



1st Naftemporiki Shipping Forum

22nd January 2015

Trends in Global finance in the current market

presented by

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HEAD

PETROFIN RESEARCH



Presentation outline

1. The global ship finance market

2. Current ship finance trends



1. The global ship finance market

- Global ship lending figures (drawn and committed) as of October 2014 are estimated at \$475bn (Petrofin Research ©).
- The above includes the offshore support sector but excludes rigs and shipyard finance



1. The global ship finance market

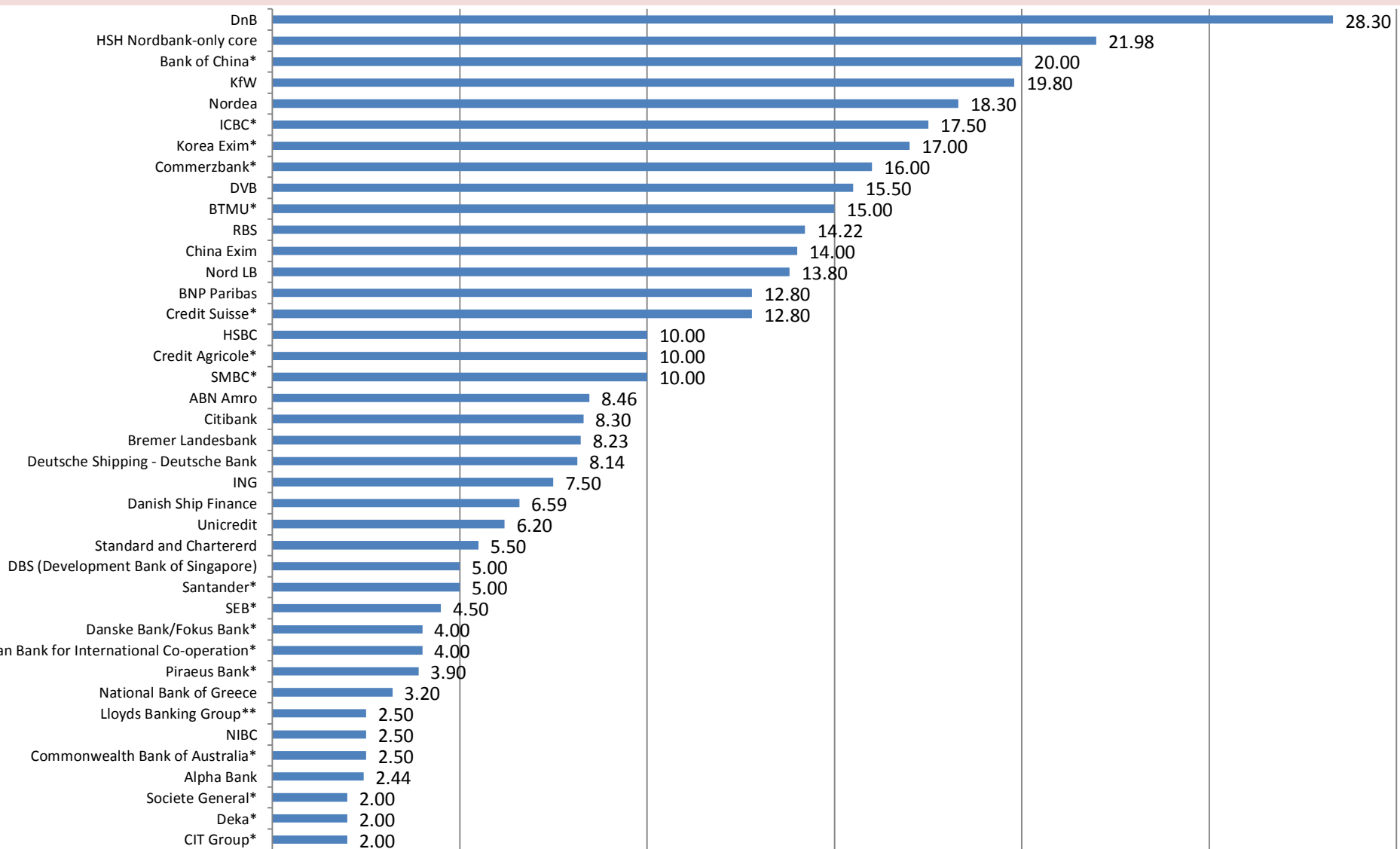
- In Graph 1, we present the latest Petrofin Bank Research ©, on the shipping loan portfolio of the top 40 global ship finance banks representing \$391.45bn of total loans (82.24% of the total, as opposed to 86% of 2013's total).

