Leadership
Dealmakers of the Year
WE HAVE SEEN THE FUTURE, AND THE FUTURE IS OURS.”

GREEN SHIP FINANCE DEALS OF THE YEAR

**WEST**

Transaction: Sovcomflot $252 million nine-year Green Finance Credit Facility to finance nine LNG-powered Aframax Tankers

Winners: ABN AMRO, BNP Paribas, Citibank, ING, KfW IPEX-Bank, Societe Generale

This is a new category — one that will take on greater and greater importance as companies, financial institutions and shareholders all strive for greater environmental, social and governance performance measures. To read the headlines, listen to keynote conference presentations and watch as corporations and their Boards bring environmental and social issues to the forefront. Companies and managements may ignore the direction of history at their peril.

Thus, it is extremely satisfying to be able to acknowledge Sovcomflot and its bankers — ABN AMRO, BNP Paribas, Citibank, ING, KfW IPEX, and Societe Generale — for getting out ahead of the curve. Of course, Sovcomflot has demonstrated time and again its forward-facing Board and Management commitment to doing the right thing — and often doing it boldly before the rest. So, in a year in which Sovcomflot was very active in bank debt market generally — successfully raising up to USD 900 million through a series of 7 bank financing deals (both bilateral and syndicated ) with ten different financing institutions — it is a bank deal for the financing of a new generation of Green Funnel Aframax tankers (the world’s first designed specifically to use cleaner-burning LNG as their primary fuel) for which the Green Ship Finance Deal of the Year is Awarded to Sovcomflot.

The deal was not without its challenges for the bankers. Strong support for credit facility from six prominent international banks came at a time of limited credit availability for a depressed shipping market, with tanker freight markets at their historic lows. There were also additional factors to consider for participating financial institutions, such as international geo-political risks, the state of the world economy and corporate risk, for providing credit to a Russian borrower. Despite the above the deal has been 2 times oversubscribed and the ticket per lender had to be minimized substantially in order to allow room for all interested parties to join the deal.

The project delivers significant environmental benefits, enabling full compliance with existing (Sulphur Cap 2020) and planned regulations of the International Maritime Organization (IMO). Equally important, the vessels provide for significant reductions in harmful vessel emissions: namely: 27% reduction in Carbon Dioxide (CO2) emissions; 85% reduction in Nitrogen Oxide (NOx) emissions; 100% reduction in Sulphur Oxides (SOx) emissions, when compared to engines burning standard marine fuels. Particulate matter emissions from LNG-fuelled ships are also cut to near zero.

For the finance community, increasingly under scrutiny itself from shareholders and environmental activism, the financing of this sort of transaction takes on an ever-greater significance in its own Annual Reports.

Further, Sovcomflot and its banks proved that a company

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1 César Chávez
can, in fact, “do well by doing good” as the credit facility benefits from a favorable long-term tenor and competitive pricing on the basis of a strong green angle of the underlying project. The borrowers are special purpose companies owned by SCF Tankers, which, in turn, is wholly owned by PAO Sovcomflot. The borrowers are the owners of Green Funnel Aframaxes constructed at HHI, Korea. The facility is up to nine years (including up to two years availability period) on-delivery term loan financing for 70% of the contract price of the vessel. The repayment profile is 15 years to nil. All-in interest, comprised of a very competitive margin and Libor fixed for the whole facility tenor through IRS, allows SCF Group to recoup its equity investment at a double-digit rate of return.

In 2018, SCF fully addressed the Group’s mid-term financing requirements, optimized and smoothed-out its debt repayment profile, and built up an additional liquidity cushion. In any normal year, that might have been enough for an award. But the Editors of Marine Money are proud to give this first Green Ship Finance Award to the management, men and women of Sovcomflot, and the banks with the vision and confidence to back them despite market volatility and geopolitics. Congratulations.

**Transaction:** $72 million GIEK-Covered Scrubber Retrofit for Quantum Pacific Shipping

**Winners:** KfW IPEX-Bank, GIEK, Clean Marine (Scrubber Manufacturer)

At Marine Money’s Korean ship finance conference in November 2018, the quantum placed on the dollar need to meet current regulatory-driven environmental fixes for Ballast Water and Scrubbers alone was estimated to be more than $50 billion dollars. Speaker after speaker discussed how decarbonization was no longer an abstract concept but a fact, with the added admonishment that today’s best performers will thrive. As any reader of Marine Money knows, controlling capital expenses can be critical to that success!

So, it is with well-deserved fanfare that the Editors of Marine Money award the Quantum Pacific $72 million scrubber financing by GIEK and KfW IPEX the Green Ship Finance Deal of the Year – East. The Idan Ofer Singapore-based Quantum Pacific boasts a fleet of about 125 ships, covering a wide range of vessel types and sizes. GIEK, for whom this transaction is its first scrubber financing, has issued a guarantee of about $56 million (~80%), supporting the $72 million five-year loan made by KfW. The loan is a customized corporate facility with multiple tranches and sequential repayment structure. At that same Marine Money Korean conference, GIEK SVP Anders Nielsen told the audience that GIEK would be extremely supportive of Norway’s three major scrubber providers and, with this first deal, have proved they will be just that.

For an industry with a large carbon footprint — one squarely in the target sights of environmental activists — such financial support is crucial to its decarbonization evolution. Scrubber finance has developed, but still presents a plethora of legal, regulatory and commercial challenges for owners. The presence of an export credit agency such as GIEK goes a long way to alleviating many of the credit and structuring concerns of banks like KfW.

GIEK is a public-sector enterprise under Norway’s Ministry of Trade, Industry and Fisheries. Its purpose is to promote Norwegian exports and investments abroad through the issue of guarantees issued on behalf of the Norwegian government. GIEK can accept up to 85% financing of the export contracts’ value, and can cover up to 90% of the loan. The most likely coverage would be 70% to 80%. The residual risk is covered by a commercial bank. Again in Korea, Anders Nielsen indicated that GIEK coverage could even include parts of installation costs.

While like all Export Credit Agencies, GIEK charges for providing guarantees — and this may add to financing costs — the fact that GIEK is a Norwegian AAA credit will be reflected in the final all-in pricing. The transaction reflected a close and effective collaboration between GIEK and KfW in their joint support of owners and operators facing environmental challenges and their related costs.

As the industry marches forward in its quest to meet both current and developing international environmental challenges, the best companies will thrive in their ability to work closely with financial institutions which themselves embrace the change. It is the Editors’ honor to champion this transaction as a Green Deal of the Year.

Norwegian content must account for at least 30% of the amount of Norwegian supplier contracts.