THE JOL RETURNS

LEASING DEAL OF THE YEAR (EAST)

By Campbell Houston

Transaction: Hapag-Lloyd Container Sale Leaseback

Winners: Financial Products Group, FPG Asset & Investment Management

2012 saw a number of innovative financing deals for container boxes as specialty banks that have historically financed the market came under pressure. DVB arranged the sale and leaseback of 139,941 three- to six-year-old container boxes for China Shipping Container Lines, representing 20 percent of their container box fleet or 210,000 TEU, in a $358 million deal. The containers were acquired by CLC Maritime Container Leasing, which is backed by CDB Leasing, a significant foray into the maritime container leasing industry for CDB. China Development Bank acted as co-lender in the deal. In another container deal, United Arab Shipping Company utilized Sinosure ECA buyer's coverage and a $78 million facility from ABN AMRO to order 26,000 standard dry boxes from China. That deal is covered in depth in our Export Credit Deal of the Year article.

The Leasing Deal of the Year goes to another container deal. In August, FPG Asset & Investment Management arranged the sale and leaseback of 34,209 vintage containers from Hapag-Lloyd in a deal valued at $45.5 million. FPG Asset & Investment Management (FPG AIM) arranged the deal. Financial Products Group Co. Ltd. manages the SPC which purchased the containers and underwrote the equity. This SPC is 100 percent funded by Japanese corporate investors.

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The deal is structured as a Japanese Operating Lease (JOL), which gives 100 percent financing at a low rate, with low risk and simple documentation. JOLs are open to non-public investors who must be actively involved, familiar with the asset, and fully funded. The investor/lessor receives tax benefits from depreciating the assets, which allows the financing to be made at rates lower than a traditional lease. To qualify for tax benefits, the Japanese Tax Authority requires investors take on equity risk: a maximum of 90 percent of the acquisition costs may be paid in lease payments over the lifetime of the deal. Any residual value at the expiration of the lease is taken as capital gains by the investor. In many JOLs, including this deal, a purchase option is included. The fixed price eliminates some risk for FPG investors and allows Hapag-Lloyd to capture the residual value upside at the expiry of the lease of the container boxes by exercising the purchase option.

The security package is very straightforward and allows Hapag-Lloyd to raise financing at an attractive rate without involving any bank debt or any security other than container boxes. Hapag-Lloyd also benefits from removing the containers from its balance sheet.

The transaction is groundbreaking in being the first 100 percent Japanese equity financed sale and operating leaseback transaction in relation to vintage container boxes involving Japanese corporate investors and a German container shipping company. At times when container box financing is scarce, utilizing the Japanese Operating Lease market for container boxes provides financing in a sustainable and efficient manner. FPG AIM has secured a position as a leader of container leasing in Japan.