



*The 7th Annual Dry Bulk Shipping Market Outlook
Conference*

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**Will there be sufficient finance for all?
Navigating through volatile times**

presented by

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HEAD

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Presentation outline

- 1. Assessing the size and impact of new dry bulk ships entering the fleet**
- 2. Evaluating future dry bulk supply and can demand cope**
- 3. Forecasting finance requirements for dry bulk shipping**
- 4. Will there be sufficient finance for all?**
- 5. The future role and opportunities for banks and other financial institutions**
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1. Assessing the size and impact of new dry bulk ships entering the fleet

1. Assessing the size and impact of new dry bulk ships entering the fleet

-The world shipping fleet of all major sectors, as of September 2010, consisted of **44,784 ships** of **1,354,639,545 m DWT** comprising bulkers, tankers, containers, gas carriers, roro, reefers and car carriers (*Source: N. Cotzias Shipping Consultants*)

- The world shipping fleet has grown, since September 2009, by **2.1%** in terms of numbers of ships and an impressive **9.3%** in terms of carrying capacity.



1. Assessing the size and impact of new dry bulk ships entering the fleet

- The above growth has not been the same across all sectors. In Table 1 you will observe the annual rise in carrying capacity across all sectors with dry bulk holding top position, with a 14.8% growth.

Table 1 – World Active Fleet	Sep-09	Sep-10	Y2Y +/-	Y2Y +/- %
	DWT	DWT		
Bulker (all types)	519,715,882	596,673,615	76,957,733	14.8%
Tankers	485,263,391	508,158,809	22,895,418	4.7%
Car	11,075,308	11,658,616	583,308	5.3%
Container	169,159,198	183,094,998	13,935,800	8.2%
Gas	42,065,357	43,582,882	1,517,525	3.6%
Reef	6,371,832	6,035,891	-335,941	-5.3%
RoRo	5,837,457	5,434,734	-402,723	-6.9%
	Total	Total	Total	
	1,239,488,425	1,354,639,545	115,151,120	9.3%

(Source: N. Cotzias Shipping Consultants)



1. Assessing the size and impact of new dry bulk ships entering the fleet

- In Table 2, you will observe the development over the same period of the world order book. Reflecting the economic, banking and economic crisis, the world order book fell by 18% over the year. However, the dry bulk order book carrying capacity still amounts to a massive 259,640, 577 DWT or 43.5% of current capacity, involving all types of dry bulk vessels.

Table 2 – World Order Book	Sep-09	Sep-10	Y2Y +/-	Y2Y +/- %
	DWT	DWT		
Bulker	306,666,980	259,640,579	-47,026,401	-15.3%
Tankers	141,978,403	117,841,140	-24,137,263	-17.0%
Car	3,141,013	1,966,992	-1,174,021	-37.4%
Container	60,034,508	41,482,764	-18,551,744	-30.9%
Gas	5,068,874	2,772,535	-2,296,339	-45.3%
Reef	207,100	49,100	-158,000	-76.3%
RoRo	606,985	624,320	17,335	2.9%
	Total	Total	Total	
	517,703,863	424,377,430	-93,326,433	-18.0%

(Source: N. Cotzias Shipping Consultants)



1. Assessing the size and impact of new dry bulk ships entering the fleet

- In Table 3, please see the varying growth figures for each dry bulk size category, with the supramax and post panamax sectors showing the highest annual increase by 40%.

Table 3 - ACTIVE FLEET ON A YEAR ON YEAR COMPARISON (DWT)

	Sep-09	Sep-10	Y2Y +/-
CAPE SIZE	139,823,362	173,723,530	24.24%
POST PANAMAX	14,216,363	19,945,779	40.30%
PANAMAX	114,555,378	123,291,991	7.63%
SUPRAMAX	41,491,078	58,034,539	39.87%
HANDYMAX	44,501,958	44,595,881	0.21%
HANDIES	79,988,455	84,918,271	6.16%
BULKERS	42,748,143	42,631,811	-0.27%

(Source: N. Cotzias Shipping Consultants)



1. Assessing the size and impact of new dry bulk ships entering the fleet

- In Table 4, the annual order book growth or decline is shown per dry bulk vessel size with capes showing the largest decline.

