



HIGH SEAS FINANCIALS



Challenges and Developments in the Malaysian Ship Financing Market

Nazery Khalid

**Ship Financing Seminar : Gaining a Competitive Edge Through Successful
Financial Partnerships – Kuala Lumpur, 21 August 2008**

PRESENTATION OUTLINE

- **Global scenario in shipping**
- **Features of shipping and ship financing (SF) in Malaysia**
- **Developments under the 9th Malaysian Plan 2006-2010**
- **Non-bank lending**
- **Issues in Malaysian SF**
- **Outlook for Malaysian SF**

GLOBAL SCENARIO IN SHIPPING

- **Rising demand for shipping services.**
- **Vertical & horizontal integration.**
- **Focus on security, safety, seafarers welfare, environmental protection.**
- **Rising bunker & ship prices.**
- **Rising operating costs.**
- **Shortage of seafarers.**
- **Specter of credit crunch.**

FEATURES OF SHIP FINANCING

- **High risk, marginal return.**
- **Mismatch between long term needs and short term financing.**
- **Pricing and structuring of deals shaped by ‘big ticket’ nature of assets.**
- **Case of haves and have nots?**
- **Takes money to borrow money!**
- **More lenders / new structures in SF.**

RISKS IN SHIP FINANCING

- **Unpredictable earnings / asset values of shipping companies.**
- **Volatility in shipping sector.**
- **Change in trade patterns.**
- **Cyclical nature of shipping trades.**
- **Uncertain residual value of ships.**
- **Cross-border risks.**
- **Huge exposure.**
- **Borrowers' risk.**

MALAYSIAN SHIPPING INDUSTRY

- **Consists of domestic / coastal & international trade.**
- **Governed by MSO 1952.**
- **Licenses issued by Domestic Shipping Licensing Board, Min. of Transport.**
- **Ships carry 95% of nation's trade.**
- **Cabotage Policy protects local players.**
- **90% of international trade carried by foreign shipping lines.**

MALAYSIAN SHIPPING INDUSTRY

- **300 local lines owning / operating 3,500 ships totaling 9 mil. GRT in domestic shipping (MASA, 2007)**
- **More than 100 shipping lines (foreign and local) calling at local ports which are linked to 300+ ports worldwide.**
- **Most local lines are MASA members.**
- **Most foreign lines are ISOA members.**

RECENT DEVELOPMENTS

- **More local & foreign financial institutions (FIs) dabbling in SF.**
- **Introduction of local shipping trust.**
- **Cross-over of financing structures into SF from other sectors incorporating sale & leaseback, asset-backed securities.**
- **Higher capex requirement due to higher vessel prices.**

RECENT DEVELOPMENTS

- **Frenzy of activities in tanker trade to meet IMO double-hull ruling.**
- **More local shipping lines listed on Bursa Malaysia.**
- **More offshore financing by local lines.**
- **More orders for OSV by local players due to boom in deepwater activities.**
- **Banks willing to give longer tenure.**

DEVELOPMENTS UNDER 9MP

- **Focus to enhance port performance & productivity to attract more MLOs.**
- **Target for ship calls at local ports to increase to 130,000 and for local ports to handle 18 mil. TEU by 2010.**
- **Focus on improving navigational safety and reducing pollution from ships.**
- **Focus on HR development.**

NON-BANK LENDING

- **Leasing**
- **Government funding**
- **Equity financing**
- **Bond financing**
- **Venture capital**
- **Offshore financing**
- **Islamic financing**
- **Shipping trust**

LEASING

- **Not widely used but gaining popularity in corporate finance structures.**
- **Emergence of Islamic SF leasing structures based on *Ijarah* concept.**
- **Advantages : Off-balance sheet treatment, capital cost reduction.**
- **Disadvantages : long tenures, complex structures, tax liabilities.**

GOVERNMENT FUNDING

- **RM1.3 bil. Shipping Fund launched in 1992, plus another RM1 bil. in 2000.**
- **Funding via Bank Pembangunan, a development financial institution.**
- **Operating, construction, scrap-and-build subsidies.**
- **Tax and depreciation allowances.**
- **Customs duties and levies.**

