

# Debt Financing



**DnB NOR Bank ASA**

**Lam Wai Kay**

**18 September 2007**

**DnBNOR**

# Agenda

**Perspective of Shipping**

**Who is DnB NOR?**

**Financing Alternatives**

**How do we do it?**



# The Shipping Industry



- **Unpredictable earnings**
  - Volatility due to quick changes in the supply/demand balance
    - Demand: Transport volumes determined by world economy and world trade, changes in foreign exchange rates, shifts in supply/demand for natural resources, and even weather
    - Supply: Determined by a finely tuned balance of newbuildings, demolition activity (a function of vessel age, newbuilding prices, scrap steel prices, and, in some cases, regulation), and charter rates
- **Competitive Factors**
  - Barriers to entry/exit, long lived assets, high fragmentation
- **High operating leverage**
  - A large portion of costs are fixed, capital intensity
- **Complex company structures**
  - Holding companies with various legislation involved, transparency / disclosure, private companies
- **Regulatory environment**
  - The U.S. Oil Pollution Act of 1990, IMO

## Rating Agency summing up...

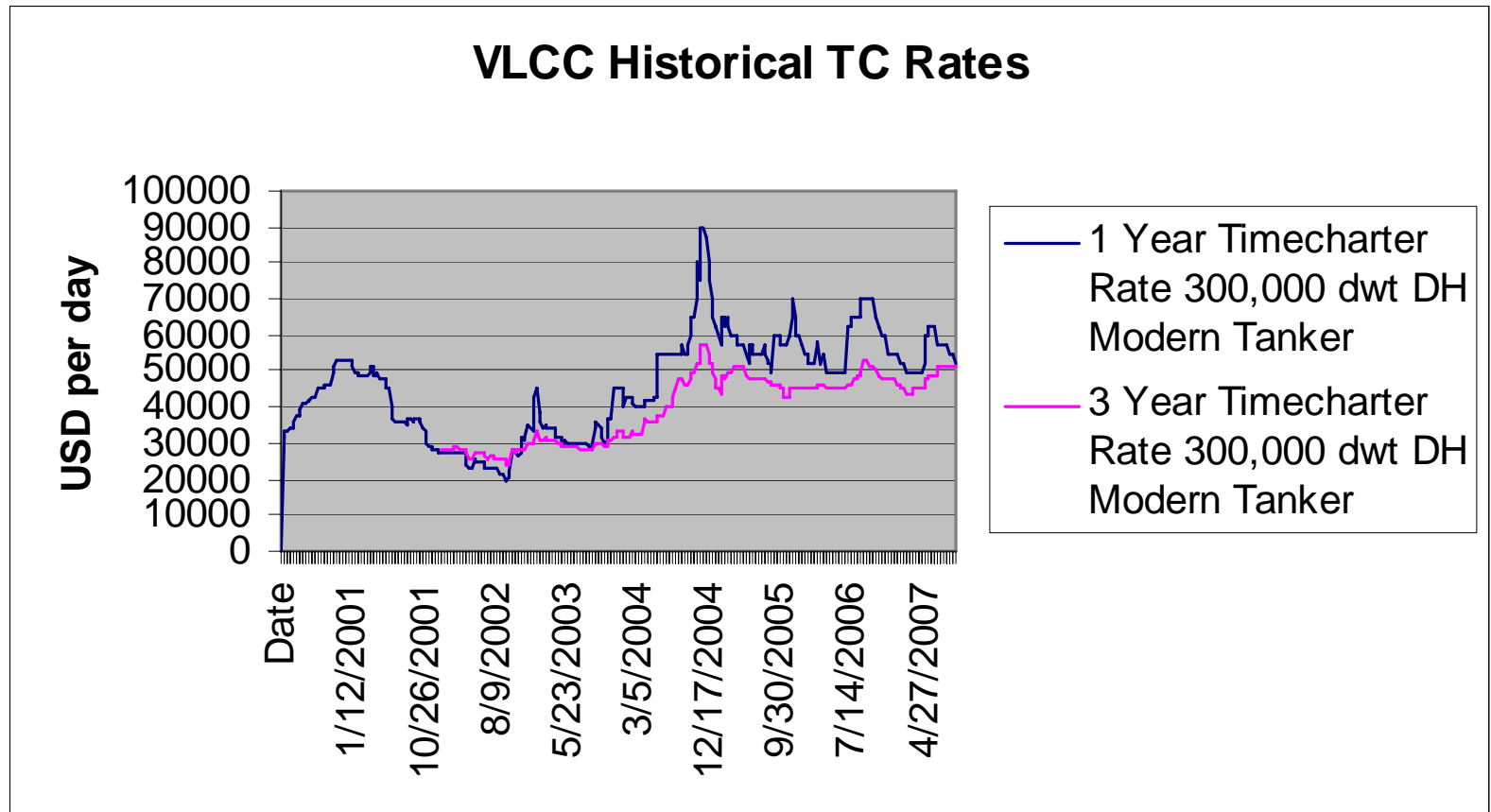


**“Generally, the shipping industry's risk profile may be characterized as speculative-grade because of its:**

**Economic sensitivity, capital intensity, and competitive factors, all of which lead to extremely volatile pricing swings in both freight rates and asset values”.**

