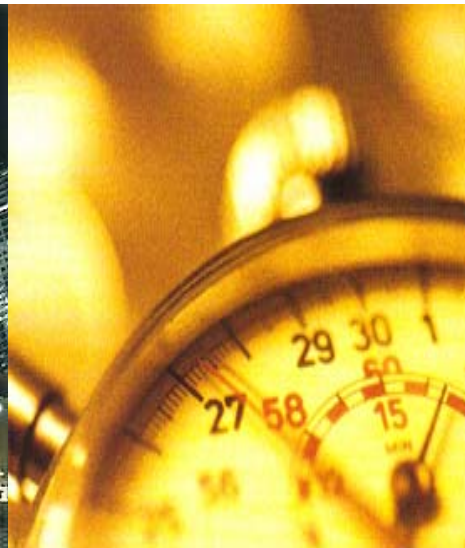




MARITIME INSTITUTE OF MALAYSIA

SHOPPING FOR SHIPS : SHIP FINANCING IN MALAYSIA



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PRESENTATION OBJECTIVES

- To provide an overview of ship financing (SF) in Malaysia.
- To highlight various financing sources for ship financing in Malaysia
- To identify gaps between borrowers and lenders in the Malaysian ship financing scene.
- To recommend ways to make Malaysian SF more vibrant.

PRESENTATION OUTLINE

- ➡ Features of shipping industry
- ➡ State of play in SF in Malaysia
- ➡ Recent developments
- ➡ Lenders' perspectives.
- ➡ Borrowers' perspectives
- ➡ Bridging the gap between borrowers and lenders
- ➡ Towards a more dynamic SF scenario in Malaysia

MALAYSIAN SHIPPING INDUSTRY

- ➔ Consists of domestic / coastal & international trade.
- ➔ Huge demand for shipping services
- ➔ Ships carry 95% of nation's trade.
- ➔ MISC dominates energy carriage.
- ➔ Cabotage Policy protects local players.
- ➔ Few local players in int'l liner trade.
- ➔ 90% of nation's maritime trade carried by foreign shipping lines.

MALAYSIAN SHIPPING INDUSTRY

- ➡ More than 100 shipping lines (foreign and local) calling at local ports.
- ➡ Local ports are linked to around 200 ports worldwide.
- ➡ Foreign lines are represented by locally incorporated ship agencies and owner's representatives.
- ➡ Most local lines are MASA members.
- ➡ Most foreign lines are ISOA members.

STATE OF PLAY OF MALAYSIAN SF

- ➡ Few local financial institutions (FIs) involved in SF in a big way.
- ➡ Local funds not adequate for shipping sector.
- ➡ Asian financial crisis impact looms large.
- ➡ Many shipping companies say banks are not very supportive of the industry.
- ➡ Banks say internal / external controls, lack of exposure to shipping hamper lending.

RECENT DEVELOPMENTS

- More local and foreign financial institutions (FIs) dabbling in SF.
- Introduction of shipping trust by a local player to be listed on Bursa Malaysia.
- Cross-over of financing structures into SF from other sectors i.e. sale and leaseback in aviation.
- Higher capex requirement due to higher vessel prices.

RECENT DEVELOPMENTS

- ➡ Frenzy of activities in shipping industry to meet IMO deadline for double-hull tankers.
- ➡ More local shipping companies getting listed on Bursa Malaysia.
- ➡ More orders for OSV by local players due to boom in deepwater activities.
- ➡ Recognition of shipyard activities as a strategic sector in Third Industrial Masterplan 2006-2020.

SOURCES OF FINANCING

- ➡ Bank lending
- ➡ Leasing
- ➡ Government funding
- ➡ Equity financing
- ➡ Bond financing
- ➡ Venture capital
- ➡ Offshore financing
- ➡ Islamic financing

BANK LENDING

- ➡ Single tranche term loans by commercial banks most common.
- ➡ Loans either syndicated or bilateral.
- ➡ Tenure rarely exceeds 10 years for newbuildings, 15 years for secondhand vessels, shorter terms for ships with limited useful lives.
- ➡ Secondhand ships easier to finance.
- ➡ Usually secured by a mix of mortgage, covenants, guarantees & assignments.

