

WITH A LITTLE HELP FROM OUR FRIENDS

Hong Kong based Wah Kwong Shipping acknowledges the quality of its counterparts in a battle against a poor market

WAH KWONG SHIPPING, a leading Hong Kong-based tanker and dry bulk owner famously changed its mind about listing in 2008 for what appeared to be solid reasons at the time. But as the market has softened some listed tanker operators have been able to revert to the market to help fund their operations during the lean times that will continue to face the industry over the next few years. However, Wah Kwong's chief executive Tim Huxley stands by his company's decision.

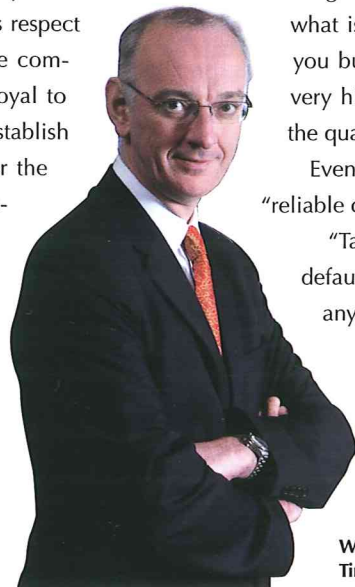
"It was the right thing to postpone our IPO and we did not need to do it to fund our expansion - that went ahead in any case," he says.

"There are certainly benefits to being a listed company, but also some disadvantages. Some listed companies have indeed raised money in what would otherwise have been difficult times to help them through the downturn and others used the availability of finance to secure a war chest, which will be quite useful as opportunities arise. Our business model, and our conservative nature, means that we are probably better suited to being private right now," he adds.

The Wah Kwong business model has so far managed to eschew the fickle and frequently ill-informed market investor by virtue of its ability to tap into important players in the world's largest market for raw materials - China. It is not simply a matter of proximity. Rather, it is the end product of backing the right horse nearly a lifetime ago and nurturing it ever since.

Mr Huxley says, "Wah Kwong has extremely strong Chinese roots - we are in many respects a Chinese company. Relationships are built over years and have to be mutually beneficial. Yes, we do have an enviable position in this respect and it certainly did not happen overnight. The company's chairman George Chao has been very loyal to China in many areas and has worked hard to establish the company there. Wah Kwong is in China for the long haul and not just because it is the current flavour of the month."

Until recently, such strong ties did not stretch to China's shipbuilders. Previously Japan's shipyards benefited because of a merited reputation for excellence and Wah Kwong's good relations with the nation arising out of the company's dependence upon Japanese charterers when it was established in 1952. But costs and a rise in the ability of Chinese shipbuilders have prompted a rethink in the last few years.



Wah Kwong Shipping chief executive Tim Huxley.

"We now have three VLCCs being built there," says Mr Huxley. "Chinese expertise in tankers has come on in leaps and bounds in recent years and with Korea moving to high end products like offshore, LNG and the new generation of container ships, it's no surprise that people are turning to China for conventional tankers, which means the products are getting more widely accepted.

"In 2003, when we contracted our current pair of VLCCs, China was not such a prominent VLCC builder and Korea was very competitive. Things have moved on and major owners don't have reservations about building tankers in China and major charterers have come to accept them," he adds.

As Wah Kwong has stuck by its friends over the years so it has abided by a business strategy that goes back to its origins - witness its declaration on the homepage of its website - "Our fleet grew to meet the growing post war industrial growth in Japan. In those days our ships were pre-fixed on long term time charters primarily to Japanese charterers with financing secured on the back of the time charters. The use of time charters reduced the exposure to market volatility, and is a chartering methodology that the Group maintains to this day."

