A VIKING SAGA
BANK DEBT DEAL OF THE YEAR

Transaction: DHT Holdings $300 million Term Loan and Revolving Credit Facility
Winners: Nordea Bank, ABN AMRO, DNB, Danish Ship Finance, ING, SEB, Swedbank

While we have discussed the state of ship lending ad nauseam, we repeat ourselves yet again to provide context for this challenged category. The simple picture of Global Syndicated Marine Finance Loan Volume, shown below, will suffice. Bad loans and regulators combined to curtail loan volumes. Banks needed to repair their own as well as their customers’ balance sheets. New business volume was secondary or maybe simply a dream. To the extent there was new business, it was largely refinancings of existing loans with top tier clients.

One of our greatest challenges in putting together this issue is evaluating this category. We acknowledge the difficulties of getting a loan done and the challenges of herding cats to put together a syndicate. But that is true for all syndicated loans and the price for size and risk sharing. Accolades for the nominations include successful syndication, size, broad bank group, overcoming difficult markets and speed of execution. Still, none of these are very inspiring to an outsider and, as you might expect, all make the same claims, making differentiation even harder.

There were a number of worthy deals nominated in the is category including the $600 million credit facility to Teekay Shuttle Tankers which is discussed later in a larger context. Keeping it in the family, there was the $270 million to the newly merged Teekay Tankers and Tanker Investments provided by Nordea, Danske Bank, Swedbank, SEB, Clifford Capital and National Australia Bank, which was significantly over-subscribed. The combination of the two companies, integrating two quality and homogeneous fleets, strengthened the balance sheet by reducing financial leverage and increasing liquidity, a necessity given the challenging tanker market.

The year did not begin propitiously for DHT Holdings Inc., the winner in this category. The image that comes to mind is a shark smelling blood in the water and circling its prey. Through strategic and timely acquisitions, DHT had built up a very modern, high quality fleet of VLCCs. Seeing opportunity, our shark, Mr. Fredriksen, built up a position of approximately 15 million shares (~16% of the outstanding shares and made a non-binding proposal to acquire the rest of the shares in a stock for stock transaction. To fend off the attack and buy time, DHT’s board went on the defensive and adopted a poison bill. After review, the board determined that the proposal grossly undervalued the company, which was struggling with its peers at a low point in the cycle, with asset values down 25-30%.

Not easily dissuaded, Mr. Fredriksen improved his offer, which was again unanimously rejected by the Board. DHT then took matters into its own hands and doubled down agreeing to acquire BW Group’s fleet of 11 VLCCs, including two newbuildings due for delivery in 2018. Based upon a valuation of approximately $538 million, DHT financed the acquisition by issuing approxi-
mately $256 million of capital stock (33.5% of the outstanding shares), paying BW $177.36 million in cash and assuming -$104.16 million in remaining obligations with respect to the two newbuildings.

The acquisition was like “chum” to a shark, propelling Frontline to the Supreme Court of New York to seek a preliminary injunction and restraining order to impede the transaction, which the court rejected. Having lost there, Frontline changed venues seeking redress in the Marshall Islands. Here too the court favored DHT dismissing the claim with prejudice, thereby precluding Frontline from bringing similar claims in any other court.

Some deals are simply more challenging than others. The cash requirements associated with the purchase were expected to be financed with bank debt. The transaction was simple and straightforward. A six-year term loan and revolving credit facility agreement totaling $300.0 million, of which $74.0 is a revolving credit facility was arranged with ABN AMRO, DNB, Nordea, Danish Ship Finance, SEB, ING and Swedbank for the financing of the cash portion of the acquisition of the VLCC fleet as well as the remaining installments under the two newbuilding contracts. Borrowings bear interest at a rate equal to Libor + 2.40% and are repayable with quarterly installments calculated based on the borrowings being repaid to zero assuming a 20-year economic life for the vessels.

The pressure was on the parties, who required rapid execution of this transformational transaction not only because it was a good deal but also to further dissuade Frontline. Oversubscribed by 78%, the deal was concluded in three weeks during the Easter holidays.

This was not the biggest deal or the most structured, but it was the most challenging, when you consider the timing. In this instance the image brought to mind was a gun to the head. The first law suit in New York was filed the day before the signing of the loan agreement, while the Marshall Islands suit was introduced the day before the first delivery. The lawsuits put the company in breach of its covenants and representations, which under the documents would trigger the material adverse change clause enabling the banks to walk from their commitments. Clearly the company and its lawyers were convincing, allowing the deal to move forward. As a result of the transaction, DHT became one of the world’s largest independent VLCC owners, which continues to successfully navigate through the current downturn. And, don’t feel sorry for Mr. Fredriksen who made money on the sale of his shares.