The emergence of Japanese ship finance in support of international clients

by Ted Petropoulos for Nafs
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Back in the 70s and early 80s, Japanese ship finance was quite active in the Greek and international markets. It consisted of either loans or leasing (with Orix shipping having a major role in leasing) always associated with Japanese newbuildings and / or modern Japanese built vessels. Alas, the mid 80s dry bulk crisis took its toll with numerous defaults and Japanese banks and leasing companies withdrew from international lending with few exceptions.

After a long period of inactivity, over the last decade, Japanese banks and leasing companies began to rediscover 'international' lending. The reasons for this renewed interest lie in the robust development of Greek shipping, as well as Far Eastern shipping shifting its focus from Japan to numerous other nations. For example, over the last 10 years alone Japanese owned tonnage grew from 186.21m DWT in 2009 to 248.78m DWT in 2018, i.e. 33.6% growth, whereas Greek ownership grew from 237m DWT in 2009 to 412m DWT in 2018, i.e. 74% growth. Japanese banks found themselves with 'surplus' funds for ship finance, which could not be satisfied by Japanese owners banking in Japan. Additionally, the withdrawal of many western banks led to an increased appetite for Japanese ship finance by international borrowers. There has always been the development of corporate structures in international Greek shipping, which rendered ship finance more secure, as well as transparent. This was emulated by Greek shipping but not all Japanese lenders believe that Greek shipping has reached the required levels of corporate transparency. For example, Mr. Jigo Hayashi, GM of Tokyo Century Corp, believes that many potential transactions with Greek owners fail on this count (Tradewinds, 13th November 2019).

As potential corporate clients, (Greek and other international Western clients), became much larger with an emphasis on quality of vessels, efficient ship management and enhanced knowhow, they often asked for ship finance when ordering Japanese newbuildings. This 'link' between orders and finance accelerated as many Western banks had withdrawn from ship finance. The process was greatly facilitated by the Japanese trading houses which had active local presences in Greece, London, Singapore and elsewhere and introduced Japanese banks to international owners. Such finance was either done via classic mortgage lending or more often via the trading house acting as the 'owner' and the international client acting as the bareboat charterer. As Japanese owners tend to sell vessels in general after 10 years, the ability to combine a sale with finance enhanced such sale activity. The most common form of Japanese finance is in JOLCOs, i.e. Japanese operating leases with call options. These usually involve high caliber shipping customers and are currently being done at the rate of about 30 per annum. Examples of these for international shipping clients are Pacific International Liners, OOOL, CMA CGM and D' Amico.

Another reason for the development of international ship lending / leasing by Japanese financiers was the restricted appetite by Japanese owners and lower yields achievable by lenders in the local market.

As the trading houses business grew, other financial parties became interested in acting as owners, bypassing the trading houses. The latter, however, fought back with more flexible financings packages, better service and combining finance with other services such as S&P and chartering.

Major Greek and International owners would often approach Japanese ship yards directly and ask them to secure finance. As time moved on, major owners developed direct relationship with Japanese banks, however, this always took time.

Although we are aware of numerous international and Greek transactions by Japanese financiers, obtaining accurate information from the Japanese banks and leasing companies has been difficult. As such, we had to rely on our own market info, the information provided by some banks, trading houses and lessors in order to develop a better understanding of which banks / lessors are active and the sum total of lending by Japanese banks and leasing companies to non-Japanese clients.

The concentration of international ship finance by Japanese entities is either in Japan via leasing companies and regional banks, in Singapore, where many Japanese and international owners have offices or elsewhere. In Greece, we are aware of 5 Greek owners with no presence abroad who enjoy ship finance relationships, directly or indirectly with Japanese lenders.

The market players

The Japanese ship finance market can be divided into two groups. Firstly, the mega banks, which consist of the large Japanese banks with both a Japanese as well as international focus. These mega banks which have dominated for a long time Japanese ship finance are under pressure as they face increasingly stringent solvency ratios, negative interest and often cannot command attractive enough yields.

The second group is that of Japanese regional banks, as well as leasing companies of which about 70 are the most active players. These regional banks focus in promoting their regional markets. However, they have ship lending capacity and have realized that Greek and international owners often can provide enhanced return as they possess huge capital reserves in a negative interest rate environment. Consequently, they have been slowly building up their experience in international shipping markets, as was confirmed by Iyo bank's Yura Wakimoto recently. The presence of a Singapore based office and / or European office is often seen as critical for the growth of such international lending.

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These banks offer corporate and not asset ship finance. To them, transparency and a clean corporate record are musts in their lending process. They have strict lending criteria but on the flip side, the applicable margins are lower than those of western banks.