Bank Lending to Shipping

Ship finance based on interim data up to November 2014 – in \$bn

Top 40 ship finance banks' portfolios stands at **US\$391.45** as of November 2014:

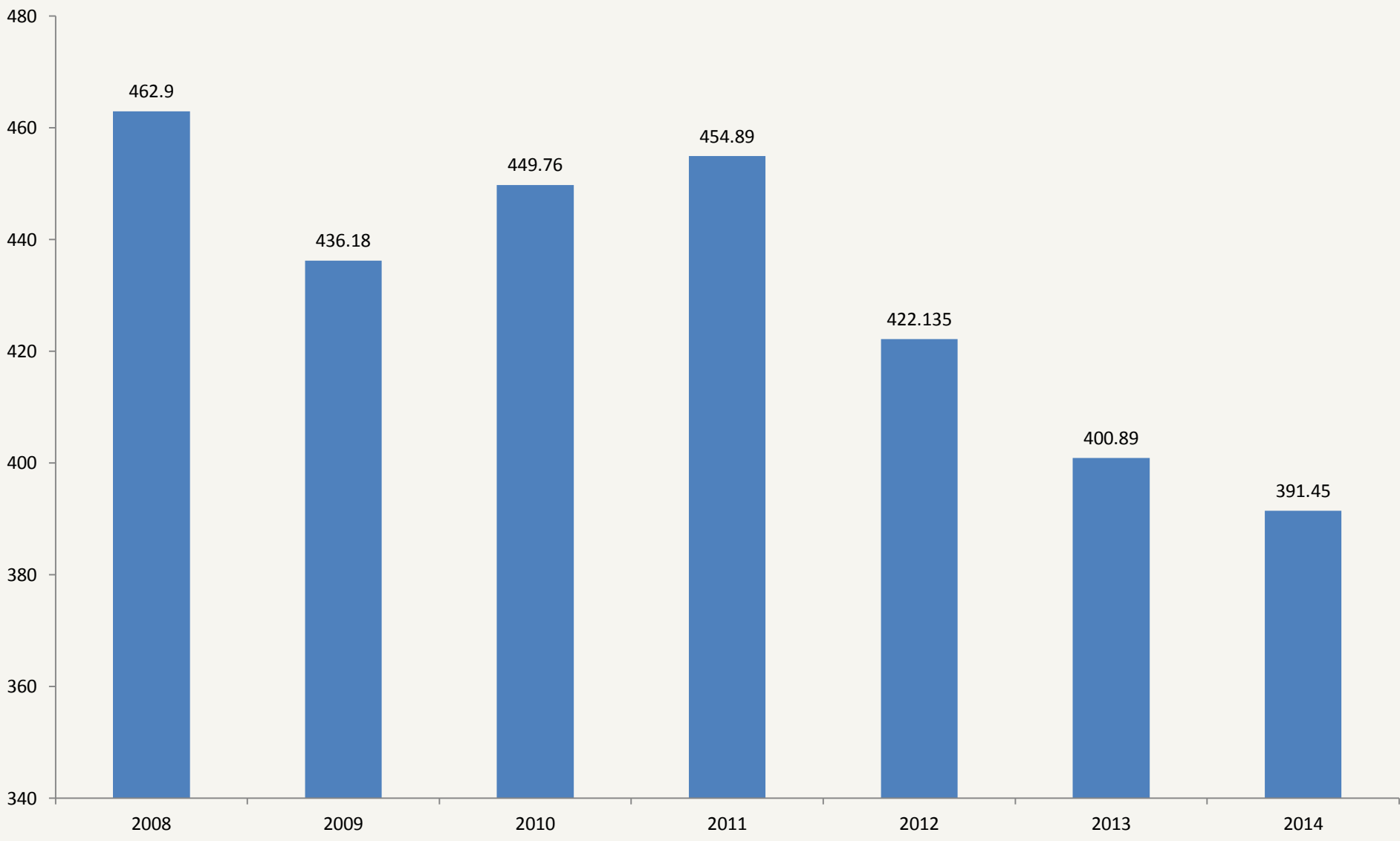
Top 40 banks as of November 2013 - Top 40 ship finance banks' portfolios stood at approximately at **\$401bn**