Table 4 – ORDER BOOK ON A YEAR ON YEAR COMPARISON (DWT)

	Sep-09	Sep-10	Y2Y +/-
CAPE SIZE	115,993,763	79,245,485	-31.68%
POST PANAMAX	28,269,650	25,193,150	-10.88%
PANAMAX	43,150,156	53,840,838	24.78%
SUPRAMAX	51,953,621	39,472,992	-24.02%
HANDYMAX	981,720	1,583,784	61.33%
HANDIES	29,452,382	25,793,787	-12.42%
BULKERS	6,629,357	5,248,339	-20.83%
TOTAL	276,430,649	230,378,375	-16.66%

(Source: N. Cotzias Shipping Consultants)



1. Assessing the size and impact of new dry bulk ships entering the fleet

- However, the remaining order book, as a percentage of the active fleet, is shown in Table 5, where the highest figures are for the post panamax sector at 126%, with capesize and supramax at 46% and 68%, respectively

Table 5	NB ORDERS AS % OF ACTIVE FLEET		DWT
	Sep-09	Sep-10	Y2Y +/-
CAPE SIZE	83%	46%	-45%
POST PANAMAX	199%	126%	-37%
PANAMAX	38%	44%	16%
SUPRAMAX	125%	68%	-46%
HANDYMAX	2%	4%	100%
HANDIES	37%	30%	-19%
BULKERS	16%	12%	-25%

(Source: N. Cotzias Shipping Consultants)





2. Evaluating future dry bulk supply and can demand cope

-In Table 6 we present the latest sets of figures from SSY/Fairplay.