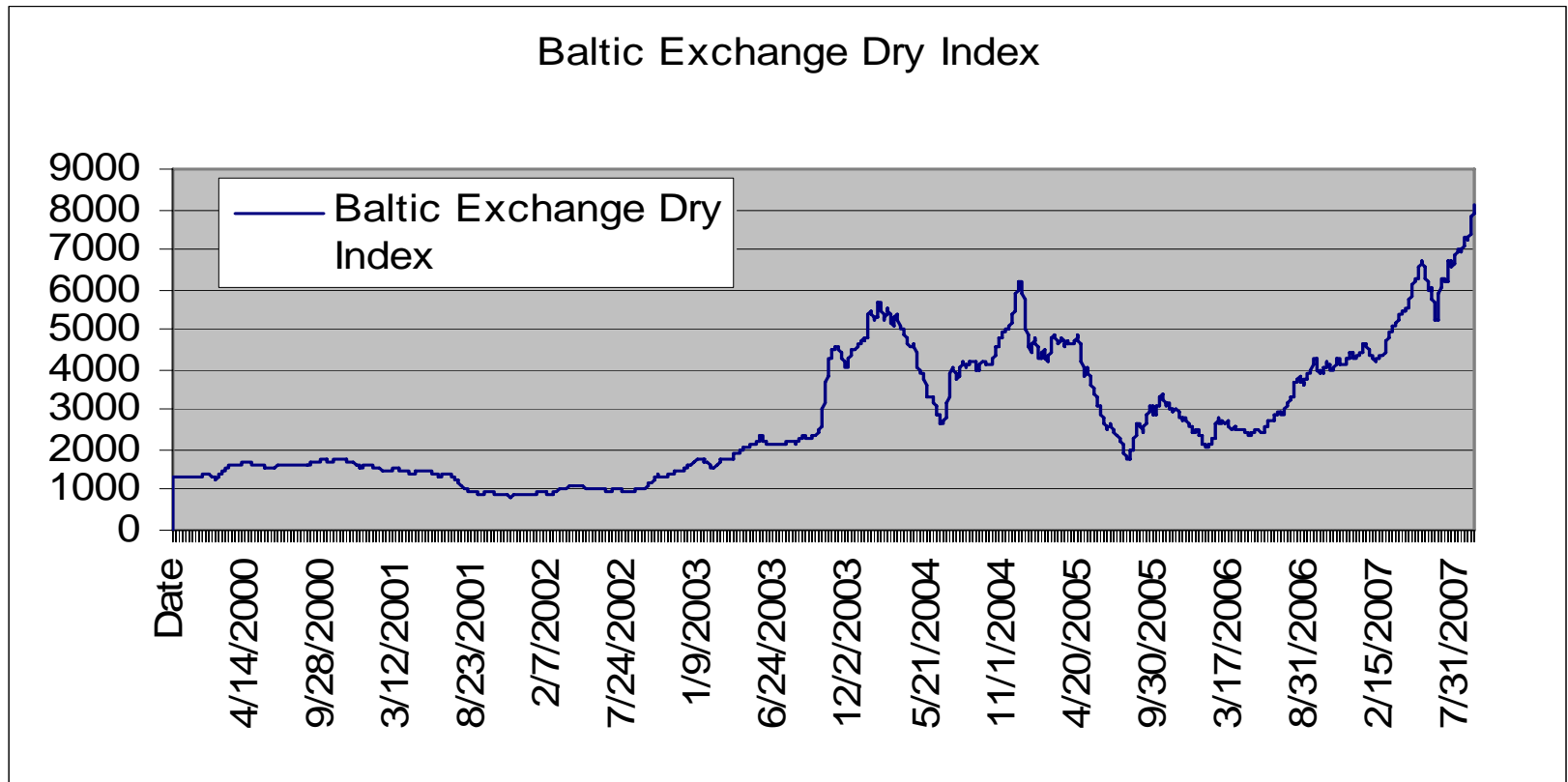


# VLCC – Historical TC Rate Volatility



Source : Clarksons

# Baltic Dry Index



Source : Clarksons

**Perspective of Shipping**

**Who is DnB NOR?**

**Financing Alternatives**

**How do we do it?**

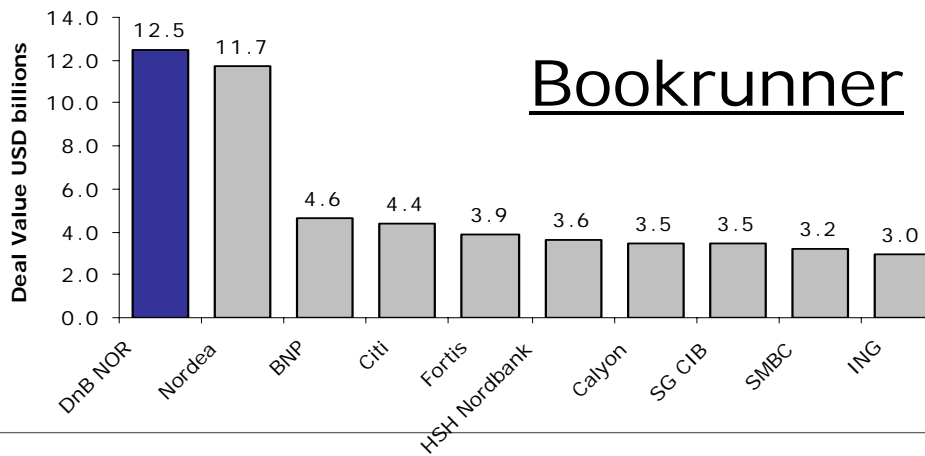
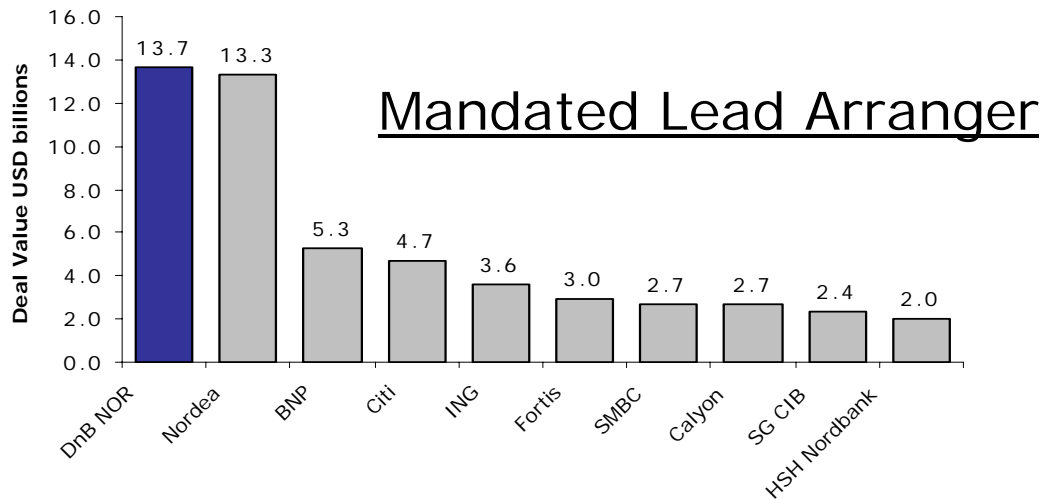


# DnB NOR Shipping at a glance



- **Among the world's leading shipping/offshore banks**
- **Total shipping commitments approx. USD 25 billion.**
- **Approx. 50 % of portfolio consists of exposure to non-Norwegian clients and is growing**
- **No. 1 Mandated Lead Arranger and Bookrunner of Syndicated Shipping Loans in 2006**
- **More than 25 years of specific focus on shipping/offshore**
- **Nearly 80 professionals with long and varied shipping/offshore experience**
- **Presence in the major shipping locations:**
  - Oslo and Bergen
  - London
  - New York
  - Singapore
  - Shanghai

# Top MLA and Bookrunner for Arranging Syndicated Shipping Loans in 2006



# DnB NOR Shipping Asia

## Background

- Base of major shipping clients with long history & high quality asset base
- Loan commitment of USD4 billion to Asian shipping
- Operates in the Far East (north to Japan, south to Indonesia & west to India)
- Singapore branch established for over 35 years
- Shanghai branch set up in 2006

