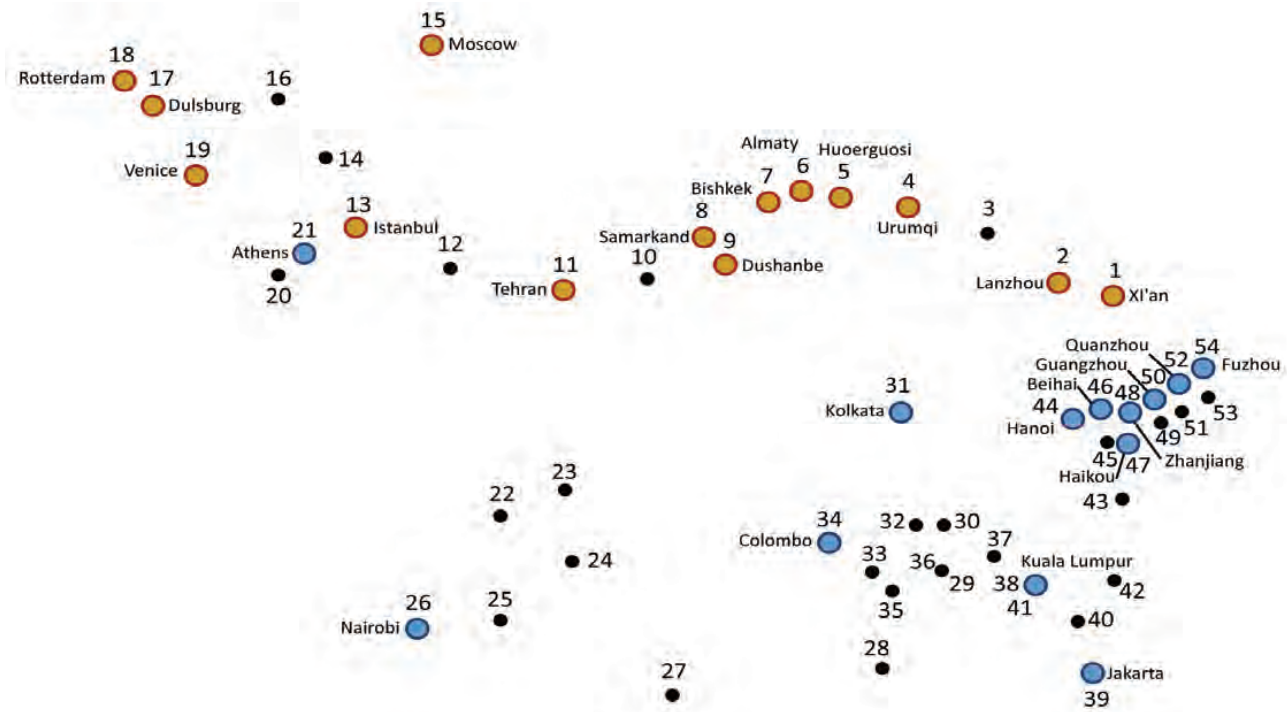
THE SHIP FINANCE PUBLICATION OF RECORD

MARINE MONEY

INTERNATIONAL

HAMBURG ◆ SINGAPORE ◆ LONDON ◆ NEW YORK ◆ OSLO ◆ PIRAEUS

AUGUST/SEPTEMBER 2016 VOLUME 32, NUMBER 5



Connecting the Dots - East Meets West

The Asia Issue

TRENDS IN ASIAN MARITIME FINANCE

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As the maritime industry stagnates, global shipping players are closely watching Asian maritime finance trends so as to react appropriately to brave the ongoing storm.

