an equity raise via a rights issue in mid-2015 of around US$ 63 Million from Precious Shipping (PSL) shareholders was considered to be enough to tide over the financing requirements of the company through the dry bulk downturn. But, then the already weak shipping markets continued to drop further and, barely 3 or 4 months later, PSL suffered its first ever negative cash flow in Q2 2015. This rapid drop from a relatively comfortable position to a challenging situation which PSL salvaged with a first-of-its kind, path-breaking bond issue (with USD swap) in the Thai Bond Market, is the story of Precious Shipping’s Public Debt, Deal of the Year Award for 2016.

Precious Shipping Public Company Limited (PSL) was established in 1989 and listed on the Stock Exchange of Thailand in 1993. It is one of the largest pure dry cargo shipowning companies operating in the geared (10,000 to 64,000 DWT) sector of the tramp freight market. PSL presently (as on 31st December 2016) operates 32 bulkers and 4 cement carriers, representing 1.54 million DWT. Principal cargoes handled by PSL are agricultural products, cement, steel, fertilizers, ore and concentrates, logs, coke and other items. Geographically, PSL estimates its business to be divided evenly across five regions: i) USA – Canada, ii) Europe, iii) Latin America – Africa, iv) Indian Subcontinent – Middle East, and v) South East & Far East Asia.

PSL operates the majority of its ships in difficult markets and ports that have limited infrastructure. This distinction provides a competitive advantage and allows PSL to enjoy stable charter rates compared to other operators. PSL’s geared ships also have operational and economic advantages in the sense that the ships’ equipment can easily discharge and/or load cargoes at a very economical cost. Geared ships are, therefore, preferred over larger, gearless ships, despite the latter’s proven economy of scale. PSL also benefits from a young fleet, diversified revenue sources, a brand name, in-house technical and experienced management, exemplary governance, and considered risk management practices. These skill sets distinguish the company and are invaluable.

PSL also recognized that long-term focus is required to compete in the volatile shipping business. Thus, PSL started moving towards the newly developed Ultramax design ships in 2013 by signing shipbuilding contracts for 24 Ultramax ships between 2013–2015 from two Chinese shipyards. During this period, PSL also signed shipbuilding contracts for two Eco design Handysize ships from a third Chinese shipyard.

It was the general consensus of the industry around this time that the shipping markets were set to have better days from 2015 onwards, but those better days have yet to come.

Immediately after placing the orders, PSL began securing financing for the newbuilding contracts by putting in place secured credit facilities from banks and financial institutions. However, it soon became apparent to PSL that one of the shipyards would not be able to deliver the vessels in accordance with the shipbuilding contracts and the relevant technical specifications. PSL tried to negotiate an amicable settlement, but those efforts did not bear fruit, and a huge amount of cash was (and continues to be) tied up in arbitration.

This predicament was exacerbated when, in the latter part of 2015, contrary to the vast majority of the industry’s expectations, the already weak shipping markets fell even farther, causing not only misery for owners but also for the very banks upon which they relied. With imminent cash requirements amidst a very weak market, in June 2015, PSL turned to its shareholders to raise cash through a rights offering. PSL offered one additional share for every two held, and raised USD 63 million without causing any dilution to its existing shareholders. The infusion of equity shored up PSL’s finances and appeared sufficient at that time.

However, there continued to be tremendous downward pressure on PSL’s earnings during the year 2015 and so, in Q2 2015, PSL suffered negative cash flow in Q2 2015.
for the first time in almost two decades. With the shipping markets — and particularly the dry-bulk sector — being so weak, funding avenues became even scarcer.

Pushed now to the brink, yet undaunted PSL, explored all of the following:

- Secured debt from traditional shipping banks
- Unsecured debt from Singapore MTN market
- International Bond Market – based on the shipping industry’s rating, the indicative coupon rate PSL would have had to pay was in double digits, which was absolutely unfeasible
- Norwegian Bond Market - but it was not available for the requisite amount or the required (long) tenor, and the pricing was also too high
- Sale and Leaseback – Available options were either too expensive or the amount of financing inadequate
- Equity – PSL had recently concluded a rights offering and, therefore, could not immediately return to existing shareholders for additional funds.

A NEW UNTAPPED MARKET!
In Q4 2015, the continued weakness in the dry bulk sector triggered a breach of the “loan to value” covenant of certain existing secured loan facilities for which additional funds were required in order to remedy the breaches. PSL, with only a slim window of opportunity, then approached one of Thailand’s top three banks, Krung Thai Bank Public Company Limited, to see if the bank would be interested in arranging a Thai Baht Bond in the Thai Bond Market.

The bank’s response was positive, but the path towards making a Thai Bond issue had multiple hurdles to overcome:

- Because of the existing secured loan facilities, PSL had little or no security to offer
- Credit rating – PSL would need to get a reasonable credit rating, which was not in itself a problem, but posed a hurdle due to the paucity of time
- Size – Companies of PSL’s size were usually unable to raise more than USD 50 million in the Thai Bond Market, about half of what PSL was targeting
- Pricing – was beyond PSL’s control, and would largely depend on the credit rating that PSL would receive, but a higher coupon would make the bond unworkable
- Tenor – PSL was looking for a tenor of at least five years, but companies of PSL’s size usually issued instruments with three-year tenors, and some even as low as one year
- Exchange risk – Any issue in the Thai Bond Market would be in Thai Baht, not US Dollars. Despite being a Thai company, PSL’s functional currency is US Dollars, so Thai bonds posed a serious exchange risk.

PSL partnered with the bank to overcome these hurdles through a Thai Baht bond program, with a tailor-made USD/Thai Baht swap. PSL’s management, through extensive negotiations with the bank, ensured that the bank was not only the sole arranger for the program, but also firmly underwrote the entire planned issue amount, which mitigated the risk of failure in placement of the bonds.

PSL next secured an investment grade rating, not only for PSL as a company, but also for the planned bond issue. Thus, in January 2016, in the thick of the darkest phase in the history of the shipping industry, PSL was able to raise almost THB 3.6 billion through an unsecured bond issue on the following terms:

- Size – THB 3,590 million was just the right amount (about USD 100 million) which normally would not have been possible for a company of PSL’s size to raise. However, through the marketing strategy and rigorous marketing activities conducted in partnership and with the full support of the arranger, there was tremendous investor interest, which resulted in an oversubscription
- Pricing – With investment grade rating, further supported by the aforementioned investors’ confidence in PSL and rigorous marketing activities, PSL managed to make the issue with a very competitive fixed coupon of 5.25% p.a.
- Tenor PSL - was successful in doing so, and managed to secure a tenor of five years, which is much longer than that of other companies of PSL’s size
- Exchange risk – Simultaneously with the bond issue, PSL signed off on a tailor-made USD/Thai Baht swap agreement. However, truly remarkable was that the pricing still remained at under 6% p.a. on the USD amount, less than half of what a shipping bond was expected to yield in the USD bond markets at the time.

For the wisdom to raise funds as soon as possible, and for this tremendous achievement given the unprecedented shipping market conditions and investor outlook towards the shipping industry in general at the time, we are delighted to give PSL our Public Debt Deal of the Year!!