

**by Ted Petropoulos**  
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What a difference 90 days makes for Private Equity funds in shipping

Readers may remember my March article on *“Private Equity Funds; an unfolding story”*. At that time, PEFs were the talk of the town, with ripe speculation of the latest ventures with prominent Greek owners (see table 1). The Greek shipping world was split between the supporters of such joint ventures and avid objectors, who believed that joint ventures with PEFs were an anomaly and likely to end in disaster, both for Greek owners and for PEFs. To many, such investments would lead to excessive ordering that would perpetuate / further increase the chronic oversupply situation in shipping. Such fears were supported by the newbuilding order book that rose last year threefold to 150 dwt, the highest since 2010, according to Clarkson’s.

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Table 1

Some key private equity joint venture			
Shipowner	Name of partner	Name of joint venture	Involving
Stamatis Molaris Group	MK Maritime / Maas Capital	Alma Marine	Mixed fleet
Stamatis Molaris Group	AMCI	AMCI Poseidon Fund	Distressed shipping assets
Capital Maritime & trading	Monarch Alternative Capital	-	Containerships
Cardiff Marine	MarlinPatterson Global Advisor	-	LNG carriers
Costamare	York Capital	-	Containerships
Dalex Shipping	Carlyle	-	Handysize bulk carriers
Eletson	Blackstone	Eletson Gas	LPG carriers
Euroseas	Eton Park / Rhone Capital	Euomar	Containerships
Franco Compania Naviera	Castlelake	Bulker Solutions	Bulk carriers
Seenergy Management Services	Eton Park	Nautilus Holdings	Containerships- currently seeking bankruptcy protection
Top Ships	Ronin Capital (9.9%)		6 n/bs
Oceanbulk Maritime	Oaktree Capital	Oceanbulk Shipping	Bulk carriers
Oceanbulk Maritime	Oaktree Capital	PST Tankers	Product tankers
Oceanbulk Maritime	Oaktree Capital	Oceanbulk Container Carriers	Containerships
Oceanbulk Maritime	Oaktree Capital	Heron Ventures	Auctioned bulk carriers
Oceanbulk Maritime	ABY	-	Newcastlemax bulk carriers
Oceanbulk Maritime	Monarch Alternative Capital	Madison Crude Carriers	VLCCs
Prime Marine	Perella Weinberg Partners	Flagship Marine ventures	Product tankers
Prime Marine	Castlelake	Tanker Solutions	Product tankers
Technomar Shipping	Kelso & Co	Poseidon Container Holdings	Containerships
Source : Lloyd's List / Newsfront - Greek Shipping Intelligence - May/June 2014			

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In my article, I wrote *“the so called shipping recovery potential that PEFs have latched on to is lacking fundamental support and may well turn out to be mere wishful thinking”*. Furthermore, *“An even bigger question is, what would happen if the market failed to rise as expected by PEFs and / or started to fall? What would be their exit strategy then?”*.

Three months later, market sentiment, especially for dry bulk joint ventures, has shifted drastically. Dry bulk freights continued to fall, with BDI from 2113 at the beginning of January 2014 to 1,316 at the beginning of April 2014, to low 800's, currently.

All dry bulk sectors were affected. Panamax, though, in particular, saw spot rates of approximately \$2,000 per day which are being insufficient to cover but a small part of operating expenses. As the year progressed, smiles were replaced by frowns. Gone were the days of massive competition for the few available vessels for purchase and for mass orders, as vessel values, also, started to slide.

Posidonia was foreshadowed by the “Excel story” and the reportedly “military style” separation of Oaktree’s interests from those of Mr. Villy Panayiotidis, with the latter, apparently, losing Excel’s operations, staff and files, in a morning, as Oaktree vacated Excel’s Panayiotidis’ owned building. Could this be the way of things to come when things did not work out for PEFs? However, it should be noted that Excel is not an example of a shipping joint venture between a PEF and a Greek owner, as Oaktree bought into Excel as a distress recovery opportunity.

Opinion is so fickle and interests differentiated that analysts and brokers brought out the long knives and started to talk of “picking up cheap

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vessels, as PEFs would flood the market in a “mad rush for the exit door”.

Leaving out excessive and unsubstantiated alarmist or opportunistic remarks, I wish to shed some light into what may be the likely reaction and strategy by PEFs, shall the current poor market continue.

My main point is that PEFs have many options in handling the situation and each will set their own agenda. There are those that invested early at lower vessel prices and are still enjoying a nice potential profit, should they choose to liquidate. Such potential profits, though, may be rather difficult to realise, as trying to liquidate at a profit in a falling market may not be possible. Still, the asset value appreciation is providing to these funds a useful cushion, for the time being.

There are, of course, funds that are still optimistic that a recovery shall take place in the third and fourth quarter and prefer to stay put and take no remedial action. It may be wishful thinking but events may well justify their confidence yet.

Without doubt, some PEFs have started to look at the possibility that the timing of their shipping investments may have been premature, in following a “recovery” story, without much substance. It is difficult for any organisation to admit such an error and, therefore, it would take a sustained bad market, for a “volte face”.

The funds that have participated in newbuilding orders are particularly vulnerable, as reselling newbuilding orders at a profit or even breakeven may not be readily possible, unless the market would pick up. These

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funds may be the most tempted to lose their 5% or 10% and refuse to put good money after bad. Should this occur on a mass scale, it would take away the massive order overhang that is depressing the dry bulk sector

For funds that have joint ventures, involving existing fleets, there are more options. They may seek to merge fleets of their own with different owners into a single and trusted owner, who would provide them with economies of scale, a lower cost of capital and a variety of exits via IPO's, mergers and other disposal possibilities. It can be argued that Oaktree may be in the process of implementing such a strategy, with Mr. Petros Pappas, via supporting a merger of Star, with Pappas privately owned fleet, as well as passing to Star the management of the Excel, the Eagle and other fleet and / or other vessels under its control. Such a "grand union" would create a giant 150-vessel strong shipping company, with the might and ability to tap into the market at the first opportunity. The challenges posed on Star by becoming in a very short time a company of such gigantic proportions is daunting.

Oaktree, contrary to public perception, is proving dynamic and provides timely responses to perceived dangers and opportunities.

With the IPO market currently wary of shipping, many PEFs may need to rethink their exit strategy. Nevertheless, a mass exodus, typical of an overreaction, is hardly likely. PEFs are managed by astute and capable managers, who are unlikely to run for cover, unless all prospects of a recovery or an exit solution disappear. Should the point come for PEFs to bite the bullet, I believe that they will do so after having exhausted all measures aimed at improving their position in a stagnant market.

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Some funds that may have not participated in shipping, may find the opportunity to do so at a more attractive risk / reward basis. Also, it might be possible for whole fleets to change hands and be bought at attractive prices by Greek owners enjoying massive liquidity or by other PEFs with spare capacity.

One thing to always keep in mind is that the power to take decisions by PEFs, within their joint ventures, is absolute. Unlike in bank loan recoveries, PEFs' ability to make swift changes in fleet managers is fully supported by the legal documentation, based on their overwhelming ownership of the joint venture. However, whereas financial and management posturing and effecting changes to their joint ventures, as well as their fleets may well have merits, little could be achieved in the long run, unless the market would stage a robust recovery.

The love affair between PEFs and Greek shipping will, no doubt, have many unfolding chapters ahead. The action and reaction of each PEF and its Greek owner will be of enormous interest to shipping.

What is at stake is not only the fate of the owned and ordered fleets but whether shipping and PEFs can co-exist harmoniously and prosper, as well as withstand difficult times, proving that longer term symbiosis is possible.