How an epic gamble exposed the rot OK Lim's oil empire

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SINGAPORE (April 21): The letters started to arrive in early April. One after the global finance, from JPMorgan Chase & Co to HSBC Holdings Plc, demanded th urgent repayment of hundreds of millions of dollars in loans.

On the receiving end was Hin Leong, one of the most powerful and secretive na trading. Founded in 1963 by a Chinese immigrant known to everyone in the inc it was a giant in the world of shipping fuel from its base in Singapore.

Over the decades it had become one of the most fabled trading houses, the sou dollar fortune, and the subject of stories about legendary deals that made rivals this month, as oil prices collapsed in the fallout from the coronavirus, its found

Banks had already been pulling credit lines, spooked by defaults at other tradin
Smelling something wrong at Hin Leong, they started to ask for their money. W
repay promptly, they called in their lawyers, and the game was up.

OK Lim, known formally as Lim Oon Kuin, has fallen on his sword, revealing h
US$800 million in losses speculating in oil futures over the years. Worse still fo
said he had secretly sold some of the million of barrels of oil inventories the co
pledged as collateral for its loans. The gap between the company's assets and it
at US$3.34 billion.

The Singapore police force is now investigating the company while the Moneta
Singapore, the nation's financial regulator and central bank, has been in contac
bank creditors, according to people familiar with the matter.

The closely knit trading community in Singapore, where players bet hundreds
dollars every day on the price of oil, is in shock at the downfall of one of its bigg
Leong, which means "prosperity" in Chinese, sought protection from its credito
on April 17. Having spent decades keeping the inner workings of his company s
clean in a startling mea culpa.

"I had given instructions to the finance department to prepare the accounts wit
losses and told them that I would be responsible if anything went wrong," Lim s
seen by Bloomberg News. Although Hin Leong Trading (Pte) Ltd's official accou
profit of US$78 million in its 2019 fiscal year, "in truth," Lim explained, the com
been making profits in the last few years."

The rise and fall of Hin Leong is a tale of humble beginnings, business acumen
above all, it shows that Lim, a keen poker player according to those who know h
bet, and bet big, in the loosely regulated and opaque world of oil trading. This m
biggest hand.

"Hin Leong is a company that likes risk," said Jorge Montepeque, a veteran oil m
who knows OK Lim. "But this time the risk became too big."

This account of the trading house and its founding family is based on interview
associates, rivals, bankers and consultants, plus presentations to creditors and
the founder and his son in support of court applications. While some of the pec

companies for comment were unsuccessful.

Huge Consequences

The demise of Hin Leong has far-reaching repercussions for a market that liter
trade. Singapore is the world's biggest hub for shipping fuel. The trading house
was the third-largest supplier in the city last year, according to the Maritime an

Thanks to its unique position straddling the sea lanes that connect China to the
Singapore has become one of the world's top commodity trading hubs, alongsi
London and Houston.

"Hin Leong was instrumental in helping the growth of Singapore as an oil hub
location," said Jean-Francois Lambert, a commodity industry consultant and fo
finance banker with HSBC.

The crisis is the latest in a series of scandals to tarnish the reputation of the isl
including multi-million dollar losses by some high profile Chinese and Japanes
collapse of Noble Group, one of the biggest names in the industry, and the mor
of Agritrade International.

This time, the trigger was a global calamity that nobody saw coming. World oil
thirds between early January and the end of March, crushed by plummeting de
coronavirus outbreak and a price war between Saudi Arabia and Russia. They h
collapsed below zero in the US for the first time ever.

No Hedges

Unfortunately for Hin Leong, it wasn't hedged against a price rout. In fact, Lim
opposite bet, believing China would control the virus and oil demand would re

initial slump triggered by the country's virtual shutdown, according to people v outlook in meetings and phone calls.

Whether it was an attempt to get out of hidden losses, or something else, the fa that prices were about to rise. It was a gamble against all the odds, a wager that else in the industry was wrong. In many ways, it was the quintessential Hin Le aggressive.

The tycoon was right to a degree; Beijing did manage to bring the outbreak und demand in China gradually started to recover in March. But what Lim failed to the disease would eventually become a global pandemic and bring the world to

Brent crude, the global benchmark, plunged from more than US$70 a barrel in just US$21.65 a barrel in late March. As prices crashed, Hin Leong's banks aske more money to cover the bullish bets that it had placed. What's more, the value inventories was rapidly shrinking as prices dropped, meaning Hin Leong need more barrels to maintain its credit lines.