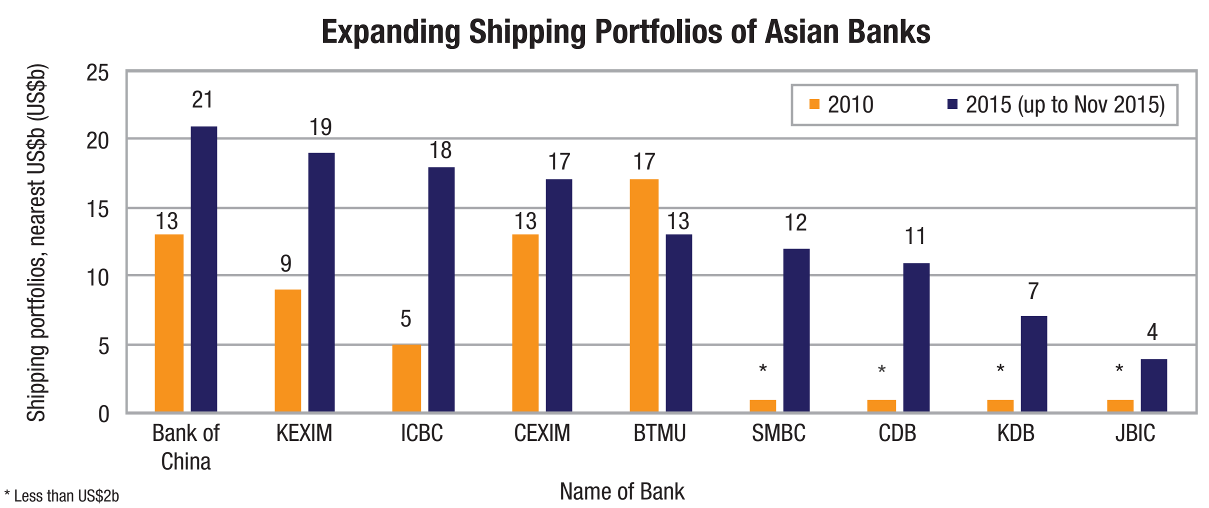
GROWING ASIAN PARTICIPATION IN GLOBAL MARITIME FINANCE

The ship finance market, previously dominated by European banks, is shifting to the East. According to ship finance consultant, Petrofin Research, Asian lenders are catching up with Europe. European banks' share of the global maritime portfolio declined from 83% in 2010 to 62% in 2015, replaced by Asian banks' expanding maritime portfolios, e.g. Bank of China (BoC) ($21 billion), Korea Export-Import Bank (KEXIM) ($18.5 billion), the Industrial and Commercial Bank of China (ICBC) ($18 billion) and China Export and Import Bank (CEXIM) ($16 billion).

