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A force to reckon with

FOR a bunch of merchants who once fled China with little more than they could carry, Hongkong's shipowners have become a powerful force in the industry, controlling what is thought to be the world's largest merchant fleet.

Despite an industry recession that nearly sank two of them a few years ago, they are again looking to buy. But times and tactics are changing rapidly.

"The old swashbuckling days of the playboy (shipowner) image, the fellow with no cares in the world who does multi-million dollar deals over coffee, are gone," said Helmut Sohmen, chairman of World-Wide (Shipping) Agency Ltd.

World-Wide is the heart of the empire constructed by the redoubtable Sir Yue-kong Pao, the only one of the three largest Hongkong owners to get out unscathed when financial squalls ravaged the shipping market earlier this decade.

Faced with ageing vessels, rising prices for new ships and what they consider a lack of sufficient compensation for moving cargo, Hongkong owners do what comes naturally – borrow money, creatively, or pay cash.

Analysts suggested the financial and management know-how gained in other fields helped local owners build a fleet estimated at 50 million deadweight tons of tankers, bulk carriers and container ships.

Despite appearances, and some notable restructurings brought on by the industry recession, Hongkong owners remained a textbook "conservative" group, said a shipping lawyer.

"They keep their risks down, they hedge," he said.

Most come from Shanghai, where they specialised in banking, law and even textiles. They scurried to the territory after the 1949 communist revolution in China wiped out most commercial operations on the mainland.

They started small and wound up big thanks to low-interest, old-fashioned mortgages and the ability, in the industry's past boom times, to re-sell a ship for far more than it cost.

They were aided by banks once willing to lend up to 110 per cent of a ship's cost – the extra 10 per cent to cover working capital – with the ship and its subsequent charter, typically long-term, serving as security.

Alternatively, they got subsidised financing from shipbuilding countries such as Japan.

Mortgage lending is still heavily relied upon by Hongkong owners. But money from investment funds based in the West is seen as the wave of the future, especially with new oil tankers costing US$65 million, against $40 million to $45 million a few years ago.

To help offset these higher costs, local shipowners are buying more secondhand vessels and refurbishing them to extend their lives. But new ships also are on order.

About 110 vessels have been bought or sold by Hongkong owners so far this year. All were secondhand ships, and all were financed by banks, said ship broker Christopher Cheney, managing director of Wardley Shipping Services, a unit of the Hongkong and Shanghai Bank.

About 15 new ships had been contracted for during the period, to be financed by government-assisted loans from the countries where the ships would be built, Mr Cheney said.

While easy mortgage terms had been killed by the wild boom-and-bust swings of shipping's past, and US banks had tended to avoid the industry as too risky, traditional shipping banks were still there with new variations of the old loans, analysts said.

Government-assisted financing at below market rates is still available, too.

What's more, firms referred to as "traditional" shipping banks – such as Hongkong Bank and Norway's Christiania Bank and Den Norske Creditbank – are offering loan packages designed to lock in interest rates and hedge against currency fluctuations.

However, the banks were more conservative preferring to finance no more than 45 per cent to 60 per cent of a ship's cost, shipping executives said.

Governmental export-import banks can often be relied on to finance new ships.

That was the case recently when C.H. Tung's Orient Overseas (Holdings) Ltd ordered two container ships each able to carry 3,488 20-foot containers for $60.8 million from a financially struggling state-owned Taiwanese yard.

Orient Overseas is part of the Tung family empire, which nearly sank under mountains of debt in 1986.

Money for its new ships came from the Export-Import Bank of Taiwan at an interest rate of eight per cent, with the loan guaranteed by Britain's Midland Bank, said Robert Chase, group financial director for Orient Overseas Holdings. Hongkong Bank owns 14.9 per cent of Midland Bank.

Wah Kwong and Co, another bailed-out family empire, bought a container vessel of unspecified size last year for cash, said Frank Chao, president of the company and son of its founder. He wouldn't say how much cash.

International Maritime Carriers Ltd, another sizeable local fleet owner, had two 29,000-ton tankers on order from shipyards in China for which it would probably pay cash, an analyst said.

World-Wide Shipping, the biggest privately held fleet in Hongkong, if not the world, ordered five or six very-large crude carriers (VLCCs) from South Korea last year, to be financed probably by bank loans. The company is also actively buying secondhand ships.

Hongkong's fleet grew "enormously" in the 1960s and 1970s, courtesy of a Japanese export subsidy program known as the *shikumusen*, set up to boost that country's shipbuilding capacity, an industry lawyer said.

The *shikumusen* system enabled Hongkong owners to buy ships and charter them back to Japan's major shipping companies, which did not qualify at the time for special treatment on ship costs.

While the charters yielded "smallish" returns, the ships brought premium prices when their Hongkong owners resold them to buy other ships, the lawyer explained.

It made for a colourful past. But a more mundane future appeared in the cards, said World-Wide's Mr Sohmen.

Mr Sohmen, son-in-law of Sir Yue-kong Pao, also is president of the London-based Baltic and International Maritime Council and chairman of the Hongkong Shipowners' Association.

What he sees is a rising class of professional money managers acting as and on behalf of ship-owning investors, with traditional owners beginning to lease and operate vessels.

"With few exceptions, the trend is into shipping investment companies either because the need to build up fleets requires a lot of capital or because traditional shipowners have gone under," he said.

World-Wide, which came out of the recession a strong winner, would continue as an owner and operator, Mr Sohmen said.

However, joining it as owners are New York-based investment groups such as Bergvall and Hudner, International Maritime Investors, Shearson Lehman Annangel and Loews Corp, said ship broker Mr Cheney.

These groups buy ships for tax advantages and lease them to entities that once would have been the owners, offering shares in vessels to the public.

Sometimes they lease ships and then sub-lease them for operation, as New York investment bank Morgan Stanley and Co is understood to have done.

Knight-Ridder