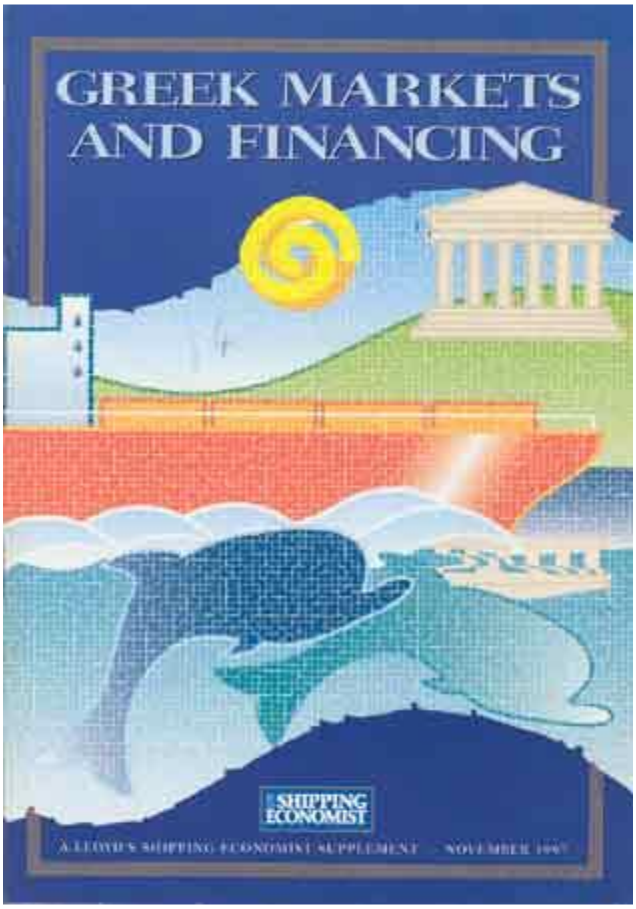
GREEK SHIPFINANCE – from strength to strength



The Greek Shipfinance market is growing apace. As more banks get involved, the overall volume of business and diversity of products and services offered continues to expand. Ted Petropoulos of Financial Consultants Petrofin investigates.

Greek shipping (directly or indirectly owned) has been propelled to the top position among maritime nations. The latest statistics show that Greek shipping accounts for 16% of the world fleet. Moreover, Greeks have been very active in the sale and purchase sector, as evidenced by the number of purchases reported up to September 1997, of which they accounted for . 37% of tanker sales and 41% of bulker sales.

In view of the above positive developments, an increasing number of Banks (both Greek and non- Greek) have been attracted by Greek shipping, others by establishing a physical presence in the form of a branch or representative office and others by setting up shipping teams which regularly call on clients and prospects in Greece.

A prominent feature of the market over the last five years has been the increasing interest shown to Greek shipping by Greek banks. In the past, Greek banks lacked the capital, foreign currency deposits, appetite and the knowledge required for international shiplending and its associated risks. The solid performance of Greek shipping, however, its increased activity, the lack of alternative lending in the Greek market and the liberalisation of foreign exchange policies in Greece have all been factors that have raised interest in shiplending by Greek banks to new heights.

In the state sector, two examples highlight this trend, firstly the build up of a substantial shipping portfolio by the Commercial Bank of Greece's newly established shipping division and secondly, the internal re-organisation and refocusing of its shipping policy by the National Bank of Greece.

In the private sector, two banks can be singled out: Eurobank which, following a considerable period of setting up the necessary internal infrastructure in terms of systems, products and personnel has now begun to build up its portfolio and more recently Alpha Credit Bank, where the process is beginning.

Petrofin's research shows that at present there are 10 Greek and Cypriot Banks that are involved in shiplending in a systematic way and a further four which have a limited shipping experience. Undoubtedly, the number of banks and even more importantly their combined shiplending portfolios are expected to increase substantially over the next decade. The increased ability by Greek banks to develop their foreign currency as well as to borrow, internationally will provide them with
greater resources with which to compete for market share.

