

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Leasing is not a new concept. It has been a method of finance for decades. Initially developed in the West, it relied on the combination of the security of long term charters, the benefits arising from 'ownership' of the vessels by Lessors and ability to reduce their tax obligations.

Especially over the past 15 years, SLBs, either with options to buy or in JOLCO form, have grown more popular.

Basic structure of a SLB

SLBs represent an evolution of the leasing concept in shipping. This involves a Leasing company or local owner taking ownership of the vessel and the original owner becoming the Lessee charterer under a bareboat charter agreement. This provides tax benefits and often the Lessor is an individual shipping company which enjoys them directly. The structure is also considered less risky to Lessors in comparison to bank finance, as in the event of default by the Lessee (charterer) the vessel is simply repossessed without resorting to a foreclosure and associated legal methods of acquiring control of the asset. Also, SLBs have an underlying bank financing to the Lessor owner secured on a mortgage.

SLBs often have a lower cost, i.e. a lower margin than loans and often involve longer repayment periods than bank loans. This is particularly the case during periods of high interest rates, when long term interest rates are lower than short term ones. However, the overall cost is influenced by the leverage of the SLB.

Lessees (charterers) have the obligation to repay the underlying facility via bareboat payments enjoying either a fixed rate of interest (inclusive of margin) or a variable rate based on SOFR or similar. At the end of the life of the SLB usually there is an obligation to buy at the residual amount, but not always, as some are simple operating leases (JOLCO).

SLBs usually have a higher Loan to Value (LTV) than bank loans and often up to 80% of the underlying value of the asset, which has rendered them increasingly popular.

The Lessee (charterer) who is really effectively the shadow-owner of the vessel may use SLB in newbuilding finance or in second-hand purchase finance, even though the latter is not as prevalent due to the time needed for SLBs, often involving 3-4 months to complete.

SLBs are often used to refinance assets, where their underlying loans have fallen in comparison to market value and where a higher LTV can be supported by the vessel's cash flow. This method has been used widely by both public and private companies, especially during the last years when asset values have appreciated.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

A key advantage of SLBs is that they usually are single asset financing on a vessel by vessel basis but fleets are also done simultaneously in such way. Another feature of SLBs is their lack of financial covenants, such as maintaining LTVs, interest cover and minimum net worth covenants. This provides comfort to the shadow-owner in that all it has to do is somehow meet the bareboat payments. Often in bank finance in a weak market, owners face both the need to repay their loan obligations, as well as the need to meet LTV breaches by injecting additional capital.

Most SLBs are for amounts ranging between US\$10-50m, but especially for newbuilding fleets done en block the amounts are considerably higher. A strong holding company guarantee is often required as a minimum in such transactions and ensures more competitive terms.

However, there are also drawbacks to SLBs. The main one is its inflexibility, as the bareboat obligations have to be paid 'hell or high water', in order to allow the Lessee (charterer) to have the right to pay off the balance of the underlying loans and regain ownership of the vessel at preset times varying between 1-5 years. As such, their method of finance is inflexible and subject to market volatility in shipping, thus increasing the underlying owner's capital risk.

In addition, legal costs are higher and the overall structure is more complex compared to traditional bank finance. However, law firms have by now become very proficient in such legal work.

Over time however, the concerns over SLBs have dissipated and they are now seen as a mainstream source / basis of ship finance.

Active SLB Markets

The Chinese market is considered to be the biggest SLB market and often represents the best solution for Chinese newbuildings. They tend to be more complex in structure.

In recent years, numerous Chinese Lessors have developed interests from the largest to smaller transactions and have been offering services to second-hand vessel deals. Chinese Lessors have grown their ability and appetite for almost all vessel types, ages and amounts.

Japanese SLB activity has also grown substantially over the last 15 years. Invariably, it focuses on Japanese built or Japanese managed shipyards. Furthermore, Japanese trading houses play a pivotal role as well, as they usually identify one of their Japanese clients to be the owner. They structure and negotiate the terms, as well as continue to remain in the picture throughout the life of the transaction. They also negotiate with Japanese banks for financing the Japanese SLB owners.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

As Japanese owners find themselves awash with liquidity and fewer newbuilding opportunities, their interest has turned to SLBs (JOLCO or with obligation to buy by the shadow owner) in the second-hand market. These are usually US Dollar denominated and are attractive due to the low values of the Yen against the US Dollar.