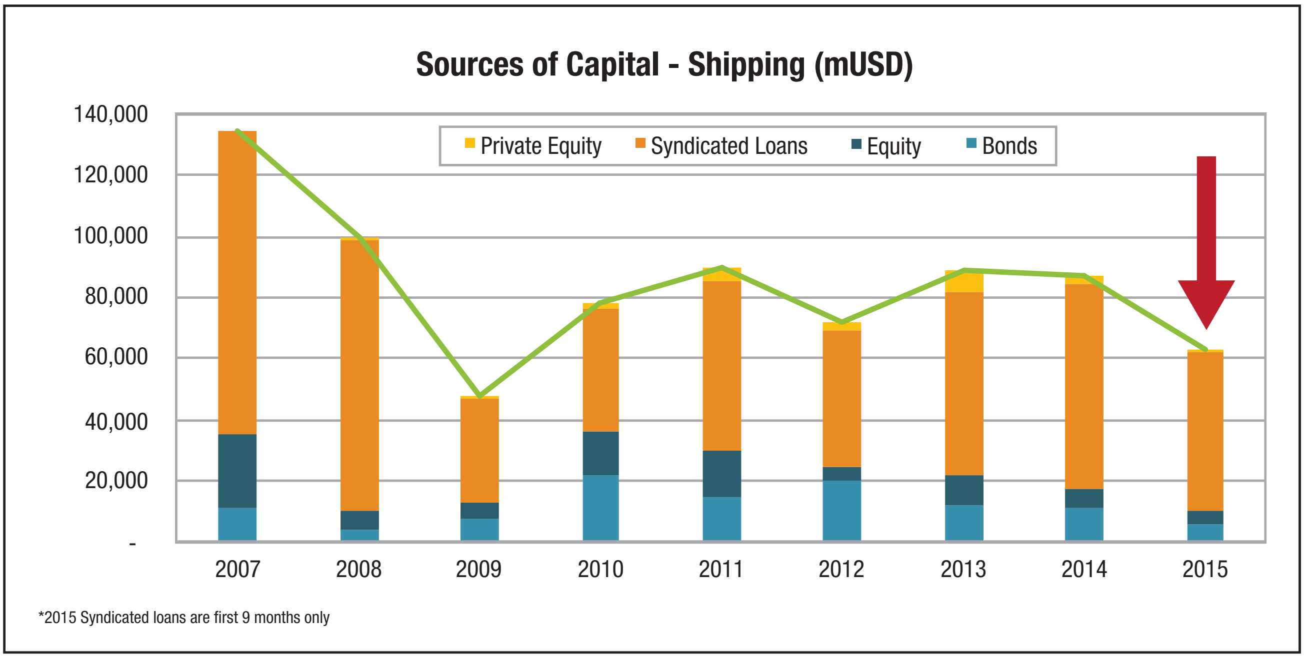
The shift is attributable to several factors. European banks are retreating due to Basel III requirements, asset quality reviews, regulatory stress tests, and the continuous pressure from non-performing loans — in some cases, ever since 2008. For example, Deutsche Bank was recently seeking to sell at least $1 billion of shipping loans. In addition, in June 2016, the European Central Bank was reported to be launching a further review of European banks' shipping loans, generating concerns about follow-up requirements for further capital injections and loss provisions.

