

# FROM TRADE CREDIT TO AN ALTERNATIVE METHOD OF SHIP FINANCE?



# TODAY'S AGENDA

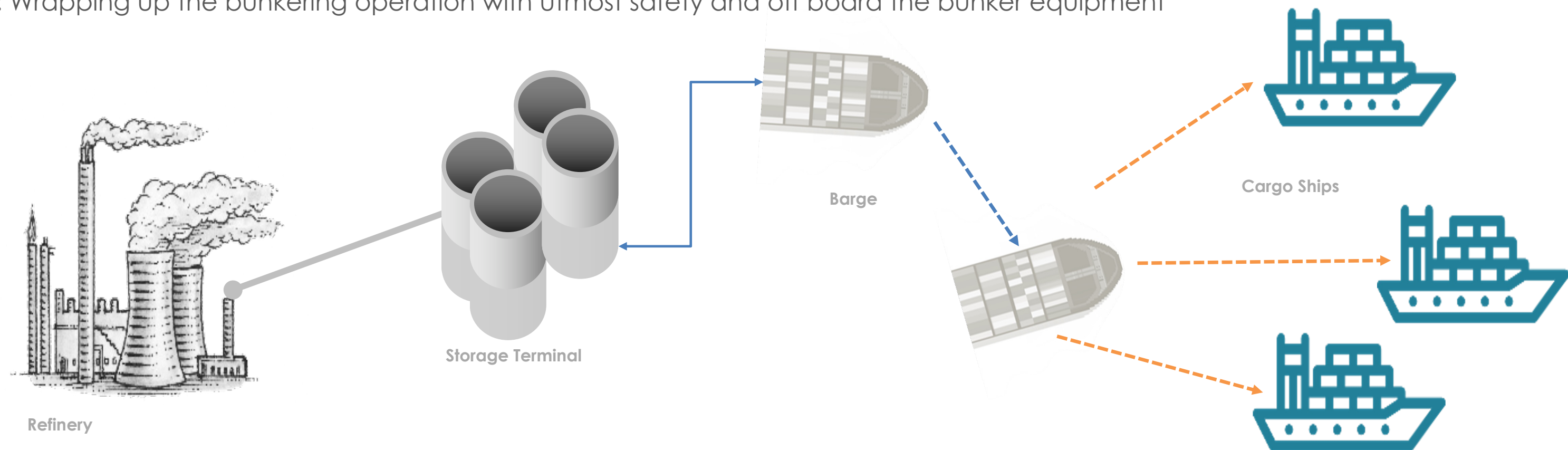
- Welcome
- Bunkering: Explained
- Business Model
- Pillars of Business Model
- Supply Chain
- Different from Physical Suppliers
- Liquidity Management
- Bunker resellers' changing

# BUNKERING: EXPLAINED

The word Bunker is derived from Scottish word “Bunk” meaning reserve or seat. If the vessel is carrying marine fuel, lube oil, lubricants or gas fuel to discharge to other ship is known as Bunkering. The discharge can happen through another supply ship or at port by designated fuel sources.

The Bunkering Process is three step process:

- **Preparation:** Preparing for the bunkering operation which will involve the readiness of bunkering equipment, storage tanks and bunkering safety
- **Perform:** Performing the bunkering operation in real time as per pre-decided quantity and quality of the fuel to be Bunkered
- **Wrap up:** Wrapping up the bunkering operation with utmost safety and off board the bunker equipment



