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A brief review of current trends in ship finance

Traditional and New forms

Ted Petropoulos

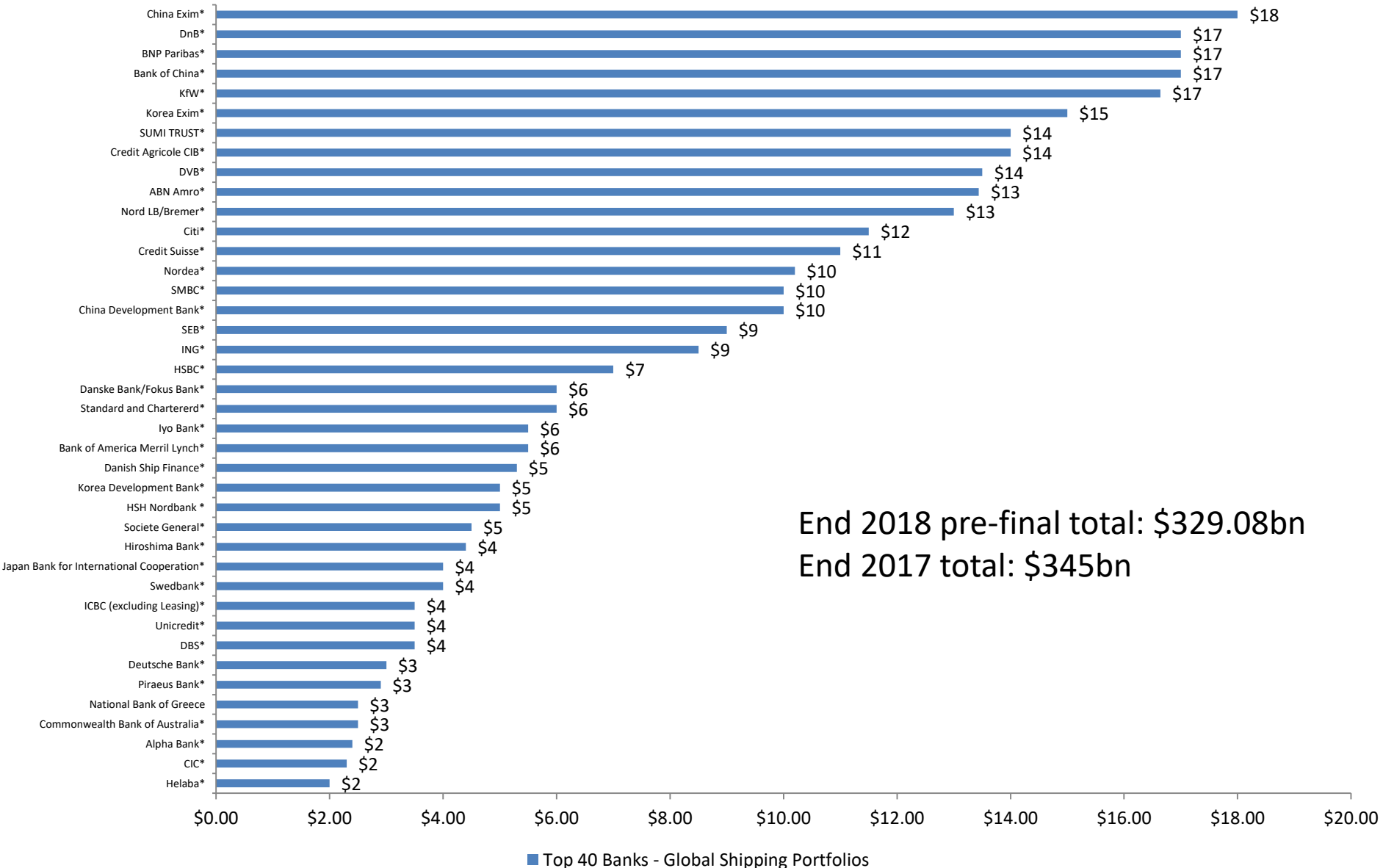
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PETROFIN RESEARCH



