000 employees for budgetary reasons, and further layoffs are expected. But if successful, the airline's increased competitiveness will allow it to maintain increased employment numbers in the future – all while turning a profit once again.

### **It's never too late to make the right move**

The recovery process from Thai Airways' rehabilitation will be challenging on many fronts. Restructuring is difficult even at the best of times, but cooperative efforts become far more fragile in precarious situations such as the one that Thai Airways now faces. At the same time, the necessary reordering and rebuilding efforts

must be pursued with energy and vigor in order to put success within reach.

Such a challenge places extra importance on the role of Kudun & Partners to hold the project steady. By maintaining trust and stability in this volatile situation, our firm is set to play a key role in making the entire effort possible. And though the climb back to its former altitude is certain to be difficult, many investors are optimistic about the airline's chances of success.

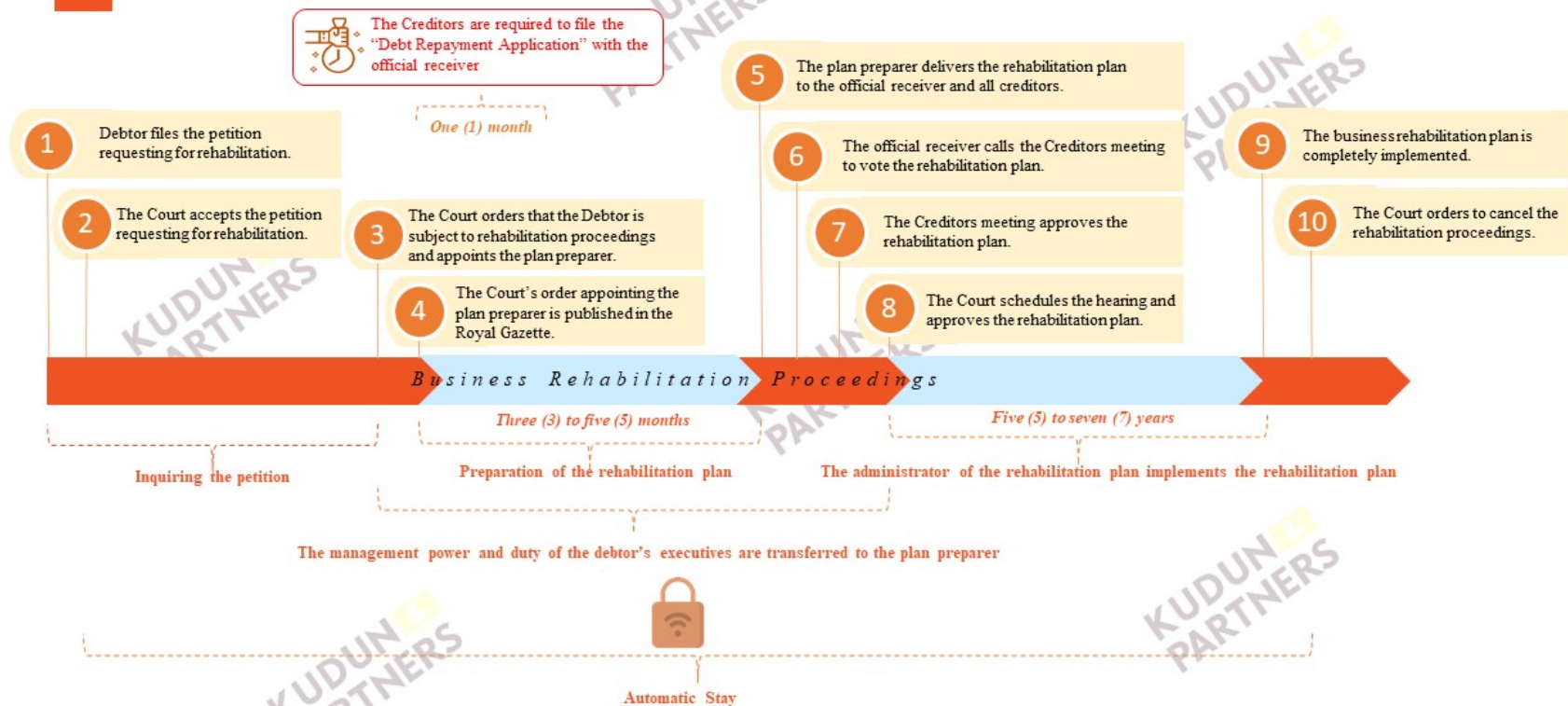
Thai Airways' journey to recovery may just be beginning, but the key lessons are already present for all to see. Thai Airways remains a troubled company, riddled with major internal and external problems. Its fall from grace was all but inevitable – and yet, thanks to a smart program of debt restructuring and a sensible strategy moving forward, it stands a very good chance of rebounding to its former glory.

Other businesses facing similarly steep challenges should therefore understand that their own success may likewise be attainable – provided they make the right decisions when it matters most. If your business is considering issues related to bankruptcy, insolvency or debt restructuring, contact us right away.

Please contact our Restructuring and Insolvency team should you have any specific questions regarding your rights as a creditor or debtor in any ongoing or future rehabilitation proceedings in Thailand.

## Business Rehabilitation Proceedings

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