## Products & Services

- Capital (Debt & Equity)
- Advisory Services
- Structured Finance
- Treasury Products
- Cash Management
- Guarantees / Bonds

**Perspective of Shipping**

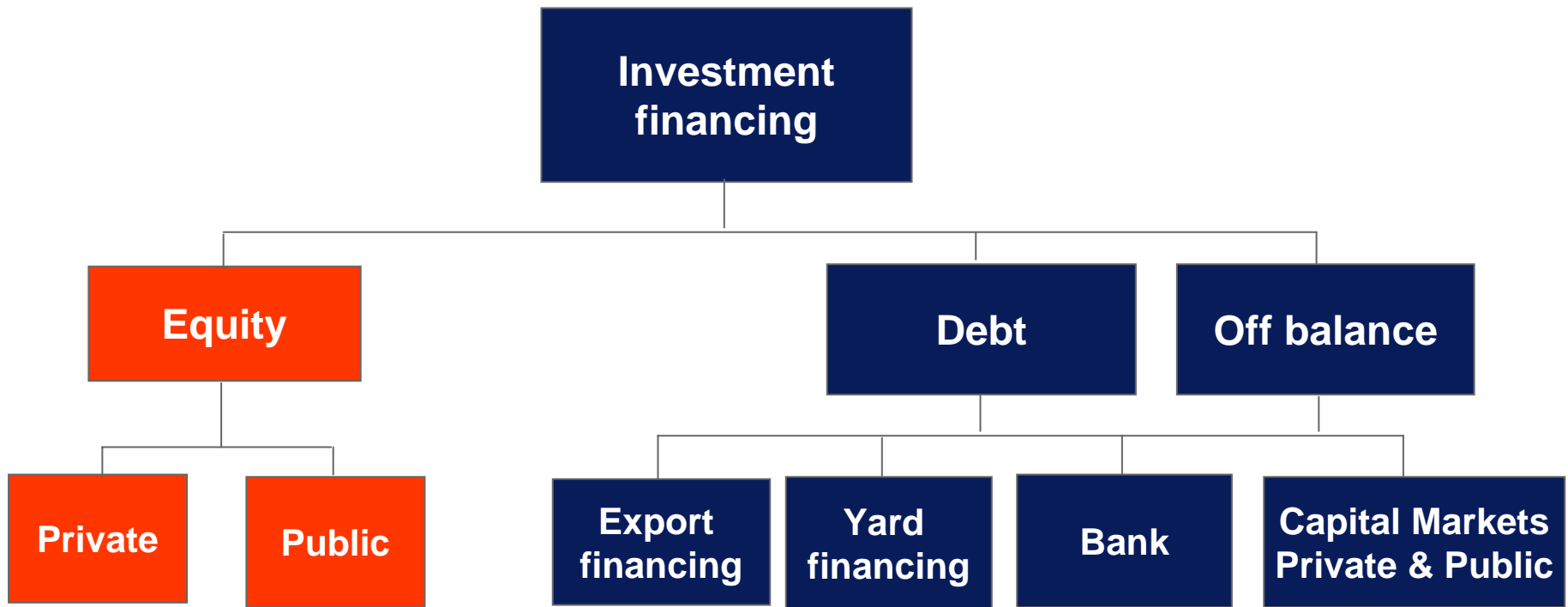
**Who is DnB NOR?**

**Financing Alternatives**

**How do we do it?**



# Ship Finance in general



**Investors optimal capital structure will combine flexibility with the lowest total cost of capital**

... but different split of risk & reward



### **Equity investor**

- **Full upside**
- **Full downside**

### **Bank / Lender**

- **No share of upside  
(principle + interest only)**
- **Protection on the  
downside**

**Ship financing is all about reflecting the risk and reward sharing between the equity investors and the bank**

# Capital Sources



## Export financing

- Government credit schemes
- Repayment to zero over 12 years (OECD terms)
- Yards co-operate with governmental credit agencies

## Leasing

- Financial leases are a financing source
- Lease is an alternative to buying – a rental scheme
- Tax benefits through use of depreciations by lessor

## Bank Financing

- Most commonly used
- Known to be flexible & cheap

## Capital Markets (Bonds)

- Long-term financing, up to 10-20 years
- One drawdown, one repayment
- Few, but tough financial covenants
- Often unsecured
- Limited flexibility, prepayment penalties

