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Dongbu Steel bolsters capital under new owner and debt relief

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[Photo provided by Dongbu Steel Co.]

Korea's fifth largest steel mill Dongbu Steel Co. graduates from joint creditors management and starts afresh under new owner KG Group with leaner debt and increased capital.

Creditor banks led by state lender Korea Development Bank (KDB) signed a final stock exchange agreement with the winning consortium between KG Group and a local PEF Cactus Private Equity.

Dongbu will be issuing 7.2 million shares – 4 million to KG Steel, a new entity the fertilizer and chemical making group have set up for the acquisition, and 3.2 million to Cactus – at face value of 5,000 won apiece. The issue will bolster capital in Dongbu Steel by 360 billion won (\$340 million).

On Friday, Dongbu Steel stock price soared on the news in the morning, but it fell 0.26 percent to end at 7,810 won.

To help ease the debt burden on the new owner, creditor banks will swap debt worth 605 billion won into equity and implement a reverse stock split at an 8.5:1 ratio. At the end of the day, Dongbu will recapitalize by 605 billion won.

The interest on the remaining debt is fixed at 2 percent per year until 2025.

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KG Group with roots as the country’s first fertilizer company Kyunggi Chemicals has been expanding fast lately, with the business portfolio sprawling to chemical, green energy, information technology, consulting, leisure, and media. It now runs 15 companies including KG Inicis, KG Mobilians, KG ETS, and KFC Korea.

Creditors have been trying to divest Dongbu Steel for the last five years. Sales of Dongbu Steel plunged to 2.5 trillion won last year on a consolidated basis, with a net loss stretching to 120 billion won and debt ratio to 4,120 percent as of the end of 2018.

Meanwhile, the country’s largest steel maker Posco on Wednesday held an event to celebrate the cumulative trade volume of 30 million tons with Dongbu Steel, its largest client for hot-rolled coils. Since the first supply of 40,000 tons in 1973, they have steadily strengthened ties to achieve the trade volume of 10 million tons in 1993, 20 million tons in 2003. Currently, Posco supplies 800,000 tons of hot-rolled coils per year to Dongbu Steel, which is used to produce its flagship cold-rolled steel sheets.

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Read in Korean

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