Pre-Final Bank Shipping Portfolio – Top 40 Banks as of end 2018

January 2019





Global Bank ship finance pre-final results

- Top 40 banks' share of global ship finance is reducing
- Clear shift from Western banks to Far Eastern banks
- Large exodus of major banks in ship lending
- Higher loan yields and fees



Global Bank ship finance pre-final results

- Selective/targeted lending
- Increasingly stringent terms/conditions
- Outlook for 2019 calls for further consolidation by Western banks and a rise in Far Eastern finance



Alternative forms of finance

- Alternatives to Bank finance:
 - **Lower cost funds** (cost up to 10% p.a. for very secure transactions structured as loans.
 - **Lower cost funds** (approx 15%p.a.) for higher leveraged transactions but flexible and accommodative, structured as loans/equity/profit sharing



Alternative forms of finance

- Equity
- Mezzanine
- Secured Finance

The above 3 can also be combined together in any form

- Export Credit Finance



Alternative forms of finance

- Novel alternatives:
 - **Online finance:** like ebanking, cuts down red tape, proposed as alternative to financing gap, investor oriented – e.g. eShipfinance.com (Lunde/Tzoutzouraki)
 - **Crowdsourced:** [Yieldsweep](#): venture-capital backed, asset-based lender. Vessel on bareboat charter to shipmanagement company which has option to buy, residual value insurance in case of value decline (Cambanis, Fragos)
[Erst Trust Group](#): tapping the retail market