EQUITY FINANCING

- **The biggest shipping companies are listed on Bursa Malaysia e.g. MISC, Halim Mazmin, Swee Joo, HubLine, Maybulk, Global Carriers, Nepline, PDZ, MMM, Alam Maritim, Coastal Contract.**
- **Advantages : high profile, easy to raise extra financing once listed.**
- **Disadvantages : high listing fees, subject to takeover, strict disclosure.**

BOND FINANCING

- **Conventional and Islamic bonds mainly to repay borrowings, finance vessel purchase.**
- **Allow companies to raise alternative financing, improve cashflow.**
- **Ease of covenants compared to bank loans, but coupon rates higher than interest rates.**
- **More issuance of hybrid bonds i.e. zero-coupon, equity-linked bonds.**

VENTURE CAPITAL

- **Global Maritime Ventures set up in 1994 to provide venture capital fund to local shipping companies.**
- **Government provided RM500 mil. Shipping Venture Fund from the RM1.3 bil. Shipping Fund.**
- **Private venture capital firms also give out small amount of SF loans.**

OFFSHORE FINANCING

- **Labuan IOFC growing in popularity.**
- **Offshore banks provide mostly debt financing i.e. term / syndicated / bridging / project loans, L/C, working capital; equity financing (in US\$); underwriting services.**
- **Cheaper, less stringent process and requirements compared to bank loans.**

ISLAMIC FINANCING

- ***Sukuk* / Islamic securities schemes.**
- **Islamic bond issues i.e. MISC's *Murabahah* Medium Term Notes (MTN) issuance in 2006; and Commercial Papers / MTN in 2007.**
- **Amanah Raya – Asian Finance Bank's Islamic Marine Fund.**
- ***Ijara* / leasing schemes.**
- ***Kafalah* bank & shipping guarantees.**

MALAYSIAN SHIPPING COMPANIES' 'WISH LIST'

- **More focus by FIs on customer needs.**
- **Long, flexible tenure.**
- **Competitive interest rates.**
- **Speedy processing of applications.**
- **Greater financing flexibility.**
- **In-house shipping industry experts.**
- **More diversified financing products.**
- **More liquidity in the market.**

BRIDGING THE GAP BETWEEN BORROWERS AND LENDERS

- **FIs need to boost understanding of shipping to assess risk / price deals better.**
- **Shipping companies must strive to put up strong case to qualify for financing.**
- **FIs must alter 'high risk, low return' perception of shipping.**
- **Value strategic importance of shipping.**
- **Be more creative, daring in doing deals!**

MAKING SF IN MALAYSIA MORE DYNAMIC

- **Consolidate shipping sector.**
- **FIs must change views about SF.**
- **Make available alternative financing.**
- **Emulate best practices of leading SF nations.**
- **Enhance ancillary services i.e legal, insurance, consultancy etc.**
- **Put in place strategy to boost local SF.**

