

# ***WORKSHOP IN SHIP FINANCING OPTIONS***

***NAZERY KHALID***  
***Fellow, Maritime Institute of Malaysia***



# Workshop Outline

- Case study : Bank Industri
- Case study : MISC
- Group discussion

# Case study : Bank Industri

- The most active bank in SF.
- Set up in 1979 as a DFI.
- Major shareholder : MOF Inc.
- Offer extensive facilities geared towards enhancing Malaysia's maritime competitiveness.
- Support shipowning, shipyard & maritime-related activities.

# Case study : Bank Industri Exposure in maritime industry

Year	Amount Approved (RM mil.)
2000	116.5
2001	121.4
2002	202.0
2003	76.3
2004	372.0
2005	240.0 (Forecast)

# Case study : Bank Industri Facilities

- Bank Industri's Fund
- Shipping Finance Fund
- Contract Financing Scheme
- Standby Credit Facilities

# Case study : Bank Industri

## Bank Industri's Fund

- Short-term financing (term loan)
- Long-term financing (term loan)

# Case study : Bank Industri

## Bank Industri's Fund

- Short-term financing (term loan)
  - i) Revolving credit
  - ii) Performance & bidding bonds
  - iii) Contract revolving credit
  - iv) Working capital for maritime-related activities

# Case study : Bank Industri

## Bank Industri's Fund

- Long-term financing (term loan)
  - i) Purchase of vessels
  - ii) Upgrading of shipyards/ports
  - iii) Construction of warehouse
  - iv) Acquisition of maritime-related assets



# Case study : Bank Industri

## Long-term financing terms

Maximum margin of financing	New : 80% 2 <sup>nd</sup> hand : 75%
Interest rate	BLR + 20% max. p.a.
Maximum repayment period	New : 15 yrs. 2 <sup>nd</sup> hand : 10 yrs.
Security (not limited to)	Mortgage on vessels, guarantee, assignments of charter proceeds & shipbuilding contracts.

# Case study : Bank Industri Shipping Finance Fund (SFF)

- Set up in 1992.
- For acquisition of new & 2nd hand vessels registered locally and plying home & foreign trade.
- Main components : Ship Financing Facility & Shipping Venture Funds.

# Case study : Bank Industri

## SFF eligibility criteria

- Company incorporated in Malaysia.
- Size : RM1 bil.
- At least 70% local control for listed company & 100% local control for non-listed company.
- For members of Malaysia Shipowners' Association.

# Case study : Bank Industri

## Type of ships eligible for SFF

- Dry bulkers
- Liquid bulkers
- Specialized vessel i.e. car carriers, cement clinkers, LP carriers
- Container vessels

# Case study : Bank Industri

## SFF terms

Margin of financing	75% max. of vessel cost
Interest rate	Locally built : 4.5-5.0% p.a. 2 <sup>nd</sup> hand & foreign built : 5.5-6.0% p.a.
Grace period	2 yrs. Max.
Maximum repayment period	New : 10 yrs. 2 <sup>nd</sup> hand : 20 yrs. at the end of repayment period

# Case study : Bank Industri

## SFF terms

Security  
(not limited to)

- Mortgage on vessels
- Corporate or irrevocable guarantee by directors
- Assignments of charter & insurance proceeds
- Debenture on fixed / floating assets
- Assignments of shipbuilding contracts.

# Case study : Bank Industri Contract Financing Scheme

- For financing contract-related costs such as capex, raw material & operational expenses.
- Providing Bank Guarantee support in relation to the contract.
- Facilities incl. Revolving Loan, Term Loan & Bank Guarantee .

# Case study : Bank Industri Standby Credit Facility

- Offered to existing & potential customers.
- Assessment based on past track record, management capability & consolidated projections.
- Maximum amount : RM50 mil.
- Valid for 6 months.



# Case study : Bank Industri

## Basis for loan evaluation

- Management capability
- Market prospect
- Project viability
- Financial capability
- Technical expertise

# Case study : MISC

## Company profile

- National fleet incorporated in 1968.
- 62% owned by PETRONAS.
- Fleet of 109 vessels (as at Nov 2005).
- World's largest single owner / operator of LNG tankers (20 + 9 newbuildings).
- 2nd largest owner of Aframaxes (37).
- 2nd largest shipping company by market capitalization (USD9.5 bil.).

# Case study : MISC Acquisition of AET

- Acquired 100% of American Eagle Tanker (AET) from Neptune Orient Line (NOL) in July 2003.
- NOL is a Singapore-based global transport & logistics company.
- AET's main business : shipping crude in Atlantic & tanker-port oil transfer in US Gulf.

# Case study : MISC Acquisition of AET

Rationale of the deal :

- MISC wanted to spread out its risks and reduce dependence on LNG.
- AET was troubled by huge losses (USD300 mil. in 2002).
- NOL wanted to reduce its debt burden & focus on core business.

# Case study : MISC Acquisition of AET

- Cost of purchase : USD445 mil. cash.
- Payment : USD445 mil. purchase price for equity & USD75 mil. cash dividend from AET to NOL.
- Advisors : Citigroup Global Markets for MISC, JP Morgan for NOL.

# Case study : MISC Acquisition of AET

- Transaction was subject to adjustment for profits earned from 8 Feb 2003 to closing date of the deal.
- MISC agreed to increase equity price should AET achieve certain performance milestones over 2 years from deal date.
- Further adjusted by a mutually beneficial 2-year earn-out mechanism between MISC & NOL.

# Case study : MISC Acquisition of AET

Outcomes of the deal for MISC :

- Access into trans-Atlantic forays from the Arabian Gulf into US.
- Broadening of earnings & customer base.
- Has youngest Aframax fleet with average age of 7.5 yrs. vs world's 11.4.
- Acquired 29 Aframaxes & 2 VLCCs.

# Case study : MISC Acquisition of AET

Outcomes of the deal for NOL :

- Improved balance sheet.
- Cut net gearing to half.
- More focused on its core business : container (via APL) & logistics (via APL Logistics).



# Case study : MISC

## Acquisition of AET

- AET now contributes 20% to MISC profit.
- AET now has 31 Aframaxes & 3 VLCCs & plans to buy 10 more Aframaxes.
- AET signed 10-yr.contract to carry crude oil & petroleum products from Venezuela to Far East beginning 1 Jan 2005.
- MISC intends to be a leading global energy-based & transportation / logistics provider.

# Group discussion

- In search of the ideal loan package.
- Reconciling shipping cos. needs with bank's requirements.

THANK YOU

[nazery@mima.gov.my](mailto:nazery@mima.gov.my)

[www.mima.gov.my](http://www.mima.gov.my)