* Market estimate ** Winding down portfolios

Top 40 Bank Lending to Shipping

Bank ship finance based on data up to November 2014 – in \$bn



Source: Petrofin Bank Research November 2014



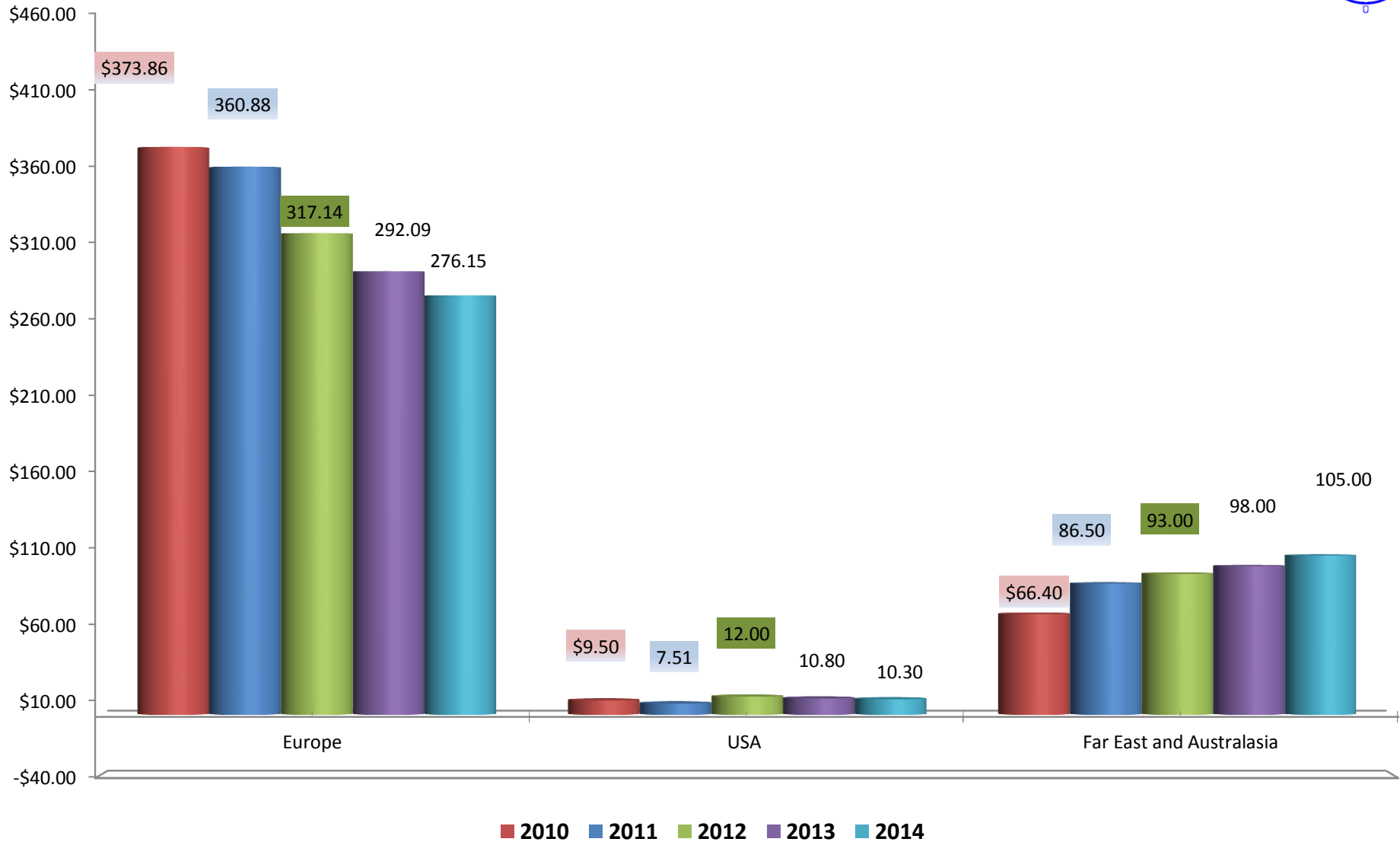
1. The global ship finance market

- In 2013, the top 6 banks' share was approx. 30.7% (with a combined portfolio of \$123.06bn).
- For 2014, the top 6 banks' share is 32.16% (with a combined portfolio of \$125.88bn)
- Lastly, European bank exposure accounts for 70.55% in November 2014. Last year, European bank exposure accounted for 71.61% in November 2013 . Going back, they held 83.12% of the top 40 total in 2010 and 81.69% up to November 2011 and 75.13% in November 2012.

Top 40 banks in terms of geographical position, portfolios and percentage hold of the totals – 2010 to 2014



