Leadership
Dealmakers of the Year
KOREA IS HERE TO COMPETE
THE EXPORT CREDIT AGENCY DEALS OF THE YEAR

EAST

Transaction: KSmart $251.3 million 95% K-sure insured Term Loan Facility
Winners: Citi, KDB, Standard Chartered, Bank of America, K-sure

Transaction: KSmart $167.5 million Junior Loan
Winners: KDB, KEXIM, KAMCO

WEST

Transaction: Teekay Shuttle Tankers $265.8 million Senior Facility
Winners: DNB, Nordea, ABN AMRO, KDB, KEXIM, K-sure

Transaction: Teekay Shuttle Tankers $30 million Junior Facility
Winners: DNB, KDB, NHS

Shipbuilding remains a highly competitive business. Price can only go so far and ECA terms, which are fixed, provide only a level playing field. A competitive edge is needed. Making it more challenging was the fact that it was also a difficult time for the shipping industry in Korea, which was struggling and trying to recover from a poor market highlighted by the bankruptcy of Hanjin Shipping Co.

Seeking to expand its fleet, Hyundai Merchant Marine (“HMM”) was looking to acquire five newbuilding VLCCs in 2017, which were to be constructed at DSME, and sought the assistance of the Korean New Build Promotion Program (NBPP”), whose purpose is to strengthen the competitiveness of the Korean maritime industry through fleet expansion of national shipping companies. Financing under the program consisted of a 60% K-Sure guaranteed senior facility with 40% sourced from junior investors of policy institutions. The 300,000 DWT VLCCs were contracted at a highly favorable price of $83 million each, a steep discount to today’s price of $91 million.

To finance the purchase HMM was seeking 90% financing, a level too high to achieve competitive pricing.

From the beginning, the challenge for the lenders was the credit of HMM, which had seriously deteriorated as it incurred operating and net losses of hundreds of million dollars as a result of the poor market and high leverage. While the largest container shipping company in Korea, the company still ranked below the minimum investment grade since 2016. Although it met the requirements of NBPP, lenders remained cautious and were reluctant to participate in the loan, particularly at the desired level. As the financial advisor to HMM, Korea Development Bank proposed making use of a structure utilizing a fronting loan, enhancing the creditworthiness of HMM in a corporate finance structure.

To further support the Korean shipping industry, the Korean Government established KSmart in 2017 with legal capital KRW 1.0 trillion (~$115.6 billion). Owned by KDB, KEXIM and KAMCO, the company’s purpose is to
provide liquidity and financial support to local shipping companies. To that end, KSmart is actively involved in the a) sale & purchase of vessels and chartering, b) investments in shipping companies, and c) specialized credit financial services and leasing with the intention of improving the financial structure and profitability of the Korean shipping industry.

Under the new proposed structure, KSmart became the purchaser of the five vessels for a total project cost of $418.8 million, which was financed with a $251.3 million 95% K-Sure insured senior loan facility provided by KDB, Citi, Standard Chartered and BofA with the balance, $167.5 million, funded by an investment trust, whose participants included KDB, KEXIM and KAMCO. The senior loan facility had a 12-year tenor, with each lender having a put option after five years, matching the five-year tenor of the junior facility. Under the terms of the back deal, more representative of a shipping transaction, the loan proceeds were on-lent by KSmart, as lender, pursuant to a separate $418.8 million 12-year loan facility, to five SPCs controlled by HMM, each owning one of the five newbuild VLCCs, which would be bareboat chartered to HMM upon delivery. Details of the offering are shown above.

While the structure was sufficient to raise funds, it still was not enough to guarantee the project’s viability, particularly from a cash flow perspective. HMM solved that problem by arranging five-year COAs with Korean refinery giant, GS Caltex, and 3 + 2-year time charters with British Petroleum. The employment enabled KDB to leverage the banks to obtain competitive pricing based upon a Debt Service Coverage Ratio of 1.17x over the 12-year period, giving added assurance to the junior lenders.

Last, but not least, the deal was strongly supported by asset values. The VLCCs were ordered at an historic low price of $83 million/each. As of December 2018, the contract price for a 300,000 DWT VLCC was approximately $90.5 million, despite the weak tanker market.

Two years and three months in the making, this was the first
transaction involving KSmart. Notwithstanding the ongoing rehabilitation proceedings involving HMM, the transaction was successfully concluded through creative structuring. The front and back deals allowed for the substitution of a better credit, while the long-term employment provided the cash flow that supported the high leverage while achieving competitive pricing. Then there is the icing on the cake – the equity in the ships, which gives the lenders cushion and HMM residual upside.

The New Build Promotion Program has been a success. From June 2017 through November 2018, eight vessels worth $639 million have been concluded. In addition to HMM’s VLCCs, three 325,000 DWT newbuilding VLOCs have been contracted and 8 x 14,000 TEU newbuilding containerships for HMM are under consideration.

Since the deal closed, KSmart has been amalgamated with Korea Ocean Business Corporation (‘KOBC’) (together with Korea Maritime Guarantee Insurance Co., Ltd. and Maritime Exchange Information Centre) pursuant to the Korea Ocean Business Corporation Act.

In the winning Western ECA deal of the year, Teekay Shuttle Tankers refinanced a $250 million pre- and post-delivery bank financing for three newbuilding shuttle tankers, as part of a comprehensive refinancing subsequent to the 2017 recapitalization. Against an attractive credit profile, further supported by the revenue backlog and strong market fundamentals, Teekay Shuttle Tankers borrowed a total of $295.8 million in a senior and junior loan facility, consisting of a $265.8 million K-Sure 95% guaranteed commercial tranche and a $30 million junior tranche. The loan amount represents an ~80% advance against the total project cost of $373.6 million and was split equally between K-sure, KEXIM and the commercial banks. The loan is structured with Teekay Grand Banks Shipping, as the borrower, with the loan guaranteed by Teekay Shuttle Tankers. The vessels are bareboat chartered to Teekay (Atlantic) Chartering, who operates them under COAs. A diagram of the transaction is shown below:

The winning aspect of this transaction was the junior loan which was funded by an investment fund, whose investors include Korean Development Bank and NH Investment and Securities. This was the first international shipping transaction for Korean junior investors. It was the support of the junior loan which allowed the nearly 80% leverage in the transaction.

A $200 million K-Sure backed ECA term loan to Hoegh LNG, led by ABN AMRO, deserves honourable mention. The FSRU business is capital intensive and the bidding process challenging, requiring vessels to be ordered on spec. To deal with the lack of firm employment, ABN AMRO structured a $200 million credit facility split into two tranches. The first tranche was a traditional ECA structure consisting of a 12-year fully amortizing K-sure tranche of $135 million and 5-year bullet commercial tranche of up to $65 million. The bullet tranche is further split in 3 separate tranches of $45 million, $10 million and $10 million, with the amount of the top-up determined by the length of the charter contract - spot, 5 and 10- year terms. This innovative loan structure regulated leverage (65, 70 and 75%) and profile (this automatically increases due to bullet nature of commercial loan, which is pari passu with ECA tranche. And importantly, the flexible structure allowed for funding in the event that no employment was in place.

Transaction Structure – Teekay