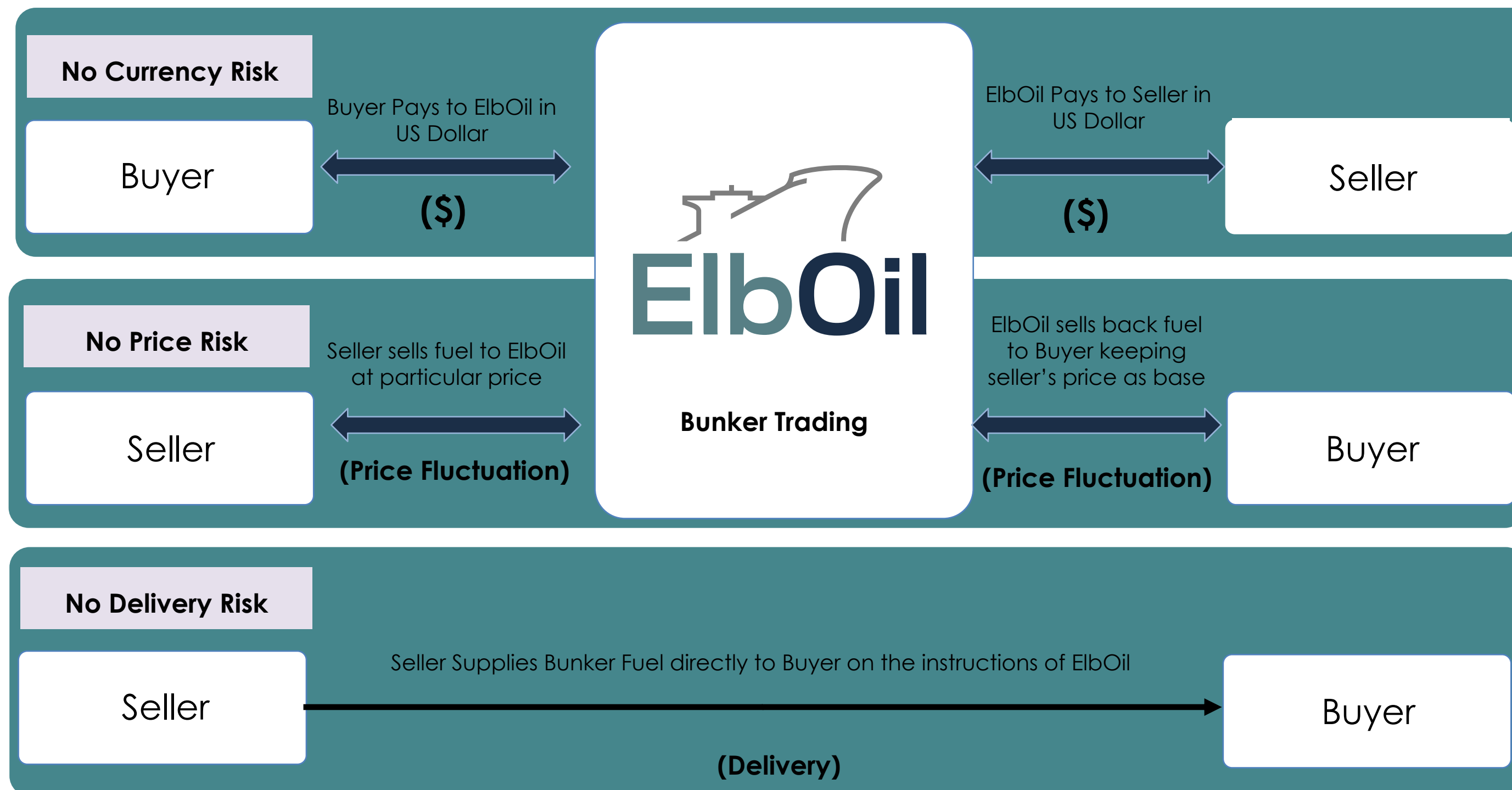
ElbOil plays the role of a reseller, connecting buyers and sellers of bunker fuel by providing credit facilities and without taking any commodity price, FX and delivery risk.

# BUSINESS MODEL:

## ELBOIL HAS NO EXPOSURE TO COMMODIFY PRICE, FX AND/ OR DELIVERY RISK

How does Trade Flow work?