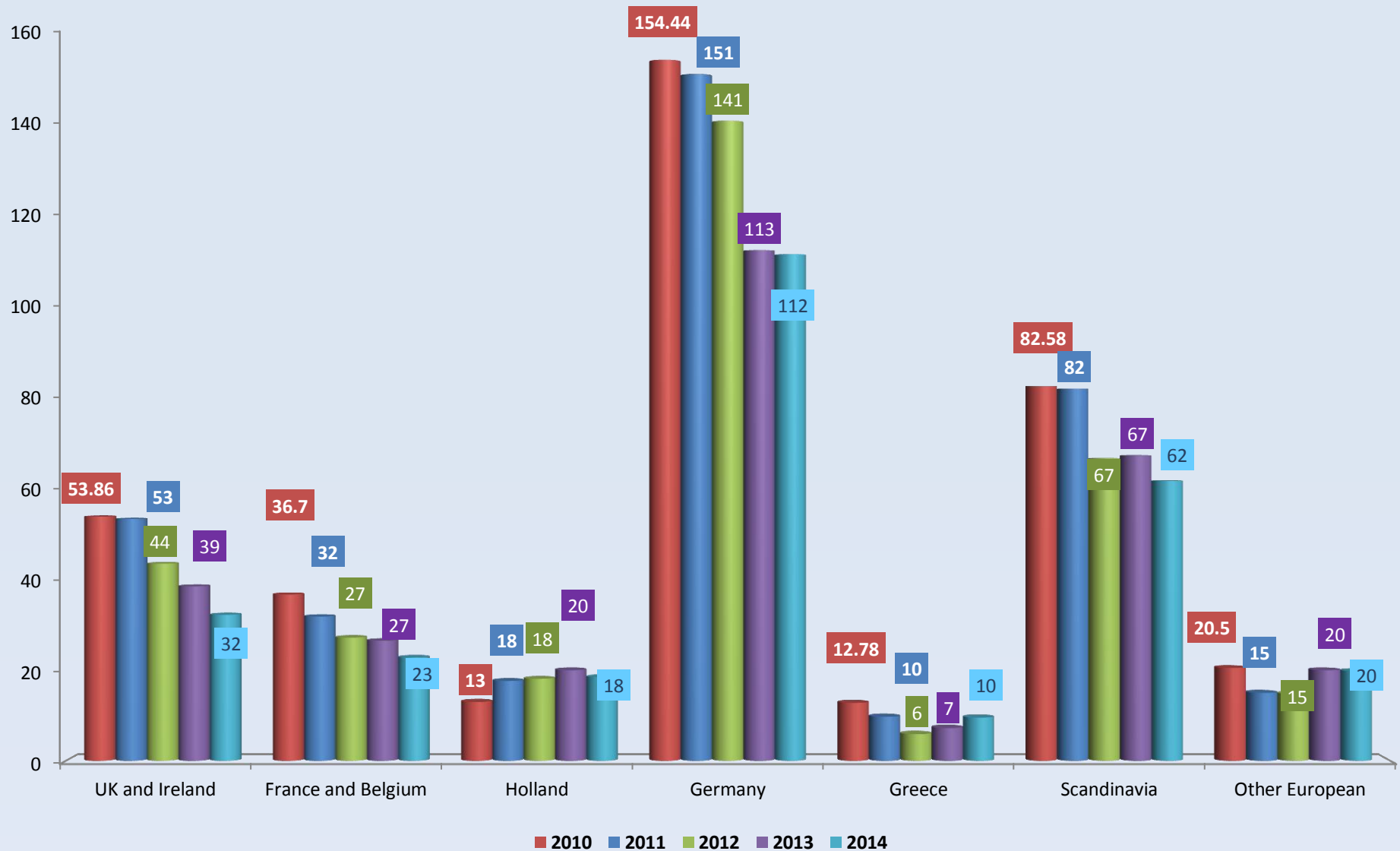
Graph 3





European banks – Comparison between 2010 and up to November 2014

Graph 4

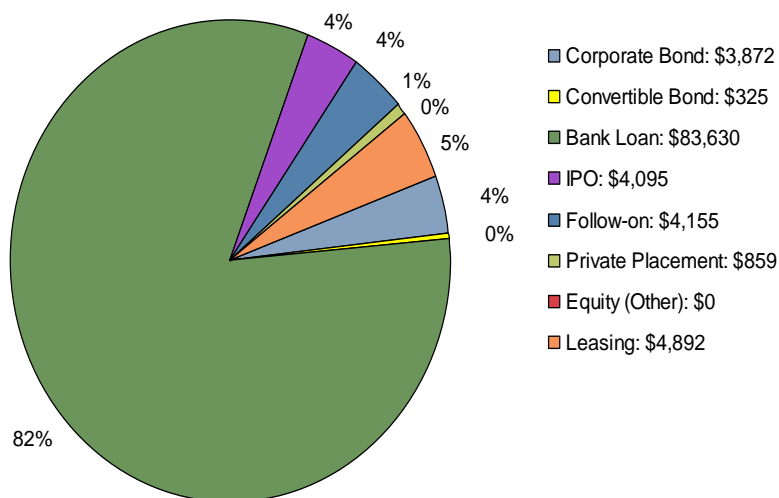