In addition, as traditional financing sources dry up, countries such as China, Korea and Japan, whose economies rely significantly on the maritime industry, have found it necessary to fill the financing gap for strategic and economic reasons.

The expansion of Asian involvement is also in line with the rapid expansion of Asian banks, economies and shipping. By 2016, the top three positions in the Forbes Asia's Global 2000 list of largest companies were occupied by Chinese banks, while data from Marine Money shows that Asian countries and companies are among the leaders in global ship finance deals. Global Marine Trends 2030, published by Lloyds Register, estimated that China will lead the globe in

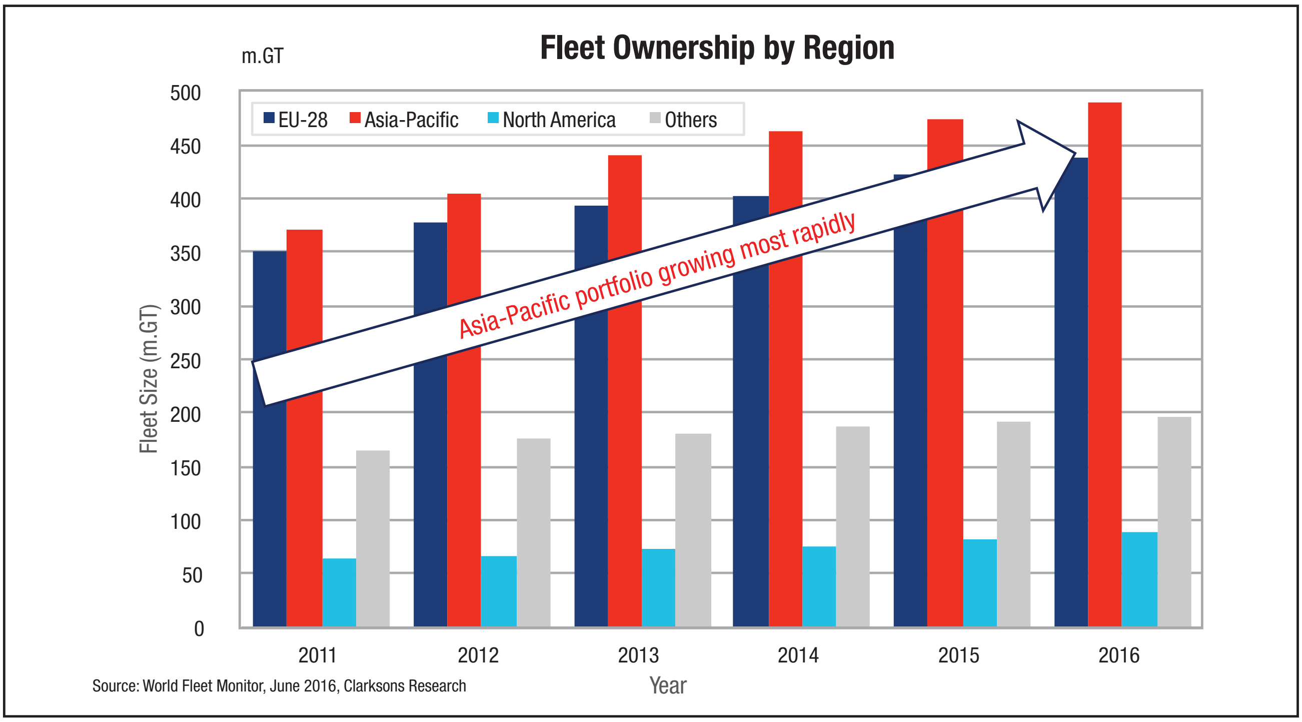


* Less than US$2b
Source: Petrofin Bank Research



both GDP and maritime fleet size by 2030.

The growth in Asian funding is global, not merely domestic or regional. International counterparties constitute over 70% of the $6-7 billion maritime portfolio of ICBC Financial Leasing (ICBCL). ICBC expanded its global maritime financial involvement recently when it established the Asia-Pacific Shipping Finance Centre in Singapore to securitise shipping loans via the Singapore bond market. Additionally, Chinese banks' global infrastructure portfolios, including maritime infrastructure, are expanding rapidly under China's One-Belt-One-Road initiative (OBOR). Japanese banks, seeking to increase profitability via international expansion, are also reported to be eyeing international banks' shipping portfolios. Asia's maritime finance will expand further from opportunities in Iran. Despite lifting Iranian sanctions, U.S. companies are still barred from Iranian trade and investment, creating legal issues which discourage most Western lenders from business in Iran. In contrast,



Chinese banks are capitalising on these opportunities, e.g. ICBCL was recently reported to be courting Iranian shipping companies with a US$4 billion budget.

THE RISE OF CHINESE LEASING COMPANIES

As senior lenders withdraw, Chinese leasing companies have become an attractive alternative to senior debt finance. Chinese leasing is growing and has enormous capacity as they are owned by China's financial titans, such as the state-owned banks. For example, ICBCL's maritime portfolio exceeds 300 ships valued at more than $6 billion.

Other participants include the leasing arm of China Merchants Bank (CMB); Minsheng Financial Leasing (MFL) (owned by China Minsheng Bank); and China Minsheng International Financial Leasing (joint venture between China Minsheng Investment Group and Korea's Hana Bank). In May 2016, China Merchants Group formed CMG Financial Leasing to focus on shipping, shipbuilding, offshore, port, and other assets. Based on data from China Merchants Group, the combined ship leasing portfolios of CMB, ICBC, Bank of Communications, and MFL, amount to approximately US$15 billion.

