Singapore's oil traders at risk of collapse

Top trader Hin Leong Trading's financial implosion augurs more industry defaults and bankruptcies ahead

by Nile Bowie April 24, 2020

Oil transshipment by Ocean Bunkering Services Ltd, the bunkering arm of Hin Leong Group. Photo: Hin Leong Group/Twitter

SINGAPORE – The implosion of one of Singapore's biggest oil traders, Hin Leong Trading, has sent shockwaves through the city-state's commodities sector as global oil markets reel from the double whammy of a supply glut and pandemic-pummelled demand.

Local lenders are now curtailing their exposure to all but the biggest industry players, raising the prospect of more defaults and bankruptcies as well as questions about the resilience of Singapore's status as a global oil trading hub.

Billionaire energy tycoon Lim Oon Kuin, better known as O.K. Lim, stunned creditors this month when he admitted to personally hiding US$800 million in oil futures losses associated with his decades-old company. Millions of barrels of fuel used by the firm as collateral to secure loans had also been sold off to raise funds, he conceded.

Police in Singapore opened an investigation into Lim's stunning admissions after they came to light on April 20.

Hin Leong and its shipping subsidiary, Ocean Tankers, filed for bankruptcy protection when lenders including 23 different banks rejected a proposal to extend its credit facilities and grant a six-month moratorium on debts of $3.85 billion.

HSBC is said to have the biggest exposure to septuagenarian Lim's fallen trading empire, while the city-states' three biggest lenders – DBS Group, OCBC Bank and United Overseas Bank – are reportedly owed a combined $680 million.

Singaporean oil trading tycoon Lim Oon Kuin in a file photo. Image: Facebook

According to court filings, the family-held firm had not sufficiently hedged against the collapse of oil prices and the Covid-19 pandemic, putting unprecedented "strain" on its liquidity. As the Hin Leong scandal came to light, US West Texas Intermediate (WTI) crude futures contracts for May plunged into negative territory for the first time.

"Only when the tide goes out do we discover who's been swimming naked. Hin Leong appears to be an early example of that," said John Gorman-Charlton, managing director at Brigstocke Consulting. "Who can blame the banks for tightening up credit when they have had their fingers burned again?"

Hin Leong's downfall follows an earlier string of scandals in the city-state that saw fraud-hit traders such as Noble Group, Agritrade International and Petro-Diamond Singapore collapse in recent years. Banks are now pulling back from the loosely regulated sector as Covid-19 compounds woes affecting oil supply and demand.

Analysts say the withdrawal of commercial bank credit would threaten oil traders' business models, which rely on heavy borrowing to fuel high-volume transactions in anticipation of cash flows. Firms also face ballooning storage expenses for their oil inventories as the coronavirus lockdowns knock fuel demand to unparalleled lows.

"For their own solvency, creditors will try to minimize their potential loss and require rapid debt payments from these oil trading firms that are stripped of cash," said Paul Hong, a professor of global supply chain management and Asian studies at the University of Toledo.

"With no available fresh liquidity flows, there will be similar scenarios like Hin Leong trading to a larger number of highly leveraged firms."

Jean-Francois Lambert, an industry consultant and former trade finance banker at HSBC, told Asia Times that local and international banks will undoubtedly reevaluate their exposure in the wake of the Hin Leong scandal.

Though without a supportive banking industry, he believes the commodity sector could struggle to remain a key industry in Singapore.

Oil tankers anchored off the western shore of Singapore on February 19, 2020. Photo: AFP/Roslan Rahman

"The way the Hin Leong crisis is to be managed by the authorities is critical," said Lambert. "If the city-state does not step in in one way or another to actively help to solve this local crisis, it is unlikely that post-crisis banks and especially international ones will remain as forthcoming as they have been with the commodity sector."

As banks tighten their credit lines and adjust their risk pricing, Lambert believes large trading houses are better positioned to withstand rising volatility.