Table 6 - World Dry Bulk Order book as of September 2010

Source: SSY/Fairplay

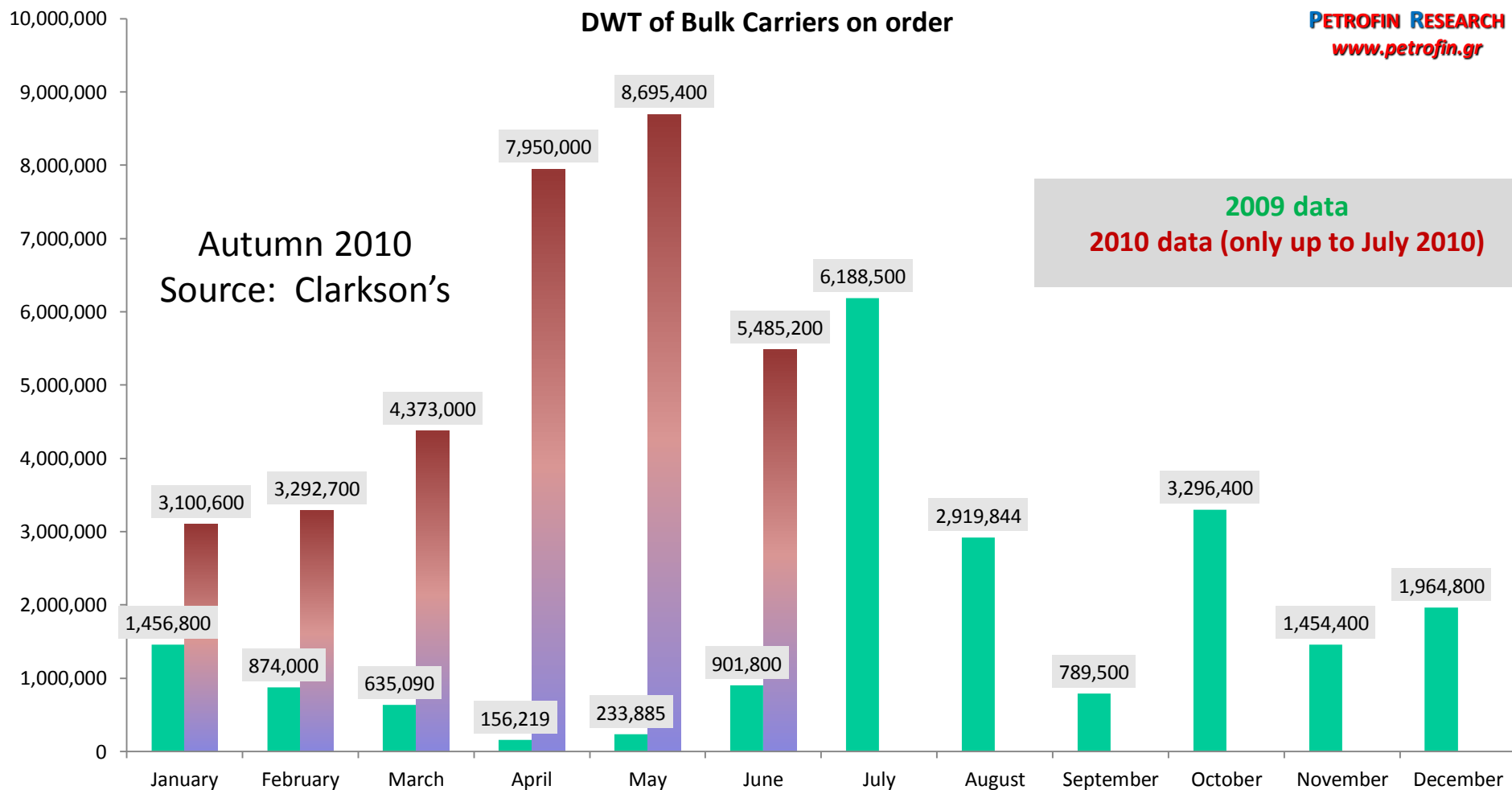
Delivery year	Number of Bulk Carriers	DWT
Last 4 months of 2010	629	46,273,620
2011	1354	119,818,988
2012	795	73,740,574
2013	187	18,919,876
2014+	21	1,920,208
PETROFIN RESEARCH <i>www.petrofin.gr</i>	2,986	260,673,266



2. Evaluating future dry bulk supply and can demand cope

-The rate of growth of new orders has picked up over the last two years. In Graph 1 below we display the monthly new orders for 2009 and 2010 up to July 2010, where there is a clear 'rising' trend.

Graph 1





2. Evaluating future dry bulk supply and can demand cope

-Table 7, shows the changes in the dry bulk fleet per sector for the first 8 months of 2010, allowing for conversions and deletions. The overall growth in DWT terms has risen to **16% p.a.** for the first 8 months of 2010, with capes in the lead with a **22.7%** annualised growth.

Table 7 Data: SSY/Fairplay		Handysize		Handymax		Panamax		Capesize		Total	
		10 - 39,999		40 - 59,999		60 - 99,999		100,000 +			
		No.	DWT	No.	DWT	No.	DWT	No.	DWT	No.	DWT
First 8 months of 2010	NB Deliveries	164	5,062,722	192	10,793,565	108	9,058,719	139	25,104,466	603	50,019,472
	Conversions	2	64,082	1	48,532	2	157,947	10	2,448,772	15	2,719,333
	Deletions	66	1,695,860	7	327,477	2	144,846	11	1,558,643	86	3,726,826
	Net change	100	3,430,944	186	10,514,620	108	9,071,820	138	25,994,595	532	49,011,979
Annualized growth rates per sector		6.96%		17.23%		11.22%		22.71%		16.03%	
Existing Bulk Fleet (4 sectors - end Aug 10)		2,828	77,399,397	2,037	102,071,590	1,742	130,393,367	1,099	197,660,004	7,706	507,524,358

2. Evaluating future dry bulk supply and can demand cope



-The newbuilding delivery slippage for the dry bulk fleet has averaged approximately 40% for 2009 and 2010, with SSY estimating a slow down to approximately 35% in 2011, based on latest indications.

