

Stage 1

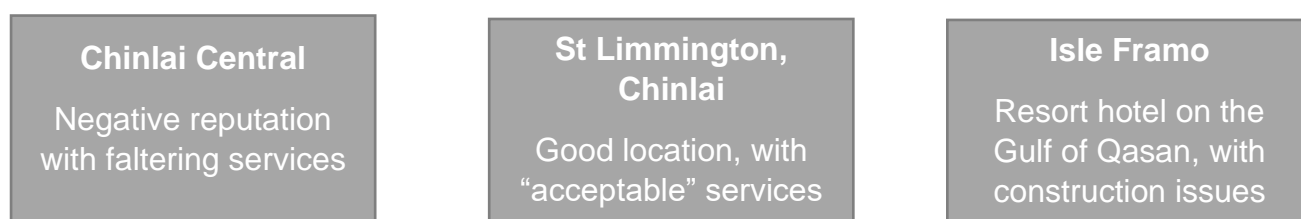
Introduction

Arun-Stat Sun Hotels (“the Company”) was established in 1985 by siblings Abioye and Scanite Sekibo, having inherited their grandfather’s sprawling property in the center of Chinlai, one of the world’s fastest expanding cities. Within five years they converted it into a “business tourism hotel”.

The sister and brother inherited the property in the early 1980s, a time when Nova Ghan, in common with many African countries, was shifting to a more market-based economy, and took advantage of this. Within 12 years a second hotel was purchased in the leafy suburb of St Limmington, a green oasis of Chinlai favored by expats and a focal point for a burgeoning business community. After Abioye died in 1996 Sacnite and her daughter Jacomena borrowed heavily to purchase a third abandoned property at Isle Framo on the “Turquoise Riviera”, on the west shore of the Gulf of Qasan. This was set up as Arun-Stat Sun Hotels’ first resort property, offering all-inclusive accommodation and spa and leisure package deals to domestic and foreign tourists.

By 2008 the Company had earned mixed feedback from suppliers, travel agencies and guests alike, the Chinlai-based hotels seemingly offering only “acceptable” accommodation, with many customers demanding greater service and facilities which traditional properties could not provide without a great deal of investment in both infrastructure and utilities. Several damning entries on Trip Advisor and in the African Journal of Hospitality, Tourism and Leisure severely affected booking levels in the past two years, particularly with construction work on a neighbouring property negatively impacting many of the rooms and public spaces at the property in central Chinlai.

The Properties of Arun-Stat Sun Hotels, Nova Ghan



Financial Information

Financial pressures on the business in 2016 and 2017 led to suppliers being paid between 120 to 180 days late after submitting invoices and many travel agents withdrew the Company’s two city-based properties from their lists of recommended accommodation.

The aged creditors list grew and, by the end of 2017, trade creditors had reached \$12.41 million. Some creditors became aggressive in pursuit of the amounts owed to them. Causing the main Company backers to become nervous. There are two

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principal lenders and financial backers, Africia BG Bank (“the Bank”) and Tai Chai Foreign Funding (“TC”). Over a period of 13 years these two organisations issued finance to cover renovations at both the Chinlai and Isle Framo properties, as well as availing credit facilities in the form of revolving credit facilities, term loans and funded interest term loans to a total of \$17.2 million.

The Company issued bonds to the bank and are contractually obliged to repay the bond value with interest within a period of six years from February 1, 2017. The interest may or may not be exempt from tax depending on a number of factors. However, the total debt remains unchanged.

You discover that financial assistance to the Company was made up of:

	\$Million
Revolving Credit Facilities (“RCF”)	6.9
Term Loan	3.5
Funded Interest Term Loan (“FITL”)	2.1
Bonds (“B”)	4.7

The Company’s loan and financing details are as follows:

S. No	Facility Details	A/c Number	Amount Outstanding as at Oct. 2019 \$
1	RCF	33557901-A	5.37 million
2	Term Loan	5562121092	3.61 million
3	FITL	P/L-U813580	1.76 million
4	Bonds	6700012/HJ6	4.35 million
Total			15.09 million

A summary of the Company’s financial statements is set out below:

\$ Million	Y/e April 2017	Y/e April 2018	Y/e April 2019
Turnover (Sales)	17.2	23.6	18.6
Cost of Sales	32.0	34.8	37.1
Net Profit (Loss)	(14.8)	(11.2)	(18.5)
Outstanding Debtors @ Y/e	6.23	8.98	5.3
Outstanding Trade Creditors @ Y/e	4.10	5.72	12.41

Authorized Share Capital	35 million
Paid-Up Share Capital	32 million

An essential part of the investigation involves the viability of each of the Company's three hotels. The latest information about all three properties is summarized below:

	Estimated Value \$	Charges and Lending Against Property	Occupancy Rate	Local Occupancy Rate (average)
Central Chinlai	50,000	2.25 million	14%	62%
St Limmington	7.45 million	5.14 million	46%	62%
Isle Framo	13.8 million	8 million	41%	74%

Changing Fortunes

In 2016 the family appointed a Chief Executive Officer, Amira Adebayo who was famed for her no-nonsense style and hard-hitting negotiation skills. She introduced an investor who took 35 percent of the equity of the Company in exchange for an unsecured loan of \$3.5 million. However, from January 2017 Nova Ghan experienced some political turbulence as part of the Peoples Summer Uprising which affected large swathes of the north-east of the continent. Some of the issues the country experienced were extensively reported in the international media and this had an immediate and direct effect on both hotel occupancy rates and costs related to security.

These events coincided with an unhappy alliance at a very senior level of the Company, with squabbles at board level and clashes between the team working with Ms Adebayo and members of the Sekibo family. Two high level director resignations in 2017 and a three month default on the principal secured lending facility led to the Bank demanding a seat on the operational board.