Transactions are executed on a back-to-back basis



# PILLARS OF BUSINESS MODEL



## Creditability

- ElbOil has built a solid reputation of consistency and promptness
- It enjoys a track record of never defaulting on payments to its suppliers and banks due to its ability to efficiently manage its cash flow
- Has access to \$65 million worth of external finance and most of it is balance sheet finance, 100% unsecured



## Relationships

- Enjoys strong relationships with suppliers as well as customers.
- Bunker trading platform ensures efficiency in price/cost and delivery
- Works with 200+ global suppliers. Secured approx. \$ 300 Million credit lines from its suppliers.



## Credit Risk Management

- ElbOil has a strong focus on credit risk management
- Excellent track records in managing credit risk with an average bad debt of less than 0.06% of annual revenues
- Credit lines to buyers are reviewed and amended periodically
- Clear delegations and approval structure for customer credit limits
- Portfolio credit insurance with an AA rated insurer

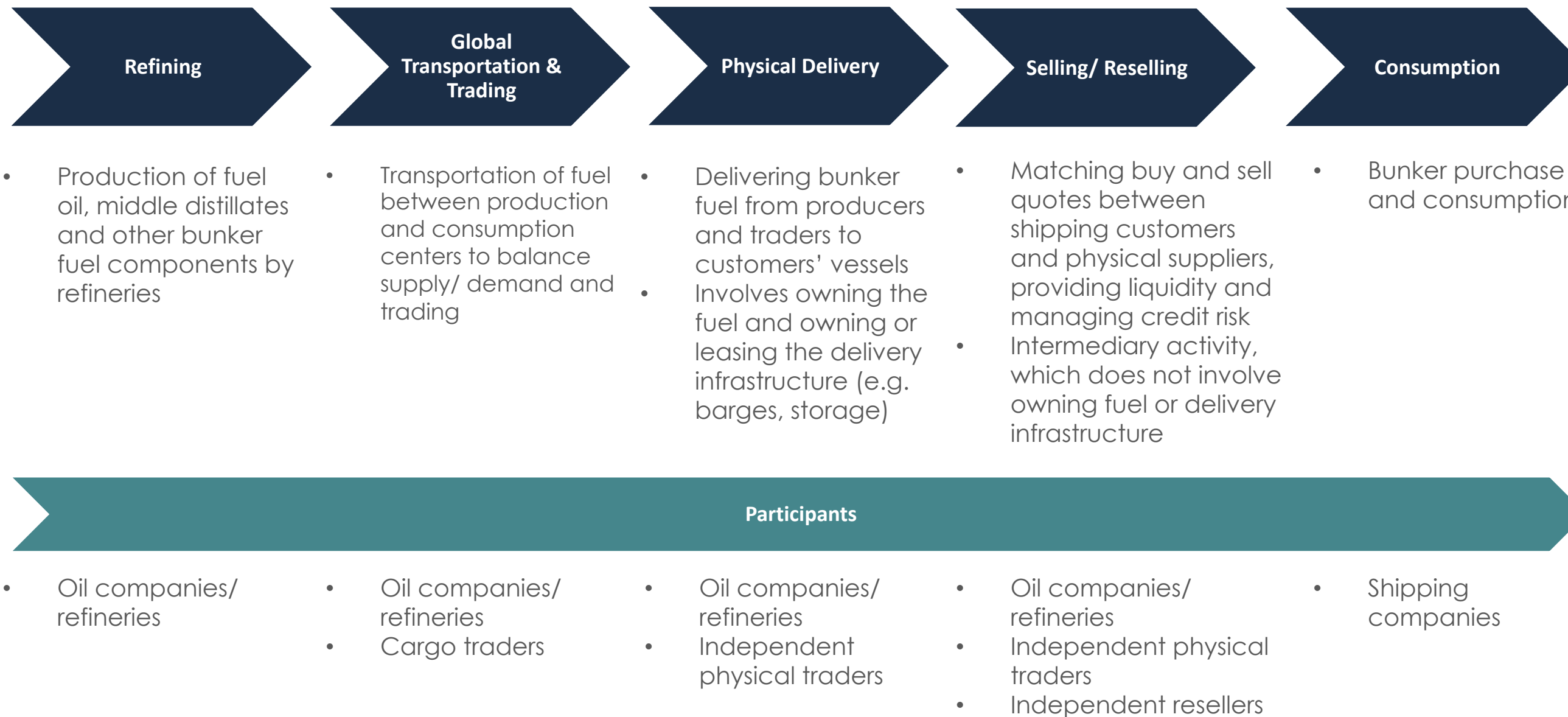


## Compliance & Legal

- Screening of vessels and counterparties before any transactions
- Staff training in identifying and address red flags
- High recovery rate underpinned by successful experience in arresting vessels and enforcing maritime liens