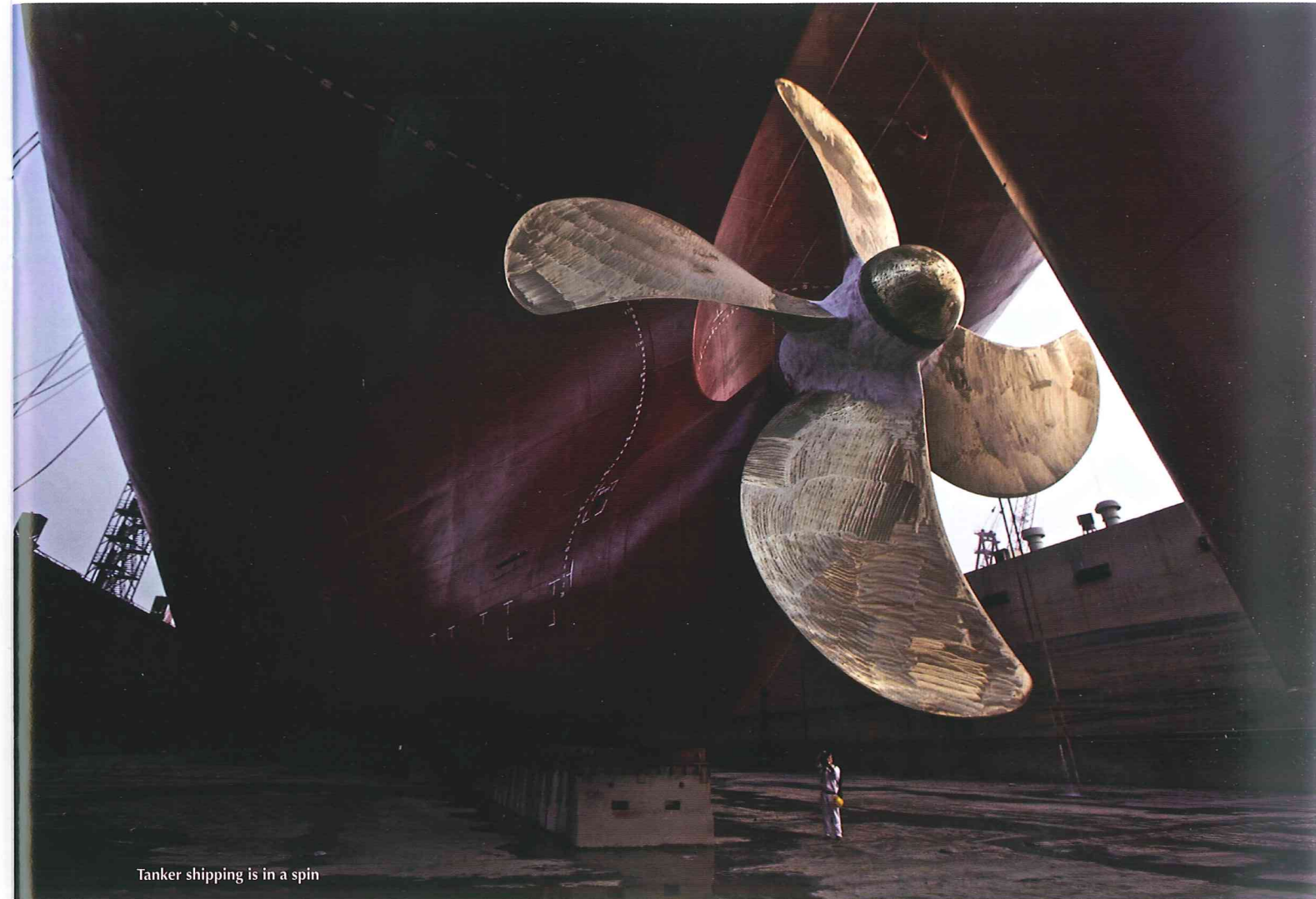
As recently as 2010, Mr Huxley was espousing the same message on news channel CNN and illustrates how the approach still works now: "In the first five years, you would hope to break the back of depreciation and generate some decent returns," he says.

"It is always one of the great lotteries of shipping as to what the market is going to be like when you come off a long charter and the market is the market. We recently had a VLCC come free after a lengthy charter and we re-fixed her for a shorter period at what is still a profitable level. The real problem comes if you buy a ship at a sky-high price against a charter at a very high rate and then the charterer defaults. That's why the quality of your counter-party is so crucial."

Even in the worst of times, Wah Kwong has found that "reliable counterparties" have seen it through.

"Tankers have not been subjected to the same level of default as the dry cargo market and no, we haven't had any issues on that front," he says.

"It certainly becomes tougher when you are in a bad market and your charterer is losing money - you have to work even harder to ensure there



Tanker shipping is in a spin

are absolutely no excuses for you to be put off-hire. Fortunately, our charterers are all with long term partners and we have ridden the highs and lows together."

It is perhaps those deep ties with Chinese mainland charters that keeps Wah Kwong firmly on Hong Kong soil as its European peers have been increasingly lured to Singapore.

"Singapore has the refineries and a lot of oil companies have long had their regional base there. Also, Singapore has been a major ship repair centre and tankers do actually go past the port, so there are plenty of logistical reasons to run a tanker operation from there.

"However, Hong Kong is better located geographically for China and North Asia and that is one of the reasons we have a large number of Chinese shipping companies moving here, combined with the fact that we are still the leaders in shipping finance and have a recognised legal framework. For Wah Kwong, tankers are just part of our business and none of our customers are in Singapore. Hong Kong is our home and it is inconceivable that we would consider moving," pronounces Mr Huxley.

Perhaps the only area in which Mr Huxley has moderated his

stance in the face of an increasingly difficult market is that of market consolidation, which he dismissed in 2010.

"I think there will be some consolidation in the tanker sector," he concedes. "And the latest takeover of Saga by Double Hull Tankers proves it is alive and well. I can't see a prolonged shipping downturn happening without John Fredriksen picking up a few choice companies as they come available either. Cash rich companies will always be there for good deals- whether it is taking over a company or buying a block of ships as in the case of the sale of the Cido tankers. It all depends on what is the best value," he says.

Tanker operators generally might be having a bad time of it but a passing mention of business at Wah Kwong at the time of this interview might seem to belie that fact.

"We had a VLCC come free last month and we fixed her for eighteen months at a profitable rate. We have another VLCC coming free at the end of 2012, so it's too early to start thinking about her, but she was acquired at a low price and has been gainfully employed all her life, so there is a fair bit of cash in the ship," Concludes Mr Huxley. ♣