



# Managing The Financial Position-Minimising Risks

Can Ertem – Managing Analyst EMEA

**oceanintelligence**

# Today's Agenda

- About OI.
- Risks associated with the bunker industry and how to minimise them.

# Who are we?

- Founded by Adam Dupre, co-founder of MRC and marine credit reporting.
- Led by CEO Matt Cape who has 15+ years experience in the bunker industry, also heading Bunkerworld, the sector leading editorial.
- Commercial matters are handled by Vernon Jayanathan, the Sales Director.

# What we do

*Expert  
Partner*

*Commitment  
to Customer  
Experience*

\* Bunker credit reports and database

\* Company news and sector reports

\* Value added tools for credit managers

# How do we deliver?

- ✓ We are continuously developing new tools to gain deeper insights for credit managers
- ✓ We deliver through our :
  - Specialism in marine fuels
  - In-house marine credit *management* and credit *reporting* expertise

# Global Reach for a Global Market

## Offices locations

### Europe



### Asia



# Senior Team Members

**Can Ertem**

Managing Analyst  
EMEA

**Raymond Tan**

Managing Analyst  
Asia-Pacific

**Martin Notcutt**

Senior Analyst  
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**Nikki Cresswell**

Senior Analyst  
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**Ben Notcutt**

Analyst EMEA

**Argiris Kitis**

Analyst  
EMEA

# Risks Associated With The Bunker Industry

- Counterparty Credit Risk
- Liquidity Risk
- Price Volatility Risk



Counterparty Credit Risk



Unsecured Credit Risk



Almost Always No Letter Of Credit



Why Not???

- Much smaller volumes.
- More spontaneous deals.
- Bank charges.
- Old habits.

# How Could We Reduce Our Counterparty Credit Risk?

- Buy credit reports.
- Sell your risk a.k.a get credit insurance cover.
- Employ credit professionals.

# Challenges in Bunker Credit Risk Management

- Depressed freight markets due to speculative ordering.
- Lack of transparency associated with counterparties.
- Lack of professional business manners related to counterparties.

- Poor judgment and faulty credit decisions by in-house credit personnel as well as misleading credit recommendations by credit agencies.
- High costs of obtaining credit insurance cover.
- High competition and tight margins leading to aggressive trading actions and increased default risk.

# The Ideal Credit Approach

- A proactive and dynamic credit assessment model. There is no longer room for the archaic back office attitude of focusing on dated financial figures.
- Credit management is not a one man job anymore. There is an old Turkish saying ' If a person does everything, he/she achieves nothing'.

- A well diversified credit team with analysts/managers specialising in specific sectors or geographical locations and a supply credit manager in place to make sure the business receives sufficient flow of funds from its suppliers and bankers.

- World Fuel Service's credit management system looks quite interesting.
- WFS has a well diversified team of credit professionals led by Vice President Credit & Risk Management and includes senior and junior credit managers and senior and junior credit analysts employed in Miami, London and Singapore.
- Each analyst has sector specialisation.



- There is a credit committee that periodically reviews the credit decisions.
- No use of credit insurance so the company is able to save up to a few million USD a year.
- Makes use of credit reports bought from credit reporting agencies.
- Credit managers/analysts are regulators between profit and risk harmonising trading and credit to make sure the balance between profit margins and credit risk is well maintained.

# The Best Bunker Credit Manager



- Knows the market better than anyone.
- Supports sales and business development.
- Knows the culture and people.
- Knows his/her customers like his/her parents.

# Liquidity Risk

- Bunkering is not cash business and would require significant amounts of working capital.
- It is largely an account receivable and account payable business.
- The liquidity is largely supplied by suppliers a.k.a trade creditors and banks.
- Bank credits are mostly short term in the form of trade finance loan, working capital facility and overdraft facility.

- Balance sheets of bunker companies are always dominated by current items; current assets and current liabilities.