# SUPPLY CHAIN

ElbOil has deep understanding of the Bunker oil trading market. On any trade it has complete visibility across all elements of the value chain. ElbOil plays a critical role in connecting a customer with a supplier to originate and execute a Bunker oil trade.



# DIFFERENT FROM PHYSICAL SUPPLIERS

## Physical Suppliers<sup>1</sup>

Physical suppliers store the fuel at ports and supply to ships, vessels and charterer as and when required. They need to acquire a license for each port they wish to set up the Physical supply of the Oil.

## ElbOil

Trading Units primarily connects the buyer and seller for the particular type of Fuel or commodity. It undertakes back- to-back transactions, thereby avoiding any exposure to commodity price, FX and/or delivery risk.



**Logistic Risk**

**Inventory and Storage Risk**

**Currency Exposure Risk**

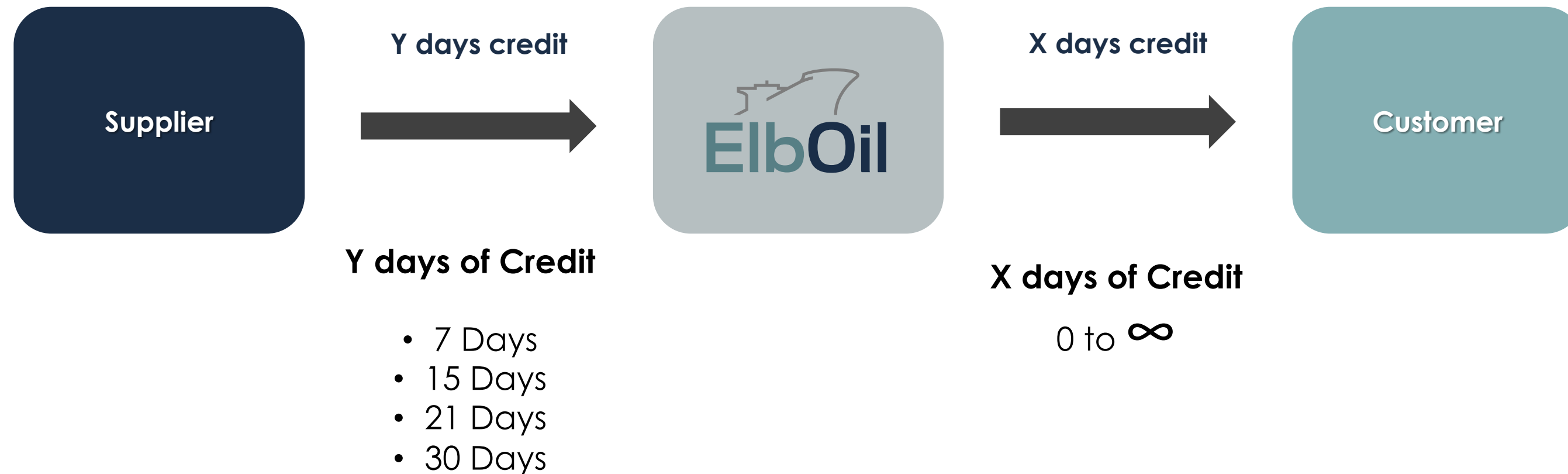
**Higher Capex and Opex**

**Regulation**



The Business Model for ElbOil is low risk compared to Physical suppliers

# LIQUIDITY MANAGEMENT



- Supplier usually provides credit line between 7-30 days
- Customer demands 30-120 days of Credit line from ElbOil to clear the payments (based on Credit risk assessment by ElbOil Team)
- Difference in cash flow mismatch needs to be optimised and need for sufficient working capital arises
- ElbOil in collaboration with its banks or using its cash in equity fulfils the mismatch terms

