TMM Receivables Securitization

"Securitization" transactions, in the transportation world, come in a variety of flavors. In their most basic form, maritime securitizations can utilize structured financing techniques borrowed from the railroad and aircraft modes. Though the structures may vary, an important tenet of this area of structured finance is that future revenues can be packaged, and then sold to an outside entity, advancing a discounted value to the borrower.

A happy confluence of factors has enabled Grupo TMM, S.A.B. (NYSE symbol "TMM"), a Mexican company active in product and chemical tankers, offshore oil services and logistics/warehousing/trucking to issue MexicanPeso 3 billion (roughly US 280 million) of 20 year Mexican Trust Certificates in July 2007. The paper was sold to Mexican investors, in an issue where JP Morgan in Mexico acted as trustee. The proceeds was used to refinance existing vessel debt and to bolster TMM's cash coffers. According to CFO Juan Fernandez, speaking on TMM's 2Q 2007 Conference Call, "US 161 million will be used to pay principal and accrued interest on tankers and offshore vessels, while the remaining US 119 million will go towards transaction fees and expenses (US 10 million), reserves (US 34 million) and capital (US 75 million)." This capital raised could be used broadly by the Company, essentially to acquire assets or repay existing indebtedness. In an interview with Janes, Fernandez noted that: "…after the closing of the Securitization, we moved swiftly to close on the acquisition of a large fleet of auto haulers and entered into contracts with two major car manufacturers for nationwide vehicle distribution in Mexico."

The mechanics of the transaction are complicated. The investors are holding Trust Certificates ("Certificados Bursatiles Fiduciarios") issued by an Issuing Trust ("Fideicomiso Emisor") that are be secured by a separate Guarantee Trust ("Fideicomiso de Garantia"). Both trusts will be administered by JP Morgan as trustee. The Issuing Trust has purchased the right to collect the revenues ("Derechos de Cobro") from 20 vessels, all on time and bareboat charters to the Mexican state owned oil company "PEMEX". TMM is keeping residual ownership rights on the vessels, which are remaining on TMM’s books. At the same time, the 20 vessels are pledged to investors through the Guarantee Trust to secure the repayment of the Trust Certificates.

Regular charter hire, typically paid at the beginning of each month, will be accumulated by the Trust. Twice per year, in June and December, after setting aside appropriate reserves for its own expenses, and for vessel drydockings, the Trust will make its distributions to its investors- the Trust Certificate Holders. Revenues flowing through the Trust, net of allowances for reserves, will be applied towards interest payments and amortization of principal. Interest will be pegged to the Mexican interbank money rate- TIIE (Tasa de Interes Interbancaria de Equilibrio), plus a margin of 225 basis points. The Trust has entered into a cap with an AAA rated credit, Banco Santander in Mexico, to protect against rates above 11.5%. In late July, 2007, TIIE stood at roughly 7.7%. The contractual amortization of the MexicanPeso 3 billion principal stands at 2.5% of the facility amount every six months: there will be 40 equal contractual payments of principal. However, a surplus during a given six month period, i.e. the remainder after operating expenses, interest and contractual principal have been repaid, will be split between early amortization of Trust Certificates and extra cash for the Company. TMM can prepay the full remaining amounts outstanding, after the 20th payment, i.e. year 10. At the end of 20 years, any outstanding balance must be repaid in full.

Responding to questions from Janes, Fernandez explained how TMM might acquire additional vessels, saying: “The first issuance of MexicanPeso 3 billion is part of a Program that has been approved for up to MexicanPeso 9 billion. As the Company identifies opportunities to purchase more vessels, it can re-tap into this facility to fund these new acquisitions.”

Fernandez also described the mechanics of selling vessels, telling Janes: “The transaction is crafted to allow the sale of vessels at the end of their useful life and use the sales proceeds to repay a like amount of Trust Certificates.” He added: “In an event of default, the trustee may cause the sale of the vessels to third parties to repay investors in the deal, or, alternatively, to appoint a substitute operator to preserve the cash-flow generation of the assets.”

From an accounting standpoint, the outstanding balance of the securitization facility will appear as a liability on TMM’s balance sheet, with its outstanding balance “representing the total amount for future services to be rendered to customers”. Interest payments, contained within semi-annual distributions extending out through 2027, if no prepayment occurs, will flow through as interest expenses on TMM’s income statement.

The securitization facility takes out an agglomeration of vessel finance facilities totalling US 161 million (including accrued interest and break-funding). The largest piece, aggregating US 80.0 million and maturing in February 2013, was owed to a group of institutions led by BTMU Capital (with participation by The Bank of Tokyo-Mitsubishi UFJ and a German bank- West LB), in connection with financing of 10 offshore vessels, at rates ranging from 8.12% fixed and 8.58% fixed. Natixis, the French bank active in structured finance, was repaid approximately US 53 million outstanding under a five year financing provided to TMM in 2005 for two Handy sized tankers on bareboat charter to Pemex through 2010, with interest rates of 7.8% and 8.00% fixed. The remaining repayments were made to DVB Bank on two facilities related to offshore service vessels- US 9.7 million that had been due in 1Q 2010, and US 18.1 million due in April 2013. Not included among the refinancings are the drawdown on a newly established US 53 million line of credit, with DVB, to purchase two chemical tankers of 12,500 and 15,200 dwt. in May and June, 2007.

