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Hin Leong debacle signals commodity financing curbs, wider oil industry losses

Author **Eric Yep**

Editor **Geetha Narayanasamy**

Commodity **Electric Power**, **Natural Gas**, **Oil**, **Petrochemicals**, **Shipping**

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HIGHLIGHTS

Hin Leong fuel inventory loss totals $1.136 billion in 6 months

Lenders cut exposure to commodity financing, triggered liquidity issues: Hin Leong's OK Lim

Commodity traders and oil majors likely saddled with undisclosed inventory losses

Singapore — Embattled Singapore oil trading firm Hin Leong Trading's financial troubles have confirmed two key concerns about the ongoing turmoil in commodity markets -- commodity financing curbs and wider oil industry losses.

Banks were already pulling back from financing oil and gas trades after the oil price crash, with credit shortages due to the coronavirus outbreak percolating into the commodity business more widely than expected.

Secondly, undisclosed industry losses among commodity traders and oil companies already run into several billions of dollars that could still trigger more defaults and bankruptcies, especially among smaller traders with poor hedging and financing options.

Billionaire oil trader Lim Oon Kuin, or OK Lim, who was managing director of Hin Leong Trading or HLT, outlined the reasons for his financial difficulties in a filing for **protection from debtors** under Section 211B of Singapore's Companies Act dated April 17.

While he has taken responsibility for the derivatives losses, what is also clear is the domino effect of an oil price crash on a business model that habitually stretches overextended credit lines and liquidity to its limits.

"In recent months, due to defaults by other oil traders, several of HLT's bank lenders decided to reduce their exposure to or exit the commodity financing industry," OK Lim said in the affidavit. "As a result of this, credit lines to HLT were withdrawn or reduced by some of the bank lenders and this imposed a strain on HLT's liquidity," he added.

Lim said when oil prices crashed in early March his firm had to sell cargoes to stem losses and "to survive the severe strain on its cashflow due to a series of margin calls made by the lender banks."

"I wish to explain that each of such transactions was documented based on a transaction where cargo was actually shipped, so as to raise additional financing which HLT knew it had to repay. This was not done with the intention to defraud or deceive any party," Lim said

Hin Leong's vulnerability also came from its trading cycle that can have a gap of over 60 days between initial payment and recovery, and an absence of proper hedging strategies.

"HLT was the subject of margin calls by numerous banks in March and April 2020. This led to a severe depletion of HLT's cash reserves," Lim said. "There was insufficient cash to pay all the margin calls and HLT risked being in default of its trade finance facilities and, worse still, the suspension or withdrawal of such facilities which was its lifeblood."

INVENTORY LOSSES

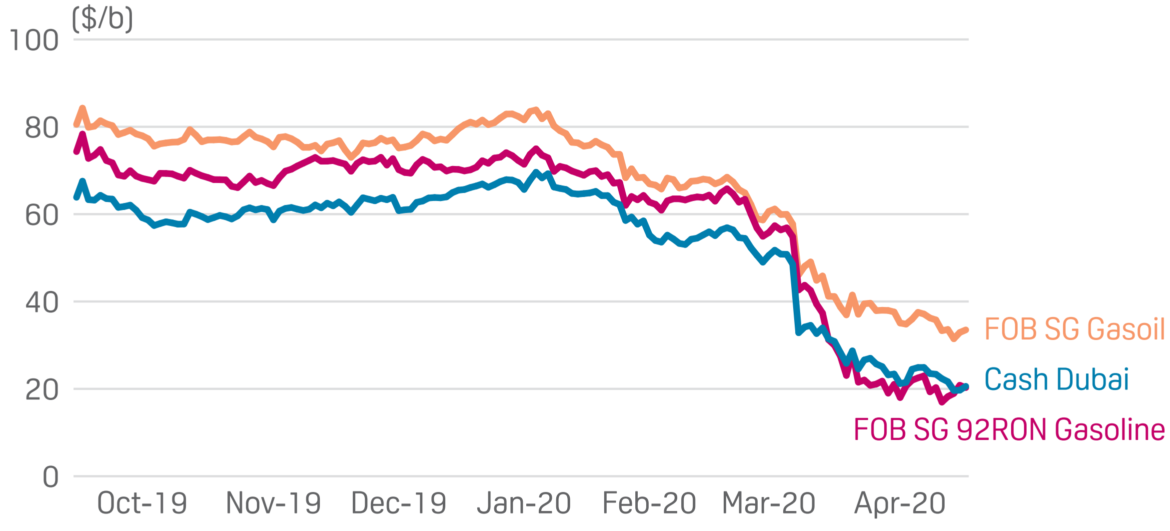
The margins calls also came on the back of inventory losses.