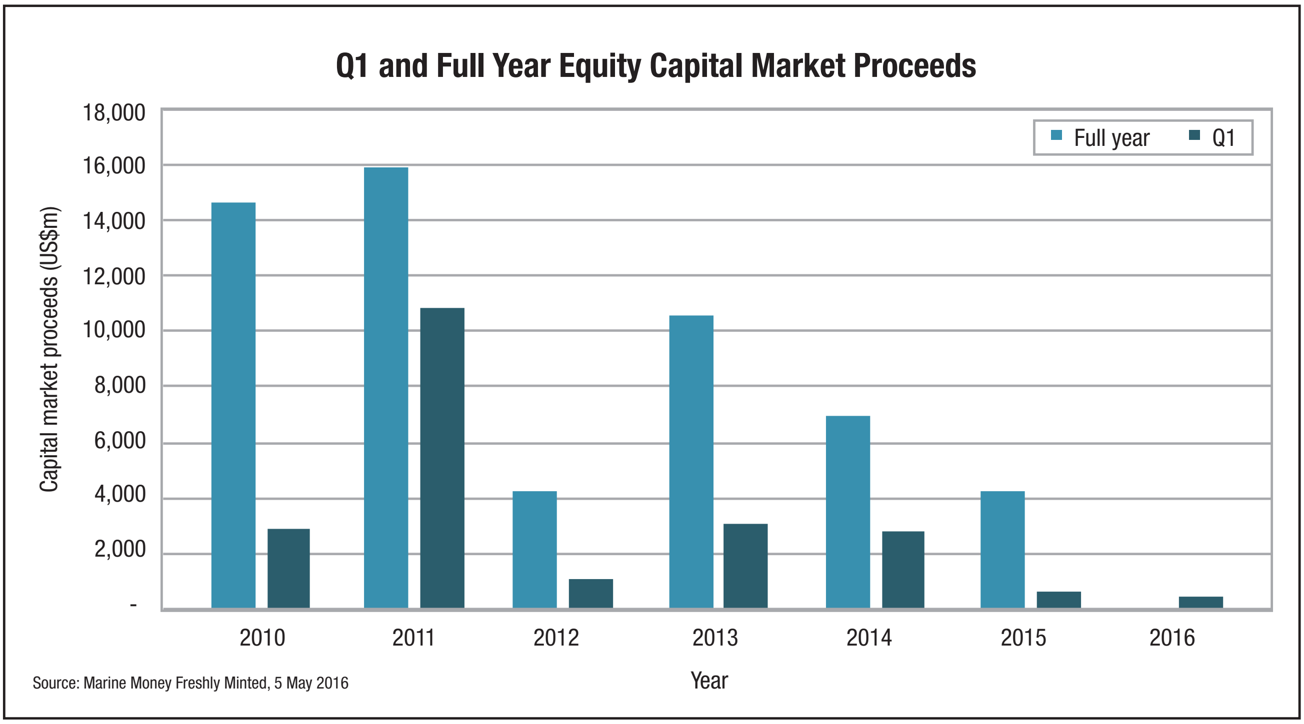
This portfolio is well-positioned to expand further with support from capital markets. The cornerstone $800 million IPO of China Development Bank Financial Leasing (CDBL) in June 2016 sets a precedent for Chinese leasing companies to expand via capital markets, well-supported by their strong credit ratings (e.g. Fitch rated CDBL as A+, and ICBCL as A).

SLOWING IPO AND PRIVATE EQUITY FUNDING

The trend in shipping IPOs and quoted securities, both in Asia and elsewhere, has largely been discouraging. Many public shipping companies have reported poor results, which has depressed interest for shipping securities.

Similarly, private equity funds in shipping have mostly underperformed since their entrance in 2012 to 2014, which has suppressed global appetite for more of such investments. Nevertheless, significant Asian private equity deals are still ongoing, albeit at a much reduced rate. In addition, the Chinese leasing companies, discussed previously, have provided significant equity funds into the industry.

In Korea, Mirae Asset Financial Group, which manages assets of over $70 billion, was reported to have acquired bulk carriers and containerships worth US$260 million in January 2016. Korean private equity firm Hahn & Co, with over US$3 billion of assets under management, is also reported to be paying nearly $500 million to buy the dry bulk fleet of Hyundai Merchant Marine (HMM) in 2016. Hahn & Co is not a newcomer, having purchased Hanjin Shipping's dry bulk business in 2013. Further funding for the maritime sector is underway, as the South Korean government created a new fund of US$1.2 billion in conjunction with banks and shipping companies to guarantee loans for newbuildings in Korean shipyards, with the aim of ensuring yard employment and a modernized Korean shipping fleet.



INCREASING RESTRUCTURINGS, MERGERS AND BANKRUPTCIES

The need for lenders and investors to deal with restructurings, mergers and bankruptcies is an increasingly common practice in maritime finance.

