‘Seek and ye shall find’:

The search for ship finance continues

Ted Petropoulos

Head

Petrofin Research

The world shipping fleet continues to grow. Using N. Cotzias’ figures, in the last year, it has gone up by 2.1% in terms of number of ships and an impressive 9.3% in terms of carrying capacity, which has now reached the mammoth figure of 1.355bn DWT. Over the same period, the world order book may have fallen by 18%, however, it still represents a further 6,007 vessels or 424.4m DWT or 31.2% of the existing fleet.

Moreover, after a sluggish start in 2009, the rate of newbuilding orders has escalated, reaching a quarterly peak of 31.67m DWT in Q2 2010.

A bigger fleet and a hefty order book require both higher equity, as well as loan resources.

It is difficult to estimate the value for the global order book, as the newbuilding prices are not available for every vessel on order. However, as a broad estimate, an approximate total value figure for the 6,007 vessels of at least $250bn can be used.

Assuming an average figure of 70% finance, the estimated finance requirements for the newbuilding fleet are expected at $175bn over the next 4 year period.

The above estimate shall be affected:

Upwards	Downwards
- Fresh orders	- Committed finance already in place
- Second-hand acquisition finance	- Cancellations
- Mergers and acquisitions	- Conversions / postponements

The new finance requirements should be assessed in the light of an approximately 10% per annum global loan book run off which is estimated at approx $160bn over the next 4-year period. This percentage rises during periods of strong shipping markets with healthy cash flows and reduces at times of market troughs.

At first sight, therefore, should banks simply re-lend what they shall receive from loan repayments, a substantial proportion of the required newbuilding finance should be met.

The question, though, is will banks re-lend their surplus cash flow into shipping and / or will they expand or contract their overall ship lending capacity?

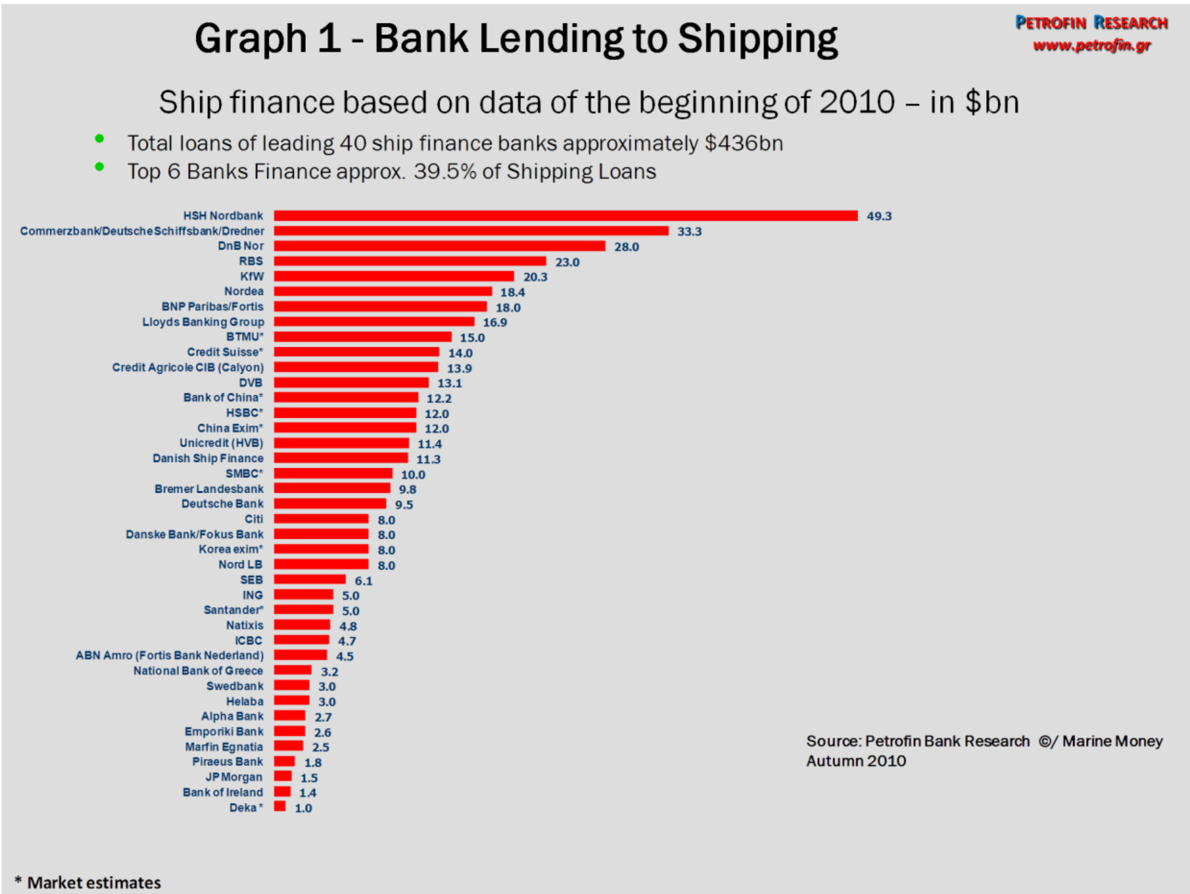
Bank lending affected by:

1. State and progress of global economy
2. Lingering effects of liquidity crisis
3. Need to preserve capital ratios
4. Basel III
5. Prospects for the shipping industry
6. Alternative risks/rewards for lending to other sectors
7. Quality of existing loan portfolio / provisions / losses

The question that needs to be answered, therefore, is will there be finance for all?

It is estimated that the global ship finance lending figures (drawn and committed) at the beginning of 2010 was approx. $480bn (Petrofin Bank Research ©) of which approx. $400bn was drawn.

Given the total no of vessels in the global fleet of 44,784 (of all sizes and ages, the average debt outstanding per vessel amounts to $8.9m.

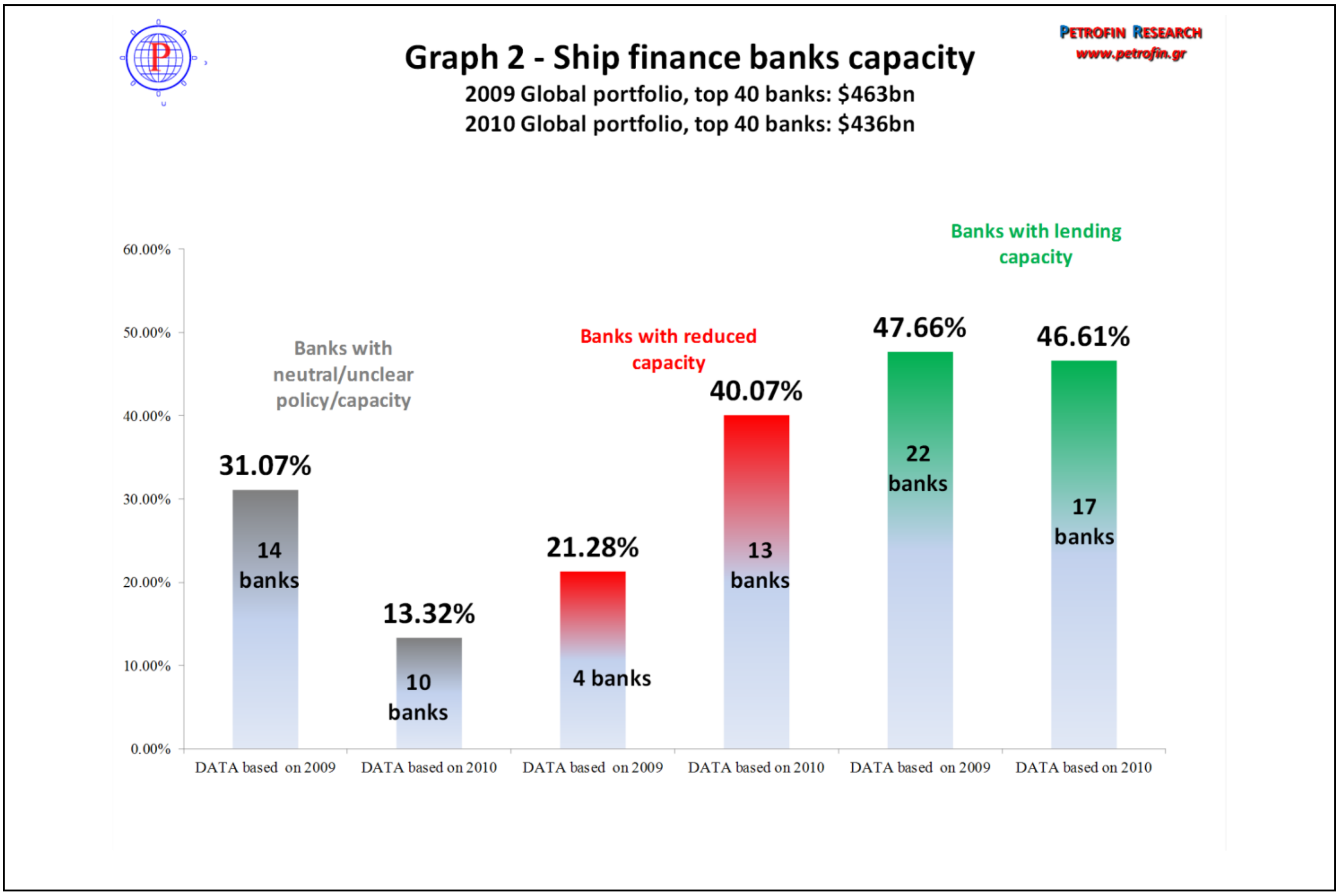


In order to respond to the question we sought to determine, the attitude towards ship finance by the top 40 global ship finance banks representing $436bn of total loans (Graph 1).

We divided all banks between banks with a reduced capacity, banks with lending capacity and banks with neutral/unclear policy.

We compared the findings with those of 1 year ago to determine if the ship finance climate is improving, has remained static, or is worsening.

The results are shown in Graph 2, below



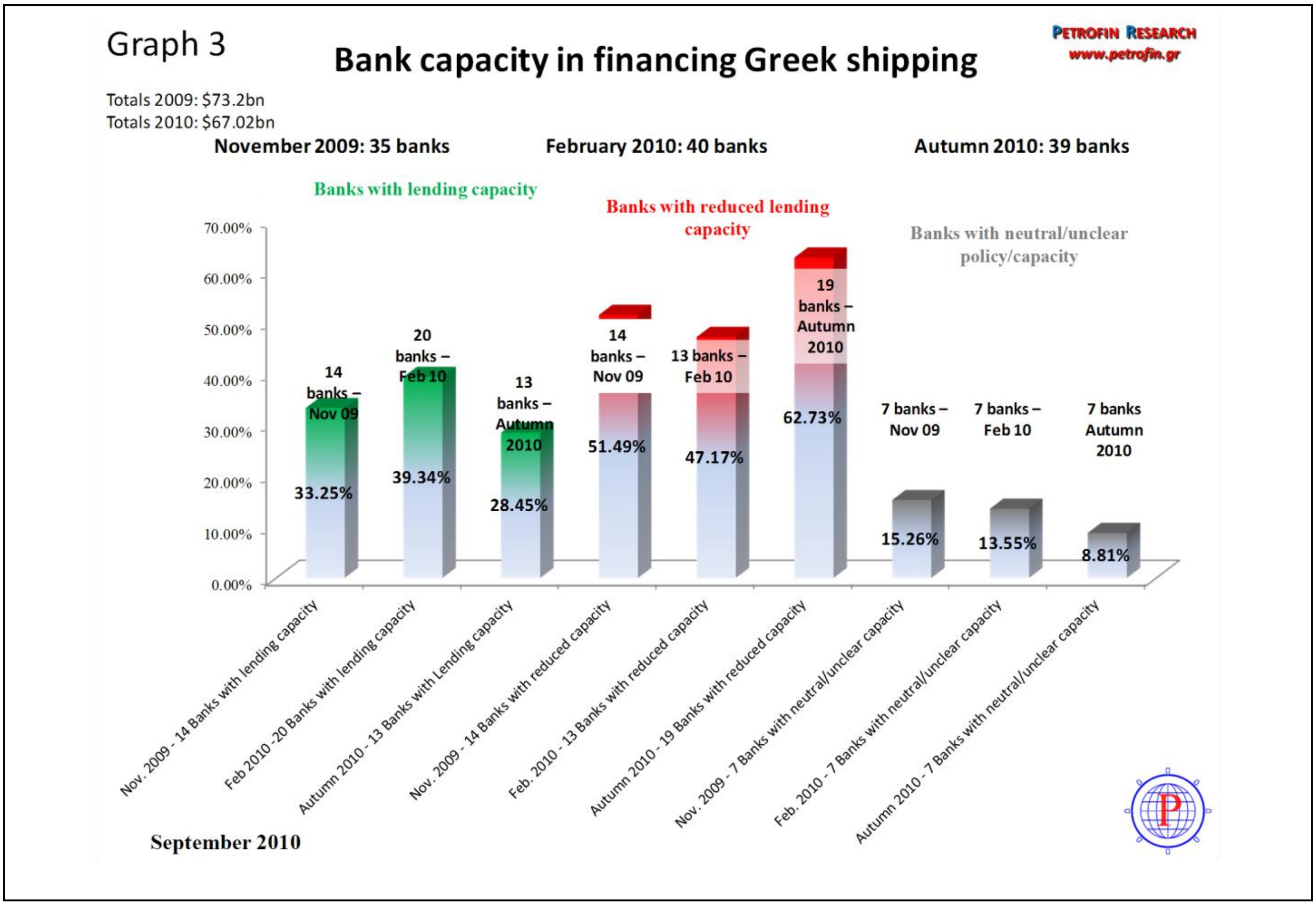
Clearly, the past year has resulted in a number of ship finance banks slipping from a neutral to reduced capacity policy, which is not encouraging for ship finance.