Furthermore, the Greek coastal and ferry fleets, sectors traditionally dominated by Greek banks, are undergoing a process of substantial change in view of the forthcoming end of cabotage in 2004. The sector is attracting considerably more interest and there has developed even keener competition among the leading names. This is manifesting itself in terms of newbuilding contracts, the acquisition and/or conversion of relatively young vessels and an emphasis in product differentiation via speed and quality of service. This sector will turn out to be a powerful locomotive for Greek banks and has already begun to attract the interest of non-Greek lenders.

Join the club

An interesting feature of the development of Greek banks in Greek shipping is the increasing interest generated by joint lending and 'club' deals, a trend which is expected to continue as part of the efforts by Greek banks to successfully compete for larger loans to their larger clients and following in the footsteps of other international shiplenders.

Interest in Greek shipping by non- Greek banks has also been very strong. Although there have been no new banks opening up offices in Greece (following the recent examples of DnB and Mees Pierson), the number of non-Greek banks engaged systematically with Greek shipping has grown to 45 and there are a further 14 banks which have some Greek shipping business. Although, the overall number of Greek and non Greek banks engaged in Greek shipping has reached 73, the rate of growth has slowed down considerably over the last year. Following a rather slow start to the year, the lending pace has accelerated and most banks report that they are well ahead of budget. In addition, the average transactions in which they are involved have grown in terms of amount and generally involve younger vessels than in 1996.

The highlight of the year has been the acquisition by Midland (part of HSBC) of the Barclays shipping portfolio. This had been rumoured for a long time but most bankers were rather surprised that the port- folio was acquired by Midland, a Bank that had hitherto shown a rather restrained (although consistent and committed) attitude to Greek shipping. The decision appears more understandable when one looks at HSBC's overall international expansion strategy which has lifted the bank to being the largest in the world in terms of capitalisation.

Additional features of the finance market have been:

. the rapid development of Bank of Scotland as one of the main lenders to Greek shipping, competing with such other longer established names such as Nedship, Banque Indosuez, Bank of New York and First National bank of Maryland;
. The increased activity by ANZ- Grindlays Bank, Nedship and BNP.
. a slowdown in the rate of growth of DnB, Mees Pierson and BCV;
. another robust performance by the main lenders such as RBS and increased emphasis in investment banking by the major international banks, such as Citibank.

Overall, the size of the Greek ship- finance market, involving hew and second hand vessels, owned directly or indirectly by Greeks and managed out of the main shipping centres i.e. Piraeus, London and New York has grown to between $8 to $10bn. Amounts vary according to source however the above figures do pro- vide a useful estimate of Greek ship- finance related business and its importance in relation to international shipping.

Shipping banks are generally optimistic about the medium term out- look for shipping. They regard dry bulk shipping as a market which is on the way to recovery and share their clients' optimism for the tanker market on the basis of supportive demand-supply. There is universal concern about the immediate outlook for containers (especially the larger sizes), reefers and multi-purpose vessels, sectors for which bankers remain weary of providing anything other than the most conservative of terms.

Of even greater concern among bankers is the realisation that while prices for quality second hand dry cargo vessels have remained stable (and in the case of panamaxes have actually risen) cash flows generated from vessel operations have remained close to break-even levels (assuming loan to asset exposures of approximately 60% which is widely regarded as the industry norm).

Given this dichotomy, it is quite evident that the market remains at risk in terms of adequacy of cash flow. Indeed, a number of small to medium size shipping companies in the dry cargo sector may well face increasing difficulties should market rates continue at present levels or indeed fall.

Banks have reached the above dichotomy by examining closely the liquidity of their clients, stepping up credit monitoring procedures and refraining from actively competing for business for any other than the top shipping names.

Another observation is that bank appointed vessel inspections are producing reports that evidence an improved quality and maintenance condition of vessels that form part of their collateral positions. It would seem that Greek shipowners have begun to positively respond to the increasingly stringent international technical and quality standards imposed by classification societies, the Salvage Association, P&I Clubs, flag states, charterers and port authorities. Furthermore, the ISM certification process is beginning to be felt by shipowners who are streamlining and adjusting their office systems and procedures in order to comply. Banks, as well, are beginning to send circulars on ISM compliance and the appropriate clauses in legal documentation have been strengthened.

