Giving Thanks for the Bounty of the Banks

Bank Debt Deals of the Year

By George Weltman

Transaction: BW Pacific’s $676 million Senior Secured Term Loan & Revolving Credit Facility
Winners: Nordea, DNB, ABN AMRO, BNP Paribas, Danske Bank, DBS Bank, DVB Bank, ING Bank, OCBC, SEB, Standard Chartered, UOB

Transaction: China State Shipbuilding Corporation $245 Million Senior Secured Facility
Winners: Standard Chartered, Bank of America, Société Générale

ealogic is the gold standard for data related to syndicated lending. Their data, shown in the chart below, illustrates the rapid growth of syndication up until the financial crisis, followed by more tempered growth thereafter. From the numbers, it is clear that syndicated loans are a mainstay of our industry reflecting the banks’ willingness to lend regularly, despite the industry’s cyclical nature, at highly competitive rates, as opposed to other sources of capital.

Despite the ups and downs of Wall Street, ship owners again relied, as they have done historically, on their lenders for their capital needs. Dealogic’s data demonstrates that 2014’s near record volume, was no fluke, with Syndicated Marine Finance Loans last year totaling $104.7 billion down from the earlier year’s ~$108.7 billion. An increase in the shipping loan category helped temper the steep drop in offshore services lending from the record volumes in 2014. Still the net effect resulted in a decline in overall syndicated marine finance lending last year. Nevertheless, the general upward trend since 2009 remains remarkable.

In the 13 years, for which we have compiled data, 2007’s record volume of $115.7 billion done in 551 transactions, still stands. This was the height of the last shipping boom and it went downhill thereafter, with the beginning of the financial crisis. The banks fled and the ship owners’ love affair with Wall Street began. Then like the tides, which ebb and flow, lending was back, and Wall Street closed.

The volumes recorded over
each of the last two years are remarkable and need to be put in context. For the entire 13-year period covered, the average annual volume was $69.2 billion accomplished in an average of 269 transactions. The impetus for the recent growth was the large number of newbuildings which were being delivered and required financing. Even with the number of annual transactions growing, average deal size continued to grow, largely driven most recently by lending to the offshore services sector. Lists of the top 15 transactions in the Dealogic report regularly include individual transactions in excess of $1 billion or more. The banks’ appetite further increased as the ECAs provided credit support, which shifted credit risk from shipping companies to national governments, making syndication even easier. Nonetheless, there is a ticking time bomb. The banks’ increased exposure to offshore services and the potential impact resulting from borrowers’ non-performance, as a consequence of the collapse of oil prices, may result in, among other things, a reduction in funding capacity.

For us, the transactions in this category are the most difficult to assess. After all, it is, by nature, a simple loan which is parcelled out. Dealogic offers no clues providing only the hard data itself, but not the heart of the deal. While not rocket science, discussions with participants suggest that speed and execution are what matter in this category. And, surely neither size nor the level of oversubscription can be discounted. Lacking direct experience, the nuances, at times, escape us.

As volume goes, so do nominations. With the carve out of ECAs into their own growing category and problematic offshore loans, the number of nominations were fewer in our estimation. This however had no impact on the quality of the nominations.

Two banks, DNB and ING, nominated transactions entered into with Crowley. The two banks partnered on a traditional five-year $425 million credit facility for Crowley Holdings split into a term loan and revolver collateralized by a pool of 50 Jones Act vessels. Oversubscribed, the transaction allowed Crowley to access new lenders including a leading insurance company, an impressive feat in light of the U.S. flag element, which has limited attraction for investors.

Led by DNB, the other transaction involved a $325 million senior secured loan facility to Crowley Tankers, which was initially a joint venture between Crowley and Aker Philadelphia Shipyard (“APSI”) to own four Jones Act MT-50 tankers to be constructed at APSI and managed by Crowley. Having secured long-term charters with Exxon and Marathon for all four vessels, the joint venture sought competitive financing on a non-recourse basis. DNB won the mandate by offering a non-recourse structure that was contingent upon continuous employment of the vessels by acceptable charterers. Then came the twist. Immediately after closing, APSI sold its joint venture interest to Marathon, which required extensive amendments to the documents as the new strategic partner. The deal was successfully restructured to comply with Marathon’s requirements, while maintaining the integrity of the transaction structure and the key credit risk parameters for the banks, which but for one, supported the new structure.

One of the few banks that finance port infrastructure, Citi nominated its $1.1 billion senior secured financing facilities, which recapitalized the Port and Free Zone World FZE (“PFZW”), a holding company indirectly owned by the Government of Dubai and whose primary operating asset is DP World, one of the largest container terminal operators in the world with a portfolio of 65 terminals across six continents. The loan matures in five years with minimal amortization to a substantial balloon and is secured by a charge over a portion of the shares of DP World. In addition to the charge, the transaction was underwritten on the basis of a 35% LTV, the underlying credit and careful structuring, including cross-default provisions, a cash waterfall structure and limits on financial indebtedness. All of which led to highly competitive pricing, 100 bps less than the previous transaction, an ability to upstream dividends to its parent and substantial oversubscription.

In a transaction which highlights the importance of relationships, Citi led a $397 million bridge loan for Teekay Tankers to finance its acquisition of Principal Maritime’s fleet of 12 Suezmax tankers with an average age of six years. As a consequence of the acquisition Teekay Tankers’ fleet grew from 10 to 22 vessels, making it one of the largest owners in this sector, while reducing the average fleet age by 1.2 years. The five-month acquisition facility allowed for a rapid closing providing the borrower with additional flexibility and timing to build a comprehensive group of relationship lenders to support the long-term secured takeout financing.

