NOTOS GROUP

NOTOS QUARTERLY Q3/2016

CAPITAL MARKETS' VIEW ON HANJIN

During summer, the maritime community followed closely the developments at both Korean carriers Hyundai Merchant Marine (HMM) and Hanjin Shipping (Hanjin). Whereas HMM seems to have reached an understanding with its main creditors about a financial restructuring, Hanjin filed for court receivership at the end of August.

SPECIAL: CAPITAL MARKETS' VIEW ON HANJIN

During summer, the maritime community followed closely the developments at both Korean carriers Hyundai Merchant Marine (HMM) and Hanjin Shipping (Hanjin). Whereas HMM seems to have reached an understanding with its main creditors about a financial restructuring, Hanjin filed for court receivership at the end of August.

TURBULENT DAYS FOR HANJIN'S BUSINESS PARTNERS

During the following days, the company, its creditors, investors and clients took measures to protect their respective interests. Some vessels were arrested, others were ordered by Hanjin to stay outside the ports and a few were able to even continue operations. However, the overall situation looks challenging and it seems that some, if not all, creditors failed in this 'prisoner's dilemma'.

CREDITORS NOT CONVINCED

Like in other maritime restructuring cases, one main challenge is to align the interests between the various creditor groups. In most shipping cases, it is up to the creditors to accept and take over responsibility for the ailing ship or the shipping company once it is in financial distress. The second main element is to find a common understanding or agreement in principle about the going concern. Once the creditors lose trust in the future value of an asset or company, gravity will shatter the company.

WRITINGS ON THE WALL?

Looking back, we wonder whether there were any 'writings on the wall' that could have helped to foresee such development and prepare for such an impact. Given the rescue of HMM, it is clear that there are limits to such an analysis. No one can predict irrational behavior, regulatory do's and don't's and political unwillingness, but some empirical findings are still worth mentioning.

EQUITY PRICES AS RISK INDICATORS

One approach could be to analyze the credit risk of Hanjin measured by margins or credit default swaps. We decided to take a different approach and looked at the pricing of the equity relative to Hanjin's peers.

In order to separate the corporate risk from the underlying sector risk, we tracked the development of Hanjin's share price relative to the Notos Liner Index, both measured in USD and indexed at 100 beginning in January 2010 (see chart below).

Hanjin's share price has been underperforming its peers for the past six years. Only for a short period in 2012, Hanjin was able to outperform the Notos Liner Index. However, such apparent outperformance could be due to a correction of the strong underperformance a year ago.

LOW EQUITY RATIO AT MARKET PRICES

Another ratio frequently used in analyzing corporates is the equity ratio, defined as the equity in

HANJIN'S SHARE PRICE WEAKER RELATIVE TO LISTED PEERS FOR THE PAST SIX YEARS

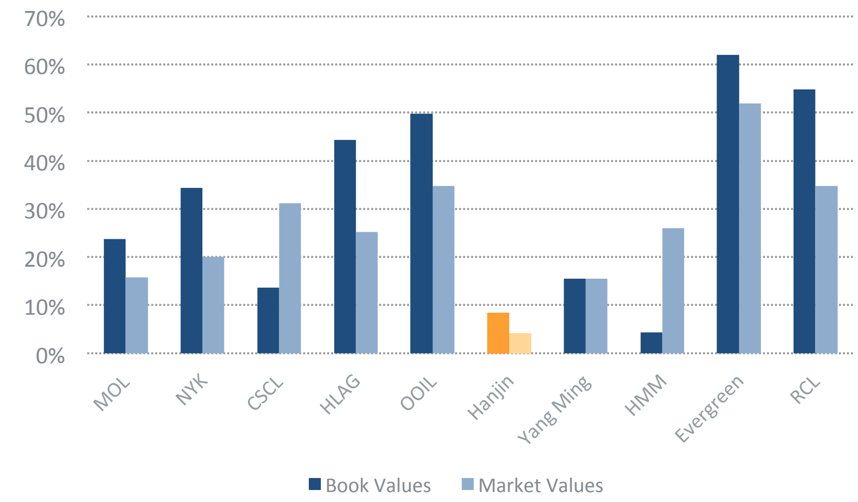
Source: Notos Group 09/2016

relation to the total assets of a company. Since the book value of the equity depends strongly on the applicable GAAP, we decided to take the market value of equity as a proxy for the 'true' value of a company.

The chart to the right shows equity ratios measured by book values and market values for a couple of liner companies. The equity ratios for Hanjin and HMM measured with book values are well below 10% which should make analysts frown.

Measured at market prices, the only company with an equity ratio below 10% is Hanjin whereas the equity ratios of HMM and CSCL amount to more than 25% which can be considered sufficient in these markets. By contrast, the equity ratios at market value for MOL and NYK are substantially lower.

LISTED LINER COMPANIES WITH BROAD RANGE OF EQUITY RATIOS



Source: Thomson Reuters 09/2016

UNSUSTAINABLE SHORT-TERM DEBT

A company may survive a considerable time with a low equity ratio if insolvency laws do not consider over-indebtedness. To make matters worse for Hanjin, the company was burdened by a large amount of short-term indebtedness, which accounted for about 90% of overall interest-bearing debt.

To conclude, financial markets have correctly anticipated the fundamentally weak condition of Hanjin for a considerable time. How markets price other liner companies over the next quarters remains to be seen.

PUBLISHER

NOTOS CONSULT GMBH
BALLINDAMM 17
20095 HAMBURG
GERMANY

CONTACT

T +49 40 6094 550 – 0
F +49 40 6094 550 – 92
INFO@NOTOS-GROUP.COM

REGISTERED OFFICE: HAMBURG
REGISTRATION COURT:
AMTSGERICHT HAMBURG | HRB 120813

MANAGING DIRECTORS:

DR. JENS ROHWEDER
DR. CHRISTINA STAHN