-In evaluating future dry bulk supply, the key determinants are the following:

1. The annual spillage rate for 2011 and beyond
2. What percentage of the slippage relates to outright cancellations and what percentage to converted new orders
3. What will be the rate of new orders net of orders emanating from previous year slippages.
4. The rate of scrapping, and
5. What shall be the strength of the dry bulk market , as it directly influences 1-4 above



2. Evaluating future dry bulk supply and can demand cope

-There can be no exact prediction as to the future dry bulk supply, as it is impossible to know each owner's future decisions and to predict the market. However, we can proceed on the basis of reasonable assumptions, which may provide some guidance.

-As such, we have produced a predictive future dry bulk supply model, based on a set of key assumptions. Clearly, everyone is invited to use their own assumptions and gauge the predicted dry bulk supply figures for the years ahead.

-Our basic premise is that with a yearly growth rates of 16%, (despite port congestion and higher ton/mile requirements, as well as global economic growth estimates of approximately 3% per annum by IMF, the World bank and other financial institutions), there shall be a growing dry bulk market disequilibrium, that shall increasingly manifest itself in 2011 and 2012 with resulting lower charter rates that may well approach the poor rates experienced in the first half of 2009.

-Consequently, we anticipate that the rate of new orders will slow down over 2011 and 2012 and that scrapping shall accelerate.



2. Evaluating future dry bulk supply and can demand cope

-Our key assumptions as follows:

a) We shall use the average dry bulk newbuilding orders as shown in Table 7, i.e. average Clarkson's and SSY/Fairplay for the last 4 months of 2010, and for the years 2011, 2012 and 2013.

b) We assume a 40% slippage rate for the remainder 2010, 35% for 2011, 45% for 2012 (expected to be a slump year for dry bulk shipping) and 40% for 2012.

Rationale: slippage increases as the shipping market falls.

c) The above slippage is assumed to consist of 1) outright order cancellations of 25% in 2010, 30% in 2011, 50% in 2012 and 40% in 2013 and 2) conversions to new orders and postponements of 75% in 2010, 70% in 2011, 50% in 2012 and 60% in 2013. **Rationale: cancellations rise as the shipping market falls**



2. Evaluating future dry bulk supply and can demand cope

-Key assumptions cont.

d) It is assumed that the converted or postponed new orders, shall be rolled into the subsequent 2 years, 50/50 for 2010, 40/60 in 2011 and 30/70 in 2012 and 40/60 in 2013.

Rationale: converted / postponed orders are re-allocated over more distant years, as the shipping market falls.

e) Outright new orders, in addition to previous years' conversion orders are expected to be nil for 2010 and 2011 (insufficient time for fresh orders being delivered). 2012 actual deliveries of outright fresh orders are assumed to turn at approximately 15m DWT for 2012, and 10m 2013.

Rationale: It is assumed that the rate of outright dry bulk new orders being delivered shall decline in line with the fall of the shipping market.



2. Evaluating future dry bulk supply and can demand cope

-Key assumptions cont.

f) The deletions (scrapping) estimated tonnage is assumed to be 2m DWT for the remaining 2010, 13m in 2011, 25m in 2012 and 20m in 2013.

Rationale: The scrapping rates for 2011 are expected to revert to 2009 levels and increase thereafter, on account of the bad market expected to prevail.