BNP Paribas (“BNPP”) has nerves of steel. In the middle of the year, the bank refinanced on a fully underwritten basis RBS’ $195 million credit facility to Diana Shipping, which was secured by 18 dry bulk carriers, including 5 Capesize, 1 Post-
Panamax and 12 Panamax bulk carriers. This was the largest pure dry bulk refinancing in the Greek market done at a time when most, if not all, international banks active in the Greek ship finance market had largely abstained from lending to dry bulk companies. BNPP provided a $165 million five-year secured loan to the borrower, who also contributed $30 million in equity. Among the loan's attractive features was the medium tenor, an advance ratio of up to 70% of the market value of the vessels and a repayment schedule designed to accommodate the borrower's cash flows in this depressed market. Underwriting support was derived from the fact that Diana Shipping is one of the most solid public shipping companies with an owned fleet of 43 vessels, all of which are chartered to first class charters. The company operates with a manageable degree of leverage and maintains one of the strongest balance sheets among dry bulk related companies.

Back in Q4 2014, GasLog, in line with its growth strategy, was negotiating the acquisition, at a price of $460 million, of two LNG carriers with charters with BG Group. Under the terms of the agreement the MOA needed to be executed with firm financing in place. The tight deadline and difficult capital market conditions precluded the timely issuance of the needed equity. To solve the problem, DNB fully underwrote a financing facility consisting of a $325 senior facility and a $135 million junior facility financing 100% of the cost. As a substitute for the equity raise, the junior facility allowed the company enough time to secure takeout financing in the capital markets. Providing comfort to the junior lenders was a 2nd priority lien over the assets and the contracts, the quality of the sponsor and the time charters themselves. The transaction was successfully syndicated, with strong market demand resulting in multiple times oversubscription. While speed and execution were critical, it was the delivery of the 100% financing, despite difficult market conditions in the energy sector, which made this a very strong contender.

Directly from Asia, we received Korea Development Bank’s (“KDB”) nomination for the refinancing of ten VLOCs controlled by Polaris Shipping, under long-term time charters to Vale International. The original loan won a Deal of the Year award in 2012 from Marine Money. In its latest iteration, KDB, KEXIM, KEB Hana and Nonghyup, financed 100% of the project cost of $287.2 million through an eight-year secured term loan, which contains a put option after five years. The tenor is coterminous with the remaining life of the charters. Further credit enhancement is provided by the assignment of performance guarantees from Vale, which is BBB rated by S&P. With the focus on the charters and performance guarantees, the lenders could provide the high degree of leverage. As a consequence of the refinancing, the borrowers operating margins improved as a portion of the proceeds refinanced a portion of the private equity tranche with lower cost senior debt reducing the overall WACC for the project.

Before we announce the winners, we need to disclose, in the interest of transparency, that we have slightly modified the categories, as we believe is our privilege. Historically the winners in the East and West were simply based upon the banks' locale of the borrower. However, the two most interesting deals this year were Asian-based by definition, one a syndication and the other a club deal. We could argue that in a way we are in conformance based upon the banks' locale with one loan funded mainly by Western banks, albeit locally, and the other largely by an Asian bank, but this would be disingenuous. Instead, we would just plead for your understanding.

Choosing the winner from among these deserving transactions was a difficult task, but perhaps not as challenging as putting together this winning transaction. Although it had a great pedigree, BW Pacific, was after all a brand new standalone joint venture company between the BW Group and the private equity fund PAG based in Hong Kong, to own a fleet of product tankers and required financing for 39 x product tankers of different sizes and ages.

The key challenge for the company was to find a comprehensive financing solution that was flexible, competitive and time-sensitive, to cater for a potential IPO. The solution was a $942 million bank and ECA financing package consisting of a $676 million loan facility, secured by the company’s on the water fleet of 29 x MRs/LR1s and a $266 million ECA facility for the financing of 10 x MR newbuildings. The ECA facility was believed to be the first transaction to a non-Korean owner solely lifted and shared.
among the Korean ECAs, KEXIM and K-sure. But it is the former which is of interest here.

Comprising its main credit facility, the $676 million secured term loan and revolving credit facility consists of a 7-year $476 million term loan, a 7-year $100 million revolver and a 3-year $100 million bullet tranche. The 3-year bullet tranche is special as it provides incremental leverage and serves as a bridge to equity, or enables the company to build up reserves to pay off the tranche from surplus cash flow generation. Notwithstanding the higher gearing, the entire facility can endure both an IPO or non-IPO scenario as the company establishes itself as a leading pure play product tanker owner.

This transaction was one of the largest and most widely syndicated loans in the tanker space during the year and was divided equally among 12 international banks, including key Asian lenders, mainly funding out of Singapore. The syndication was highly successful resulting in a large over-subscription and was executed in a timely and efficient manner.

The other winning transaction was a $245 million ten-year club senior secured loan for the construction of six Newcastlemax bulk carriers on behalf of China State Shipbuilding Corporation (“CSSC”). Led by Standard Chartered and Bank of America, who were joined by Société Générale, the facility comprises six individual loan tranches for each delivery. The facility was provided to CSSC (HK) Shipping Co. Ltd., the ship owning and leasing arm of CSSC, which was formed in June 2012. This transaction is the first international syndicated financing for the CSSC Group, who preferred the club facility from international banks given the flexibility of drawdowns provided and the diversification of funding sources.

Owned by the state-owned Assets Supervision and Administration Commission of the State Council, CSSC is a leading shipbuilder in China controlling a number of the largest shipbuilders in the world. It has three publicly listed subsidiaries including China CSSC Holdings, CSSC Jiangnan Heavy Industry and GSI listed on the Shanghai Stock Exchange, with GSI also listed on the Hong Kong Exchange, demonstrating its ease of access to the capital markets. A first time international syndication of a Chinese state entity clearly makes for a winner.