OUTLOOK

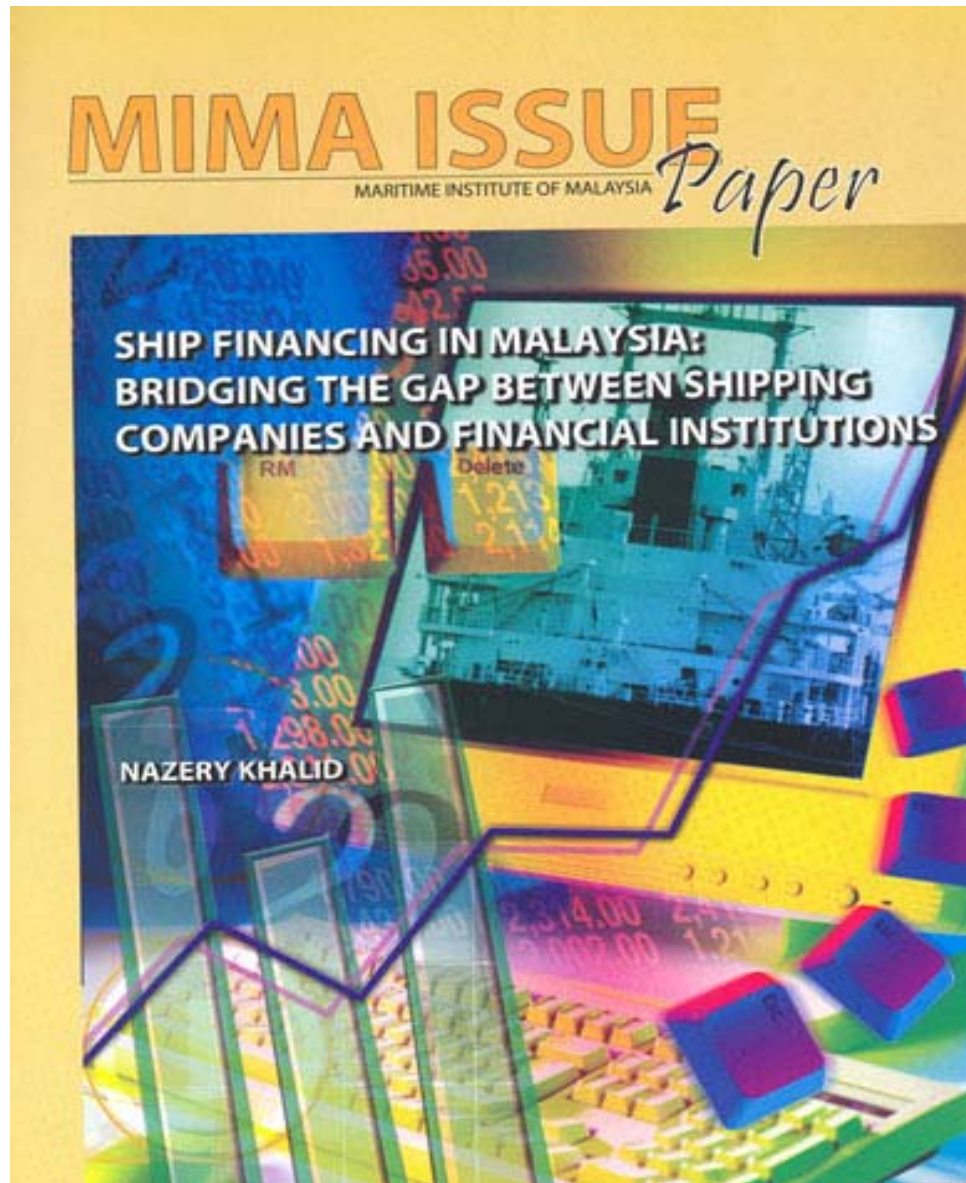
- **Good prospect for SF market as long as shipping markets continue to grow.**
- **Greater focus by FI on client servicing and enhancing customer relationship.**
- **Finer spreads, more flexibility as shipowners are spoilt for choice.**
- **Rising ship prices to dictate SF structures, pricing and players involved in lending / raising financing.**

OUTLOOK

- **Correction due in some shipping segments.**
- **Signs of overheating : overcapacity, fine margins at yards, lower freight rates.**
- **Impact of US sub-prime crisis may lead to credit squeeze in SF.**
- **More creative and cost effective SF structures beyond ‘plain vanilla’ financing.**
- **Opportunities amid overheating, pitfalls amid profits.**



MARITIME INSTITUTE OF MALAYSIA



*For further reading on
ship financing in
Malaysia, check out :*

**SHIP FINANCING
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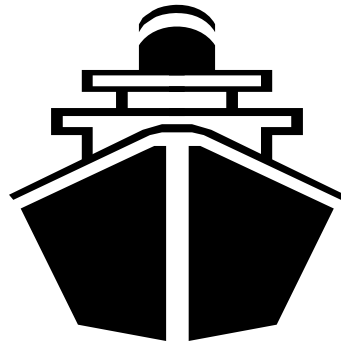
IN SHIP FINANCING...

... balance is of the essence...



... and timing is everything!

THANK YOU



nazery@mima.gov.my