By October 2019 the debts of the Company had accumulated to such a level that they could not be paid and there were threats by at least two major creditors that Bankruptcy proceedings were imminent.

Appointment of Restructuring Expert

You lead a team of Restructuring Experts appointed by the two principal lenders to the Company.

Having set up a meeting with each of the Bank and TC you discover that business has been extremely difficult since November 2016, when the Nova Ghan Central Bank floated their currency in an attempt to stabilize the country's economy. The currency was initially devalued by 32.3 percent to about 13 Linn per dollar, down

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from the previous peg of 8.8 per dollar, which had been in place since March 2016. It has fallen since, and at the present day is down by about 50 percent of the early 2016 value.

This has had a prejudicial effect on the P&L of the Company, as almost 90 percent of reservations at the two Chinlai properties have traditionally been made by Nova Ghan nationals.

Despite this the Bank's board believes in the management and business skills of Ms Adebayo and her team, who have written a robust business plan involving immediate closure of the original property in Chinlai and adapting the two remaining properties to accommodate a reinvigorated tourist industry.

The cost of necessary renovations in Isle Framo amounted to \$2.5 million, but the process was only half complete when the Company ran out of funds in early April 2019. As a consequence, one third of the hotel is uninhabitable and remains closed at a time when there has been a general uplift in bookings in both the property and the region. The manager of the resort, Jonas Gerhart, has an antagonistic relationship with two major travel agencies which previously sent a significant number of tourists to the resort. One of them has refused to deal with him and has posted some negative reviews on TripAdvisor which appears to have had a deleterious affect on business.

The resort is situated in an area renowned for its natural beauty and other resorts and hotels in the area are reported to have enjoyed increased occupancy rates in the past 12 months, whilst those at Isle Framos have decreased. The area in which the property is situated has also been affected by a number of shark attacks, one of which killed a Czech tourist swimming in the Qasan Sea. Your initial impressions are that this resort hotel will need an investment of more than \$5 million to bring it to a state where it can be an asset to the group. It appears that the resort would need to be closed down for a minimum of 12 months for essential works to be completed, during which time it would have a negative impact upon the Company's P&L.

In respect of the two properties in Chinlai, the Nova Ghan government has focused on increasing airport capacity, particularly in the region south of the city within five kilometers of St Limmington. The new Chinlai International Airport will serve major destinations on the Turquoise Riviera as well as destinations all over the Middle East, Africa and on to Europe and the Americas. On the other side of Chinlai the new Celene International Airport is opening in 2021, serving the capital towards the east.

Despite this, the property in central Chinlai is the least successful. It was closed for six months in 2018 due to vermin infestation and many of its public rooms are uninhabitable. The directors have valued the property at \$50,000 and one of them has offered to purchase it from the Company.

The property in St Limmington is well positioned in the neighborhood. The suburb in southern Chinlai is known for its maze-like network of public squares as well as for

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its tree-lined boulevards and well-appointed villas, although some of these have been demolished to make way for more modern buildings in recent years. Despite being part of this populous city St Limmington retains a sense of serenity and its position makes it a good choice for business travelers and tourists alike who want to visit offices and Government buildings and Nova Ghan's famous sites respectively.

You briefly interviewed Sacnite Sekibo on the first day of your appointment and she voiced a conviction that this property is most valuable to the Company. It requires the least work to bring it up to a good standard and has the greatest potential commercial value. Two other hotel groups have made enquiries about the possibility of purchasing the property, but they were not entertained by Ms Adebayo and her team who insisted that none of the properties in the Company's portfolio were for sale.

You are an insolvency professional and have been appointed as a Restructuring Expert in this matter. On the first day you and two members of your team spent securing a room to be used whilst you assume the role of the management team at the Company. You had three or four brief conversations from which you have gleaned the above information.

Other Issues

You also discovered:

- (i) That the staff at the St Limmington property have refused to work for the past three days, complaining that they have not been paid and expressing real concern about the future of their jobs
- (ii) The main boiler at the property in central Chinlai recently caught fire and caused an explosion at the premises, from which toxic fumes have been escaping
- (iii) Notices have been posted by the regional government about the compulsory purchase of the property in central Chinlai. You hear that the site on which the property is located is urgently needed for the construction of a hospital as part of the federal Government's flagship Social and Medical Care Initiative ("SAMCAI")
- (iv) Legal action by two of the Company's main creditors has been initiated, for the recovery of moneys owed to them
- (v) One of the senior members of the management team at Isle Framo has strongly suggested that the Resort Manager, Jonas Gerhart, has been receiving cash payments from contractors in exchange for allocation of contracts at the property. There is also an implication that he has been receiving salaries and other remuneration for fictitious personnel at the

resort.

- (vi) On the second day of your appointment a key member of your team asks to meet with you privately. He tells you that, whilst working with a previous employer, he gave tax advice to Sacnite and Jacomena Sekiba and during the course of their meetings (between August 2016 and October 2018) discussed with them the effectiveness of Ms Adebayo, as well as giving them advice about the Company's mounting debt issues. He says that he is informing you as he wishes to be excused from a meeting with the Chief Executive Officer as he feels there may be a clash of personalities.

Action Points

- 1 What legal and practical steps will you take as a matter of urgency in this matter?**

- 2 In addition to the above, what meetings will you set up in the first seven days of your tenure?**

Consider the people you need to interview, the questions that need to be asked and the documentation you require them to bring to the meetings to inform and substantiate the conversations.

- 3 What are the potential challenges raised by point (vi) above, under 'Other Issues'? What further information will you seek from your colleague and why? What action will you take?**

- 4 Your partner requests a draft Restructuring Plan by the end of the week as she has a meeting with the Company's two principal backers. Draft the backbone to this Plan, with assumptions and reasons.**