Hin Leong's inventory valuation fell 89% to $141 million as of April 9, 2020, from $1.277 billion as of October 31, 2019.

That's an inventory loss of $1.136 billion in a span of under six months, but its inventory volume in the same period also fell 77% to 608,745 mt from 2.61 million mt due to the sale of collateralized inventory to meet company finances.

What's interesting is that the value of its current inventory of 608,745 mt fell to $141 million from $323 million at the start of the year, a 56% drop purely due to the fall in prices of fuel oil, gasoil, jet fuel and gasoline.

OUTRIGHT CRUDE, FUEL PRICES COLLAPSE IN ASIA



Source: S&P Global Platts

This is problematic because many oil traders stocked up on fuels in the run-up to the IMO 2020 deadline for low sulfur marine fuels, anticipating shortages. The demand destruction due to the coronavirus outbreak was the nail in the coffin, saddling them with unsaleable fuel worth half the original price.

"The Singapore onshore stock numbers are around 4 million mt, plus the 5 million mt or so in floating. Let's call it 9 million mt at an average price of $450/mt, down to $250/mt now -- that's $1.8 billion in inventory losses on paper," Alex Yap, senior oil analyst at **S&P Global Platts Analytics** said.

The global exposure is several times higher.

"The market is certainly a complicated one to read for smaller players who cannot afford to take advantage of the volatility, simply because their cash position is not strong enough to buffer inevitable margin calls," Jean-François Lambert, consultant at Lambert Commodities, said.

"Larger players have that ability and whilst the market direction remains uncertain, they are better equipped to steer in rough seas," he said, adding that some large trading houses have likely been caught on the wrong side of the market at the wrong time, but the magnitude of these positions may not be life threatening.

"The key unknown is how long 40% or so of the world economy remains in confinement. If it's only a matter of one or two months, demand is likely to increase and trade can resume, relieving storage capacity. Should this be the case, large trading houses will reap benefits," Lambert said.

But if the current quasi-standstill lingers, the market may become very difficult to play with and counterparty risks could skyrocket with potential commercial defaults, he said.

"This would affect every player in the market, [small and large], with nervous banks and insurers [in the background]. But we are not yet there, fortunately."

HIN LEONG TRADING'S SECURED CREDITORS AS AT 9 APRIL 2020

Name of bank	Amount ($)	Notes
The Hongkong and Shanghai Banking Corp	598,071,955	
ABN Amro Bank N.V., Singapore Branch	299,478,425	
DBS Bank Ltd	288,096,108	
Société Generale, Singapore Branch	285,969,379	(219,626,884 secured over inventory)
Oversea-Chinese Banking Corporation Limited	242,283,593	
Cooperatieve Rabobank U.A., Singapore Branch	225,009,930	(51,642,058 secured over inventory)
Bank of China	209,165,918	
Australia and New Zealand Banking Group Limited, Singapore Branch	185,909,879	
Natixis, Singapore Branch	156,890,653	
United Overseas Bank Limited	139,545,254	
Sumitomo Mitsui Banking Corporation, Singapore Branch	134,121,540	
CIMB Bank Berhad, Singapore Branch	123,666,727	
ICICI Bank Limited	100,000,000	(75,000,000 secured over inventory)
CTBC Bank Co Ltd	91,008,405	
Credit Agricole Corporate & Investment Bank	86,728,150	(40,000,000 secured over inventory)
UniCredit Bank AG, Singapore Branch	82,852,557	
Standard Chartered Bank	78,623,100	
Qatar National Bank SAQ, Singapore Branch	69,253,573	
Deutsche Bank AG, Singapore Branch	66,611,732	
Westpac Banking Corp Singapore	54,165,658	
ING Bank N.V., Singapore Branch	47,117,899	
JP Morgan Chase Bank N.A	44,809,523	
DZ Bank AG, Singapore Branch	32,215,879	
Total	**3,641,595,837**	

Source: Company filings