From TMM's vantage point, it gains a new funding source with a tenor greatly exceeding that of the bank debt it replaces. And the registration documents reveal that TMM could issue up MexicanPeso 9 billion under the facility (or a total of US 840 million), providing a ready funding source enabling TMM to exploit its privileged position as a transportation provider to PEMEX, whose securitized receipts for oil have been rated AAA (mex) by Fitch. Like oil companies everywhere, PEMEX has outsourced non-core activities; operation of maritime asseets- tankers and offshore supply vessels have been high on the "rent rather than own" list.

This securitization, and others before it, are tied to TMM's now successful efforts to extricate itself from rough financial waters of the past few years. In late 2003 and early 2004, it had restructured and rescheduled payments on its 9 1/2% Senior Notes due 2003 (US 176.9 million) and its 10 1/4% Senior Notes due 2006 (200 million), issuing a new security- "New Notes due 2007", in August 2004. Previous TMM securitization transactions have been closely tied to the cash requirements of the Company during these dire years.

For companies with speculative credit ratings (TMM garnered a "B-"/ Positive rating from Standard & Poors in 2005 <S & P> and B+ from Fitch), the limited or non-recourse nature of securitizations is appealing because of the legal structure where the securitized receivables are separate from a company's general obligations enabling higher ratings (which translates into a lower interest expense). However, in the past, TMM's auditors have raised doubts about its staying power, even after the successful outcome with its Noteholders.

While other maritime securitizations have been coupled with credit enhancement devices (through swaps with strong counterparties, or through the intervention of a monoline insurer), that was not the case here. Juan Fernandez says the "enhancement" was due to "… the preeminent position of TMM as a premier maritime and logistics operator in Mexico, the value of the vessels, and the quality of the securitized assets."

Credit analysts at S & P, in a late 2006 report on Mexican securitizations, said: "Mexico has become fertile ground for the growth of domestic, local-currency securitizations—it has issued US 2.9 billion thus far in 2006, a 72% increase over the same period last year, and we expect total issuance to exceed US 4 billion. The growing presence of monoline insurers, an ample supply of securitizable assets, and improving legal and regulatory frameworks are nourishing the market." In the case of TMM, the new securitization issue, with provisions for an extrajudicial foreclosure, received a strong national scale rating from Fitch- “AA (mex).” The strong rating of its primary customer, and the fixed geographical scope of TMM’s shipping business, also enhance the comfort level of Rating Agencies, and investors, with the issue.

Receivables securitizations have comprised an integral component of TMM’s financial mix since 2001. Juan Fernandez, explained to Janes: “Through thick and thin, Grupo TMM has demonstrated a continued commitment to honor all of its financial obligations. In the last few years, our financial restructuring distracted management from growing the business.”

At mid 2007, the company still had US 187.9 million of securized debt on its balance sheet (about half of its US 397 million total debt on the balance sheet). The USD 187.9 liability stemmed from a September 2006 securitization or receivables from certain of its major clients in the chemical and product tanker, tugboat and logistics businesses. This transaction, with a US 200 million original principal, saw TMM also pledging its right to proceeds under a US 40 million “Indemnity Escrow Note” to Deutsche Bank AG. This Indemnity Escrow Note, with funds to be released to TMM in 2010, was part of the consideration paid by Kansas City Southern Railroad (KCS) as TMM sold its majority share in a Mexican railway business jointly owned with KCS. The majority of the proceeds of the Deutsche Bank deal, some US 155.8 million, was used to pay off holders of TMM’s outstanding “New Notes”, due in 2007.

Prior to the Deutsche Bank deal, TMM had freed up additional liquidity through a series of receivables securitizations, beginning with US 25 million in December 2001. In August and December 2003, the original facility was refinanced at 9.25% fixed, extending the facility’s maturity (which had been expanded during 2002 and 2003). In April 2005, the approximately US 70.5 million (consisting of principal and accrued interest) outstanding on this 9.25% facility (now well beyond the original US $25 Million) was repaid from cash that was also generated as part of the railroad sale to KCS. Cash from the railroad sale also went towards paying off “New Notes”.

Grupo TMM began more than 50 years ago as a maritime company. The new financing mechanism provides TMM with the wherewithal to acquire further tonnage in the future. In the offshores service segement, where TMM originally had a joint venture with U.S. based Seacor Smit, TMM competes with a number of established players. The availability of 20 year finance, translating into low per diems, gives TMM a substantial breakeven cost advantage over competitors who will be looking at more typical profiles of five to seven years.

In summing up his view of the Securitization, CFO Juan Fernandez stressed that the “distractions” of the early 2000’s are now in the past. He concluded the interview by telling Janes: “ With this new long-term facility, we can worry less about the next interest payment and more about creatively exploiting our competitive strengths and making money for our shareholders in the process.”

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