

New blood

XINES Ltd might be a relatively recent box rental entrant, but it is already aiming for longevity and a top placement. **Andrew Foxcroft** spoke recently with XINES president, Mark Wilkinson, and learnt more about this newest breed of lessor.

The changed market of the past three years has brought new challenges for the container lease industry, as well as yet further company start-ups.

Foremost among these is XINES Ltd (pronounced 'sheeness'), which commenced operations in April 2005, and already has its sight firmly set on entering the big league. The company is backed by investors in Hong Kong, but has its operating headquarters in Hamburg and regional offices in China, Taiwan, South Korea, Japan and Brazil (as well as Germany and Hong Kong).

Its fleet had reached 170,000TEU by late July, when the mix comprised almost 115,000TEU of equipment carrying the XINES logo, plus a further 55,600TEU in various shipping line colours. The latter was bought from a separate financier during June 2006, in a one-off transaction, and might yet be resold again at some point in the future.

XINES has been acquiring its own liveried stock at a rising rate of 3,000-5,000TEU per month since its original launch, building up to a 25,000TEU size at end-2005 and 85,000TEU by the company's second anniversary, in April this year. It currently operates only standard dry freight equipment, which included an approximate split (by unit) of 65% 20ft, 8% 40ft and 27% 40ft high-cube at mid-2007. The vast majority of equipment is on standard long-term lease of five years' initial duration.

XINES is headed by president and major shareholder Mark Wilkinson, who was instrumental in creating the company. His involvement in the container industry stretches back over 20 years previous to this, variously with ITS, CMA and, more latterly, Capital Lease. He was, in fact, the second employee to join Capital, back in 1997, and spent eight years working in all its important departments, rising to the position of executive vice president.

Wilkinson departed from Capital early in 2005, when he was approached by an investor party interested in funding a brand new lease venture. This 'felt like the right move', and that his spell at Capital had given him the experience needed to start a box lease firm from scratch.

Although aspiring to an eventual top ranking, Wilkinson is currently keener to manage XINES' growth, rather than blindly aiming at fleet expansion for the sake of it.

He explained: 'If the company grows too fast, it creates unnecessary problems, although too slow an increase will not achieve the economies of scale needed to gain a foothold.'

He reports, nevertheless, that XINES has so far received good support from customers, suppliers and investors alike, which bodes well for the future.

The initial growth of XINES has, in Wilkinson's opinion, also coincided with subtle, but fundamental, changes affecting the style and substance of the modern container lease business. As there is increasingly little to differentiate individual participants, in terms of their respective product ranges or lease portfolios, the quality of management and staff becomes ever-more important. A lessor's financing acumen has also taken more of a front seat in very recent years, as investment returns have shrunk, and the cost (rather than availability) of capital becomes critical.

In explaining that the box lease business is now more standardised than ever before, Wilkinson stated that 'the better the people you have working for you, the better are the results achieved'.

This applies equally to the raising of funds, procurement of containers, negotiating of rental terms/conditions and subsequent back-up. To this end, XINES has put together a relatively young team, with some managers recruited from outside the container industry, in an attempt to bring new perspective to the business. These have included Sven Klabe, vice president of marketing, who came from the Hertz organisation, and Kai Hopfner, vice president of finance and administration, from Ernst and Young. Although he admits that this influx of 'outside blood' has been challenging, the quick aptitude and varied experience of such personnel has generally brought a new dynamism of its own.

Wilkinson further stressed that box rental firms today need a sound understanding of financing options, as the cost of capital is the main determinant of rental rates, and increas-


ingly decides whether shipping lines opt to lease in favour of buying/financing their equipment direct. In consequence, the relationship between a rental firm and its financiers is becoming as important as that held with customers. In this respect, container leasing is today not much different to many other mainstream industry sectors, and less able to trade on the more idiosyncratic approach taken by certain companies/individuals in the past.

XINES' financing has so far been little different to many of its competitors, as it has made heavy use of private equity funding – mainly from KG sources – since starting up. However, Wilkinson stated that bank credit has also been raised, and has gained importance as the company matures and enters its next phase of growth.

He told *CI*: 'Even though most banks are today receptive to the idea of investing in container equipment, as they better understand the risks associated with this asset class, it is still not possible to grow a very young company purely using bank finance, because many lenders require a track record in order to commit. Instead, private equity has long filled the gap, which, although costlier, is generally more plentiful and easily accessed.'

This has certainly been the case throughout the past decade, but could change in future, as some sources of private equity (and KG funds, in particular) switch to serve other industries – including the airline sector – from which they hope to generate a better return. Wilkinson suggested that some sources of private equity might be shut out altogether, as investment returns come under ever-greater pressure, and leasing firms are increasingly caught between the relatively high cost of containers and increased purchasing power of shipping lines – itself a product of dramatic growth at the very top. The ultimate end product will be a further consolidation within the box lease sector.

Looking ahead, Wilkinson was therefore in no doubt that the container lease industry faces further change: 'We are entering an interesting – if challenging – cycle. Many prominent industry figures are now departing or contemplating an exit. Box rental is continuing to evolve – only 10 years ago, it was still relatively easy to purchase and lease out containers, although financing was then harder to raise.'

Today, the reverse applies, since all container lessors are better-placed to attract capital, but squeezed by the increased selling power of box factories and greater purchasing clout of shipping lines. In short, a participant will have to be both lean and sophisticated in order to survive in the increasingly pressured box rental market of the future. 



Mark Wilkinson, XINES