



WEDNESDAY 20<sup>TH</sup> NOVEMBER 2019 – AFTERNOON

## SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Identify the main components in a shipping company's balance sheet that a lender should pay particular attention to when deciding whether or not to make a loan. Identify possible weaknesses and how these may be reduced or managed.
  
2. You are the marketing director for an Islamic bank looking to develop its client base in the shipping sector. Prepare a proposal to a Middle Eastern-based oil tanker owner, explaining the principles underpinning your business, and the specific instruments which may be suitable for its line of business. You should also explain the advantages the company may achieve from doing business with you compared with a non-Islamic bank.
  
3. Answer **ALL** parts of the question.  
Advise an owner with regard to the most appropriate type of loan to refinance existing debt in **ALL** of the following circumstances. Risks to the lender should be discussed in the context of each type of loan proposed.
  - a) Earnings are presently low and it is only possible to meet operating expenses. An upturn in the market is expected in two years' time.
  - b) Earnings are currently booming but rates are expected to decline soon.
  - c) The market is in depression and there are under-priced vessels for sale due to corporate failures. The owner wants to buy up vessels but interest rates are presently high.
  - d) The owner has high levels of floating rate debt in its capital structure: interest rates are expected to rise in the immediate future.
  
4. Explain the characteristics of convertible bonds, describing the advantages for borrowers and opportunities to investors, and the risks to all parties concerned. In which ways could convertibles be suitable for a shipping company borrower, taking into account share price behaviour at the different stages of the shipping cycle?

**PLEASE TURN OVER**

5. Describe the forms of security which a lender may take in respect of a loan made to a cash-rich parent company which owns all the shares in several one ship subsidiaries registered in different jurisdictions.

In the case of each security, discuss the relevant procedure which must be followed, the potential risks to the lender, and how these risks may be reduced or managed.

6. Answer **ALL** parts of the questions.

You are the Chief Finance Officer of a shipping company which intends making a syndicated bond issue. The company already has a high level of debt, and most of its vessels are old:

- a) Discuss the functions of all participants in a syndicated bond issue, with the aid of a diagram.
- b) Describe the typical factors a ratings agency will take into account when assigning a rating to the bond which will be issued.
- c) If potential investors are concerned that the company will be unable to meet repayment of principal on maturity, and that the value of the vessels may have fallen by this date, what measures could the company take to address these concerns?

7. A family-owned shipping company headquartered in a developing country is exploring the feasibility of raising equity finance on the New York Stock Exchange. It has several long term charterparties with the state-owned oil company of the country in which it is based, but most of its vessels are otherwise employed in local markets in East Africa, regularly sailing between Eritrea and Tanzania, through the Gulf of Aden and into the Indian Ocean. The shares are owned by the family, and the board is dominated by relatives of the company's founder. The company has several outstanding high interest-bearing loans in place, and made a seven year bond issue five years earlier. Apart from a few recent acquisitions of newbuilds, the fleet is old and repair and maintenance costs have been escalating.

Prepare a briefing report for the founder, identifying the risks and opportunities which would need to be disclosed in a prospectus should the company want to raise equity on the New York Stock Exchange. You should also briefly discuss the legal framework (the statute or law) which applies, and the liabilities of officers.

8. What information is held by each of the following, and how might this information affect a financial institution's decision whether or not to make a loan to a shipowner?
- a) Marine insurance companies
  - b) Classification societies
  - c) Port state authorities
  - d) International Transport Workers Federation