Korean banks face massive exposure to the financially-troubled shipbuilding sector approximating $60 billion. Shipyards in difficulties include Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering (Daewoo), among others. Some have already failed, e.g. STX Offshore & Shipbuilding Co. (STX). The same applies to Chinese banks and shipyards. For example, BoC is the largest lender to Hong Kong-listed shipyard, Rongsheng Heavy Industries, which is under financial restructuring. Shenzhen-listed shipbuilder, Sainty Marine, filed for bankruptcy in February 2016.

Ship lending is equally under siege. For example, HMM's financial restructuring will result in its main lender KDB becoming its largest shareholder. According to the Korea Ship-owners Association, over the last seven years, around eighty dry bulk shipping companies have been taken down, while around twenty are under court management. The bankruptcy of Japanese shipping company United Ocean will also impact banks such as Tokyo Mitsubishi UFJ and Mizuho who have reportedly lent about US$1 billion.

GROWTH OF MARITIME INFRASTRUCTURE FINANCING

Recent political and economic developments are shifting the focus in Asia beyond vessel financing to infrastructure financing. In particular, China's OBOR initiative is driving infrastructure development, including maritime infrastructure, with strong support from a $40 billion Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB) funded with $100 billion of committed capital. OBOR maritime infrastructure initiatives include:

- Development of Trade and Logistics Hub Centre in Antwerp port;
- Development of US$10 billion port at Bagomoyo in Tanzania;
- Strategic partnership with the Port of Rotterdam for containers, shipping and other projects;
- Acquisition of Gwadar Port in Pakistan, with US$4.5 billion planned infrastructure expenditure;
- Acquisition of Pireaus port for Euro 368.5 million; and
- Acquisition of Kumport Terminal in Turkey for Euro 920 million.

These investments are led by Chinese state-owned enterprises and look set to grow. For example, China Merchants Holding International (CMHI) has announced plans to invest in another ten ports over the next five years throughout Asia.

RISE OF STATE-BACKED FINANCING

The growing state-backed financing in Asia is attributable to a number of factors. As the prolonged shipping downturn and onerous banking regulations discourage participation by commercial financiers, Asian maritime nations increasingly need to provide state-backed financial support to retain their national fleet and maritime influence for strategic and economic reasons. In addition, the OBOR initiative is driving massive Chinese investments, led by Chinese state-owned enterprises, into foreign infrastructure development, including maritime infrastructure.

In Korea, the maritime sector is heavily supported by state-owned KDB and KEXIM. Societe Generale estimated that 60% of KDB and KEXIM's credit exposure is in shipbuilding. Both KDB and KEXIM are among top ship lenders, with portfolios of $17.7 billion and $18.5 billion respectively at end-2015. In addition, their equity exposure is increasing, as demonstrated by KDB's large shareholdings in HMM, Daewoo, STX (before its bankruptcy), and KEXIM's shareholding in Sungdong Shipbuilding & Marine Engineering. State-backed funding will grow further with the proposed US$1.2 billion maritime fund.

In China, the most active banks in shipping, including BoC, ICBC, and CEXIM, are all state-owned. Active ship-leasing companies such as ICBCL, CMG Financial Leasing and, to a limited extent, CMB, are also state-owned. The same applies to most OBOR maritime infrastructure lenders and investors.

CONCLUSION

Asian participation in maritime finance looks set to escalate, bringing opportunities and challenges to the industry. On the one hand, it provides a formidable pool of financing, helping ship-owners to sustain and expand their fleets. OBOR financing is also helping many countries develop maritime infrastructure. However, the additional capacity made possible by this financing must be carefully managed in an industry that is already experiencing critical overcapacity. Further, Asia is not a panacea for maritime finance. Significant equity from the ship owners remains a pre-requisite, as such ship acquisitions are reserved for those with resources. Besides Asian state-owned enterprises described above, wealthy ship owners in other countries, such as Greece, are also making opportunistic acquisitions, which provides a supply of equity funding while the industry recovers. The equity gap is likely to remain until a new equilibrium is reached. This will take a while to be attained in the presence of excess supply.