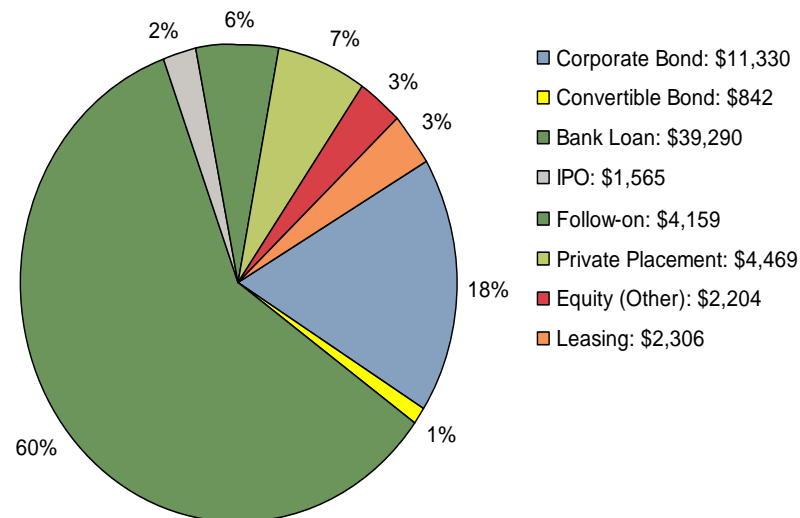
Trends in Ship Finance Sources

Graph 5

2008 - Value of Shipping Deals by Transaction Type (mil)