There are more alternative ship financing schemes in the pipeline



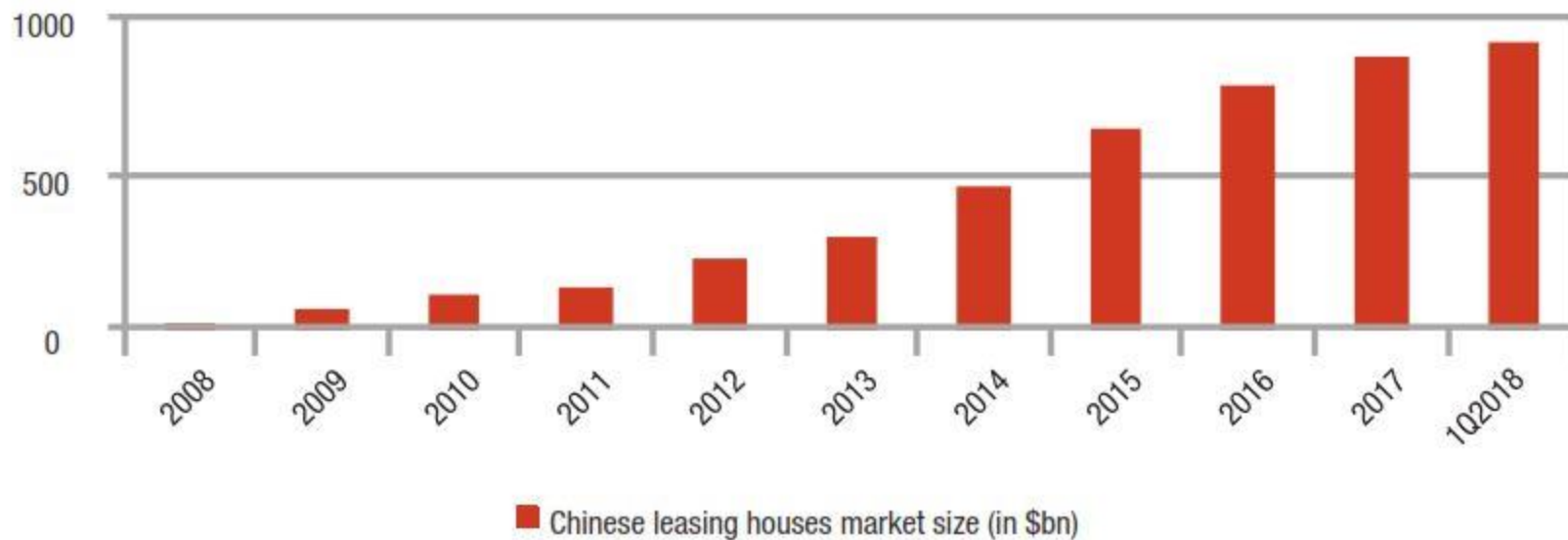
Alternative forms of finance

- Chinese and Japanese Leasing (as well as other, e.g. Korean)



Chinese Leasing

Chinese leasing houses market size (in \$bn)



Source: Marine Money



Chinese Leasing

January 2019

Chinese Leasing Houses			
backed by			
Major Banks	Shipyards	Investment Companies	Industry Leaders
ICBC	CSIC Leasing	CHINA HUARONG	AVIC INTERNATIONAL Leasing
CCB	CIMC Finance	China Minsheng Investment	TAIPING & SINOPEC Financial Leasing
Bank of Communication Finance Leasing	COSCO SHIPPING Leasing		FAR EAST HORIZON
ABC Financial Leasing	China State Building Corporation Leasing		
China Development Bank Leasing			
Minsheng Financial Leasing (currently seeking to sell more than \$1.1bn-worth of its ship finance portfolio)			

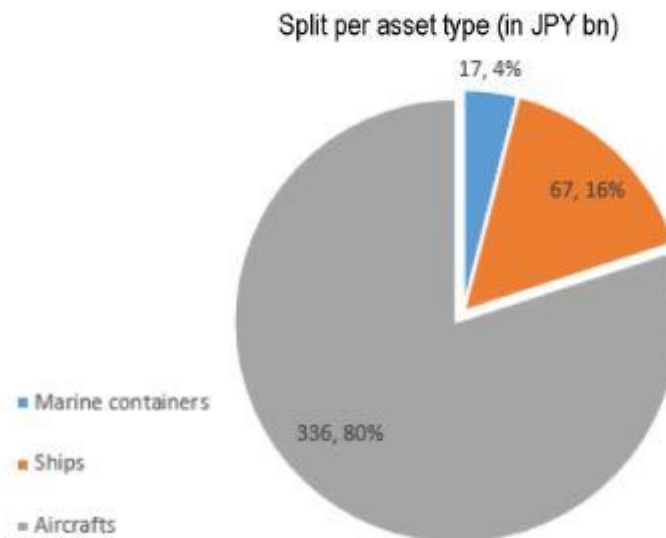


Japanese Operating Lease with Call Option (JOLCO)

→ Total of JPY 420bn equity sold of JOL in 2017 (approx. USD 3.75bn)

→ of which

- JPY 67bn (16%) for ships (approx. USD 600mln)
- JPY 17bn (4%) for container boxes (approx. USD 150mln)



Source: Yano Research

The JOLCO is a tax-driven leasing structure funded by equity investment from a Japanese entity with non-recourse senior debt provided by an on-shore bank. The structure provides 100% financing at relatively attractive rates over a relatively long term. The 100% funding feature makes this a favourable product despite the lessee having to bear any change of law that may put the structure and its benefits at risk.

