THE RISE OF ALTERNATIVE FINANCE IN COMMODITIES MARKETS

WORKING CAPITAL FOR CASH STARVED COAL EXPORTERS, MARKETERS AND TRADERS

BY
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A changing landscape

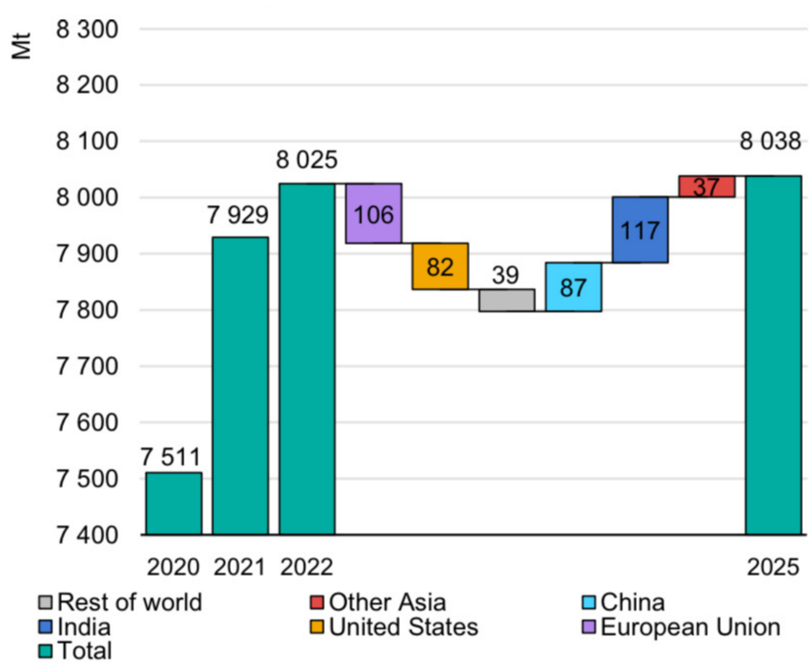
Ten years ago, there were a dozen or more banks offering commodity finance to downstream SMEs. That number has shrunk to around 5 (five) today, a function of; spectacular fraud related losses, mostly in Asia and the Middle East, the tightening of capital requirements under Basel 4 and increasing regulatory compliance costs.

From a multi-family office lender's perspective, we dig into some of the key issues behind recent developments, examine the constantly shifting commodities financing milieu and define the coal market risk/opportunity matrix. We focus in particular on the diminishing availability of working capital solutions for thermal and metallurgical coal players.

Demand for alternative coal trade finance continues to climb, spurred by multiple drivers:

- Dramatic price volatility, daily swings of +/- 15% in energy commodities are not uncommon
- Trade flow disruption triggered by the Ukraine War, heightened geopolitical risks – redirection of cargoes
- Supply chain bottlenecks – resulting in longer cash conversion cycles for traders
- Stable demand growth and diminished supply – conventional lenders are quitting the space, in both hard and soft commodities
- Severe liquidity constraints due to significant increases in posted collateral and cash requirements - a function of price volatility and deteriorating counterparty creditworthiness
- ESG driven lending policies – ING is the latest in a long line of lenders - ABN Amro, Rabo, BNPP - to announce a retreat from fossil fuels lending
- Credit crunch/flight to quality, banks are tightening credit standards in the wake of SVB's demise
- The end of free money

CHANGES IN GLOBAL COAL DEMAND 2020-2025



SOURCE
IEA COAL OUTLOOK, DEC. 2022

Diversity of funding sources

Traders are seeking funding diversity, tapping private non-bank working capital sources. The trend has been reinforced by Credit Suisse's shotgun marriage to UBS, removing another significant provider of traditional commodities trade finance.

Separately , a recent decision by a UK court in London, throws into doubt the common practice of lenders' being able to successfully perfect security interests in bills of lading via possession (SEE ARTICLE HERE).

> "The consequences for the massive volume of seaborne coal shipments financed using this method are significant, as trade finance banks advancing vs original BLs represents the most common form of transactional commodities financing.."

Goba delivers alternative financing solutions for thermal and met coal

Goba Capital is a US based privately held, specialty credit provider. We focus specifically on trade finance, providing short-term working capital to support the global movement of physical commodities across the entire supply chain, from origin to delivery. Our primary competitive advantages are: flexible agile capital, a willingness to embrace complex fact patterns, dynamic underwriting processes and speed of execution.