**ElbOil currently has more than 200 suppliers and credit line of more than \$ 300 Million dollars**

# BUNKER RESELLER'S CHANGING ROLE FROM TRADE CREDITORS TO FINANCIERS

- Bunker traders/resellers pumped into billions of dollars of liquidity into shipping industry.
- There were many owners cleared their bunker debts on repayment plans in months and some cases in years. We even saw debt to equity swaps.
- An example is a small dry bulk owner acquiring a 5 year old Supramax bulker (58k dwt) in 2014 for \$20.5m, 70% LTV, 3.5% discount rate p.a, 5 year payback period.
- This means \$8,000 per day debt servicing including interest. Opex is \$4,500 per day so daily cash breakeven for this vessel was \$12,500.

	2014	2015	2016	2017	2018
<b>Daily TCE earnings (\$)</b>	10,189	7,366	6,264	10,590	12,112
<b>Daily cash breakeven (\$)</b>	12,500	12,500	12,500	12,500	12,500
	-2,311	-5,134	-6,236	-1,910	-388

- Above did not include any CAPEX commitments such as mid or special surveys and this vessel would have had two mid-survey and at least one ss/dd in a 5 year period, which means another \$1.5-2 million cash outflow and a further distressed cashflow

# BUNKER RESELLER'S CHANGING ROLE FROM TRADE CREDITORS TO FINANCIERS

Net Income
Depreciation & Amortization
Changes in Working Capital
<b>Operating Cash Flow</b>
Asset purchase
Asset Sale
Others (such as SS/DD)
<b>Cash flow from investments</b>
Debt repayments
New debt
Proceeds from share issuance
Dividends paid
<b>Cash flow from financing</b>

# BUNKER RESELLER'S CHANGING ROLE FROM TRADE CREDITORS TO FINANCIERS

- **Bunker resellers can support vessel owners in two ways when it comes to financing**
  - Extend long term credit (such as 90-150 days) for survival
  - Extend long term credit, lower working capital, boost operating cashflow to cover CAPEX to acquire new tonnage while posting free cashflow
- Bunker resellers have certain advantages against financial institutions!
- Bunker resellers and banks (or alternative financial institutions) could work together!

# BUNKER RESELLER'S CHANGING ROLE FROM TRADE CREDITORS TO FINANCIERS

- **Important points to note:**

- Unlike bunker resellers, physical suppliers are not credit/liquidity providers. They won't be near you in rainy days!
- Purchasing bunkers directly from physical suppliers is not cheaper than purchasing from bunker resellers in most cases
- Resellers actively work in gathering info on the regulatory framework such as shift towards alternative fuels and educate owners.
- Resellers protect owners from quantity and quality claims which may potentially cause owners substantial losses.
- Most resellers have dedicated compliance personnel and use state-of-art compliance check platforms which also protect owners from troublesome situations

# BUNKER RESELLER'S CHANGING ROLE FROM TRADE CREDITORS TO FINANCIERS

## Take away from the session and advises

- Bunker resellers can be used as an alternative financier by owners or used hand in hand with financial institutions, in other words they can be either alternative or complementary
- A suitable reseller coming onboard as an alternative ship financier should have deep pockets!
- Timing of acquisition of tonnage/investment should be right!
- A competent reseller will price the transaction based on counterparty credit risk, cost of borrowing and TVM!
- Borrower (owner) could lower the counterparty credit risk via transparency!

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*THANK YOU*

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