The situation unraveled as Hin Leong all but ran out of cash. When the compan started to pull their credit lines, it could no longer function.

Trading Lifeblood

Bank financing in the form of letters of credit and other short-term loans is the the opaque world of commodity trading, enabling firms to buy, store and trans around the world. Traders use their cargoes and other assets as collateral for th if they fail to repay, the bank can seize the goods. But in the case of Hin Leong, the barrels are already gone.

The company now owes some US$3.85 billion to 23 lenders, including HSBC, S SA, Standard Chartered Plc and Deutsche Bank AG, according to people with kn matter. HSBC has the biggest exposure at about US$600 million while Singapor lenders are owed a combined US$500 million or thereabouts.

The banks held a virtual meeting with the oil trader and its advisers on April 14 During the call, the company told them that its liabilities stood at US$4.05 billio while its assets were only US$714 million. The massive US$3.34 billion differen may recover only 18 cents on the dollar, a staggering loss in the business of fina trade.

The accounts that Hin Leong has provided also contain clauses that suggest mo could emerge. "Figures obtained from the company are subject to verification," presentation to its creditors, according to a screenshot seen by Bloomberg New

Risky Business

The legal documents filed by OK Lim also shed light on how risky the business physical oil traders hedge their positions using derivatives such as futures, opt But Hin Leong didn't. As a matter of policy, the company "did not hedge aggres his affidavit.

It's a business model the company has employed with gusto over decades. Ofte when prices moved in the right direction; but often also getting hurt, as the fou Lim put it in a rare interview more than 25 years ago. "On one occasion we agr 800,000 barrels for delivery with a five-day pricing window," the younger Lim News in 1994. "We got burned badly because the seller was in the market pushi

Hin Leong trades a range of oil products, makes lubricants and operates loadin storage facilities. Its affiliated company has a fleet of more than 100 ships that s commercial vessels at anchor offshore.

The company doesn't have to file financial statements because of its classificati private company" with fewer than 20 members and does not have any corpora beneficial interest in its shares. It declared revenue of more than US$20 billion financial year.

Humble Start

The company has humble beginnings. Lim started off with little more than a fis supplying diesel to other vessels. More comfortable speaking his native dialect

English or Mandarin, he was one of the first traders outside China to start doin the mainland, shipping fuel to southern Chinese provinces since the 1980s.

Hin Leong grew in parallel with Asia's recovery after the 1997-98 economic cris Malaysia and others rebounded, so did demand for diesel and fuel oil, the stapl Leong traded. When China's growth accelerated over the following decades, m in Singapore to take on fuel, and Hin Leong became a giant of the industry, an e in an oil terminal and tanks capable of holding millions of barrels of oil.

Its domination of the market gave rise to the quip that anyone wanting to start business in Singapore had better get an "OK" from OK Lim's company. His trad bullish, and more often than not targeting either fuel oil or diesel became the s the city. While others stumbled, Lim appeared to always persevere.

Low-Key

Associates who've known Lim for more than three decades described him as a businessman, who remained true to his origins. In Singapore, he is said to like chain restaurant named after his hometown of Putian in China's Fujian provin favorite fish dish, "100-second" stewed yellow croaker, for S$14.90 (US$10.50).

"A man of his mindset and character, I doubt whether he would sit and bury hi sand," said Robson Lee, a Singapore-based partner at Gibson, Dunn & Crutcher acquainted with business of the Lim family. "He will try to navigate his way ou

And perhaps that's what Lim is now trying to achieve, according to two people talks involving the banks, consultants and the company. By taking all the blam could be attempting to distance the collapsing business he founded and other a by his family, notably the giant oil tanker business Ocean Tankers (Pte) Ltd.

The trading house has appointed accounting firm PricewaterhouseCoopers LL law firm Rajah & Tann as advisers. Lim told creditors he's already in talks with for a deal to rescue his company. He resigned on Friday, but said he hopes his c committed to rescuing the family company, will remain involved.

In his own affidavit, OK Lim's son Evan claimed he was unaware of his father's
reason for its losses. A spokeswoman for Rajah & Tann said it's unable to comn
matter is before the court. PwC didn't immediately respond to a request for con

Like other governments around the world, Singapore is trying to help business
the effects of the coronavirus. In the past, the country has used the financial mu
investment agencies to bail out home-grown traders like Olam International Lt
in financial distress. Whether it can or wants to engineer a solution for Hin Leo
seen. The losses appear larger than before, and the foreign banks are unlikely t
to a company whose founder has all but admitted to cooking the books for year

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