KOREA ADDS FLEXIBILITY TO THE RECIPE

THE EXPORT CREDIT AGENCY DEALS OF THE YEAR

WEST

Transaction: *Flex LNG Ltd. $629 million ECA Financing*

Winners: *Korea Eximbank, ABN AMRO, Nordea, Citi, Commonwealth Bank, Crédit Agricole CIB, Credit Suisse, Danske Bank, Deutsche Bank, SEB, SpareBank 1 and Sumitomo Mitsui Trust Bank.*

EAST

Transaction: *CMBFL $193.1 million KEXIM Supported Financing*

Winners: *Citibank, KEXIM, Dekabank, Development Bank of Japan and E. Sun Commercial Bank*

Export Credit Agency ("ECA") financing is done on strict OECD terms and conditions to ensure a level playing field among competing countries. To achieve a degree of flexibility, banks have worked around the edges by wrapping a commercial tranche around the ECA financing to smooth out the repayment schedule and lower interest costs. There have been some innovations, including the ability in KEXIM financing to replace a portion of the KEXIM loan tranche with Guaranteed Notes. But for the most part, what the OECD dictates is what you get. In this year's two winning transactions, the borrowers were able to negotiate concessions from KEXIM, shifting some of the risk back to the Koreans.

WEST

Having John Fredriksen has your main shareholder adds a degree of leverage which Flex LNG utilized in its negotiations with KEXIM. Among the concessions achieved was the ability to draw the loan without contractual employment and an ability to swap vessels to optimize the use of debt sources. We described the winning deal from the West in an article entitled "FleX-mas came early", which appeared in Freshly Minted last December.

In lieu of their traditional highly structured transactions, Flex LNG's Oystein Kalleklev and his lieutenant Harald Gurvin opted for one-stop shopping in Korea to finance all five of the company's 2020 deliveries utilizing ECA financing. Last month, Flex LNG received commitments from a syndicate of 11 banks and the Export-Import Bank of Korea ("KEXIM") for a $629 million financing for the five newbuildings comprising: 3 x 173,400 cbm LNG carriers with MEGI-FRS propulsion being built in DSME and 2 x 174,000 cbm LNGCs with X-DF propulsion being constructed at HHI. Being the most efficient vessels in this category, due to two-stroke propulsion, and the fact that the company is controlled by John Fredriksen, the bankers lined up to participate, despite a lack of committed employment for the vessels. In nominal terms, demand for this deal was staggering with total demand of more than $1 billion.

The facility will be divided into a commercial bank loan of $250 million (the "Commercial Loan"), a KEXIM guaranteed loan, funded by commercial banks, of $189.1 million (the "KEXIM Guaranteed Loan") and a KEXIM direct loan of $189.9 million (the "KEXIM Direct Loan").

There were some creative features as well. With the amount available for drawdown upon delivery of each vessel limited to the lower of 65% of the fair market value or $125.8 million, the facility includes an accordion option of up to $10 million per vessel allowing the company to back leverage the deal subject to obtaining long-term employment acceptable to the lenders. Lastly, the agreement provides further *flexibility through a substitution provision which allows the company the right to replace any two of the vessels with the two vessels scheduled for delivery in 2021. The latter is particularly helpful in the event the company obtains blue-chip contracts in which case the company can elect to finance one of the 2020 ships separately and move the commitment to one or two of the two newbuilds scheduled for delivery 2021. As the company has indicated that it intends to do more long-term charters as the fleet of ships on the water grows, this latest feature is becoming more relevant and valuable, particularly as it reduces refinancing risk.*

With a razor-sharp focus on achieving the lowest cash breakeven rates, the repayment schedule must be carefully structured within the OECD financing terms and conditions to minimize cost and amortization. To that end, the combined repayment profile for the KEXIM Guaranteed Loan and the KEXIM Direct Loan will be 12 years, the maximum allowed by the OECD, while the Commercial Loan will be structured as a bullet loan, giving an overall repayment profile for the combined facility of 20 years. The Commercial Loan will bear interest at LIBOR plus 2.35% and have a term of five years from delivery of the final vessel (November 2020). The KEXIM Guaranteed Loan will bear interest at LIBOR plus 1.20% and the KEXIM Direct Loan at LIBOR plus 2.25%. Considered together, the average margin over the term is ~2.2% above LIBOR with an all-in interest cost of 4%. The KEXIM Guaranteed Loan will have a term of six years from delivery of each vessel and the KEXIM Direct Loan a term of 12 years from delivery of each vessel, provided however that these loans will mature at the same time as the Commercial Loan if the Commercial Loan has not been refinanced at terms acceptable to the lenders. At the end of the exercise, an attractive cash breakeven rate of $43,000/day/vessel is achieved assuming a 5-year interest rate swap of 1.70% and operating expenses of $13,000/day. The facility will include a minimum value clause, and financial covenants linked to the balance sheet.