The mega banks

We would view the following banks into this category and show our latest global loan exposure in shipping (see www.petrofin.gr)

1. Sumitomo Mitsui Trust Bank (SMTB)
2. Sumitomo Mitsui Banking Corporation (SMBC)
3. MUFG Bank (MUFG)
4. Mizuho Bank (Mizuho)

Please note that SMTB is not strictly speaking deemed to be a mega bank, but is included due to its large size, trust business and top slot in ship lending.

These banks are well known in international circles competing for business often with a Japanese element (e.g. Japanese built, long term Japanese charters). Examples of such activity have been reported for MUFG and SMBC for Trafigura and Fred. Olsen and for Mizuho for Trafigura. Additionally, these banks often join in international syndications if the terms are attractive. A recent example of such syndications involves SMBC in a $240m loan to Maran Gas Maritime Inc.

The regional banks

There are approximately 70 active regional banks in ship finance but the number is contracting often via mergers which has been encouraged by the Central Bank of Japan.

The top three players are Iyo bank, Ehime bank and Hiroshima bank with a combined balance of ship related lending (all nationalities) well in excess of US$15bn.

Other regional banks include Chugoku bank, Yamaguchi bank, Fukuoka Bank, Hyakujyushi Bank. There are also banks such as Shinsei bank which is the result of a merger and as such is not strictly a regional bank. There are also leasing companies such as Orix who have recommenced some limited international lending, Tokyo Century Corp and JA Mitsui Leasing.

Not all regional banks / leasing companies are involved in international lending but those known for certain to be engaged in international ship lending are Iyo bank, JA Mitsui Leasing, Tokyo Century, and Orix.

Often Japanese lessors are linked to 'parent' banking groups and their ship finance activity is disguised via leasing structures.

It is difficult to estimate the extent of international ship lending by Japanese ship financiers but would argue it might be in the region of $5bn in total. However, if we can judge by the fact finding visits of some regional banks to Greece, there is a growing appetite for lending to Greek owners and already some banks have established International offices.

The characteristics of Japanese financiers and how they differ from other Eastern and Western banks

What characterizes Japanese banks and leasing finance is their cautiousness. Often, potential relationships take considerable time to develop, involving visits over what could be years. Everything is done slowly but systematically. Great emphasis is placed on the reputation of an owner over and above asset finance perimeters. Once a potential relationship is thought to be of interest, then the appropriate transaction is sought. As already stressed, full transparency is a must and owners must display a cautious approach to shipping risk.

Invariably, Japanese built vessels only are involved, but not necessarily newbuildings. Once the will to lend is established, Japanese financiers are responsive to owners' wishes and seek to offer competitive terms. Theoretically, should an existing international client wishes to include a non-Japanese built vessel in the lender's collateral, the lender will review such vessel and compare it to Japanese built equivalent in order to determine if the vessel would be acceptable technically, as well as what lending she might attract after a ship inspection would be required.

Japanese staff turnover is slow and controlled with each departing person introducing his successor. As such, there is continuity of attendance. Moreover, each financier has records of every meeting and discussion which is studied in preparation of the next meeting. As the client and credit assessment period is long, it follows that credit approval too can be slow. The rule of thumb for a transaction is about 3 months commencing from a decision to develop specific business with a client. This long time process rules our most second hand transactions involving new purchases from the S&P market. In consequence, there remain two main areas of potential cooperation:

a) Newbuilding finance and
b) Refinance of existing owned vessels or providing finance to bareboat or leasing clients to buy their vessels by exercising options to purchase title from their financiers.

Perhaps the slow and methodical approach to ship finance by Japanese financiers may not suit everyone and as owners often are looking to execute transactions quickly, this can cause frustration and missed lending opportunities. The rewards of establishing a relationship with a Japanese financier are the quality of the relationship itself and the ability of the financier to lend consistently when other lenders may not. Once trust is established, and a client performs, the ability to do additional transactions increases greatly and the approval / execution time required is reduced considerably.

It should be added that Japanese lenders, once loans are in place, do not appreciate being approached with refinancings and / or changes in the agreed terms. It is assumed by the lenders that a client is expected to perform under the agreed terms unless there are compelling grounds justifying the change.

With the reduction of Western banks interested in ship finance (as can be seen by visiting our Research ad our website (www.petrofin.gr)), owners are increasingly looking at alternative providers, offering finance at attractive banking terms. Although facing considerable competition from Chinese lessors, Japanese relationships are more personal and client driven and are thus of interest to owners. It is thus safe to expect a gradual rise in Japanese international and Greek lending, as Japanese banks have substantial finance capacity and an interest to expand their international clientele.

We intend to continue our research into Japanese international lending and look forward to publishing additional reports in due course.