A longer term view

Having to allocate increasing resources (monetary and human) to acquiring vessels, bringing them up to standard, as well as on maintaining them, has led owners to reconsider the length of time they normally keep vessels under their ownership. Coupled with a reduction in vessel value volatility over the last few years, the 'name of the game' has, for the first time in over two decades, begun to shift away from buying and quickly selling vessels (aiming to generate swift capital gains) and more towards keeping vessels for a longer period of time. This development has focused shipowners' risks to realising investment returns out of continued vessel operations over a longer period of time.

The consequence of the above trend has also been felt by banks who are seeing not only improvements in the condition of their collateral but also reduced vessel turnover within their loan packages resulting in longer average loan maturities to those envisaged when loans were granted. It should be noted that average loan maturities granted by banks have risen in any case over the past decade since vessels are being run longer and are scrapped later than was the case in the past. As such, most banks expect to see loans reduced to a safe scrap level by the age of 22 years old. However, exceptions are made for some specific type of vessels which tend to last longer or for owners with a clearly demonstrable record of operating efficiency and continuously overage vessels.

Over the last five years, the percentage of average finance granted on Greek shipping transactions rose from approximately 60% of values to 65% of values. This upward trend has slowed down and only for top clients do banks consider lending percentages in excess of 70% (sometimes 75%) unless supported by additional collateral secured earnings stream, additional guarantees etc.

Competition hots up

Banks nowadays primarily compete on the basis of the loan period which they are prepared to grant and secondarily on the remainder of terms and conditions.

Keen competition for the best names (often being part of a well defined target client list) has resulted in a general weakening of loan covenants. In addition, personal guarantees are no longer an essential part of the Greek ship finance market for the big names.

Overall yields for Greek shipping credits have continued - a spread of 1 % over LIBOR is viewed as a 'rich' spread nowadays. The above fall in yields is also the result of a 'flight to quality' that has been seen by a large number of banks in the aftermath of the Adriatic, Unimar, Blue Flag and Forum sagas.

In an effort to increase their over- all yields, as well as to build up their non-credit related fee business, banks have begun to diversify from pure lending. In addition to emphasising traditional bank operating ser- vices e.g. forex, deposits, remittances, other areas and products are being developed and actively promoted among their clients. These are private banking services, various hedging and speculative instruments (swaps etc), as well as investment banking services i.e.: mergers and acquisitions, public flotations, IPOs etc.

Investment banking for the ship- ping industry has caught the imagination of the US investment market. Investors are looking for higher average yields, owners are looking for relatively inexpensive and large amounts of long term debt or capital (either in the form of shares or long term debt instruments) and banks are only too willing to set the whole thing up for rather substantial fees.

Wall Street adventures

Following in the footsteps of Tsakos and Equimar, it is believed that there are at least another 10-12 other parties looking to raise long term funds from the US markets involving sums in excess of $1bn. One shipping legal firm alone is currently handling five such transactions.

With US dollar interest rates being relatively low and with Greek owners increasingly looking towards new buildings which involve huge sums of money, it is no wonder that Greeks are looking to take advantage of the 'window' of capital opportunity that has appeared. After all, obtaining 10 year funds at approximately 10% is inexpensive for shipping. Most owners comment that if we cannot obtain returns of above 10% over a 10 year period, then we might as well change jobs.

Most in shipping have come to realise that in today's internationally competitive environment with increasing pressures on their management and technical expertise, as well as the need to comply with ever growing regulations and conditions that achieving economies of scale is of paramount importance. This involves economies of scale in the size of their organisations, the size of their fleet and its diversity, as well as, capital position. Coupled with a switch to modern tonnage which invariably requires huge capital resources, the attractions of long term fixed debt and/or equity are significant.
The growth of investment banking related activity has also provided a welcome boost to ship finance consultants who saw it as an opportunity not to be missed.
To summarise therefore, the Greek ship finance market is continuing to develop in terms of the number of banks involved, the overall volume of business and the diversity of products and services offered to Greek shipping clients.

The competition remains very strong among banks for the top 40-50 names but falls rather rapidly for the smaller names.
Banks have continued to offer increasingly long loan periods and softer terms though on the whole these are being compensated for by a superior quality and better maintained fleet as well as much improved client organisation, management and information flow.

Interest in investment banking has grown immensely and Greek owners are increasingly interested in acquiring large quality and modern vessels or newbuildings and are developing their capital positions and requirements accordingly.

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