2013 - Value of Shipping Deals by Transaction Type (mil)

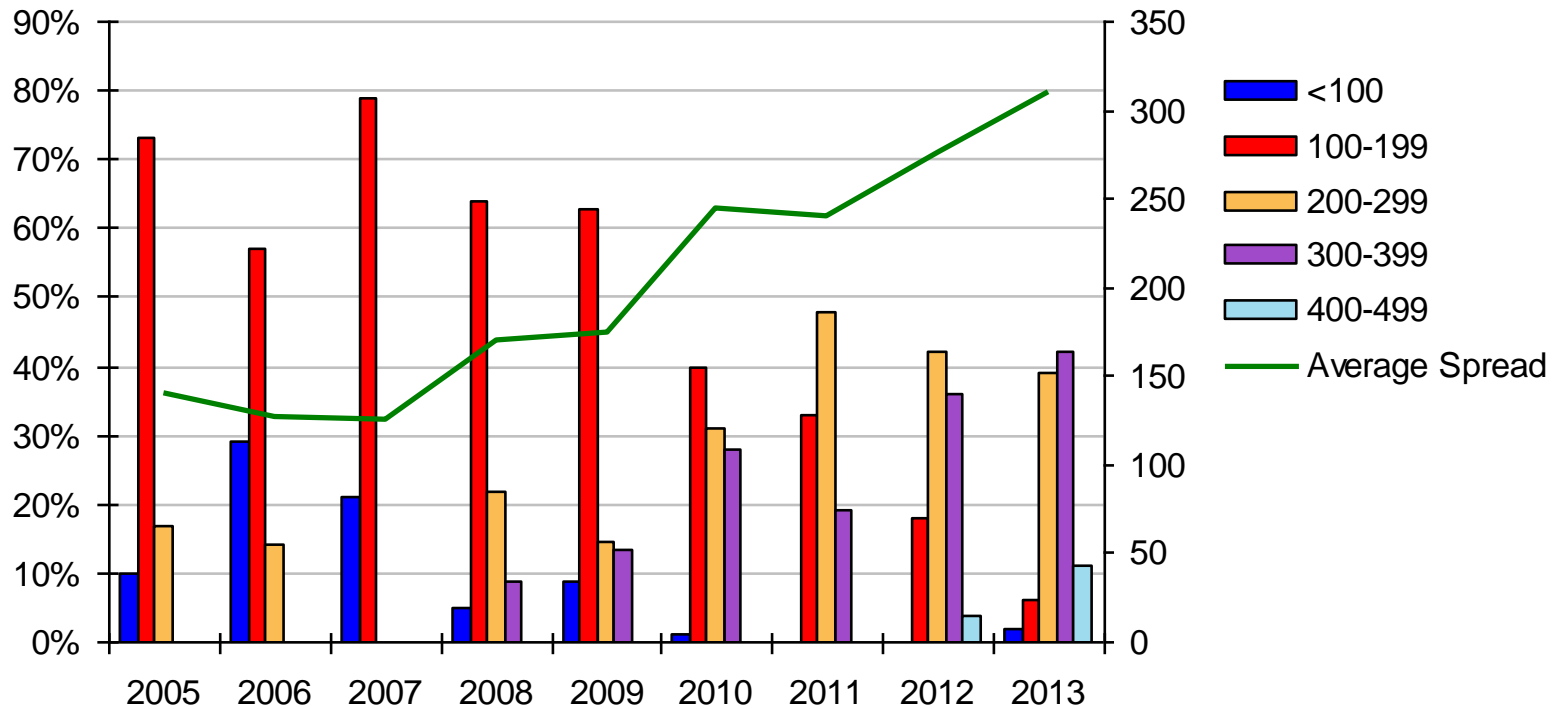


Source: Dealogic



Average Loan Pricing

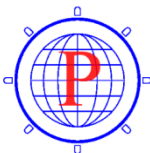
Spreads paid by Borrowers, 2005-2014 (bps)



