THE SHIP FINANCE PUBLICATION OF RECORD

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Success with an Eye to the Future

Dealmakers of the Year

WHERE THERE IS A WILL, THERE IS A WAY

THE PROJECT FINANCE DEAL OF THE YEAR

Transaction: ***$583.7 million Senior Secured Term Loan Facility for 8 x 16,000 TEU Container Ships for HMM Co. Ltd.***

Winner: ***Standard Chartered Bank (Senior Lender), Korean Ocean Business Corporation (Guarantor), Korea Development Bank (Sole Financial Advisor, Subordinated Lender), Korea Eximbank, Korea Asset Management Corporation, KDB Capital (Subordinated Lenders)***

If something works, it is always worth replicating. In 2018, the Korean government implemented a five-year plan to revive the country's ailing shipping industry. The key element of the plan was the establishment of the Korean Ocean Business Corporation ("KOBC"). Owned by the Korean Government (53.19%), Korea Development Bank (22.37%) and KEXIM (18.80%), KOBC was established with initial capital of KRW 5 trillion from the South Korea Government. Contributing to the national economic development, KOBC is charged with enhancing the competitiveness of Korea's maritime transport industry through its support of the stable introduction of ships and the supply of liquidity, along with the various services necessary for industrial growth.

One of the beneficiaries of the program was expected to be HMM, the country's sole remaining national container shipping line. Although Korean support for its shipping industry remains unbounded, it still suffers from the aftermath of Hanjin Shipping's collapse, making the financing of a standalone container liner company with a low credit rating and substantial new vessel requirements challenging. The arrival of the pandemic raised further questions about cargo volumes, shocked financial markets, and increased difficulties for the shipping industry generally. To get the deal done at a competitive cost required a different perspective, careful structuring and, most importantly, national support.

Last year's winner of "The Structured Finance Deal of the Year" was a group of financial institutions led by KDB and KOBC, which banded together to provide $1.4 billion of highly structured credit facilities to finance HMM's acquisition of 12 x 23,000 TEU containerships. The outlines of this transaction were used again to finance the company's subsequent order for 8 x 16,000 TEU containerships to be constructed at Hyundai Heavy Industries, which were also contracted to increase the company's long-term competitiveness by expanding its cargo capacity as it prepared to join "THE Alliance" — one of the world's top three shipping alliances — as a full member.

The transaction was structured as a sale-leaseback with eight SPVs acquiring the containerships that would then be chartered to HMM under 10-year BBCHP agreements (see chart on the following page). Under these agreements, HMM would pay charter hire consisting of any fees, principal, interest, and any additional costs quarterly in arrears to cover all payment obligations that they incurred under the financing arrangements. In addition, the charters were structured to ensure that outstanding amounts under the loan facilities were fully recourse to HMM.

With a total project cost of $972.8 million, funding for the acquisition of the eight containerships was divided among a senior loan of $583.7 million (LTV 60%), a junior loan of $291.9 million (LTV 30%), and equity of $97.3 million (10%) from HMM. The tenor of both loans is 12 years, with the lenders having a put option after year five. The transaction was well structured with pledges over modern assets and a full recourse guarantee of the senior loan from KOBC, which will cover principal and interest in the event of non-payment of the debt service by the Borrowers and default by HMM. Historically, KOBC guarantees were put in place to support the junior debt facilities provided by domestic financial institutions. In this instance, KOBC guaranteed the senior loan that was in its entirety provided by Standard Chartered Bank, making it the bank's largest bilateral structured finance transaction. The subordinated loan was provided by KDB, KEXIM, KAMCO and KDB Capital.

While the KOBC guarantees facilitated the funding of the senior tranche, the junior tranche met with general skepticism, made worse by the impact of the pandemic on both the shipping and credit markets. With an overriding concern about the overall project cost, there was pricing tension between the subordinated lenders and the borrowers, with the former seeking returns reflecting the risk involved in light of market conditions and the company's financial position, and the latter requiring a competitive interest rate for the deal economics to work. While the negotiations were not easy, progress was made based upon the consensus view that the deal was necessary to improve HMM's competitiveness coupled with a timely improvement in market conditions in H2 2020. Aiding the process was a unique security sharing agreement between the junior and senior lenders.

This latest shipbuilding project supported the company's business expansion, contributing in part to the company's ability to double its capacity to more than 800,000 TEU, largely through orders for large ships from 400,000 TEU in 2017. This, in turn, gave the company a better platform to fulfill its role as a member of The Alliance, as well as improve its competitiveness. Lastly, the successful conclusion of this transaction helped improve the company's credit profile.