2. Evaluating future dry bulk supply and can demand cope

Table 8 - Petrofin's model

Source: SSY/Fairplay	Orders placed up to Sept 2010	Delivery %		Conversion, Postponements, Cancellations %		of which outright Cancellations %		Postponements Conversions %	
Delivery year		a		b				c	
2010*	46,273,620	60%	27,764,172	40%	18,509,448	25%	4,627,362	75%	13,882,086
2011	119,818,988	65%	77,882,342	35%	41,936,646	30%	12,580,994	70%	29,355,652
2012	73,740,574	55%	40,557,316	45%	33,183,258	50%	16,591,629	50%	16,591,629
2013	18,910,876	60%	11,346,526	40%	7,564,350	40%	3,025,740	60%	4,538,610
		of which to be delivered next year		Of which to be delivered subsequent year		Outright New orders actually delivered	Deletions	Net growth/ reduction DWT	% growth of existing bulker fleet as of Sept 2010 (at 507,524,358 m DWT)
		d		e		f	g		
2010*	50%	6,941,043	50%	6,941,043	-	2,000,000	25,764,172	15.23%**	
2011	40%	11,742,261	60%	17,613,391	-	13,000,000	71,823,385	14.15%	
2012	30%	4,977,489	70%	11,614,140	15,000,000	25,000,000	49,240,620	9.70%	
2013	40%	1,815,444	60%	2,723,166	10,000,000	20,000,000	23,937,406	4.72%	

*Sept-Dec 2010

**Annualized growth for 2010



3. Forecasting finance requirements for dry bulk shipping Introducing our forecasting model

- As outlined earlier, the current dry bulk order book entails approx. of **2,986 ships** of **260,673,266 m DWT** (Source: SSY/Fairplay). For the whole shipping fleet, the total order book is 6,007 ships of 424,377,430 m DWT. (Source: N Cotzias Shipping Consultants)
- The above dry bulk order book represent 51.4% of the total current dry bulk fleet whilst the total order book represents 31.2% of the global shipping fleet. Clearly, a lot of new vessels requiring finance



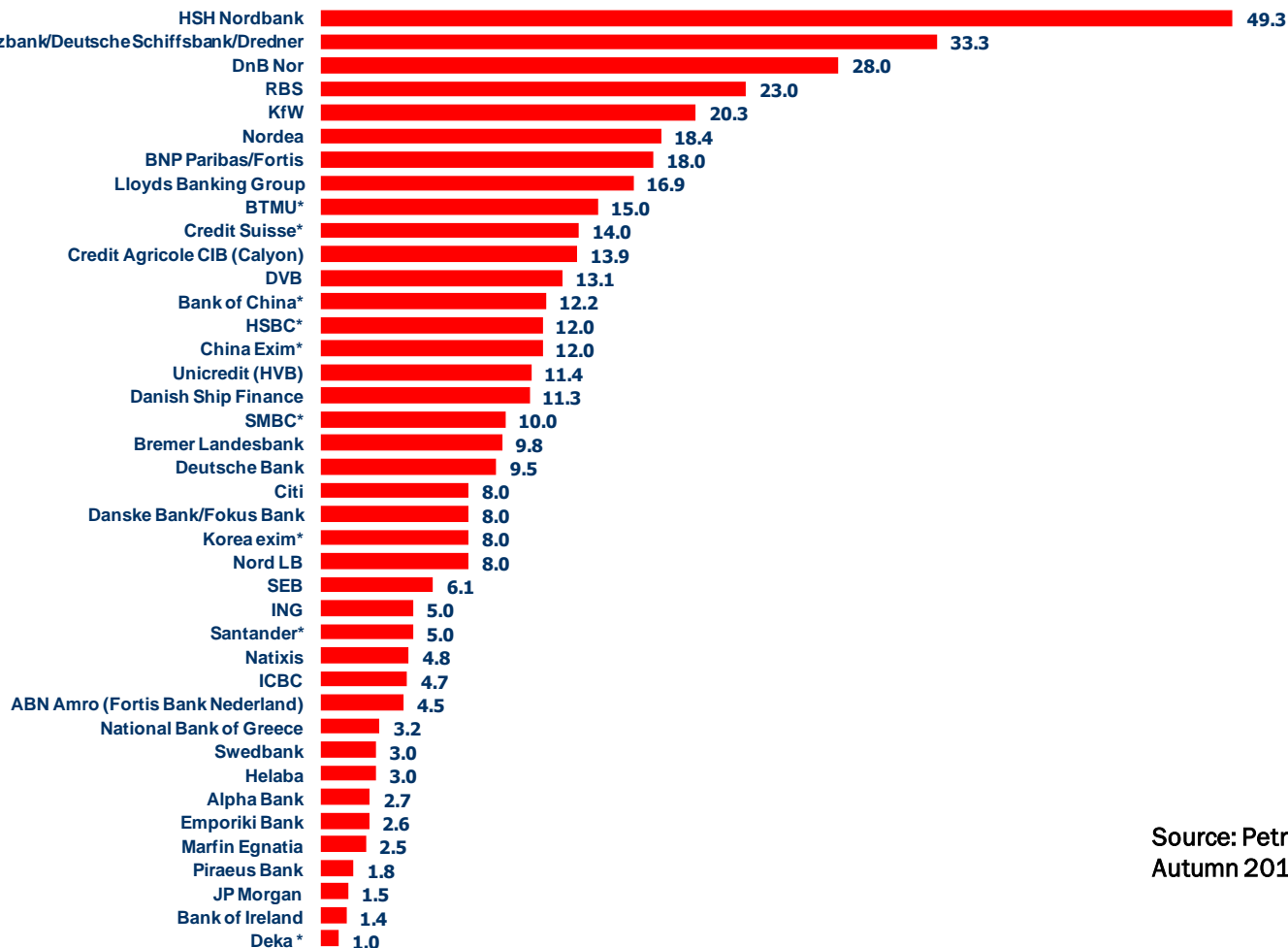
3. Forecasting finance requirements for dry bulk shipping **Introducing our forecasting model**

