In considering the many nominations for Deal of the Year we are often wowed by deal sizes, complex structures and the multiple transactions individual borrowers can manage. This is the rarefied world of public companies, syndicated loans and capital markets which represent only the tip of the iceberg. Under the surface are the thousands of shipping companies which form the bulk of the industry who are similarly in need of capital whether for growth or repair. Who do they turn to?

Like the rest of the world, Korea’s shipping industry was in the midst of a liquidity crisis brought on by collapsing shipping markets and a contraction of ship lending. For some owners it was too late, leaving bankruptcy and liquidation as the sole option; others just struggled along with too much debt. The collapsing markets also brought the shipbuilding industry, a mainstay of the Korean economy, to its knees as new orders were placed and contracted ships sat undelivered in the shipyards. Korea’s shipping industry was hurting and it turned to its government for support. As a resource-poor country, South Korea recognizes shipping as strategically vital to the nation’s economic well-being and quickly agreed to help.

By acquiring and resolving distressed financial assets, Korea Asset Management Corporation (“KAMCO”) has been playing a vital role in the South Korean economy since 1962. In 2009, with the onset of the financial crisis, the state-run financial restructuring agency established a maritime fund, designed to help shipping companies reduce their capital costs on their vessels. Inspired by the KS and KG markets, the typical fund structure in the KAMCO Shipping Fund Program involves the establishment of a ship investment company (“SIC”) with equity financing from KAMCO’s own restructuring fund. At the same time, a special purpose company is created to acquire the vessel through a sale and bareboat charter back agreement with the shipping company, utilizing in most cases a BBCHP (Bareboat Charter Hire Purchase) agreement. This model allows rates to be set so that the owners can operate ships in the current challenging environment and reduces the residual risk to the lenders through the purchase obligation. Financing is typically made up of a senior loan tranche provided by an international commercial bank and a subordinated loan from KAMCO’s SIC. Being a government entity, KAMCO is able to offer shipowners a highly competitive rate as a junior lender. And in the absence of a senior lender, KAMCO is also able to provide a direct senior loan to the SIC. All SIC funds are managed by KAMCO Ship Investment and Management Corporation.

The basic product comes in different flavors. In a project financing, KAMCO can give credit for the attached employ-
ment, whether a CVC or COA, in pricing the vessel. By analyzing the future contracted cash flows, the combined value will exceed the fair market value of the ship itself. For those shipping companies that do not have access to ship finance due to a lack of credit or cannot afford to pay its current high interest rate, KAMCO structured deals at low interest rates based upon the credit of the end users of the vessel. Lastly, KAMCO can provide liquidity by purchasing the ship and leasing it back allowing the ship to continue to trade.

During 2016, KAMCO acquired 11 vessels from 8 shipping companies providing $102.8 million in financing, successfully structuring transactions which met their clients’ needs while meeting their own lending criteria. Instead of being liquidated or sold, the vessels continue to operate serving the South Korean economy. In a striking example, KAMCO was able to support Samsun Logix, which had already entered court receivership, by persuading the senior lender to participate in the fund.

By volume, number of transaction or any other measure, none of these transactions would stand out. But it is the end result that matters. Workhorses never receive credit; they simply get the job done.