THE SHIP FINANCE PUBLICATION OF RECORD

MARINE MONEY

INTERNATIONAL

HAMBURG ◆ SINGAPORE ◆ LONDON ◆ NEW YORK ◆ OSLO ◆ PIRAEUS

SPRING 2021 VOLUME 37, NUMBER 1

Success with an Eye to the Future

Dealmakers of the Year

MARINE MONEY

2020 DEAL OF THE YEAR AWARDS

TRANSACTION	WINNER	ROLE

THE IPO DEAL OF THE YEAR

PAO Sovcomflot $550 million Initial Public Offering		
	VTB Capital	Joint Global Coordinator and Bookrunner
	Citi	Joint Global Coordinator and Bookrunner
	Sberbank	Joint Global Coordinator and Bookrunner
	J.P. Morgan	Joint Global Coordinator and Bookrunner
	Bank of America	Joint Global Coordinator and Bookrunner
	ING Bank	Co-Manager

EQUITY FOLLOW-ON DEALS OF THE YEAR

Golar LNG $105 million Follow-on		
	Citi	Joint Lead Manager & Bookrunner
	Clarksons Platou Securities	Joint Lead Manager & Bookrunner
	DNB	Joint Lead Manager & Bookrunner
	Arctic Securities	Joint Lead Manager & Bookrunner
	Seward & Kissel	Counsel to Golar LNG

THE M&A DEAL OF THE YEAR

Merger of Epic Gas and Lauritzen Kosan		
	SEB Corporate Finance	Financial Advisor to J. Lauritzen

THE LEASING DEAL OF THE YEAR – WEST

CDBFL/Maersk Tankers $422 million Sale of 14 Product Tankers		
	China Development Bank Financial Leasing	Owner/Lessor
	Maersk Product Tankers	Charterer
	Gorrissen Federspiel	Counsel to Maersk Tankers
	Mayer Brown	Counsel for CDBFL

THE LEASING DEAL OF THE YEAR – EAST

ICBCFL/CMES $140.2 million JOLCO for 2 x 325,000 VLOC Newbuildings		
	ICBC Financial Leasing	Joint Charterer
	China Merchants Energy Shipping	Joint Charterer
	National Australia Bank	Mandated Lead Arranger
	E.Sun Bank	Mandated Lead Arranger
	CTBC Bank	Mandated Lead Arranger
	FPG	Equity Underwriter
	FPG AIM	JOLCO Arranger
	Watson Farley & Williams	Counsel to Lenders