# Bank Financing



## Senior Term Loan

- Primarily one drawdown of the loan
- Repayment through instalment
- Instalments paid can not be redrawn

## Revolving Credit Facilities

- Several drawdowns under the loan
- Repayment through reduced availability
- Amounts paid are available for new drawdowns

## Bridge Facilities

- Shorter term financing to bridge a time gap
- Both 'legs' of the bridge to be solid

## Acquisition Financing

- Not allowed to finance against assets in target comp.
- Often high profile transactions

## Mezzanine Financing

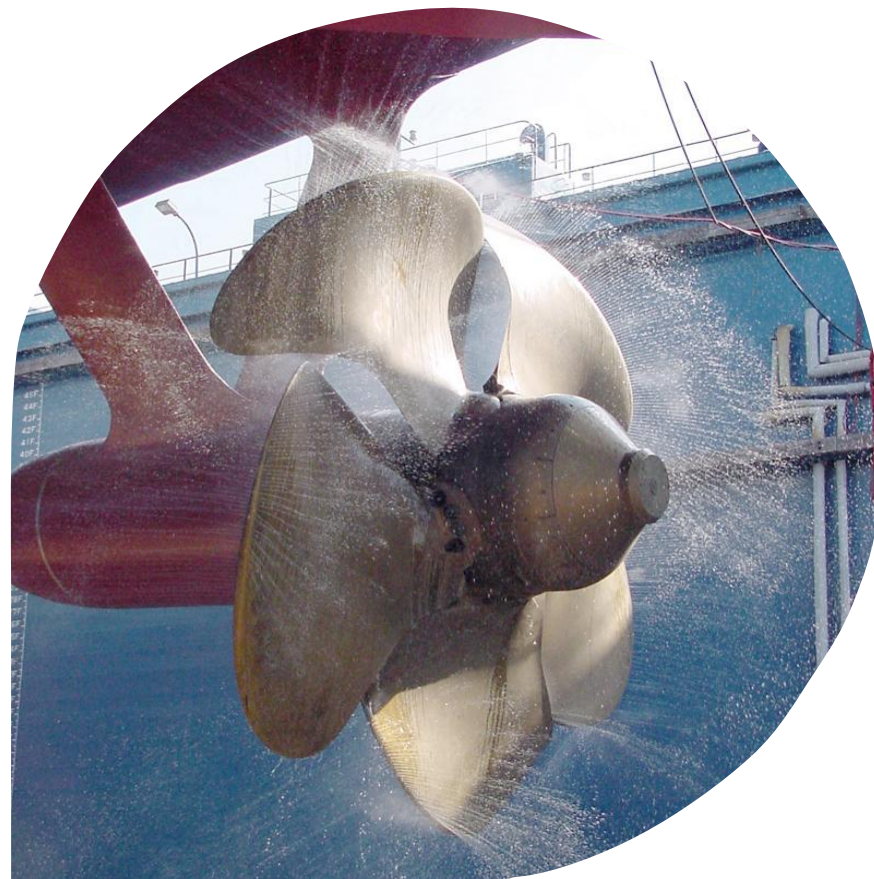
- Normal bank debt with lower security coverage
- Higher cost due to higher risk
- Quasi equity, right to convert or 'equity kicker'