Japanese owners, such as Nissen Kaiun, Nisshin Shipping, Doun Kisen, but even smaller ones such as Shunzan Kaiun and Imahatsu Kaiun, have increasingly relied on Japanese SLBs with the support of regional Japanese banks, who are also keen to develop their shipping loan portfolios. However, similar SLBs are also done with non-Japanese owners, namely major charterers such as Oldendorff, Norden and others. Such names often also have the ability to arrange Chinese SLBs on most competitive terms for their newbuildings.

Over time, Western banks and finance houses have also developed the ability to structure SLBs in China and Japan always associated with local lessors / banks.

The Korean market also provides SLB capability for Korean newbuildings, as well as Taiwan and Singapore and lately the Middle East.

Available Information

There is no vast information on SLB transactions as, with the exception of publicly quoted companies, private owners have no obligation to report them and often will not reveal their terms. This represents a challenge to researchers. As such, there is no comprehensive picture of the total figures regarding amounts as well as number of owners who choose this method to release capital for / refinance of other ventures. There is also limited information on the number of vessels that are entered into SLBs and their terms. The following indicative table has focused on publicly available information via the companies themselves or other stakeholders in the SLB market. Interestingly, some Greek shipowners have been entering into such transactions taking the role of the shadow owner as featured in the table.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Table 1: Indicative Sale-and-Leaseback deals, January 2023 - February 2024

Company	Vessel Type	Financier	Financing Amount	Duration	Repurchase Terms	Charter Rate
Awilco LNG	2 LNGs	CCBFL	\$175m each	10 years	Buyback Price: \$37.5m each + repurchase options	\$45,000/day
Bocimar	10 Newcastlemaxes	Ocean Yield	\$576m	15 years	NA	NA
Capital Product Partners	1 LNG	NA	\$196.3m	10 years	Buyback Price: \$98.2m + repurchase options after 1 year	\$5.5m/quarter (3 years)+ \$1.1m
Cetus Maritime	4 Handies	SBI	NA	NA	NA	NA
CoolCo	2 LNGs	Huaxia FL	\$234m (6%<)	10 years	Buyback Price: \$234m each	fixed daily rate
Diana Shipping	1 Ultramax	Japanese	\$29.85m	10 years	Repurchase options after 3 years	\$8,950/day
Dorian LPG	1 VLGC	Japanese	NA	13 years	NA	NA
Euronav	2 VLCCs	Ocean Yield	NA	14 years	NA	NA
	2 Suezmaxes	Ocean Yield	NA	14 years	NA	NA
Euroseas	1 Container	Japanese	NA	8-10 years	NA	\$17,000/day
Farstad Supply	2 AHTS	Ocean Yield	\$114m	12 years	Repurchase options after 5 years	NA
Flex LNG	1 LNG	SBI Leasing	\$180m	10 years	NA	NA
Gaslog	2 LNGs	CDBL	\$284m	5 years	No repurchase option or obligation	NA
Global Ship Lease	4 Containers	NA	\$123m	2 years	NA	2+1 year chopt
Golden Energy Offshore	6 PSVs + 1 SSV	Fleetscape/Vroon	\$98.55m (6.5%+SOFR)	5 years	Put/call: \$17.99m after 5 years + repurchase opt 2 years	NA
Himalaya Shipping	2 Newcastlemaxes	CCBFL	\$49.3m each	NA	NA	NA
Landbridge Group	2 VLCCs	CSSC Shipping	\$102m	7/9 years	NA	\$172.4m + interest of \$51.4m
MISC	2 LNGs	Nissen Kaiun	NA	NA	NA	NA
MPC Container Ships ASA	12 containers	Bocomm	\$75m	NA	NA	NA
DFDS	3 Ro-Ros	NAvigare	\$212m	5 years	Right of first refusal to repurchase at end of lease	NA
Navios	1 dry bulk	NA	\$32M (2%+LIBOR)	10 years	NA	NA
	2 Containers + 2 Tankers	NA	\$178m (2.1%+SOFR)	10 years	NA	NA
Nordic American Tankers	1 Suezmax	Ocean Yield	NA	8 years	NA	NA
Okeanis Eco Tankers	1 VLCC	CMBFL	\$73.50	7 years	Repurchase options after 1 year and throughout term	\$13,000/day + variable 190 > SOFR
Pearl Petrochemical	3 VLGCs	CSSCL	\$180.4m	10 years	NA	\$210.3m + interest of \$46.7m