It is encouraging, however, that close to 50% of all banks continue to hold a positive view towards ship finance.

Consequently, it is clear that there will not be sufficient finance for all, but sufficient finance only for quality and financially strong owners.

We carried out the same analysis as to the attitude towards ship finance by all the Greek banks using January 2010 Petrofin Bank Research © published analysis, involving 41 banks lending to Greek owners, totalling $67.02bn.

We have 3 reference dates in the analysis: November 2009, February 2010 and Autumn 2010 and the results are shown in Graph 3.



Compared to the global shipfinance market, the Greek ship finance market is in a worse position with nearly 2/3 of banks now having reduced lending capacity as opposed to only about ¼ having lending capacity.

The main reasons for this difficult position of the Greek market are:

a) Due to the Greek economic crisis, Greek banks have reduced lending capacity,

b) The leading banks for the Greek ship finance market, i.e. HSH, RBS etc are all experiencing intrinsic problems, and

c) Although Greek shipping is not viewed as a 'Greek risk', some banks are still wary of increasing their ship lending in Greece.

d) Consequently, Greek ship finance is currently focused on the larger private or publicly quoted and financially strong companies as banks are very selective

e) Small owners are now forced to pay unprecedented high margins to secure loans, if available.

f) The poor Greek ship finance scene is at odds with the strong performance shown by Greek shipping especially over the shipping crisis

g) Subject to any unforeseen market events, a gradual recovery is expected in 2011/2012 as banks (existing and new) are expected to develop a more positive view about Greek owners and Greece

However, in view of the large Greek newbuilding order book of approx 800 vessels (Clarkson's as of summer 2010), it is anticipated that Greek owners shall face difficulties in securing finance for all their orders.

Conclusion

To conclude, therefore, both globally and especially for the Greek market, we anticipate a two-tier ship finance market. The top tier consisting of publicly quoted and major quality private companies, enjoying a sound financial position shall have little difficulty in securing finance at prevailing terms and conditions.

Less financially strong owners may find that obtaining ship finance is like Diogenes looking for honest folk using his lamp. However, even though it is expected to be an uphill struggle, smaller owners should persevere and may augment their success probabilities by obtaining professional advice. Hence, the motto 'Seek and ye shall find'.