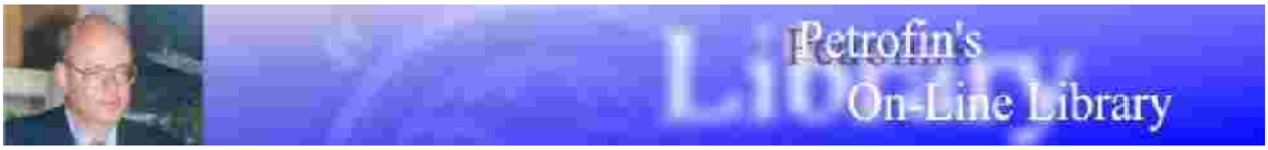

Institutional Investment into Shipping in the 90s

1993

by Ted Petropoulos

Given the Banks' prudent and quality oriented policies, shipping investments now require higher amounts of capital, which is scarce. The shipping industry has not been able, in the past, eith o generate the necessary capital, through its own operations, or to offer sufficient and consistent returns to attract outside capital.

The need for outside capital has become a major issue for shipping today and will grow to be even bigger in importance in the 90's. The reasons for the increasing importance of capital are not only those outlined herein but additional ones, linked with the need to replace older, poor quality and obsolete tonnage. This tonnage is being battered on th one hand by increasingly stringent technical requirements and on t e other hand higher insurance, repair and operating costs, as well as, the ctance of shiplenders to finance such tonnage.

How is it going to be possible for the shipping indust to attract the additional capital it requires?

Let us respond to the question by saying that the indu ry should not "pitch" itself as a high risk – high reward industry. It is not the speculative money that should be attracted but the investment qual y capital. This capital is looking for consistent quality capital. This capital is looking for consistent returns, which are in line with those offered by other industries.

With reduced gearing, limited new building orders and good medium to long-term prospects, the industry has begun to offer good p ential. The average age of the fleet is rising and in order to ren he fleet, net operating revenues must rise to justify investment. Fu hermore, the performance of the shipping industry in this recession o date has been markedly better than before, which is encouraging to both investors and Banks.

Outside capital consists primarily of private capital individuals) and institutional investment capital.

The former is looking for somewhat higher returns and may participate either via the stock market, for those relatively few publicly quoted shipping companies, or via private investment funds.

The industry's ability to raise quality private capital has been rather poor and although this type of capital is expected to contribute more to the industry's needs, it is not regarded as sufficient to meet the massive capital requirements of 90's.

We wish, however, to concentrate on the institutional ital and how it may be attracted to meet the industry's capital requirements.

The institutions we refer to are investment funds, pen ion funds and in general all funds, which are run by professional inves ent managers and are seeking to provide to their clients attractive returns over the medium to longer term. These institutions put "safety first" and have in the past tended to invest their funds in bonds, shares etc. Part of their resources, though, have also been channeled into "private investments" and it is these resources that the shipping industry needs to attract.

These investments can take place either in the form of articipation in the share capital or by creating a form of preferred capit ructure offering enhanced security when compared to share capital, as well as, defined returns.

The way to also attract such capital would be by reducing shipping investment risk. This can be done, as has been outlined earlier, by reduced gearing, investing in quality tonnage, good timing of investments and avoiding those market segments that are looking weak on fundamental and/or technical grounds i.e. excessive supply of tonn e, inadequate returns, high volatility etc. Moreover, the industry m st reduce its risk through more joint ventures between cargo and shipowning interests, as well as, use of longer-term employment contracts. As the shipping industry's fundamentals improve and the potential returns become attractive, the biggest problem to be overcome will be the lack of familiarisation and, may we say, trust between the institutional investment community and the shipping industry.

It is here that we see, the greater service being perf ed by shipping Banks for their clients and the industry as a whole. S ipping Banks must become ambassadors to the shipping industry for those clients that they know and trust. It is the shipping Banks that stand between the shipping companies and these institutions and the only parties that can bridge the gap, which we have referred to. Specifically, we see an active role by shipping Banks in "sponsoring" their good clients to attract institutional monies over a long period of time. By doing so, not on will they be providing a real service to their clients, for which t ey can also be compensated, but they will also be able to finance these investments without an unduly high leverage.

This sponsoring can take the form of introductory meet gs ranging to full presentations and, why not, occasionally having the Banks participating in these investments via their own funds, which so many of them have developed.

In addition, shipping Banks should seek to encourage Joint Ventures between their own clients in different industries. For example, shipowners and end users or raw material importers. Some will say hat attracting capital has been the role of investment Banks such as, MERYLL LYNCH etc. This is true and there is scope for greater work these investment Banks. However, their own knowledge of shipping client ited whereas the relationship between commercial shipping B ks and their quality clients has often been forged over decades. As such, the breakthrough for shipping will be achieved by the comm anks becoming aware of their unique position to service the increasing needs of their clients. In so doing, they will be able to also ncrease their own profitability, as well as, consolidate their relationships with their clients.

At the same time, the quality required by institutional investors will provide greater incentives for shipping companies to c centrate on longer-term quality projects rather than seek to maximize short-term returns.

Although the number of shipping Banks is expected to g the above envisaged role can only be provided by relatively few nks. That is to say those which have the demonstrated, long term, successf l presence in shipping and the quality relationships that will attract the institutional investors who will provide the bulk part of the industry's outside capital requirements in the 90's.

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