## CURRENT ASSETS

## CURRENT LIABILITIES

Trade Receivables- 80-90% of the total current assets

Trade payables- About 35-40% of current liabilities

Inventories- Largely applies to physical suppliers

Short term loan- about 40-45% of the current liabilities. Loans with payback period of less than 12 months.

Cash and cash equivalents- cash in hand and at bank plus marketable securities such as treasury bills which could easily be converted into cash- between less than 1% and less than 10% of the current assets

Current portion of long term loans- 15-20% of current liabilities

Prepayments and other current assets- Between 1% and 5% of the current assets

# What Are The Potential Problems/Risks?

- Depressed freight markets leading to difficulties/delays in collecting trade receivables.
- Risk of tightening credits a.k.a. flow of funds from trade creditors (suppliers) and bankers.
- Not holding sufficient cash to compensate losses associated with price volatility (hedging losses)

# What Should Be Done To Minimise Liquidity Risk?

- Project your future cash flow accurately.
- Inject cash into your business.
- Obtain long credit lines from your trade creditors and bankers.
- Ensure that that collection is rigorous. Issue invoices promptly and follow up immediately if payments are slow in coming.

- Try increasing volumes by price management and other incentives to customers in order to reduce unit cost of capital.
- Offer discounts to customers who pay their bills in 14 and 21 days.
- Invest in marketable securities such as treasure bills which could quickly be converted into cash. Maturity, yield and liquidity should be considered.
- Sell equity.



- Apply interest clause for late payments.
- Sell your trade receivables to factoring companies if you are lacking of cash.
- Sell your inventory in case of backwardated markets where the current bunker prices are believed to be higher than future bunker prices.
- Sell your assets.

# Final Word For Liquidity

- “A bunker company with healthy liquidity in real terms should have at least 10-15% cash in hand and at bank plus cash equivalents such as marketable securities under the current assets of its balance sheet”

# Price Volatility Risk

- Risks associated with changes in oil/bunker prices.
- Oil prices had been stable from 2010 until mid-2014 at about USD 110 per barrel. Since June 2014, prices have dropped by about 45% to about USD 60 per barrel as of 19 February 2015.

- 380 cst fuel oil prices have fallen by about 45% since June 2014 and the drop between October 2014 and the January 2015 was quite rapid and significant.
- In mid-January, prices for IFO 380 cst fell below USD 300 but slightly improved in February.
- Oil prices are determined by supply & demand mechanism.

- The historical elements of the supply and demand have been the actions of the OPEC and non OPEC countries, stocks, geopolitics, environmental conditions and regulations, weather, macroeconomic growth and exploration of new energy sources.
- The oil market has lately been integrated to capital markets with the introduction of Nymex and ICE. This makes the oil market sensitive to speculative actions taken by the capital market players.

# What Actions Could Be Taken To Minimise Price Volatility Risk?

- You could hedge the price. Hedging means making an investment to reduce the risk of adverse price movements in an asset.
- Do not forget this is a tool for minimising risk. It is not a gamble or a zero sum game.
- Stay away from hedging if you do not employ risk management professionals.

- Seek professional opinion and support from specialised bunker risk management players such as Global Risk A/S, WFS and OCM.
- Stay away from hedging if you do not hold adequate cash against potential hedging losses.

# Hedging

PHYSICAL HEDGE	PAPER HEDGE
The majority of the physical supply contracts are physical hedges.	Called exotic, include swaps and options, use of investment banking products.
Straightforward- less complicated.	Quite complicated and require extensive knowledge and experience.
Flexible.	



- Physical bunker hedging is also known as 'Fixed Forward Pricing' and used at the majority of the main ports.
- FPP agreements enable bunker buyers to lock the price they pay for bunker procurement in a specific time frame.

- *In December 2014, you decided to buy 10,000 metric tonnes of IFO 380 cst at Singapore per month of the first two months of 2015 from 'Bucket Marine Oil' at USD 320 per tonne.*

January 2015- IFO 380 cst at Singapore spot price at the time of delivery was USD 280. You paid 'Bucket Marine Oil' USD 320 per tonne and lost USD 40 per tonne.