Source: Marine Money

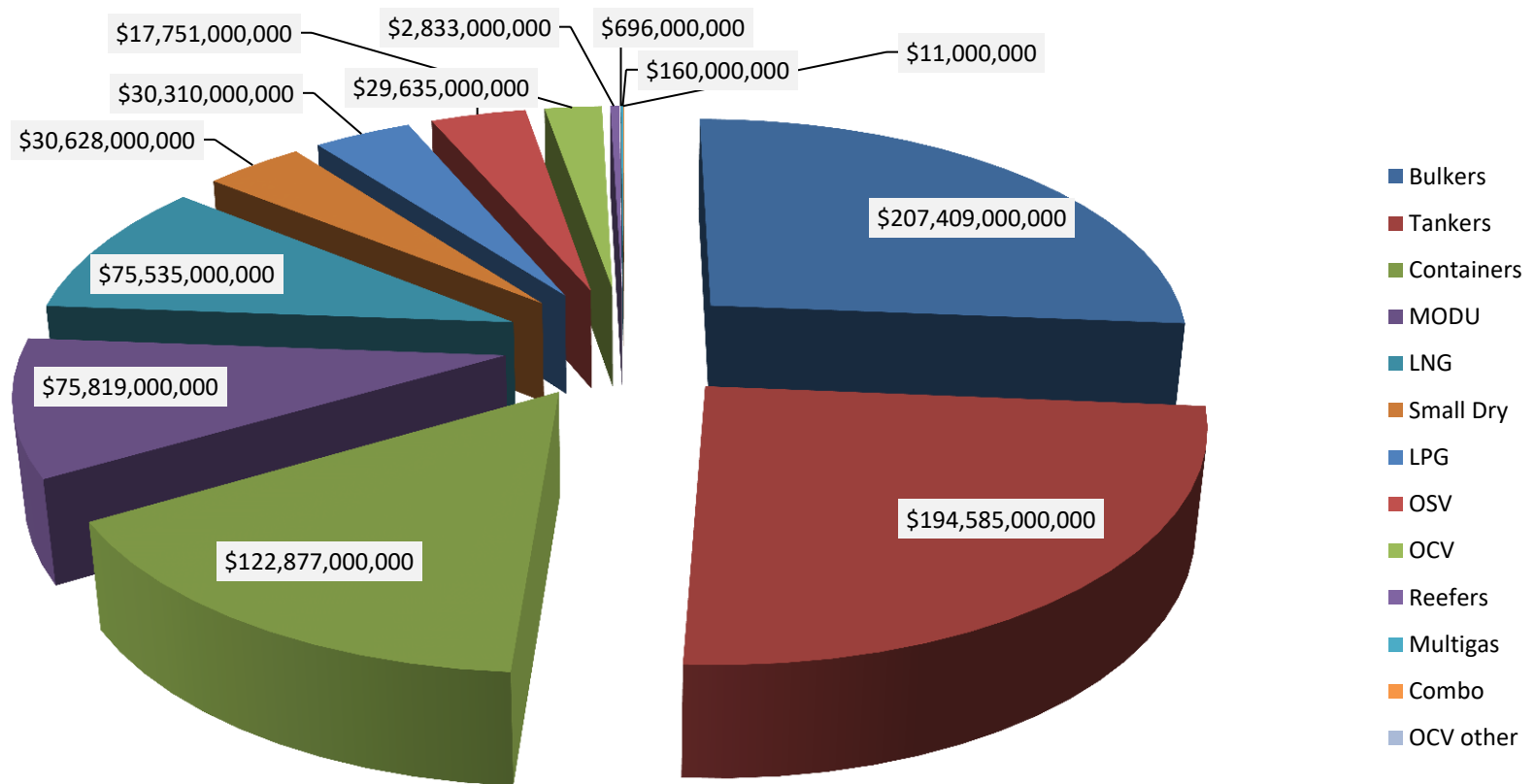


Debt and Equity Markets

- It has been estimated by Fearnley's that \$7.9bn has been raised in 2018 of which bonds are approx. 60% and equity approx. 40%
- The value of the global fleet is estimated at about \$790bn (graph below)
- The Debt and Equity markets, therefore, for 2018, have contributed 1% of the global fleet value, a rather small contribution
- Reasons for relatively small contribution



Value of World Fleet



Total World Fleet Value according to Lloyds' List Outlook 2019: **\$788.25bn**