LEASING

- ➡ Not widely used but gaining popularity in corporate finance structures.
- ➡ Emergence of Islamic SF leasing structures based on Al-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 development financial institutions i.e. Bank Pembangunan, Bank Rakyat, BSN, Exim Bank.
- ➔ Operating, construction, scrap-and-build subsidies
- ➔ Tax and depreciation allowances
- ➔ Customs duties and levies.

EQUITY FINANCING

- The biggest shipping companies listed on Bursa Malaysia i.e. MISC, Halim Mazmin, PDZ, MMM, Maybulk, Global Carriers, Nepline, Alam Maritim, Coastal Contracts.
- Advantages : high profile, easy to raise financing from shareholders once listed.
- Disadvantages : high listing fees, subject to takeover, strict disclosure.

BOND FINANCING

- ➡ Conventional and Islamic bonds being raised to repay borrowings, finance vessel purchase etc.
- ➡ 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 Venture 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 loan, syndicated loan, bridging loan, project loan, letter of credit, working capital.
- ➡ They also provide equity financing (in US\$), sponsor / underwrite debt and equity instruments.
- ➡ 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.
- ➡ Funding by Islamic Development Bank.

LENDERS' PERSPECTIVES

- ➡ More FIs have shipping on their radar and setting up dedicated units.
- ➡ Shipping is not a priority sector for most Malaysian FIs.
- ➡ Some FIs are stigmatized by past experience in SF.
- ➡ To FIs, clients' creditworthiness, earnings potential and repayment ability are paramount in determining financing of shipping deals.

LENDERS' PERSPECTIVES

- ➡ Challenges for FIs : cost control, revenue diversification, improvement of asset quality, high earnings margins.
- ➡ Internal and external regulations restrict participation of local FIs in SF.
- ➡ Some FIs feel certain booming shipping sectors like O&G, chemical worth a serious look.

LENDING CONSIDERATIONS

- ➡ Financial standing and track record
- ➡ Ability to service debt
- ➡ Single customer limit
- ➡ Flag of convenience
- ➡ Collateral / guarantees
- ➡ Type of registry
- ➡ Industry development
- ➡ Risks involved

RISKS INVOLVED

- ➔ Credit / financial risk
- ➔ Market / business risk
- ➔ Timing risk
- ➔ Sovereign risk
- ➔ Security risk
- ➔ Residual value risk
- ➔ Legal risk
- ➔ Operating risk

RISK MITIGATION

- ➡ Ship mortgage
- ➡ Assignments – earnings / insurances / contracts / proceeds
- ➡ Guarantee / indemnity
- ➡ Pledging of assets, deposits, shares
- ➡ Debenture
- ➡ Covenants

METHODS OF APPRAISAL

- ➔ Net present value (NPV)
- ➔ Internal rate of return (IRR)
- ➔ Cashflow / discounted cashflow
- ➔ Discounting methods :
 - Annual capital charge
 - Growth rate of return
 - Discounted profit ratio
- ➔ Payback period
- ➔ Asset valuation

BORROWERS' PERSPECTIVES

- ➡ Shipping companies generally perceive local FIs as lukewarm towards shipping.
- ➡ Small shipping companies say local banks' demands are too stringent.
- ➡ A chicken-egg situation persists as banks will only lend money to solid companies.
- ➡ Shipping companies feel the current 'it takes money to borrow money' situation is not helpful to boost SF.

BORROWING CONSIDERATIONS

- ➡ Demand and supply elasticity
- ➡ Fleet upgrading / expansion
- ➡ Maritime trade pattern
- ➡ Opportunity cost of investments
- ➡ Shared ownership of vessels
- ➡ Rate of scrapping of vessels
- ➡ Legal framework
- ➡ Availability of competitive financing

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

SUMMARY OF MALAYSIAN SF

- ➡ Shipping companies want greater support from FIs and want them to improve knowledge on shipping.
- ➡ Malaysia's SF scene needs to go beyond 'plain vanilla' financing.
- ➡ Some FIs are cautious but feel the sector currently warrants attention.
- ➡ Banks will lend to deserving applicants.
- ➡ Past experience counts!