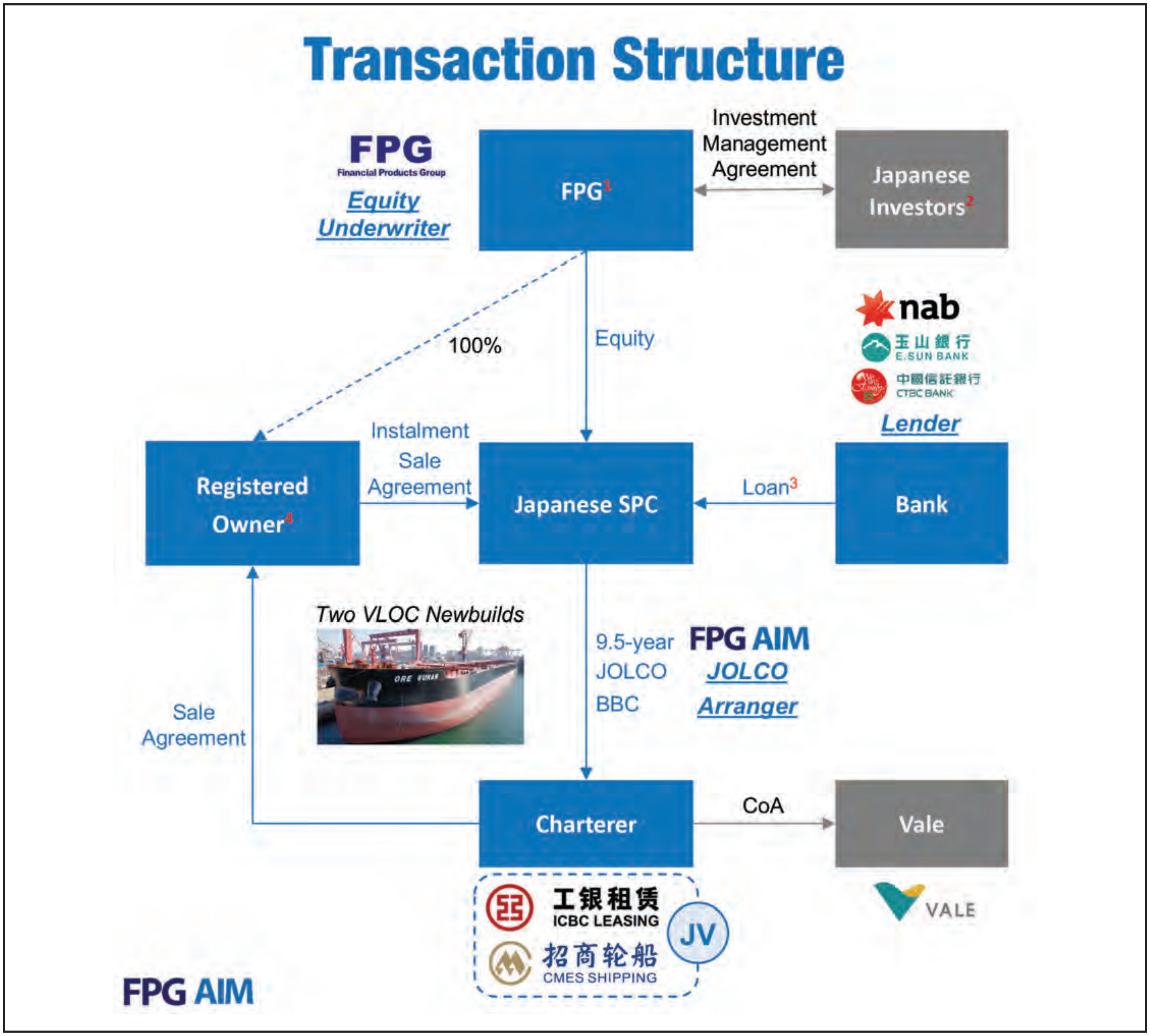
EAST

Transaction: *ICBCFL/CMES $140.2 million JOLCO for 2 x 325,000 DWT VLOC Newbuildings*

Winners: *ICBC Financial Leasing/China Merchants Energy Shipping (Charterer), National Australia Bank, E. Sun Bank, CTBC Bank (Mandated Lead Arrangers), FPG (Equity Underwriter), FPG AIM (JOLCO Arranger)*

Building upon the combined competitiveness of both Japanese and Chinese leasing houses, the winning transaction from the East stretched the boundaries of the JOLCO structure to incorporate a number of novel features, which added additional levels of structural complexity including a joint venture charterer and an underlying CoA instead of a charter.

In a transaction arranged by FPG, a Japanese SPC, as



owner/lessor, acquired through a JOLCO structure two 325,000 DWT VLOC newbuildings for a price of $140.2 million and bareboat chartered them to a joint venture of China Merchants Energy Shipping ("CMES") and ICBC Financial Leasing ("ICBCFL") for a period of 9.5 years, during which time the vessels will perform a CoA with Vale.

To finance the vessels, FPG underwrote the entire equity, minimizing execution risk, with the expectation of selling down its position to Japanese investors, who would become silent/limited partners in the limited partnership. JOLCO equity is a tax-driven fixed rate product, and its pricing mechanism does not follow the movements in the broad interest rate environment. Despite the drastically lower interest rates in 2020, the equity pricing was kept competitive, even when benchmarked against yields for investment grade bonds of similar average life.

The balance of the purchase price was funded through a limited recourse loan to the SPC owner who, in turn, entered into a JOLCO bareboat charter agreement with the charterer. The three banks provided very competitive JOLCO debt, which is an achievement for vessels of this type. Many banks have limited appetite for VLOCs, which are perceived as less liquid or, alternatively, demand premium pricing over the financing of more liquid asset types for the same obligor. Covenants and recourse to the charterer are established by the lenders via pass-through provisions in the JOLCO bareboat charter. The combined debt and equity represent 100% financing. A diagram of the structure is shown on the previous page.

For ICBC Leasing and CMES, the transaction provided 100% financing at a competitive cost, and established their presence in the JOLCO market, which is highly selective as to both counterparties and assets. This transaction marks CMES' entry into the JOLCO market and the first shipping JOLCO for ICBCFL, whose previous experience with this type of financing was limited to aircraft.

For ICBC Leasing and CMES, the transaction provided 100% financing at a competitive cost, and established their presence in the JOLCO market, which is highly selective as to both counterparties and assets.

The transaction was successful in pushing both investors' and lenders' risk boundaries. The financing of joint ventures involves greater risk assessment than that required for the financing of its shareholders separately, due to potential disputes between the partners. Moreover, JOLCO equity investors are reticent to look at deals involving joint ventures because of concerns about the exercise of the purchase obligation which is a critical feature of the structure. In addition, a key aspect of shipping JOLCO structures has been the chartering of the vessels directly to creditworthy operators or to tonnage providers/leasing companies who, in turn, subcharter the vessels. The choice of a CoA required additional structural complexity designed and incorporated to address both the security and Japanese tax considerations to make it JOLCO compliant.

It goes without saying that the closing of a six-party transaction during the pandemic was no easy task. Among the challenges was the liquidity shock in the banking market in March, which was followed by the declaration of a national emergency in Japan which not only impacted equity demand but also put pressure on the equity underwriter as there was very low market visibility for distribution of a project with multiple novel features and two new shipping names. Lastly, JOLCOs for newbuildings have strict timing requirements for closing which must be at delivery from the shipyard. Such precision was difficult due to delays at the shipyard due to lockdowns and other logistical issues including the documentation process which involved six parties in seven geographical locations and multiple time zones all conducted virtually.

This deal demonstrates the full commitment of all the transaction parties in times of crisis, the firm underwriting positions of the lenders and FPG, the strong recognition of ICBCFL and CMES and, more importantly, the resilience of the shipping and ship finance industry through market cycles and global events.