- The top 40 shipping banks, as of early 2010 had a total loan portfolio of \$436bn (see Graph 2), of which approx. 81% consisted of European banks.**
- The above total loan portfolio fell by 5.7% in the last year.**

Graph 2 - Bank Lending to Shipping

Ship finance based on data of the beginning of 2010 – in \$bn

- Top 6 Banks Finance approx. 39.5% of Shipping Loans
- Total loans of leading 40 ship finance banks approximately \$436bn



Source: Petrofin Bank Research ©/ Marine Money
Autumn 2010



3. Forecasting finance requirements for dry bulk shipping Introducing our forecasting model

-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 amounts to **\$8.9m.**



3. Forecasting finance requirements for dry bulk shipping **Introducing our forecasting model**

- 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 figure for the 6,007 vessels of at least \$250bn can be used.

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



3. Forecasting finance requirements for dry bulk shipping Introducing our forecasting model

- The above estimate shall be affected:

Upwards

- Fresh orders
- Second-hand acquisition finance
- Mergers and acquisitions

Downwards

- Committed finance already in place
- Cancellations
- 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.



3. Forecasting finance requirements for dry bulk shipping

Introducing our forecasting model

- **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?**



3. Forecasting finance requirements for dry bulk shipping **Introducing our forecasting model**

-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. Prospects for dry bulk shipping**
- 7. Alternative risks/rewards for lending to other sectors**
- 8. Quality of existing loan portfolio / provisions / losses**



4. Will there be sufficient finance for all?

- 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.
- 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 3, below