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Scorpio Tankers	3 MRs	Taiping & Sinopec FL	NA	NA	Buyback Price: \$45.6m	NA
	3 MRs	NA	NA	NA	Buyback Price: \$29m	NA
	2 MRs	NA	\$29.1m	NA	N/A	NA
	3 Handymaxes	NA	NA	NA	Buyback Price: \$33.7m	NA
Seacon shipping	2 Chemical tankers	NA	\$14m each	2 Years	NA	\$16,250/day + opt \$16,500/day (TC)
	1 Handy	BFL	\$21.25m	10 years	Repurchase options throughout term	\$11m total period
	4 multi purpose	CMCL	\$166m	15 years	Buyback Price: \$13m each (after 2 years)+ repurchase options	NA
	1 Kamsarmax	Bocomm	\$27m	10 years	Buyback option 4 years	NA
Seanergy Maritime	1 Capesize	Japanese	\$19m (2.8%+SOFR)	6 Years	Repurchase at end of term at no additional cost. Repurchase opt 2 years	\$300,000/month
	1 Capesize	Japanese	\$19m (3%+SOFR)	53 months	Buyback Price: \$7.8m + repurchase opt 2 years	\$200,000/month
	3 Capes	Chinese	\$30m (3.3%+SOFR)	3 years	Buyback Price: \$5m	\$140,000/month
Sinopec	2 LNGs	TSFL	\$235m each	15 years	Buyback Price: \$315.7m and \$316.5m	NA
Top Ships	2 Suezmaxes	Chinese	\$41m (2.65%+SOFR)	10 Years	Buyback Price: \$19m each + repurchase options	NA
	2 VLCCs	Chinese	\$62.5m each	8 years	Buyback Price: \$37.5m each + repurchase options	\$20,000/day
	1 MR	Japanese	\$28m (2.6%+SOFR)	7 years	Buyback Price: \$14m	NA
United Maritime	1 PaNAmax	Japanese	\$13.8m (2.65%+SOFR)	6 Years	Buyback Price: \$16.6m + repurchase opt 2 years	\$8,000/day

Source: Newsfront, Tradewinds, Lloyds List, Companies' Press Releases

SLB transactions in 2023 up to February 2024

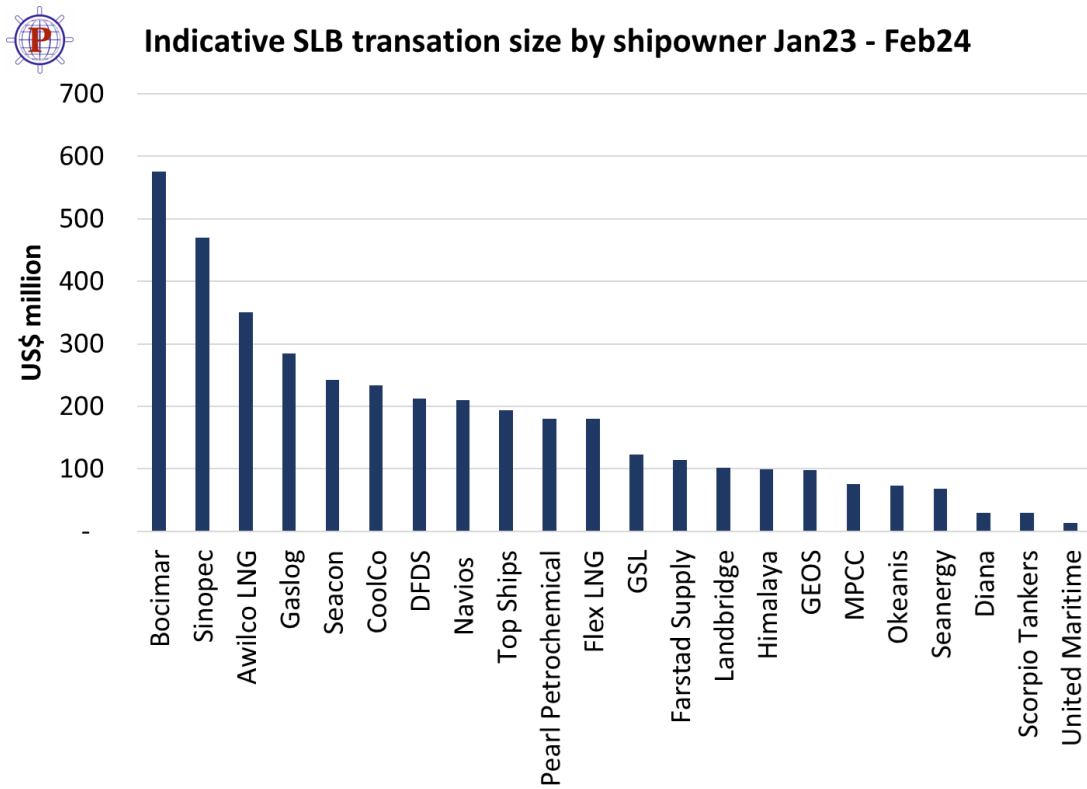
As seen in Graph 1 below, close to US\$4 billion worth of transactions encompassing 105 vessels were reported in 2023 onwards. Although still substantial, the overall size of the SLB market is assumed to be much larger. Some Greek shipowners like Navios, Dorian, Diana Shipping, Mybulk and others have also taken advantage of such deals, although in many SLBs the exact amounts have not been disclosed.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Graph 1:



Source: Tradewinds, LloydsList, Newsfront, Press releases

As seen in Graph 2 of SLB financiers, Ocean Yield has done a large number of transactions in terms of number of vessels. Also, it is noteworthy that many Chinese financiers were involved in such deals. Interestingly, Chinese SLBs usually involve higher numbers.

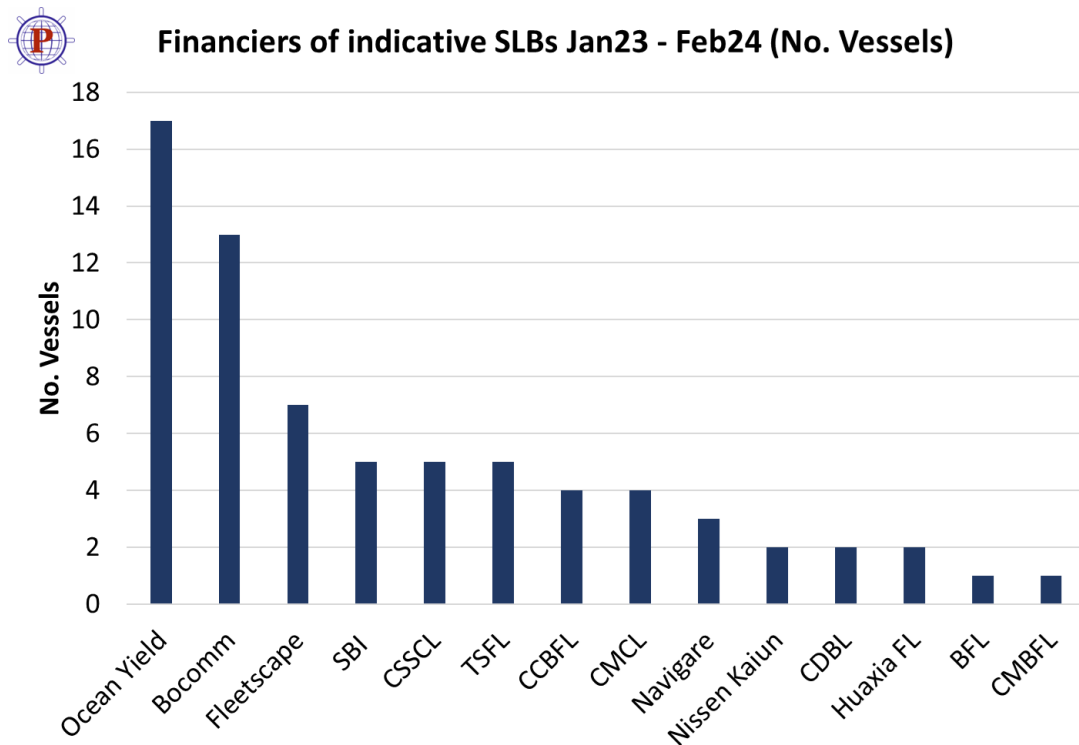
Furthermore, Japanese trading houses are reported to have entered into more than one hundred deals during 2023. This can partially be attributed to their increasing involvement in the Greek shipping market. Also, financiers like Fearnleys Securities, Maersk, North Cape, Berenberg and others have been active in 2023 / 2024.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Graph 2:



Source: Tradewinds, Lloyds List, Newsfront, Press releases

Interesting to note, that in this type of transaction clusters of vessels are commonplace. For example, MPCC concluded a deal for 12 containers with Bocomm and Bocimar did 10 bulkers with Ocean Yield. All these come under the guarantee of the parent company.