**Perspective of Shipping**

**Who is DnB NOR?**

**Financing Alternatives**

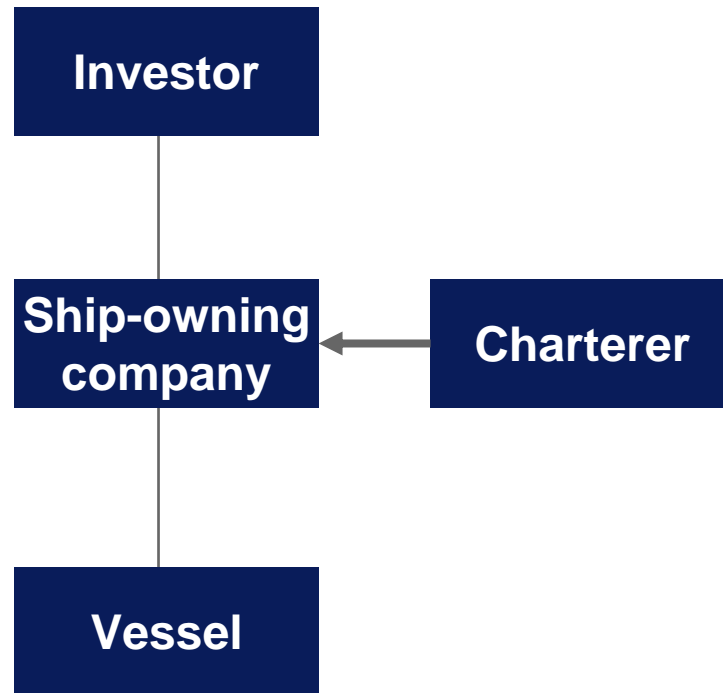
**How do we do it?**



# Main Considerations



- Client
- Cash flow
- Collateral



# Management track record

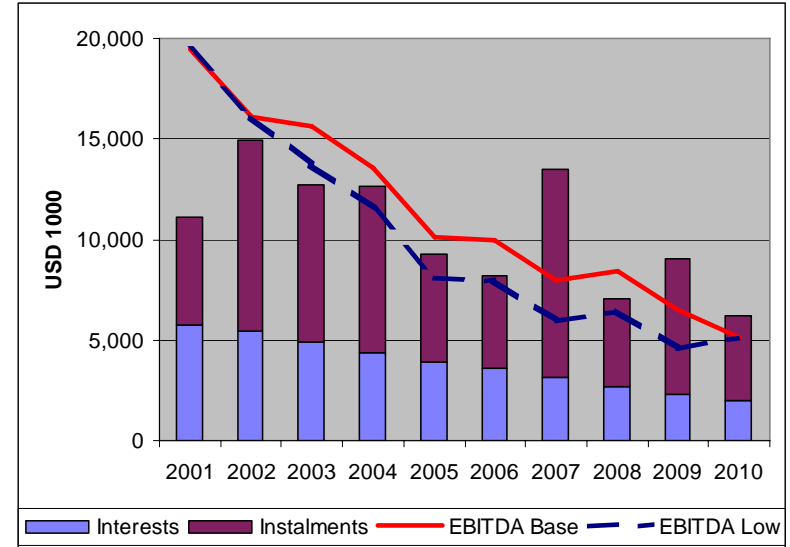


- **Operational skills and financial track record**
- **Historical performance versus that of the industry peer group**
- **Innovation and flexibility in reacting to changing market conditions**
- **Timing of equipment acquisitions and divestitures in relation to industry cycles and availability of attractive prices**
  - Certain companies, particularly in the tanker trade, buy and sell assets or newbuilding contracts primarily to profit from industry price swing. Not all do well..
- **Line of succession and management strength and depth**
  - Management is extremely important in the volatile and fiercely competitive ocean shipping industry. The depth and breadth of a company's management must be evaluated, especially for private companies or companies that are controlled by their founders or immediate family members (Corporate Governance)

# Cash Flow



**Will cash flow (EBITDA) cover interest and instalments in a Low Case scenario?**



## Cash Flow Stability

- The length of charters
- Time for renewal (all at the same time?)
- The charterer's financial position
- How firm is the contract (charter party)?

# Collateral

- Secured lending still most common though, unsecured lending to first class names has increased
- The most common securities
  - Mortgage
  - assignment of earnings/charter party
  - assignment of insurances incl. MII/AP
  - Parent company/personal guarantees
- Collateral should be the "second way out", and not justify an otherwise bad credit

# Loan Covenants

- Covenants assist Lenders to reach an understanding with a borrower regarding how the borrower will conduct its business and financial affairs
- The stronger the covenant package is, the greater the degree of control the lender can exercise over the investment/borrower
- Borrowers typically seek the least restrictive covenant package they can negotiate and maximum flexibility to conduct their business in the way they see fit
- Covenants do not play a significant enhancing role in determining *credit quality* of a company

## Summing up ..... – so far



- **Client – who is behind and what may they do with the money?**
- **Cash flow – are you comfortable with the debt service?**
- **Collateral – do you have a second way out?**

## DISCLAIMER



**The presentation is based on information believed to be reliable, but DnB NOR Bank ASA (“DnB NOR”) does not represent that the information in the presentation is accurate or complete, and it should not be relied upon as such. Any opinions expressed reflect DnB NOR Bank ASAs' judgment at the time the presentation was prepared and are subject to change without notice.**

**The presentation is not to be construed as a representation or solicitation to buy or sell any financial instrument. No liability whatsoever is accepted for any direct or consequential loss or expense arising from the use of this presentation. DnB NOR Bank ASA and/or its affiliated companies and/or its officers, directors and employees may be a market maker or hold a position in any instrument or related instrument discussed in this presentation, and may seek to perform financial advisory and banking services related to such instruments.**