



**MAY 2021 EXAMINATION SESSION**  
**THURSDAY 27<sup>th</sup> MAY 2021 – AFTERNOON**

## **SHIPPING FINANCE**

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. ABC Bulkers, a privately-owned company, is the cash-rich parent of several subsidiaries. It also owns a minority shareholding in a general transportation company. A subsidiary of ABC Bulkers has recently signed a fifteen-year time charterparty with a Middle Eastern state oil company. ABC Bulkers now wants to expand the subsidiary's fleet to win further contracts with other state oil companies in the region, and to do this it needs to raise finance for further vessel purchases.

With full discussion of the risks to lenders and relevant procedures, discuss the various forms of security which ABC Bulkers will be able to offer to potential lenders to finance the subsidiary's fleet expansion plan.

2. Regarding **ALL** the following scenarios, discuss the type of shares which would be appropriate to issue to investors.
  - a) A shipowner is trading in a market in recession. Asset values have fallen significantly, and there is limited prospect of making a profit for the next year. Investor sentiment is weak, and investors are presently 'cash poor' and unable to pay the full price for shares. However, the prospects for improvement in the market and in earnings are good.
  - b) A shipowner wants to raise fresh equity but does not want 'outsiders' involved, which would dilute earnings (dividends) and voting control.
  - c) A shipowner wants to prioritise new shareholders over existing ones (in terms of the right to future dividends), to provide them with an incentive to invest. Subject to the right to issue as set out in the Articles of Association, which type of shares can be offered?
  - d) A shipowner wants to provide new shareholders with guaranteed dividends, and percentage of profits if there is a future dividend distribution to ordinary shareholders.
3. Describe the characteristics of convertible bonds (you should consider the different types of convertibles), and the advantages and disadvantages of these, and the risks they present, to issuers and investors when compared to plain vanilla bonds.

**PLEASE TURN OVER**

4. Answer **BOTH** parts of the question.
- a) Describe the information which must be provided in a typical ship mortgage registration form.
  - b) Identify and briefly discuss owner undertakings in a typical ship mortgage.
5. Answer **BOTH** parts of the question.
- a) With the aid of a diagram, identify the participants in a typical syndicated bond issue, and the functions of each.
  - b) What is meant by the term 'joint and several liability' and which of the participants in a syndicated loan will be affected by these terms?
6. Discuss any **FOUR** of the following:
- I. Sinking fund
  - II. Mezzanine finance
  - III. Private placement of shares
  - IV. Residual value insurance
  - V. Loan to value covenant
  - VI. Ship liens
7. When a publicly quoted shipowner which is also active in the international debt markets enters insolvency, there are many claimants which come forward. Identify these groups of claimants, the strengths of their claims relative to each other in terms of order of priority to payment, and the possible weaknesses of their positions.
8. Answer **ALL** parts of the question.

Describe the types of loan or financing arrangement which would be suitable in **EACH** of the following scenarios, identifying the risks to the lender and how these can be removed through suitable covenants in the loan agreement.

- a) A shipowner is trading in a depressed market and is no longer able to keep up payments of either interest or principal on an outstanding loan. However, it is expected that the market will begin to improve over the next two years.
- b) A shipowner is presently trading in a buoyant market but believes that it will start to turn into recession soon. It does not want to take on any fresh debt but instead to have access to loan capital to meet future operating expenses if needed.
- c) A shipowner is trading in a strong market and its earnings are several times its current operating expenses. It wants to take out a loan but is concerned that, although it can easily meet payments now, it will struggle to do so when the market begins to decline.
- d) A shipowner is trading in a weak market; asset values are low and there are plenty of opportunities to buy in the sale and purchase market at very reduced prices. When the market begins to improve, the owner will generate strong earnings from any vessels which it is able to buy cheaply today.