As long as the US Dollar remains a strong stable currency and shipping's cash flows, liquidity and prospects remain positive, the SLB market should continue to thrive and provide a credible alternative to bank finance.

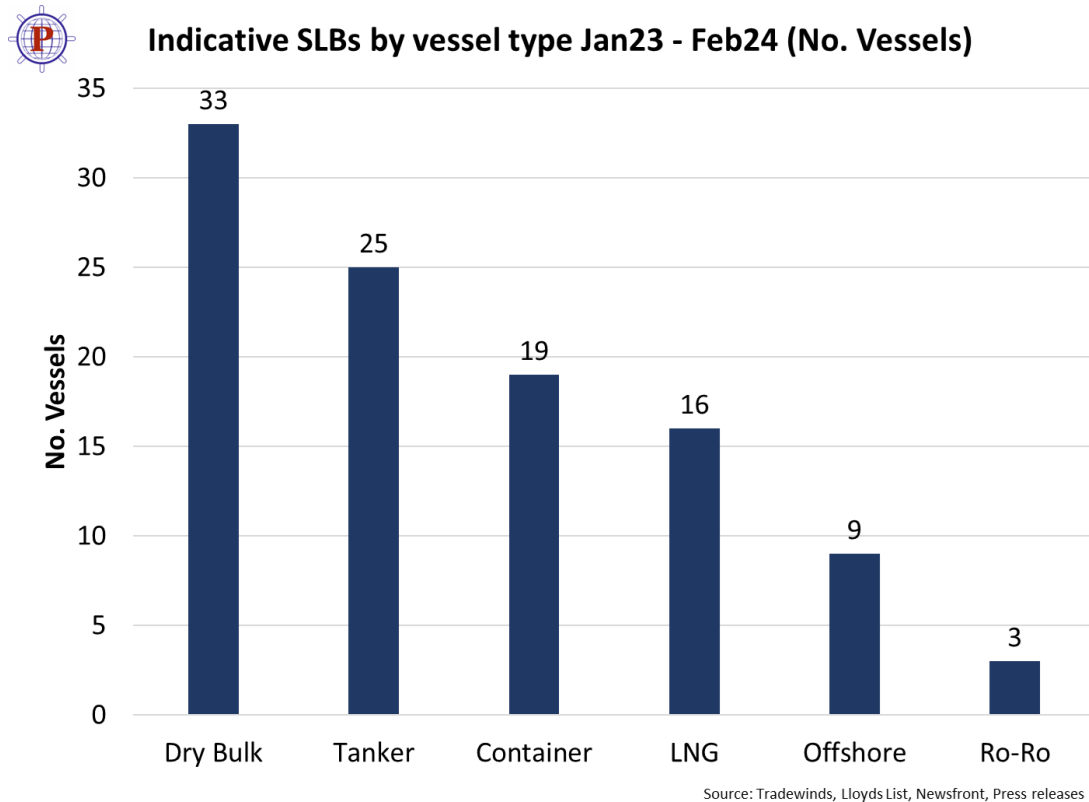
Graph 3 illustrates the number of SLBs by vessel type.

The Development and Prospects of Sale and Leasebacks (SLBs) in shipping

by Ted Petropoulos

Nafs, March 2024

Graph 3:



Conclusions

Initial concerns by owners have dissipated over time. The advantages of SLBs are significant and so is their attractiveness. This is self-evident by the growth of reported SLBs in the industry and the increasing involvement of Greek shipowners. As can be seen in table 1, the increasing number of SLBs highlight their popularity.

With shipping enjoying a rare period of substantial liquidity and satisfactory cash flows, as well as on the whole rising vessel prices, SLBs have not recently come under threat as a method of financing. There remains to be seen how they might fare should there be a sizeable collapse in vessel cash flows, as happened in 2007/2008. The high liquidity in shipping, though, adds comfort in this regard.

For the time being, SLBs are thriving and are filling the gap created by the departure of many Western banks over the last decade.