Long ago a wise man told us that the secret to financing as well as to life is optionality. In that regard, this transaction is a success. Financing five LNG carriers with reasonably high leverage without employment is a remarkable achievement. It allows the company to best assess the market and achieve the best possible employment instead of concluding charters to simply secure the financing. For perspective, the last time KEXIM, a conservative institution, did a financing for LNGCs without the requirement of long-term charter was back in early 2014 for four Oceanus ships (operated by Cardiff) as far as we can tell. Hence, the creditors are relying on security in the most advance ship as well as FLEX LNGs ability to charter out the ships on attractive terms and build a gradual larger backlog which the company has demonstrated an ability to do, as evidenced by the recent long-term deal concluded with Gunvor for one of its 2020 ships.

EAST

In the winning deal from the East, Korea backed China's growth ambitions. In a transaction arranged by Citi and supported by KEXIM, two 23,000 TEU containerships built by Samsung Heavy Industries were acquired by two offshore SPVs 100% indirectly owned by CMB Financial Leasing Co. ("CMB FL"). To partially finance the purchase of the vessels, which will be bareboat chartered to Mediterranean Shipping Company ("MSC") for fifteen years, a $193.1 million KEXIM supported financing was put in place. The senior secured financing consists of three tranches:

- $79.5 million 12-year KEXIM funded tranche
- $56.8 million 5-year KEXIM guaranteed tranche
- $58.4 million 10-year commercial tranche

Building upon the success of its first transaction with CMB FL, Citi was able to create a market-first structure in which KEXIM has allowed the guaranteed bank funded tranche to fully amortize before the amortization of the KEXIM funded tranche which offers risk capital optimization to the guaranteed lenders. Still the risk is minimal. In addition to the bareboat charter to the number two shipping line, there is a strong counterparty in CMB FL, whose obligations include a put-option providing support to the transaction. The transaction is more fully described in the diagram below.

Other noteworthy nominations include ECA-covered financings for GasLog Ltd and Teekay Offshore. Citi and DNB combined to arrange a $1.053 billion K-SURE and KEXIM supported facility for GasLog Ltd. for the post-delivery financing of seven LNG carriers, the entirety of GasLog's order book, being constructed in South Korea for delivery between Q2 2020 and Q3 2021. The facility has a tenor of 12-years with an amortization profile of 18-years from vessel delivery. Based upon a combined shipbuilding contract price of $1.3 billion, the facility represents a loan to value of 80%. At the time of the signing the facility agreement, all seven vessels had secured long-term time charters with first class counterparties including Cheniere (4), Centrica (2) and JERA. The financing was well-received by the market resulting in a 2x oversubscription and final allocations to 13 different lenders including Citi.

Back in 2018, Teekay Offshore ("TOO") contracted four shuttle tankers of the new "E-Shuttle" design from Samsung Heavy Industries to operate in the North Sea/Barent Sea. This design is environmentally friendly benefitting from gas electric engines and LNG propulsion, reducing MGO-equivalent consumption by 50% and nearly eliminating NOx and Sox emissions. ABN AMRO and Macquarie Bank combined to provide a competitive $413 million ECA backed financing to TOO, which financed 75% of the project cost. The facility was split into three tranches, consisting of:

- $165 million 12-year GIEK tranche, 100% funded by Eksportkreditt Norge and guaranteed by GIEK
- $165.5 million "EDC" tranche, 100% funded by Export Development Canada and mirroring the terms of the commercial tranche
- $83.6 million 6-year commercial tranche syndicated by ABN AMRO to Clifford Capital and SEB.

While both transactions were notable, they fit the traditional construct of ECA financings, lacking something a little extra to differentiate it from the winners.