Sabrina Chao: A Bloodline For Shipping

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By Robert Olsen

Sabrina S. M. Chao, chairman of Wah Kwong Maritime Transport Holdings Ltd.

Sabrina Chao's life was upended in an instant. She had been with her family's shipping company for only about two years when her father, George Chao, suffered a stroke.

"That really threw me into a panic. Obviously, I didn't have the maturity and experience that I have now," she says.

For much of its 61-year history Wah Kwong Maritime Transport Holdings had been run by the triumvirate of Chao's father, George, grandfather Chao Tsong-Yea and uncle Frank. Together they had steered the company through the industry's most tumultuous cycles, but after the deaths of the family patriarch and Frank in 1999 and 2001, respectively, Chao's father was on his own.

And his hands were full, looking after Wah Kwong's fleet of oil tankers and dry-bulk and liquefied petroleum gas (LPG) carriers, so the eldest of his three daughters and his only son, Hing Chao, were press-ganged to join the family business. The third generation was to be groomed to eventually take over–or at least that was the plan. Hing had other ideas, though, and left the company to instead pursue cultural conservation in China.

Her father's health scare was a pivotal moment for Chao. At the time she was only 30 and had never conceived of running Wah Kwong without his aid and his 40 years of experience. Any thoughts she may have harbored about giving up, though, were effectively quelled by the gravity of the circumstances.

“From early on you could see her drive and determination,” says Harindarpal Banga. The former vice chairman of commodities trader Noble Group and now founder of Caravel Group, Banga began chartering Wah Kwong’s ships nearly two decades ago, allowing him to watch Chao’s development over time.

“Although she was young and still finding her way in the industry, you could just tell there was no way that she was going to let the company down,” he says.

As it happened, George recovered and would eventually return to working closely with Chao for another eight years–allowing her to gradually take over the day-to-day running of Wah Kwong–before he suffered a second, more debilitating stroke in 2010.

In January Chao was elevated to chairman by Wah Kwong’s board, assuming full control of one of Hong Kong’s largest privately held shipowners, with a modern fleet of close to 30 vessels and roughly $200 million in revenue. Among Hong Kong’s coterie of tycoons, many of whom are now in their 70s and 80s, Chao’s youthful age of 39 and striking looks certainly make her a standout.

“We have the core senior management in place, and I have every confidence that we can carry on my father’s vision for this company in the years to come,” she says.

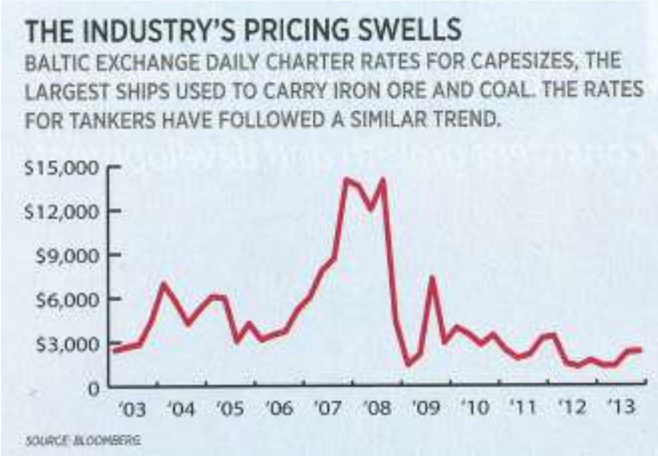
Chao’s faith in Wah Kwong’s future is, of course, tempered by the dire straits of the global shipping industry, which she describes as “the worst in history.” These are being compounded by problems in the financial system. Ships owned by Wah Kwong’s competitors that would have been seized by creditors in the past as nonperforming assets are being left to continue running because the banks themselves, particularly those in Europe, could collapse under the weight of further losses.

Shipping’s boom years that started in 2003 and led to a splurge of new ship orders came to an abrupt end in 2008, when demand slumped just as many of those vessels were ready for delivery.

Even shipping behemoths like China Cosco aren’t immune to economic vagaries. After posting an annual loss of $1.54 billion that was blamed on low freight rates and high costs earlier this year, Chairman Wei Jiafu stepped down from his post.

Analysts say the global capacity glut won’t be easing any time soon. Wah Kwong’s strategy is to ride the cycle and choose counterparties with extreme care. “In a crisis like this, asset prices are cheap,” says Chao. “For the companies with strong balance sheets, it’s the perfect opportunity to go back into the market.”

