Hin Leong Trading

Singapore scandal rocks commodity traders and their lenders

Debt disclosure crisis at tycoon OK Lim's Hin Leong group threatens sector's credit lines

Lim Oon Kuin, known as OK Lim, revealed in a virtual meeting that Hin Leong Trading had 'in truth' not been making profits for years © Edgar Su/Reuters

Neil Hume in London and **Stefania Palma** in Singapore YESTERDAY

Singapore energy tycoon Lim Oon Kuin spent decades building a business empire, transforming his "one-man-one-truck" operation selling diesel to fishermen into one of the biggest shipping fuel traders in Asia.

But in the space of a few days it has come crashing down, sending shockwaves through the commodity trading industry and the banks that finance global trade.

The extent of the financial problems at Mr Lim's Hin Leong Trading only became clear to its lenders last Tuesday. Under pressure to pay down billions of dollars in loans as crude prices crashed and demand slumped because of the coronavirus pandemic, he made a jaw-dropping admission.

In a virtual meeting to discuss a possible debt moratorium, he revealed the company, which reported net income of almost $80m in its official accounts for 2019, had "in truth" not been making profits for years, according to people with knowledge of the meeting.

In fact, Hin Leong had suffered $800m in futures trading losses it had not disclosed in its accounts.

But Mr Lim was not finished. The septuagenarian Chinese immigrant then dropped another bombshell, revealing oil pledged as collateral for loans had been sold to raise cash.

Hin Leong Trading's financial position (US$m)

Liabilities	**Apr 9 2020***	**Audited Oct 31 2019**
Bank debt	3,850	1,704
Account payable	200	2,349
Equity	[ ]	509
Total	**4,050**	**4,562**
Assets	-	-
Accounts receivable	523**	2,824
Inventory	141	1,277
Cash	50	461
Total	**714**	**4,562**
Difference	**(3,336)**	**-**
Recovery	**18%**	**-**

Stunned bankers turned their laptop microphones to mute as they tried to digest what they had heard and consider their next moves.

By the end of the week, the privately owned company had filed for bankruptcy protection in Singapore's High Court while its lenders, owed almost $4bn and facing huge losses, were scrambling to file claims against the company.

Mr Lim, a low-key businessmen not given to extravagant displays of wealth, repeated his bombshell confession in a signed affidavit and resigned from the company.

His son Evan, a director of Hin Leong and the family's shipping business Ocean Tankers, tried to distance himself from the brewing scandal.

"I am not personally aware of how and why these losses were not reflected, as I was not involved in the finance function which was supervised by my father," he said in a separate court filing.

Neither Mr Lim nor his son responded to requests for comment.

Hin Leong's troubles have rocked the commodity trading hub of Singapore, where billionaire Mr Lim is one of the best known figures in the industry, prompting a police investigation into his heavily indebted company.

They could also have a chilling effect on banks' willingness to lend to all but the biggest commodity traders. In recent years Singapore has witnessed the collapse of Noble Group, Agritrade International and Petro-Diamond Singapore.

"If banks, whether local ones or international groups, were to retrench significantly from the commodity sector in Singapore, this could possibly threaten the position and the ambitions of the city-state to be one of the world's biggest commodity trading hubs," said Jean-Francois Lambert, an industry consultant and former trade finance banker at HSBC.

A bunker vessel prepares to supply fuel to Hin Leong's supertanker in the waters off Jurong Island in Singapore © Edgar Su/Reuters

HSBC has the biggest exposure to Hin Leong at $600m, followed by ABN Amro at $300m and Société Générale at $240m. Singaporean banks — DBS Group, OCBC Bank and United Overseas Bank — are owed a total of more than $600m.