Source: Marine Money Bankers Survey 2014

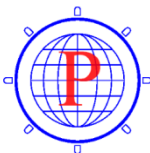
2. Current Ship finance trends

1. In the last year (2014), the total world fleet has gone up from 1,689.5m. DWT to 1,746.8m. DWT, i.e. a growth of 3.39%. (Clarkson's Shipping Intelligence Weekly – Jan 2015).
2. Despite the above, total bank ship finance debt is still falling, especially for the top 40 banks. This relates to deleveraging by banks and increasing reliance on other forms of finance and capital.



2. Current Ship finance trends

3. Ship finance activity is expected to start stabilizing this year and is expected to rise in 2016.
4. Global banking conditions (especially in the West) still remain unsupportive for ship finance (Basel III, liquidity and capital constraints), but the tide may be turning.
5. Current estimates by IMF for 2015 international trade growth is approximately 3.5%, rising to 3.7% in 2016. World bank corresponding figures are 3% and 3.5% respectively.





2. Current Ship finance trends

6. The fleet growth in 2014 decelerated, to 4% y on y growth in dry bulk. It is anticipated that as newbuilding orders in dry bulk have significantly slowed down and as newbuilding deliveries may be extended in the light of poor market conditions, that fleet growth for 2015 and 2016 may be matched by international trade growth.
7. The wet sector is showing a strong performance due primarily to the consequent effects of the low oil price and a slowdown in net fleet growth.
8. However, fleet supply growth is still constrained by port congestion, slow steaming (still prevalent) and longer routes despite a 27.5% reduction in scrapping in 2014.



2. Current Ship finance trends

9. A sustained fall in oil prices, if accompanied by a recovery in the shipping market, may result in reduced slow steaming.
10. Bank shipping loan provisions are peaking due to a) accelerated loan recoveries, b) sell off of portfolios, c) reduction of shipping exposure and d) shifting of risk between clients.
11. An increasing number of shipping banks' loan portfolio sales have been achieved and / or are in progress involving RBS, Commerzbank, HSH, Lloyd's Banking Group and others. Greek banks have started to divest shipping assets in a controlled and non aggressive manner