"Top oil traders will not be significantly challenged as they are able to communicate on their strategy, positions, liquidity and results with their mains banks almost on a daily basis if necessary," he said.

Smaller players who lack the finances to absorb demand shocks, the industry consultant added, should err on the side of caution: "Unlike larger traders, they are exposed in such market conditions with often slim liquidity and are often much less equipped to monitor their books and communicate effectively with the lenders."

In a joint statement on April 21, three government agencies – Enterprise Singapore (ESG), the Maritime and Port Authority of Singapore (MPA) and the Monetary Authority of Singapore (MAS) – said they are "closely monitoring" the impacts of Hin Leong's collapse on the city-state's oil trading and bunkering sectors.

"Singapore's oil trading sector remains resilient notwithstanding the challenges posed by the drop in global demand for energy," said the agencies, which pledged to work with stakeholders to ensure Singapore's supply chain for oil products and bunkering operations functions without disruption.

MAS, Singapore's central bank, said it is in "close contact with the banks on developments related to Hin Leong…and has reminded the banks not to de-risk indiscriminately from the bunkering and oil trading sectors." According to their assessments, there will be "no serious impact" on Singapore's marine refueling, or bunkering, industry.

Oil storage tanks on Jurong island off Singapore on April 15, 2020. Photo: AFP/Roslan Rahman

Singapore is one of Asia's largest shipping fuel trading centers and the world's biggest bunkering hub with around 50 million metric tonnes of sales annually. Hin Leong's bunkering arm, Ocean Bunkering Services, was Singapore's third-largest marine fuel supplier in 2019, according to the MPA.

A day after the Hin Leong scandal made headlines, the MPA awarded two new bunker supplier licenses to Mercuria's Minerva Bunkering and Trafigura's TFG Marine, bringing the total number of licensed bunker suppliers in Singapore to 45. The new licensees are the first to be granted supplier permits by the port regulator since 2017.

"Singapore quickly responded to the Hin Leong debacle by awarding bunkering licences. It is worthy of note [that] the number of bunker licences in Singapore has almost halved in just ten years," said Brigstocke's Gorman-Charlton. "Tender requirements were increased, probably in an attempt to avoid collapses such as Hin Leong."

A number of bunker suppliers have folded in recent years amid a crackdown on industry malpractice and increased oversight, and pandemic pressures could narrow the field further, say observers. "I expect to see more failures amongst some of the weaker bunker players and more shocks for the banks," said Gorman-Charlton.

With banks increasingly wary of lending to oil traders amid heightened fears of defaults, some predict authorities could step in to safeguard a sector that accounts for around 20% of Singapore's domestic commodity exports and billions of US dollars worth of physical and derivative commodities trading every year.

"Singapore's government may take measures to protect key players in the oil trading sector, if not Hin Leong Trading," said the University of

Toledo's Hong. "Singapore has positioned itself as a maritime transportation hub and distribution center of oil. It cannot afford to lose its status as a trading hub of energy commodities in the market."

An ExxonMobil-run refinery in Jurong, Singapore. Photo: ExxonMobil

Debt-laden Hin Leong reportedly withdrew its earlier application for bankruptcy protection and has sought instead to hand over management of the company to PricewaterhouseCoopers (PwC), which is already advising the indebted firm on its negotiations with lenders, through a process known as "judicial management" that allows an independent third party to step in as an interim manager.

The trading giant's creditors had widely been expected to push for judicial management to ensure that 75-year-old Lim – who founded the company in 1963 as a one-man distribution business – and members of its founding family are kept at arm's length as the firm undergoes debt restructuring, the Financial Times reported.

Hin Leong would be temporarily shielded from legal proceedings while under judicial management. Buffeted by Covid-19 and oil market turmoil, Singapore's coveted status as a top oil trading hub likewise hangs in the balance.

Asia Times Financial is now live. Linking accurate news, insightful analysis and local knowledge with the ATF China Bond 50 Index, the world's first benchmark cross sector Chinese Bond Indices. Read ATF now.