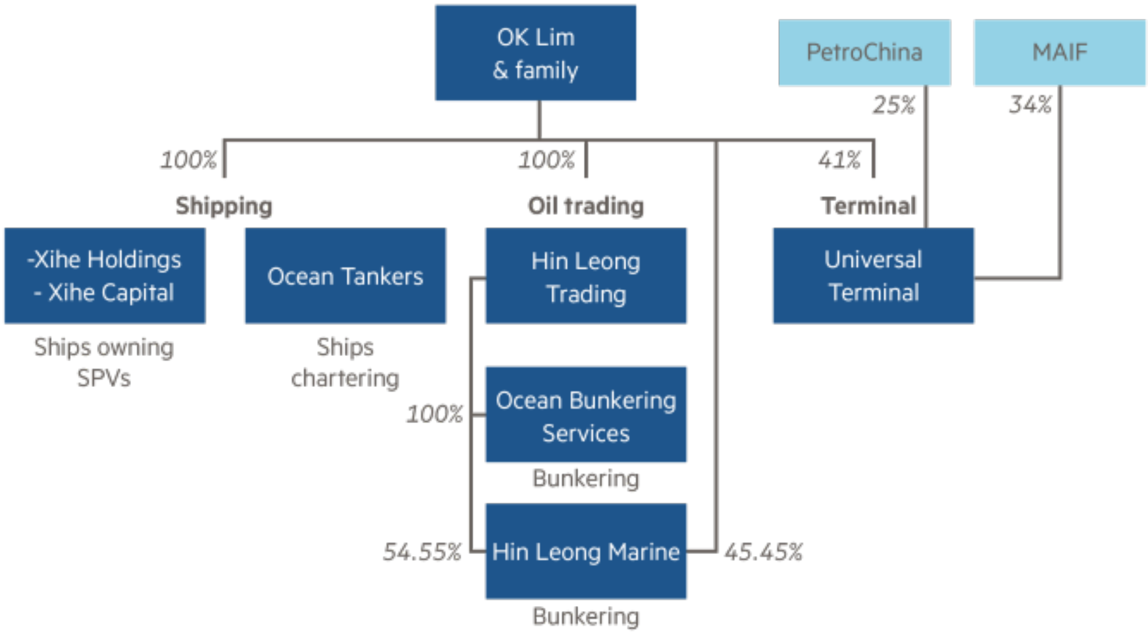
"Regulatory enforcement is very weak in Singapore, which has encouraged behaviours of this type," said Arnaud Vagner, who under the guise of Iceberg Research exposed the problems that led to Noble Group's demise.

Mr Lim, better known as OK Lim, came to Singapore in the 1960s from Putian, a small town in China's Fujian province.

Hin Leong, meaning "Prosperity" in Chinese, emerged from Mr Lim's solo distribution business, which sold fuel to taxi companies, bus companies and fishermen in Singapore.

It grew into one of Asia's largest traders of ship, or bunker fuel. Along the way Mr Lim set up Ocean Tankers, which charters or operates more than 150 vessels.

Hin Leong group overview



Source: Singapore's High Court
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The company's financing problems started earlier this year when a number of lenders refused to issue letters of credit. Used extensively by traders, LCs are issued on behalf of a buyer and act as a guarantee of payment to a seller. Once the trade is completed, the buyer repays the bank.

Because of defaults by other oil traders, several of Hin Leong's lenders decided to reduce their exposure or stopped providing commodity trade finance.

This imposed a "strain" on the company's liquidity, according to court filings, just as oil prices crashed because of the fallout from the Saudi-Russia price war. Oil prices in the US have since collapsed below zero for the first time on record.

Ordinarily, Hin Leong would have ridden out the storm and waited for markets to recover but a series of margin calls forced it to sell oil to raise cash.

However, the demands kept coming and Hin Leong, which had not "sufficiently" hedged itself against the steep drop in oil prices, was haemorrhaging cash. At the same time, the coronavirus pandemic hammered demand for bunker fuel.

"Commodity traders always want investors to believe they never take speculative positions. But it's a crucial aspect of their job," Mr Vagner said.

Faced with the suspension or withdrawal of its credit lines, the lifeblood of any commodity trader, the company approached its lenders seeking a standstill agreement to restructure its debts.

When that proposal was rebuffed in the wake of Mr Lim's startling admissions on losses a week ago, Hin Leong and Ocean Tankers applied for bankruptcy protection.

People with knowledge of the matter said Hin Leong's lenders would oppose the bankruptcy filing and ask Singapore's High Court to appoint an independent third party to run the company — a process known as judicial management — as they attempt to salvage something from the wreckage.

They do not want Evan Lim or another family member in charge of the company, the people added. "The father and son are joined at the hip," one lawyer remarked. Mr Lim had hoped his children could remain involved with the business

Unless the banks can find a white knight bidder or investors to rescue the company — discussions are under way with China's Sinopec — Hin Leong's lenders face huge losses.

"The banks must be freaking out," said Jorge Montepeque, a former S&P Global Platts executive and architect of the system that underpins oil pricing around the world

According to Friday's court filings Hin Leong's total liabilities were just over $4bn on April 9, against assets worth just $714m, leaving a $3.3bn hole, suggesting lenders may only recover 18 cents on the dollar.

Meanwhile, the company's inventories were valued at $141m compared with the $1.27bn stated in its 2019 annual accounts, which were signed off last month by Deloitte. Its cash position had sunk to just $50m from $461m.

"Whatever the final amount is, Hin Leong will be big and the largest trading failure in Singapore," said Mr Montepeque.