Organizationally, we benefit from being incorporated as a US company. This separates us from most alternative lenders who operate as regulated entities, dependent for funding on often slow-to-respond Limited Partners or capricious capital markets. In contrast, Goba's capital is permanent, allowing us to move quickly to capitalize on narrow opportunity windows that demand a rapid response.

Financing capabilities: both ends of the supply chain

In terms of coal finance, we have the flexibility to support our clients working capital requirements from procurement to final destination. We can pre-pay a producer at the mine gate or jetty and finance pre-export stockpiles at the port in almost any jurisdiction.

We offer the complete suite of funding options: purely transactional, senior secured and unsecured.

Goba concentrates on the more challenging and complex elements of the trade flow, in particular procurement. We finance inventory in transit - seaborne cargoes, or if transported on land - in a rail car, truck or pipeline (in the case of liquids). We also finance receivables, offering extended payment terms to our clients' end buyers.

Ticket size: US$10MM - US$100MM

Goba's capacity in terms of facility size for commodities ranges from a minimum of USD10MM to USD100MM, per program. We can close and fund an all-North American transaction within 30 days of an introductory call and less than 90 days for deals involving companies with complex corporate structures and numerous operating jurisdictions.

Sectors, products and geographies

In terms of geography our coal clients are scattered around the globe: North America, Europe, the Black Sea, Oceania, Australasia, and Latam. No US nexus required. In the commodities space, where both thermal and met coal remain a key focus, we are encountering working capital demand from cash-strapped traders across the entire supply chain.

Coal client demographics

Our coal counterparties range from early-stage operating entities in high growth mode to mature, multi-commodity global organizations.

"Typically considered un-bankable by conventional lenders due to a lack of maturity and thin capitalization, younger companies are prime candidates for Goba's working capital solutions."

A common client profile is an early stage trader or marketer with pedigree management, established end buyer relationships, deep market knowledge and advantageous supply sources.

Goba also supports more mature companies who require alternative capital sources to liberate expensive equity marooned in term contract prepayments and/or who are commencing new business activities that their existing lenders are reluctant to fund, absent a proven track record.

Whist our financing structures are normally centered on inventory and receivables, we can also accommodate upstream demand for working capital.

"We are currently evaluating opportunities with miners in North American and Latam who are in the process of restarting proven assets."

The scale of demand for coal financing

We encounter demand from exporters loading single USD5MM cargoes once a month all the way up to international players who are simultaneously moving multiple cargoes with values in excess of USD25MM.

"We are constantly assessing opportunities involving coal originating from all the major and emerging producer countries - Indonesia, South Africa, Australia, Colombia, Tanzania, and Mozambique."

Goba does not compete with its clients

Goba is strictly a capital provider, we do not insert ourselves in the purchase and sale contract stream neither do we compete with our commodities trading clients for physical supply.

However, from a risk perspective, prudence demands that we understand the physicality of each commodity we finance - how it's transported, stored, processed, handled and delivered.

We need to know if and when something goes wrong at any stage of the trade flow, from origin to destination.

In order to mitigate default risk, Goba's team of commodities specialists monitor, track and trace the flows of product, documents and payments in a very forensic manner at a granular level. Unlike some of our competitors, we do not buy and sell commodities for profit.

ESG and Basel IV Constraints

Goba has no formal ESG constraints, we finance all fossil fuels. We are not actively going where other lenders choose not to because it's fun.

We simply have very flexible, permanent private capital, a dynamic organizational structure and a risk-positive culture vis-a-vis the products and geographies we are prepared to finance. These benefits come at price , we are not a SOFR+ lender.

As a direct capital provider Goba is free of regulatory oversight, and unhindered by the implementation of Basel IV banking reforms.

These changes will result in banks having to reserve greater amounts of capital to support their trade finance activities and absorb the associated administrative burden plus additional costs involved.

Consequently, we anticipate increasing demand for alternative capital from coal counterparties as ESG restrictions continue to proliferate and heavily regulated banks become more in their commodities deal selection processes.

Conclusion

VUCA – volatility, uncertainty, complexity and ambiguity - the four horsemen of the apocalypse, are all positive elements for Goba's commodities trade finance business.

Goba expects to see strengtening demand well into 2025 from coal traders and marketers eager to secure alternative working capital facilities and add funding diversity to their financing options.

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