Lloyd's List

Sumitomo blazes a trail for Japanese banks into global ship finance

- Tuesday 09 December 2014, 16:19
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Joint venture with Credit Agricole will invest up to $1bn over the next three years

Sea Bridge Finance will be owned 50-50 by Sumitomo Mitsui and Crédit Agricole.

A JAPANESE bank until now focused on small, provincial owners and a major European shipping lender have joined forces to launch an internationally oriented ship finance joint platform, with plans to invest up to $1bn in new money over the next three years.

The move could signal further forays into western shipping by Japanese banks, many of which are flush with liquidity thanks to an unprecedented scale of government quantitative easing, say some sources.

Sea Bridge Finance, which will be owned 50-50 by Sumitomo Mitsui Trust Bank and Crédit Agricole Corporate & Investment Bank, was set up in London on December 1, with an initial capital of $200,000.

The existence of Sea Bridge was confirmed by the French participant following publication of a press report in Japan.

The London office of Sumitomo Mitsui declined to discuss the matter and the bank's Tokyo headquarters did not immediately respond to a request for comment.

Rivals initially reacted to the news by suggesting a natural fit between CACIB, with its substantial shipping experience and its preference for an originate-to-distribute model, and Sumitomo, which they say has little shipping exposure and lacks deal-structuring experience.

But this account was contested by Thibaud Escoffier, head of shipping at CACIB, who told Lloyd's List this afternoon that the failure of Sumitomo to appear in the standard lending league tables is simply because most of its deals are off the radar screen of the compilers.

Heavy hitter

According to Mr Escoffier, Sumitomo has a $12bn shipping book, which would make it a world top 20 shipping bank in its own right.

CACIB has an $18bn portfolio, he added.

"SMTB is not necessarily a well-known firm, but it is the largest shipping bank in Japan," he said.

"They have $12bn and the vast majority is with domestic Shikoku Japanese owners," he said, with reference to the family companies on the smallest of Japan's four main islands.

Mr Escoffier will sit on the board of Sea Bridge, which will have its own investment committee, tasked with considering transactions arranged by CACIB and Sumitomo, although it will not be obliged to accept them.

CACIB has worked with SMTB on Japan-linked deals, typically backed by long-term time charter, for around a decade.

But that typically amounted to just a couple of transactions each year.

"SMTB today, along with the rest of the Japanese banking community, is long cash/short assets.

"SMTB approached us about a year ago to tell us they wanted to develop into international shipping.

"Being a large shipping bank already, they felt that this is the kind of asset-based finance that up to the board level they felt comfortable with."

Mutual benefit

The driver of the deal is that the SMTB will expand beyond domestic owners to reach out to European and North American owners.

CACIB will get enhanced access to Japan-based clients; the country has historically been difficult to penetrate for European banks.

Sea Bridge's $1bn lending over three years will not in itself do much to alleviate the continuing shortage of funds faced by many owners.

But it will expand if successful, Mr Escoffier promised.

"Let's start with $1bn. Nothing in the statutes of the company will prevent it going from $1bn to $3bn to $5bn, but at this stage, we are looking at our first billion dollars."

The decision will depend on recovery in the ship finance sector, and will need backing from both boards.

There is the potential for further Japanese banks to take similar steps.

Japan is seeing what amounts to the largest QE programme in history, measured against the overall size of a national economy.

After two decades of stagnation, the Japanese government wants to stimulate inflation, at least to around the 2% mark, and is seemingly ready to pump any amount of yen into the economy to achieve that outcome.

Indeed, the scale of the exercise will be enough to ensure that the overall supply of liquidity to world markets will rise by 1.3% of global GDP next year, up from a likely 0.3% in 2014.

Lenders

With domestic interest rates almost zero, international customers — including shipowners — ready to provide a higher return are certain to find favour with at least some Japanese lenders.

A ship finance source with knowledge of the French banking picture commented: "Sumitomo have been actively targeting other banks, trying to build up their shipping portfolio.

"But they don't have the origination or structuring capability at present. It is logical for them to join forces with another bank that is looking to increase distribution to complement origination."

Other banks will be having similar ideas and are likely to work with different counterparties, both banking and non-banking, to grow their originate-to-distribute activities, he predicted.

Shipping banking expert Ted Petropoulos of Athens-based consultancy Petrofin suggested that Sumitomo will be keen to boost orders by non-Japanese owners at Japanese shipyards.

Another facet of Japanese government economic policy has been the depreciation of the yen.

Despite denials that this is deliberate, the suspicion is that Tokyo is not unhappy about anything that bolsters exports.

Clarksons data suggests that Japan has returned to the number two slot in the world league table of shipbuilding nations, with a 27% market share in September, as currency effects make Japan-built vessels cheaper.

But Mr Escoffier insisted that Sea Bridge would be agnostic about yards, leaving that decision entirely to the customer.

Discussions are taking place with a New York-listed shipowner, which he declined to name, with a view to getting the first deal done within a matter of weeks.

Article from Lloyd's List

http://www.lloydslist.com/ll/sector/finance/article453686.ece

Published: Tuesday 09 December 2014