Leadership
Dealmakers of the Year
Back in June, Pacific Basin Shipping Limited closed a $325 million 7-year reducing revolving credit facility secured by over 50 of its owned vessels. It was Pacific Basin’s first ever syndicated revolving credit facility, with over 40% oversubscription reflecting the attraction of its solid balance sheet, corporate profile, business model, track record and reputation. Execution was enhanced by an innovative and dynamic book building process with pricing discovery to ensure best execution and pricing for the client. The transaction refinanced several of the company’s existing credit facilities and raised fresh capital on previously unmortgaged vessels at a very competitive rate of Libor +1.5%.

This transaction was remarkable on many levels. This landmark facility not only reduced Pacific Basin’s already very competitive vessel P&L breakeven levels but also further enhanced the company’s funding flexibility with access to long-term committed funding on a revolving basis for the next 7 years. The collateral securing the transaction is a story in and of itself. The loan is secured by mortgages on 50 owned Handysize and Supramax bulk carriers. The average age of these 50 ships is 11 years and the facility will effectively extend their repayment profile by an additional 11 years to an average age of 22 years. The extended amortisation, low capital cost and low interest rate all contribute to the low cash breakeven rate.

The new milestone transaction demonstrated Pacific Basin’s strong access to diverse sources of capital at very competitive pricing and its status as a favoured borrower within the banking market. Supported by first rate banks that are familiar with the shipping industry, the transaction expanded Pacific Basin’s pool of relationship banks by including 4 Japanese and European banks that represent new banking relationships for the company.

Pacific Basin frequently appears in these pages, often being on the cutting edge of new ideas. One of our favourite transactions won the Innovation Deal of the Year back in 2016. Pacific Basin found a new purpose for an equity issuance, using it to solve a difficult problem. In addition to its owned fleet, Pacific Basin expands its fleet strategically by chartering-in vessels for short to long-term periods. Unfortunately, ten of the long-term chartered-in vessels were concluded in a higher rate environment and the company was losing significant cash flow on the charter-outs. To stop the bleeding, the company in October 2016, reached an agreement with the shipowners to issue to them new Pacific Basin shares in return for a significant reduction in charter-hire rates on the ten long-term chartered ships. Clearly the issuance of shares is not by itself innovative. It is the fact that the company was able to negotiate a transaction where the shipowners agreed to accept the shares in lieu of a portion of the charter hire obligation that makes this deal stand out.

While slightly dilutive to the existing shareholders, the transaction saved existing cash improving liquidity and the balance sheet and is therefore in their interest in the long run. But most importantly, both transactions speak to the various counterparties trust in Pacific Basin’s financial strength, and their belief in the longer-term prospects for Pacific Basin.