SOURCING EQUITY THROUGH LEASING

LEASING DEAL OF THE YEAR - WEST

Transaction: $648 million sale-leaseback for eight 9,200 – 10,700 TEU Containerships previously owned by NOL Liner (Pte.) Ltd and now chartered to APL Co., Pte. Ltd

Winner: China Merchant Bank Financial Leasing – Lessor

This deal is indeed unique because it was not simply a sale and leaseback to finance newbuildings or even second hand acquisitions. This was a carefully crafted deal by CMA CGM to raise / release equity from existing unencumbered vessels in order to repay short-term financing taken for the acquisition of NOL and APL. Such use of Chinese leasing to mend a corporate balance sheet and cement a new acquisition has creatively and effectively expanded the contribution of Chinese lease financing.

2016 has by no means been the best year for shipping. Most sectors, even the wet sector as the year came to an end, showed unprecedented signs of weakness and, in particular, the dry bulk and container liner markets have been hit hard, as evidenced by the bankruptcy of Hanjin. Indeed, alliances became fewer and merger and acquisition activity between the main liner companies increased due to the strong need for consolidation in this market. Financing of container ships has always been a priority for PRC leasing companies due to the perceived secured cash flow generated by long term employment contracts to which such ships are usually subject. Another factor which made these deals appealing was the resilience of the major shipping liners in difficult markets. And then came 2016 which was for all, including the PRC leasing companies, a strong wake-up call. As early as mid-2015, it became apparent that the capital markets would not welcome new shipping ventures. Even for established players raising equity was problematic and came at a high cost.

This transaction highlights the importance of PRC leasing in the current shipping and financial sector. Its purpose is not only to finance the construction and/or acquisition of new vessels or the acquisition of second hand vessels or to refinance existing debt secured on the vessels but importantly also the means through which healthy corporate groups can raise equity for their own corporate purposes by way of sale and leasebacks of unencumbered vessels.

The acquisition by China Merchant Bank Financial Leasing of eight 9,200 to 10,700 TEU vessels from NOL and their subsequent seven-year bareboat charter to APL provided just that for the CMA CGM group at the closure of the financial year, in time to meet certain payment obligations in respect of the expansion of the group through the acquisition of NOL and APL. Given time constraints, funding was accelerated and concluded satisfactorily within two months of credit approval.

Guaranteed by CMA CGM, the bareboat charters are structured as operating leases allowing APL to treat them as off-balance sheet items. Despite the fact that these are operating leases, they have been structured in a manner which minimizes CMBFL’s residual value risk at the end of the charter period by structuring a call option the exercise of which will ensure that CMBFL will receive in consideration an amount which would ensure the profitability of the transaction.

Considering the volatility of the liner industry in 2016, the demise of giants in the sector like Hanjin and the continuous effort for consolidation in the market, this transaction reflects clearly that PRC leasing not only forms a reliable source of equity at times where the capital markets are not keen on financing shipping projects or companies, but also supports quality players in the market such as CMA CGM to maintain liquidity while simultaneously growing in size.

By enabling CMA CGM to raise equity through a creative, supportive and large lease structure and repay debt associated with the NOL takeover, China Merchant Bank Financial Leasing wins Marine Money’s Lease Deal of the Year – West.
most out of the current challenging market, the sale-leasebacks provided the final competitive cost of capital element.

At the start of the year, like many owners surveying the financial markets, the company faced an increasingly risk averse finance market, especially for shipping, including tankers, which would likely be potentially challenging. Nevertheless, management set out to do a total refinancing of their fleet before year end 2016. At Marine Money, the view is that it is always better to secure a balance sheet earlier than later (despite Tor Olav Troims’ lovely comment of years ago ‘that a strong balance sheet is the sign of a lazy management’). So through a year of restructuring maturing loans and negotiating extended facilities for certain ships with their banks, Concordia ended up happy with their bank terms and covenants, pleased to be able to remain with their relationship banks and, with the sale leaseback, the release of some cash all of which puts them in the position to take advantage of the current market and the potential investment opportunities sure to surface.

Marine Money congratulates the management of Concordia Maritime on a whale of a year’s accomplishment.

As part of a year’s worth of balance sheet strengthening by the management at Concordia that has given the company a very good base for making the many owners surveying the financial markets, the company faced an increasingly risk averse finance market, especially for shipping, including tankers, balance sheet earlier than later (despite Tor Olav Troims’ lovely comment of years ago ‘that a strong balance sheet is the sign of a lazy management’). So through a year of restructuring maturing loans and negotiating extended facilities for certain ships with their banks, Concordia ended up happy with their bank terms and covenants, pleased to be able to remain with their relationship banks and, with the sale leaseback, the release of some cash all of which puts them in the position to take advantage of the current market and the potential investment opportunities sure to surface.

Marine Money congratulates the management of Concordia Maritime on a whale of a year’s accomplishment.

This was a carefully crafted deal by CMA CGM to raise / release equity from existing unencumbered vessels in order to repay short-term financing taken for the acquisition of NOL and APL.

RUNNER UP
In an important sale-leaseback transaction, again demonstrating both the importance of Asia based finance, this time from Japan, and the effective use of alternative balance sheet strengthening strategies by sophisticated management, Concordia Maritime and Tokyo Century Corporation and the Japanese shipping company Doun Kisen deserve honorable mention in the category of Lease Finance.

Marine Money congratulates the management of Concordia Maritime on a whale of a year’s accomplishment.

Marine Money, and its staff around the world wish to congratulate the Deal of the Year Award Winners for 2017. On this our thirtieth we would also like to remember and congratulate again all those who have so creatively, passionately and effectively served the international shipping industry and its finance needs. The industry continues to make extraordinary transactions in the pursuit of global trade.

Please join us at Marine Money Week in New York June 19, 20 & 21, 2017 for a celebration of 30 years of celebrating excellence in ship finance!