BRIDGING THE GAP BETWEEN BORROWERS AND LENDERS

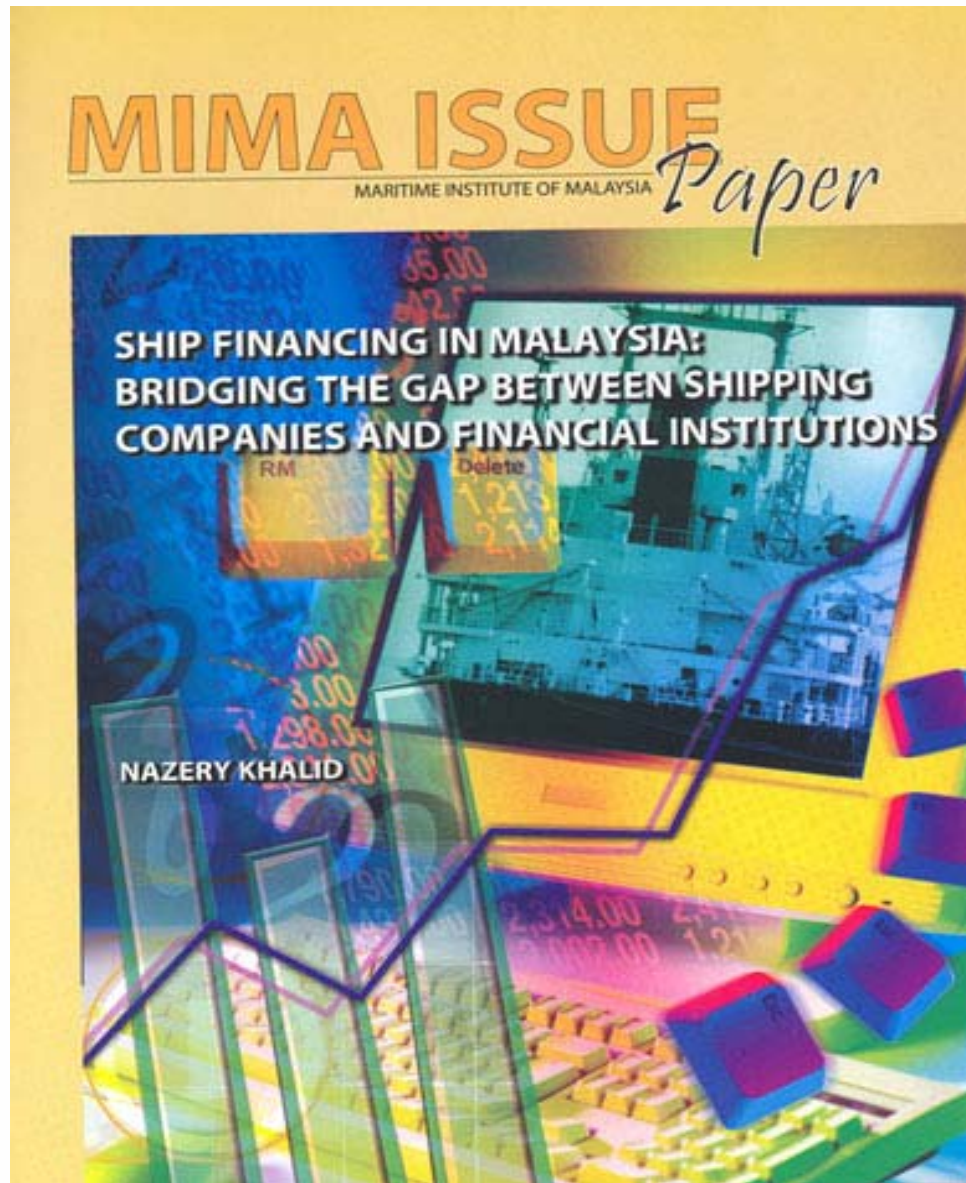
- ➡ FIs need to boost understanding of shipping to assess risk / price deals better.
- ➡ Shipping companies must strive to put up strong case to qualify for financing.
- ➡ Alter 'high risk, low return' perception of shipping but focus on partnership.
- ➡ Value strategic importance of shipping.
- ➡ Be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

TOWARDS A MORE DYNAMIC SF SCENARIO IN MALAYSIA

- ➡ 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.



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

**SHIP FINANCING
IN MALAYSIA
Bridging the Gap
Between Shipping
Companies and
Financial Institutions**

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