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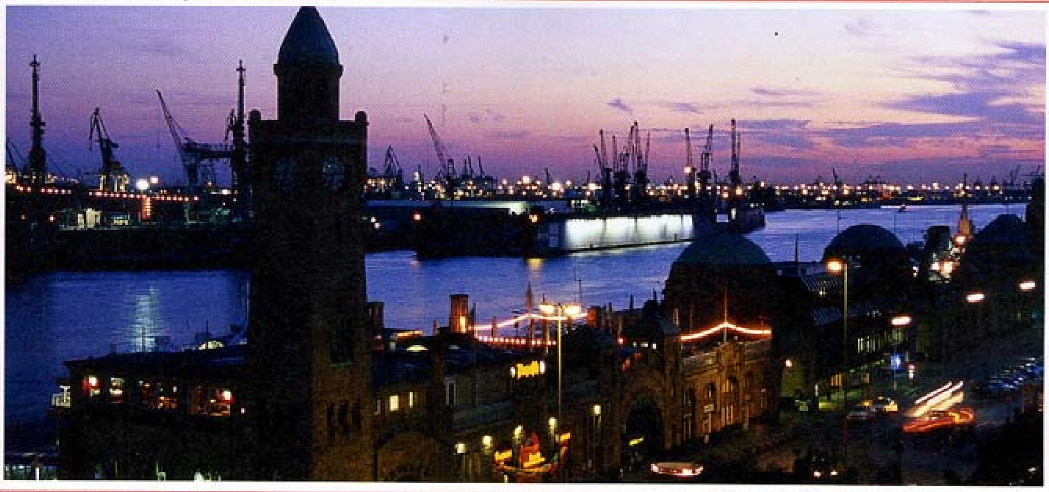
KG funding comes through testing times



Germany's ship investment community was harder hit than most by the financial meltdown and plunging container shipping fortunes. But as the box sector stages an astonishing rebound, there are signs that German financiers are once again designing innovative structures for the continuing investment in their sector of choice.

But it will be very different this time round. For a start, there will be no free ride for the country's KG firms, many of which are likely to disappear over time. Only the strongest will survive, sector experts believe, and these KGs will for the first time be required to stump up some serious equity when deals are signed, rather than later, having already drawn down convenient bank bridging loans.

Torben Kölln is head of shipping at Buss Capital, a KG house which has overseen the investment of close to €2bn ($2.88bn) since it was established by Dr Johann Killinger, a managing partner, as a division of the Buss Group in 2003. Killinger was due to address a Coastlink short-sea shipping conference at Hamburg's Atlantic Hotel in April where he was expected to comment on future KG finance for shipping and reveal his company's latest funding initiatives geared to the container feeder sector.

Kölln says there are exciting plans being put in place for the next round of container ship financing, but he insists that the new structures will look very different to those of the past.

'We believe that banks have learnt their lesson,' he says. 'They will insist on equity going into deals first, so KG houses will need to have access to, and commit their own equity when deals are signed. It's good that it has changed because a lot of participants just don't have the necessary capital. Some will disappear.'

That will leave just the leading KG houses, Kölln believes, which are strong enough to invest in their own projects prior to selling them down and raising money from investors. The so-called 'placement guarantees' offered by KG houses to banks as security prior to raising funds from investors, which have proved virtually value-less in many instances, will certainly not be acceptable as security in the future.

When the guarantees weren't called, no-one realised they had no value. But when the downturn came and the reality dawned, many banks were left with half built ships, having already funded two or three pre-delivery instalments of, say, 20% each, with a worthless piece of paper from a KG house and certainly no equity from the famous doctors and dentists.

A number of German banks were caught out in these soft funding arrangements which, to many, seemed extraordinarily lax, even before the crisis. Banks badly affected by KG losses include HSH Nordhank, the global shipping industry's largest lender, which was forced to move about a quarter of its €40bn-plus portfolio into a 'bad bank'. HSH Nordbank now operates under the umbrella of the Hamburg State Government, which bailed it out, but apparently has a couple of million euros available for new lending this year.

Other German banks had less exposure to the high-risk KG sector which had raised more than €3bn for shipping deals in 2007 but less than €1bn in 2009 and 2010. DVB, for example, has remained consistently profitable, as has Deutsche Bank, a major player in the capital markets arena.

Tomorrow's KG funds are likely to be more institutionally oriented. They will no longer be non-recourse structures and will need strong corporate backing and access to capital markets in the shape of placements and IPOs.

Those attending the Coastlink Conference will soon know more. Buss Capital head Dr Killinger will give details of a new investment fund, arranged jointly by Buss and the investment arm of DVB. BD Feederships is to focus on container vessels in the 1-3,000teu range which, Buss executives believe, will perform an increasingly critical role in ensuring good load factors for the largest of mainhaul container vessels in the years ahead.