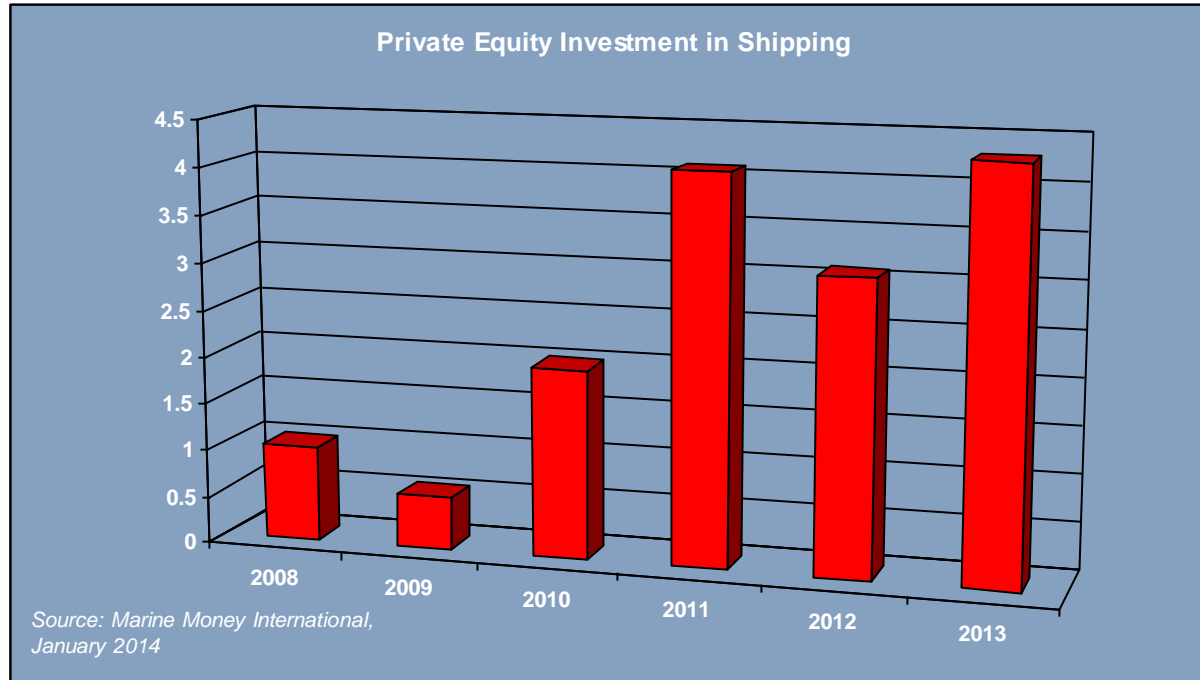
2. Current Ship finance trends

12. Equity funds' interest in buying banks' loan portfolios has increased but so have the desired discounts. This is directly related to the more attractive sale price set by banks for buyers due to poor shipping markets, declining loan values, poor client cashflow, pressure to dispose by central banks and higher discount values.
13. Shift of ship finance eastwards continues but at a slower pace.
14. Far Eastern ship leasing, export finance and bareboat deals only shall accelerate if a) market conditions improve and b) Chinese lending restrictions are eased



2. Current Ship finance trends

Graph 7

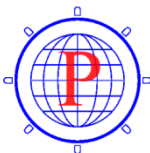


- Private equity funds' interest in shipping (Oaktree, Carlisle, Blushore Global Equity, Monarch Alternative, Nordic Capital, Eaton Park Capital, etc.) which exploded in 2012-2013, has now reduced to specialised sectors only. As equity funds have not achieved their rewards yet and some are showing negative returns, their commitment to shipping and patience is expected to be tested.
- Private equity provided by individuals too has accelerated as there are powerful incentives for investing in shipping, e.g. real asset, still cash on cash positive earnings, tax, recovery. Hence, private equity has the advantage over equity funds, as it has a longer investment horizon and less pressure to exit at specific times.



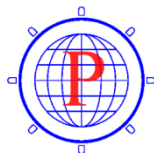
2. Current Ship finance trends

17. Cohabitation in loans/investments became more commonplace between banks, owners and equity providers.
18. Client selection has become excessive. The level of due diligence has intensified and is seen by many owners as being intrusive and extreme.
19. Has the ship financing model changed? Not really, but overall lending percentages have fallen, terms tightened, liquidity issues have risen to the top spot and banks revel in the prevailing low competition environment. However, the above are not necessary true for the top names including the strongest public companies.



2. Current Ship finance trends

20. Absence of ship finance and / or availability only under expensive/stringent conditions has resulted in many vessel purchases for cash. Given the low US Dollar deposit interest rates, shipping investments appear to still be attractive on a rebound basis.
21. The favourable to banks ship finance terms and conditions have brought forward a number of new and re-entering players, such as, CIT, RBC, Bank of Nova Scotia, HSH, Unicredit, Eurobank and others.
22. The number of existing players with a growing appetite is small but growing, e.g. ABN, Citi, Credit Suisse and all the Far Eastern Banks.



2. Current Ship finance trends

23. Most analysts still point to 2016 for a meaningful shipping and banking recovery assisted by solid increases in international trade. However, international growth expectations and global economy conditions remain at risk. Moreover, China and the Far East appear to be slowing down further.
24. Quantitative easing across the world, as well as low LIBOR is helpful to shipping.
25. In conclusion, a market recovery is expected to be a long drawdown affair with numerous technical rallies and falls, but expectations of a recovery in 2016 appear quite probable. Shipfinance is still expected to turn around from 2016 onwards, as 2015 shall still be a year of adjustment.





Thank you

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