Wah Kwong has remained profitable throughout, but Chao believes the time is right to add 8 dry-bulk carriers to the company’s fleet of 13 carriers, 6 tankers and 10 LPG carriers.



To cope with the extreme volatility in shipping rates over the past few years, Wah Kwong prefers a conservative approach of fixing charters of up to five years. Although long-term contracts prevent the company from reaping the full benefits of the peaks in the spot market, they also insulate the shipper from losses during the troughs (see chart, above).

Chao's decisions these days are tempered by the wisdom of two previous generations. Back in the 1930s Chao Tsong-Yea gave up practicing law in Shanghai to join a trading company, rapidly rising to the rank of comprador. During a winning streak playing cards one evening, T.Y. was invited by his boss to invest his windfall in a shipping venture with him. That initial outlay would eventually grow to become a 50% stake in a freighter named Kwong Sing.

The civil war in China forced the family to abandon their business and properties and flee to Hong Kong aboard the Kwong Sing in 1948. Wah Kwong was founded by T.Y. in 1952 as part of a wave of shipping dynasties from Shanghai that would find refuge in the British colony: Koo Kou-ming'sValles Steamship; Sir Yue-Kong Pao's World-Wide Shipping Group; Frank Tsao Wen King's IMC (International Maritime Carriers) Group; and Tung Chao Yung's Orient Overseas Container Line (OOCL).

Today Valles Steamship manages a fleet of 15 vessels from its headquarters in Vancouver, after moving there in 1995. Tsao relocated IMC Group to Singapore in 1991. World-Wide was passed to Y.K.'s son-in-law Helmut Sohmen and later acquired Bergesen, Norway's largest shipping company, to become BW Group. With a fleet of nearly 100 oil tankers and gas carriers, BW is now one of the world's largest maritime companies, making Sohmen the 38th-wealthiest person in Hong Kong. OOCL, meantime, became a subsidiary of Orient Overseas (International), which listed in 1992 in Hong Kong, where Tung's sons are prominent.

If the 1960s were seen as a golden age for these shipping companies, then the 1980s would be a forerunner of today's crunch. Soaring fuel costs and high interest rates left many shippers swimming in a sea of red ink. Wah Kwong was forced to restructure an $850 million debt burden. As some of its vessels were seized by creditors, the Chaos sold off their nonshipping assets. Fortunately, some bankers were willing to stick by the company and would eventually be paid back in full when it returned to profitability after three years of losses.

The Asian financial crisis of the 1990s coincided with a power struggle between brothers Frank and George for control of the publicly listed Wah Kwong. Eventually George prevailed, and Wah Kwong was taken private in 2000.

Chao came aboard in 2002 and initially focused on the financial side of the business. The self-confessed math nerd had grown up in Hong Kong before attending Charterhouse public school in Surrey, U.K. and Imperial College London. After two years of conjuring up equity derivatives for Jardine Fleming and another two performing audits with PricewaterhouseCoopers , Chao had a background that struck her parents as invaluable for a capital-intensive industry like shipping. Her mother dissuaded her from seeking a master's in psychology.

Mother, in this case, is the former film star Lily Chao. Although she retired from making movies in the early 1970s, she's kept active in a range of land-borne businesses. (Chao's other uncle–T.Y.'s third son–is the property tycoon Cecil Chao, the 76-year-old chairman of Hong Kong-listed property developer Cheuk Nang Holdings.)

In 2008 Chao led Wah Kwong's preparation for a renewed public listing that was another milestone in her career. As vice chairman and CFO, she was meeting with investors in Asia, London and New York, rattling off charter rates and explaining the cash flow. She had help–the run-up to listing had included new outside directors and a professional CEO, industry veteran Tim Huxley. But amid the Lehman Bros. crisis, market sentiment turned south before the IPO could be completed.

Huxley, 52, stayed, heading up the commercial and operational sides of the business, while working closely with Chao on other key areas. "If we're going to be a first-class shipping company providing first-class services to substantial commodity companies, we need to run our businesses in the same way they do," he says.

Chao can spend some of her energy on industrywide concerns. With over 80 million gross tonnage registered there, Hong Kong ranks behind only Panama, Liberia and the Marshall Islands, which are all considered flags of convenience. But many contemporary locals are unaware of shipping's importance–and its risks, such as piracy. As an executive committee member of the Hong Kong Shipowners Association–both George and Frank served as chairmen–Chao has been vocal about the welfare of "our seafarers" in uncertain waters.

"We want to help the industry as a whole, especially to enhance Hong Kong's position as an international maritime center," she says. "That's a cause that's very close to our heart."