Financial Services Commission

Press Release

December 28, 2023

AUTHORITIES HOLD MEETING TO DISCUSS CORPORATE DEBT WORKOUT OF TAEYOUNG ENGINEERING AND CONSTRUCTION

- Measures to focus on (a) facilitating business normalization of the company based on its self-rescue efforts and through coordination with lending institutions, (b) ensuring protection for homebuyers of unfinished housing projects and the suppliers and subcontractors of the company, and (c) minimizing impact on the financial market and construction sector.

The Financial Services Commission held a meeting with the related authorities and financial institution on December 28 to discuss measures to help business normalization of Taeyoung Engineering & Construction and minimize the impact as the company filed for a debt workout under the Corporate Restructuring Promotion Act today. Since the turmoil in the real estate project financing (PF) market last year, the government has been closely monitoring market developments and financial conditions of major construction companies.

Taeyoung E&C has been faced with financial difficulties as it was struggling with refinancing its real estate PF loans and asset-backed securities amid global tightening of monetary policies. In particular, unlike other construction companies, it was found that Taeyoung E&C had a high proportion of self-performed projects as well as high levels of debt-to-equity ratio and PF loan guarantees. These factors show particular characteristics of Taeyoung E&C, which remain different from other companies' situations. In this regard, the authorities at the meeting agreed that there is no possibility of a systemic risk across the construction sector or financial market as long as there is no spread of anxiety.

Taeyoung E&C has already demonstrated self-rescue efforts by coming up with KRW1 trillion on its own and submitted further plans to sell its subsidiaries and other assets. The company is currently working on its debt workout plan with Korea Development Bank, its main creditor bank, which will work on business normalization of Taeyoung E&C based on the company's strong commitment to self-rescue efforts.

As of the end of September 2023, there were sixty real estate PF development sites under management of Taeyoung E&C. Based on the type and the progress of each project, various arrangements and solutions will be employed to either continue to carry out projects or seek restructuring or sale.

At the meeting, Chairman Kim Joo-hyun of the Financial Services Commission said that it is important to secure an agreement with the creditor institutions based on the company's strong self-rescue efforts. For this, Chairman Kim emphasized that it is crucial to have strong confidence and cooperation from market participants, while adding that the government will continue to work to ensure a soft-landing from the current instability in the real estate PF market.

In order to minimize potential damage to homebuyers of unfinished housing projects and the suppliers and subcontractors of the company, the government plans to swiftly and strictly carry out measures according to the contingency plan prepared by the relevant authorities.

Given the fact that financial market conditions have stabilized since last year and this event has been widely anticipated by market participants, the authorities view that its impact on financial markets will be limited. However, the government plans to expand the operation and availability of various financial market stabilization programs in a preemptive way to avert spread of market anxiety. The authorities also plan to draw up measures to boost investment in the construction sector.

The financial sector's exposure to Taeyoung E&C amounts to KRW 4.58 trillion, which represents only about 0.09 percent of the lenders' total assets. It is highly unlikely to affect the soundness of financial companies, given that most of the exposure is concentrated in the banking and insurance sectors, which have sufficient loss absorbing capacity, and also because the non-banking sector's exposure is dispersed across many institutions. However, to be adequately prepared for the potential of negative impact that may arise in the workout process, the authorities plan to ask financial institutions to set aside more sufficient levels of loan loss provisions based on their assessment of the business prospect of each development project.

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