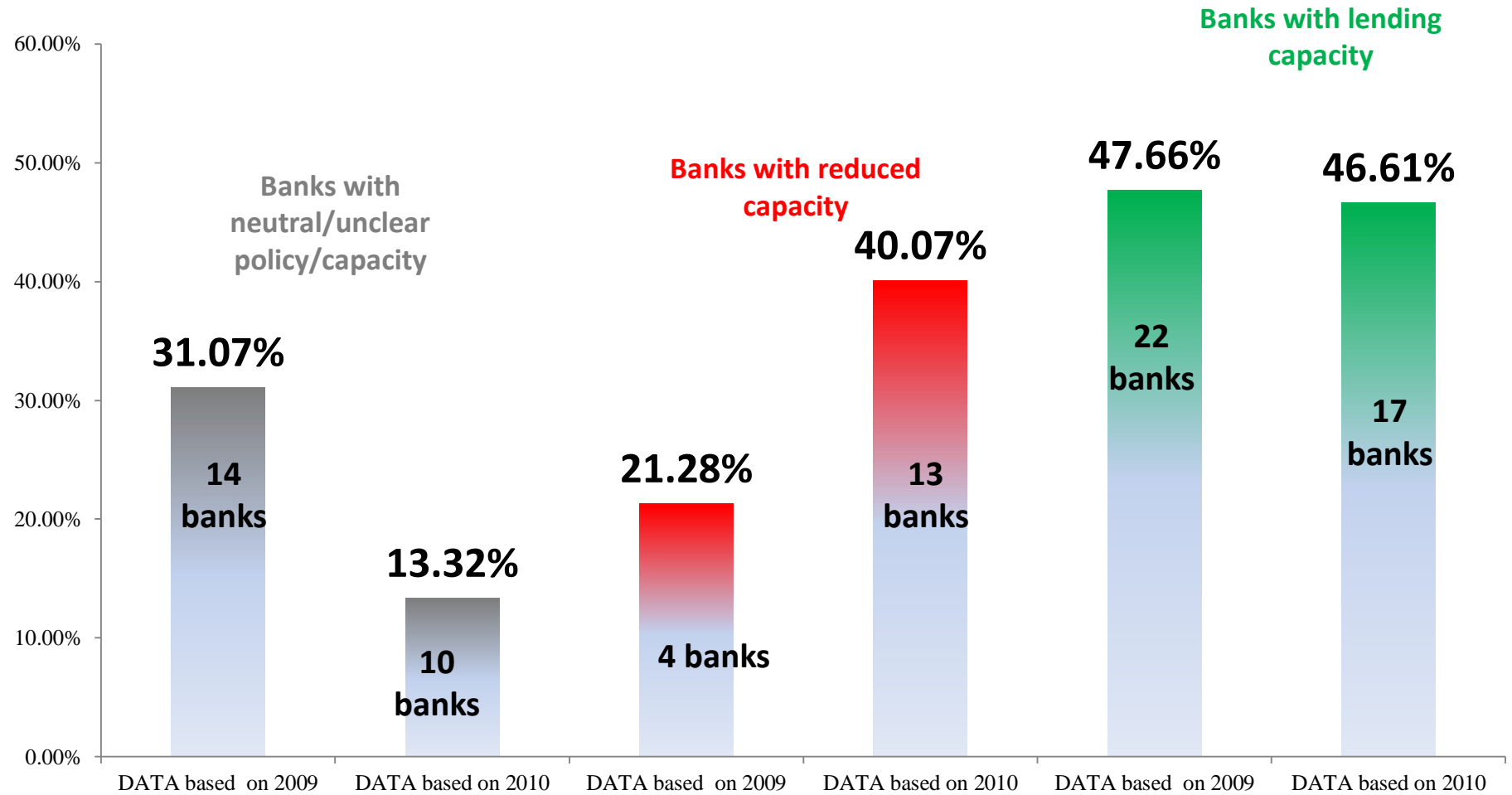


Graph 3

Ship finance banks capacity

2009 Global portfolio, top 40 banks: \$463bn

2010 Global portfolio, top 40 banks: \$436bn





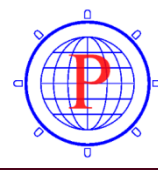
4. Will there be sufficient finance for all?

-Clearly, the past one 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 for quality and financially strong owners.

5. The future role and opportunities for banks and other financial institutions



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- Mortgage lending to remain as main instrument of finance
- Western banks' appetite continues to be limited by capital constraints
- Far eastern banks' market share shall continue to rise
- Remaining lenders can be selective as to clients and loan terms / conditions thus upgrading their loan portfolios
- Uncertain shipping market prospects may delay new bank entrants
- Further banking and shipping consolidation is envisaged
- The role for non-bank financial institutions shall increase in both lending and capital provision areas



6. Summary and conclusions