February 2015- IFO 380 cst at Singapore spot price at the time of delivery is 380 per tonne. You are supposed to pay USD 320 per tonne to 'Bucket Marine Oil' and save USD 60 per tonne.

- Advantages of an FFP includes protection from spot price increases and guaranteed price and delivery.
- Disadvantage of an FFP is losing the opportunity to save if spot prices fall below the locked price.
- FFP agreements usually include an exit clause which enables buyers to exit the agreement and pay the difference between the locked price and spot price and keep paying spot price going forward.

# Capped Forward Price- CFP

- CFP agreements enable the buyers to cap the price to be paid for bunkers in a specific time frame. This benefit requires a non refundable upfront premium.

If the spot price is below the locked/fixed price, the buyer pays the spot price over the period of the agreement.

If the spot price is above the fixed price, the buyer only pays the fixed price over the period of the agreement.

- *In December 2014, you decided to buy 10,000 metric tonnes of IFO 380 cst at Singapore per month of the first two months of 2015 from 'Bucket Marine Oil' at a capped price of USD 320 per tonne and you agreed to pay a premium of USD 20 per tonne for the protection.*

January 2015- IFO 380 cst at Singapore spot price at the time of delivery was USD 280. You paid USD 280 per tonne to 'Bucket Marine Oil' plus USD 20 per tonne of premium so you ended up paying USD 300.

February 2015- IFO 380 cst at Singapore spot price at the time of delivery is 380 per tonne. You are supposed to pay USD 320 per tonne to 'Bucket Marine Oil' plus USD 20 per tonne premium totalling USD 340 and save USD 40 per tonne.

- The advantages of a CFP includes protection from increases in spot bunker prices as well as benefiting the falling spot prices. The disadvantage of a CFP is the premium cost.

# Fixed Forward Collar FFC

- An FFC agreement enables the buyers to lock in the price to be paid for bunkers in a specific time frame but also allows the buyer to save money if spot bunker prices go down. In this case, if the spot price is above the maximum fixed price, you pay the agreed maximum fixed price. If the spot price is below the agreed minimum price, you pay the agreed minimum price.



- *In December 2014, you decided to buy 10,000 metric tonnes of IFO 380 cst at Singapore per month of the first two months of 2015 from 'Bucket Marine Oil' for a capped price of USD 320 and a minimum price of USD 300.*

January 2015- IFO 380 cst at Singapore spot price at the time of delivery was USD 280. You paid 'Bucket Marine Oil' USD 300 per tonne and lost USD 20 per tonne.

February 2015- IFO 380 cst at Singapore spot price at the time of delivery is 380 per tonne. You are supposed to pay USD 320 per tonne to 'Bucket Marine Oil' and save USD 60 per tonne.

- The advantages of an FFC include protection from spot price increases and avoiding premium costs. The main disadvantage of an FFC is losing money if the spot price falls below the agreed minimum price.

- The majority of the hedges are undertaken on a very short term basis, usually on a daily basis nowadays as long term hedging costs are quite significant.
- Contango market is reported to have been achieved (if the prices at present is low and the forward market is high, the market is said to be contango) at Rotterdam but not at Singapore.

- Vessel owners and operators and physical suppliers usually prefer undertaking physical hedge while cargo traders and ex wharf players usually play with both physical and paper hedge.

# OW Disaster & The 3 Risks

- The collapse of OW was as a result of bad management of counterparty credit risk, liquidity risk and price volatility risk in combination with mismanagement by the senior management of the company as well as a reported fraud.
- The USD 125 million credit approved for Tankoil was one of the poor judgments on the counterparty credit risk side.

- The company lost USD 150 million on bad price volatility risk management, taking contango position in a backwardated market.
- Later it was found there was a USD 50 million liquidity shortfall at the time of bankruptcy.
- The ratio of cash & cash equivalents to total current assets on the company's balance sheet as of 31 December 2013 was less than 1%.

Any Questions?