

Equipment leasing, the new mantra in Gulf

Equipment leasing, largely neglected in the Gulf Cooperation Council (GCC) region, is set to make great strides with growing industrialisation and private businesses proliferating, says a senior official of a Bahrain-based company specialising in that kind of leasing.

James A Cracco, CEO of First Leasing Bank (FLB), the Gulf's only company specialising solely in equipment leasing, says the advantages equipment leasing offers will prove too overpowering for firms to ignore as their operations become more sophisticated and the need to remain competitive increases.

Most leasing in the region is now transacted for real estate and consumer vehicles. The very small volume of non-vehicular equipment leasing now taking place is also almost exclusively finance leases or instalment sales.

The world's equipment leasing market was estimated at \$580 billion in 2004 but the Gulf's share was negligible.

"Globally, the dollar value of equipment leasing is equal to about 1.5 per cent of GDP. If you take the region's projected GDP, of \$600 billion, we are addressing a \$9 billion market—and that is conservative," says Cracco.

"That is the potential, and it is not fulfilled. That is the market First Leasing Bank is after."

That a majority of the transactions are finance leases or instalment sale is very normal as the equipment leasing first begins to take hold in any given country or region, says Cracco.

He believes the trend is changing. "We are now seeing businesses beginning to move toward operating leases. There is a very large opportunity in the region." Operating leases are those



Equipment leasing is a rapidly growing area, with the growth of capital assets.

where the customer pays only for the time he uses the equipment—usually 1 to 3 years—and does not record the asset on his company books (off balance sheet financing). An operating lease offers the client the use of an asset without bearing loss of value or obsolescence.

FLB is working at making people aware of equipment leasing as a very efficient and quick form of capital formation.

"With privatisation, growth of stock markets and liberalisation of the economies, we find capital markets becoming more and more sophisticated. A part of that process is equipment leasing, whereby people begin to look at faster and simpler ways of obtaining capital assets or when companies begin to look at using assets but not necessarily buying them," Cracco explains.

"Ten years ago every one bought their personal vehicles; today, a large percentage of the market is leased vehicles. We at FLB do

not do consumer finance but the same phenomenon is occurring in the commercial and industrial marketplaces.

"There are some assets business do not need to buy. For example a printing company could look at their strategic plan and conclude: 'We are going to need a press with a lot more capacity or a lot more colours three years from now. But, for now we will lease a more basic press and then return it and lease a larger press.'

"Equipment leasing is very practical, very innovative and strongly technological."

First Leasing Bank, which started operations in late 2004, developed a diversified portfolio in 2005. It concentrates on the "middle ticket" market where the leases range from \$1 million to

\$10 million and typically have a term of two to five years.

The company wrote its first lease in February 2005 – for a fleet of cars and trucks – and over the past year it has signed leases in Bahrain, the UAE and Kuwait, with several transactions from other Gulf states in the pipeline. The company was set up to service only the GCC region.

It has so far signed leases for cement batch plants, construction equipment, printing presses fleet vehicles, construction equipment and production and processing equipment. Most of the leases it transacted were finance leases. FLB is confident the volume will grow and expects in 2009 to write equipment leases of \$250 million.

FLB expects to achieve that growth on the basis of equipment expertise it is offering through its own staff in the Bahrain office and through its US shareholder, Overland Capital Group. FLB local management and Overland Capital Group have extensive leasing and equipment experience throughout the world.

"Customers need more than just a loan. They need someone who understands the equipment," says Cracco. "Understanding the equipment is important. For example, a trading bank will look at a transaction and typically ask the customer for a down payment, usually 20 to 30 per cent. Our approach is to

understand what that equipment is worth over five years or ten years and, if it is high-value equipment, then we will not need a down payment.

"In operating leases, understanding the equipment is even more important because First Leasing Bank makes a direct investment in that equipment."

FLB's main shareholder is Bahrain-based Ithmaar Bank (48 per cent). Overland Capital Group has 23 per cent of the shareholding, with Gulf Finance House contributing 20 per cent and Abu Dhabi Investment House, a new shareholder, 9 per cent.

Cracco believes companies will not lose sight of operating leases' flexibility. For instance, a food company that has a processing line and wants to install a similar one could look at several opportunities: FLB could buy the existing line and then lease it back to the food company which can then buy the new second line with the cash

provided by FLB. "Equipment leasing offers innovative ways of acquiring capital and expanding capacity," underscores Cracco. "It sometimes takes a while for executives and businesses to appreciate the equipment leasing advantage. But this is the perfect time in the region because businesses are looking for new and efficient ways of capital formation."

Cracco:
Leasing
potential
not
fulfilled

