Case Study 6
Restructuring Bulong's Project Debt

Case Study Assignments

1. Why did Bulong default in January 2000? Was it the result of a flawed strategy, poor execution, or bad luck? Were any of the factors that caused them to default foreseeable?

2. How did Preston try to resolve the default? Why has it been so difficult to restructure the debt?

3. Will the second proposed restructuring plan work? Who will support/oppose the plan contained in the schemes of arrangement? What are the alternatives if the plan is not approved? How much is Bulong worth as a going concern?

4. What are the lessons from this case? What measures might have prevented a default in the first place or facilitated a restructuring given that default had occurred?

Assumptions: As of December 1998, the 10-year Commonwealth Treasury (Australian Government) bond was yielding 5.00%, the 10-year inflation indexed government bond was yielding 3.42%, and the asset beta for nickel/cobalt mines and processing facilities was 0.60. You can assume a market risk premium of 6.0%. As of December 2001, the inflation indexed government bond was yielding 3.52%.