

Hong Kong shipowners have a reputation for being conservative. Now their cautious approach has put them in a strong position to take advantage of the fallout from the dry-bulk crisis. Reporter Ian Lewis takes the territory's temperature.

Owners at the ready

HONG KONG: The dazzling downtown skyline seen from Victoria Peak

Photo: Bloomberg News

Streamlined Wah Kwong waiting to 'mop up' when blood spills

Wah Kwong, one of Hong Kong's iconic shipping companies, suffered more than most in the last downturn two decades ago.

So what does shipowner George Chao think of today's shipping cash?

The dry-bulk market may be waning now but shipowner Chao remembers a time when it was much, much worse.

That was 20 years ago, when ships across the wet and dry sectors were taken on charter for much less than what they are currently securing.

That dire market was ultimately responsible for forcing Wah Kwong to undergo a massive debt-restructuring programme.

This time around, things are very different.

Wah Kwong has stuck to a modest expansion programme in the past few years. It is leaner and more streamlined than when it faced the previous downturn. Chao recalls that capesize, VLCC, panamax and handymax markets were wallowing at rates of \$3,000 per day.

His implication is that the current market is not bad but things could get worse.

Ominously, Chao appears to be biding his time.

He fits into a category of owners who appear to be waiting until there is blood on the carpet before they move in to mop up.

Chao says the problems on the financial front have not completely filtered through to the shipping markets.

"It's more [a lack of] confidence than reality up to now," he added.

He fully expects the financial crisis to cause more trouble but says the brunt of it will not be felt by shipowners.

This time it will be the operators turn to suffer, he says.

And then, cash-rich owners like Wah Kwong will be ready to step in.

"I think when the market is low, owners with cash will benefit,"

said Chao. "This creates a buying opportunity. We can buy if we want to," he added.

Such confidence stems from the fact that Wah Kwong is a very different company to the one that defaulted on bank loans over 20 years ago.

Crucially, its relationships with the banks today is different, too.

The banks' failure to support owners like Wah Kwong in 1986 (when some of its ships were arrested) is now viewed as a badge of shame.

But they have patched up their relationship with Wah Kwong and appear to be willing to lend money to the company.

"It's a matter of price. If you have 60% finance, it's no problem," said Chao.

This financing is crucial after Wah Kwong in June abandoned plans to list on the Hong Kong stock exchange.

"That was incredibly disap-

pointing but definitely the right decision," said Wah Kwong managing director Tim Huxley.

One reason Chao was happy to pull the listing seems to have been that co-sponsors like Noble Group and U-Ming would not lose out.

"Most of the people who wanted to subscribe shares are my good friends," said Chao. "If I can see the market plunging, I don't want them to lose money," he added.

Since then, Wah Kwong has apparently found other ways to finance its newbuilding projects.

A recent order of two VLCCs at Dalian Shipbuilding in China was placed partly in co-operation with Japan's Sanko Kisen.

Such partnerships, says Chao, also provide a way of getting outside capital.

The company is relatively relaxed about its financial prospects as "a very significant" part of its orderbook is already financed, says Huxley.

He adds that the rest can be financed — albeit at a cost — through Wah Kwong's improved ties with the banks.

For the moment, no major newbuilding plans are being hatched. The main task in the current market is to batten down the hatches, keep a close eye on counterparts and ride out the storm.

"It's a terribly difficult discipline to have but doing nothing is probably the right thing," said Huxley.

Chao reckons that the current stockpiles of commodities will take some time for China to digest but he remains bullish on the longer-term prospects for the bulk and tanker markets.

He adds that Wah Kwong has carefully chosen state-owned shipyards for its newbuilding programme, which comprises six 53,000-dwt bulkers and three post-panamax or capesize vessels.

The three larger units have been

fixed on long-term charters to "quality" counterparties, although the supramaxes have yet to be hired. "The supramaxes haven't got employment. We're not unduly worried. They were ordered at a very competitive price. I believe there is going to be a freeing-up of trade," said Chao.

All this business is being conducted in spite of Chao's ailing health, which requires him to delegate more responsibility to his eldest daughter, Sabrina, who is Wah Kwong's chief financial officer. However, he has plans to retire and says he is ready to remain in the office "as long as [my] health allows".

"I think shipowners very rarely give up. What are you going to do? You can't play golf all day," he said.

Wah Kwong did not join the stream of owners that headed for the exit door after Hong Kong was handed back to the Chinese by the UK in 1997. Moreover, there is no longer any need to as Chao says the political situation has stabilised and the territory has become a less expensive place to do business. He remains a Hong Kong stalwart and "does not want to live anywhere else".



GEORGE CHAO CAN BUY IF WE WANT TO: George Chao with his daughter, Wah Kwong finance boss Sabrina Chao

Photo: Irene Ang

George Chao: "The supramaxes haven't got employment. We're not unduly worried. They were ordered at a very competitive price. I do believe there is going to be a freeing-up of trade."