2-9-2000

Financially Troubled Companies Continue Search For Investors

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Construction company Grupo Bufete Industrial (GBI) and steel manufacturer Altos Hornos de Mexico (AHMSA), two companies that experienced significant financial difficulties during 1999, are having trouble finding business partners to inject fresh capital into their operations. Coahuila-based AHMSA and its parent company Grupo Acerero del Norte (GAN) defaulted on more than US $63 million in debt payments last May (see SourceMex, May 5, 1999, June 9, 1999). Similarly, Bufete Industrial defaulted on a US$100 million Eurobond in July 1999 (see SourceMex, July 21, 1999).

AHMSA appeared to have found a prospective buyer late last year, when rival steel manufacturer Grupo Industrias Monterrey (IMSA) agreed in principle to acquire a majority share of the troubled company (see SourceMex, October 27, 1999). The agreement gave IMSA an exclusivity clause in the purchase of AHMSA, which prevented other companies from presenting competing bids. But the deal has stalled because of broad disagreements between IMSA and creditor banks on how AHMSA’s debt should be restructured. The banks are willing to capitalize a merged IMSA-AHMSA enterprise with US$600 million to US$650 million, but are also demanding the right to own a 30% share of the company. Eugenio Clariond, president of IMSA's administrative council, said his company has proposed a much smaller share of the company for the banks or a significant cancellation in the total debt owed by AHMSA to the banks. "IMSA will not modify its position because the company would be exposing its shareholders to a high-risk venture," Clariond said in an interview with the daily business newspaper El Economista. The failure to reach a compromise prompted the creditor banks to request that the exclusivity clause for IMSA be removed, allowing bids from other potential buyers. Steel-industry analysts said potential suitors would include Germany’s Thyssen Krupp, Spain’s Aceralia, and US-based Bethlehem Steel Corp. Reuters news service reported that representatives from the creditor banks traveled to Europe in early February to meet with executives from the German and Spanish steel companies about a possible buyout of AHMSA. Still, even with the request to remove the exclusivity rights for IMSA and the contact with other potential buyers, sources said the banks would prefer to reach an accord with IMSA rather than reopen the process. "The banks are in the process of finalizing their analysis and the negotiations," an industry source told Reuters. GBI has faced similar difficulties in completing a merger agreement with a potential buyer. In late January, creditor banks rejected an offer from rival engineering company Constructora Iconsa to acquire Bufete. The Iconsa offer was rejected because "it was not what had been expected," a source close to the negotiations told Reuters. Following the rejection of the Iconsa deal, the creditor banks led by Citibank-Mexico, Banca Serfin, and state-run foreign-trade bank Banco Nacional de Comercio Exterior (BANCOMEXT) formally assumed control of operations after infusing about US$80 million into GBI in exchange for a significant share in the company. As part of the reorganization, Bufete president Jose Mendoza Fernandez resigned and was named "honorary president." Mendoza retains a 10% share in the company. Sources said the creditor banks will continue to seek a buyer for GBI, although they are likely to retain some shares in the engineering company. "This accord is important because it leaves open the possibility of finding a strategic partner once the company is financially sound," a GBI source told reporters. GBI
has struggled to overcome liquidity problems during the past several months because of reduced revenues. The company has faced a combination of increased domestic and foreign competition and a reduction in government expenditures on major infrastructure projects.

**Financial difficulties increase for TAESA airlines**

The financial difficulties for Mexican companies have extended to other sectors. In early February, the airline company Transportes Aereos Ejecutivos (TAESA) laid off all its 3,500 employees because it could no longer cover payroll expenses. TAESA is facing a severe cash-flow problem because of a government-ordered moratorium on all its flights. The Secretaria de Comunicaciones y Transportes (SCT) grounded TAESA’s entire fleet in late November because of safety violations (see SourceMex, December 3, 1999). TAESA has since taken steps to correct most mechanical and technical violations uncovered during inspections of its fleet. But the government refuses to allow the airline to resume flights until officials can demonstrate that the company is in sound financial health. This restriction has affected the company’s ability to attract new capital into the operation. Potential investors have declined to invest in TAESA until the airline receives clearance to resume flights. The tight financial situation, in turn, has forced TAESA to ask a Mexican bankruptcy court for special protection to suspend payments to creditors. As of Feb. 8, the court had not acted on the request. There was some speculation that the federal government would be forced to rescue TAESA because almost half the company’s US$400 million debt involves tax charges or liabilities controlled by the bank-rescue agency (Instituto de Proteccion al Ahorro Bancario, IPAB). The airline’s union (Sindicato de Trabajadores de TAESA) has asked IPAB to intervene directly to restructure TAESA’s debt. IPAB refused to restructure TAESA’s debt because the airline has failed to come up with sufficient collateral. But union members insist the intervention of the bank-rescue agency is necessary to prevent a demise of TAESA, which would result in a massive loss of jobs. "The union will continue to insist that IPAB restructure Taesa’s debt to save the jobs currently in jeopardy," said union secretary Angel Celorio. The SCT has also ruled out a direct bailout of the airline. "The government is not going to take over TAESA," said Communications and Transportation Secretary Carlos Ruiz Sacristan. "This company has substantial liabilities." Ruiz said the lack of TAESA flights has had very little impact on Mexican aviation. "The market is gradually compensating for its absence," said Ruiz Sacristan. "Other airlines are operating more flights and there is a resurgence of interest in establishing new airline companies." The airline’s laid-off employees demanded that the company pay them their back wages. TAESA owner Alberto Abed said he would try to comply, but the lack of revenues would make this difficult. As of early February, the airline had paid employees about 25% of the salaries they are owed. The workers have threatened to strike on Feb. 18, but this is expected to have little effect, since the airline is not operating any flights. TAESA's safety practices have also led employees to file a complaint against the airline under labor provisions of the North American Free Trade Agreement (NAFTA). Earlier this year, the US Department of Labor’s National Administrative Office (NAO) agreed to review a complaint alleging that TAESA had failed to provide a safe working environment for employees and interfered with the rights of workers to join the union of their choice (see SourceMex, December 3, 1999). The NAO is the US agency created under NAFTA to investigate complaints about labor violations. (Sources: Associated Press-Dow Jones news service, 01/12/00; Novedades, 02/01/00, 02/02/00; The News, 02/02/00, 02/03/00; Excelsior, 01/13/00, 02/03/00; El Universal, 01/31/00, 02/02/00, 02/04/00; Reuters, 01/11/00, 01/13/00, 01/21/00, 01/31/00, 02/02/00, 02/08/00; Reforma, 01/12/00, 01/13/00, 02/01-03/00, 02/09/00;
El Economista, 01/12/00, 01/14/00, 01/20/00, 01/31/00, 02/02-04/00, 02/09/99; El Financiero, 02/02/00, 02/03/00, 02/09/00)

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