

# FT, 1<sup>st</sup> World Shipping Congress

**ATHENS**

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“Challenges and Opportunities for Banks and Owners, given the uncertain economic, banking and shipping climate”

presented by

**Ted Petropoulos**

MD

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# The state of the shipping market today



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- The outlook for global economic growth and international trade

# The state of the shipping market today



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- The state of Greek and global shipfinance

# The state of Greek and global shipfinance

## Ship lending

- Global Lending figures stand at approx. \$450bn.
- Greek ship lending levels: Last count by Petrofin Bank Research ©, as of end 2007, was \$66.941bn. For this year we do not expect an increase, but, possibly, a contraction.
- As reported recently, new lending is down by 23% to \$13.3bn for 1<sup>st</sup> half of 2008 (Naftiliaki - Reuters Loan Pricing Corp).

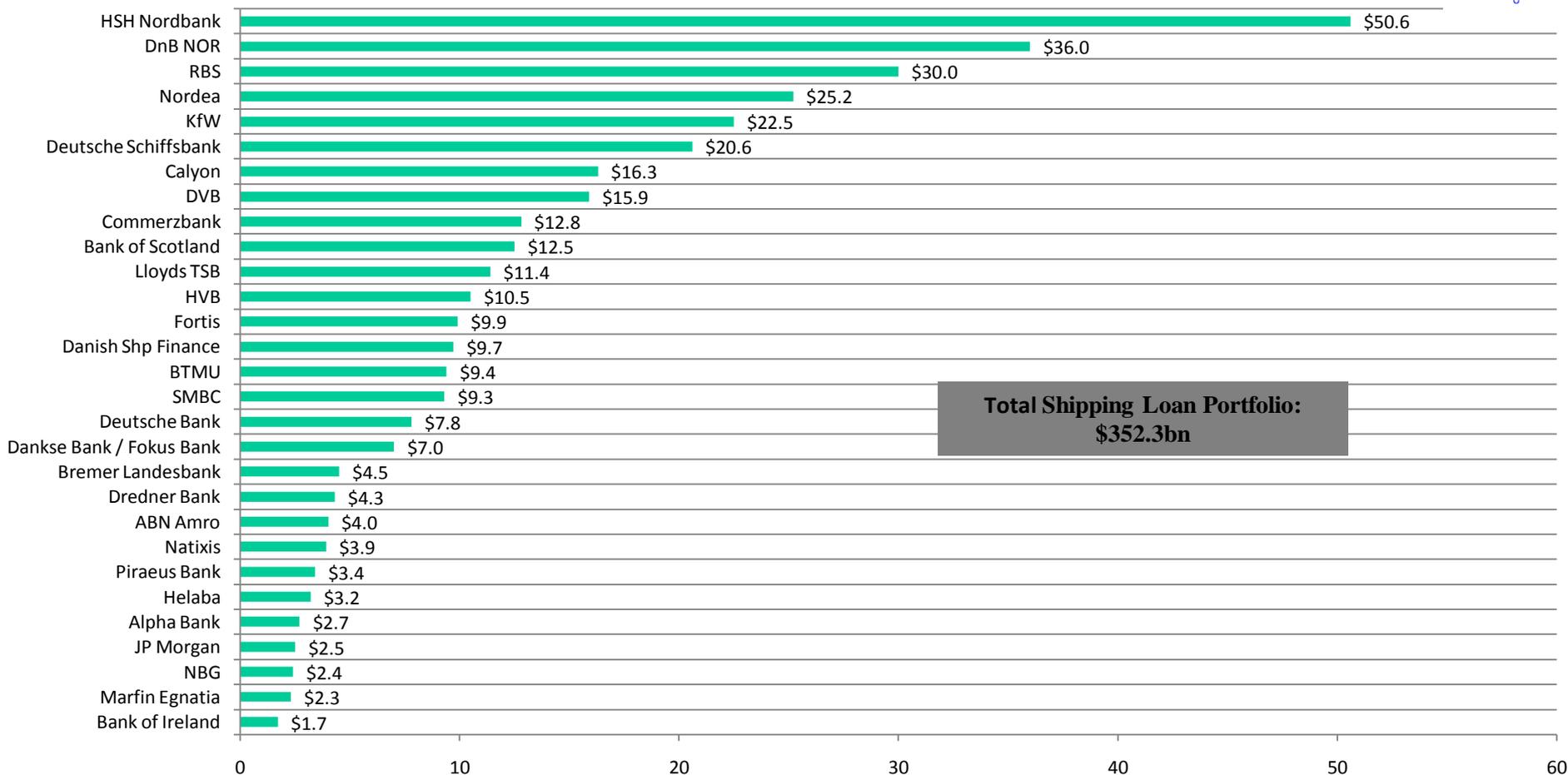
Major banks' portfolio as of May 2008 stood at **\$353bn**. However, this does not include a large number of Far Eastern, Middle Eastern and other banks, which have not provided figures.

We estimate the total global shipfinance (bluewater) market to be approx **\$450bn**.



Data from Marine Money - May 2008  
Petrofin Bank Research 2008

**2008 Shipping Loan Portfolio Table**



# The state of Greek and global shipfinance

Can banks finance the following in the next 4 years:

- Global second hand and resale market were of the order of \$37.132bn over the last 12 months (total number of vessel sold, including n/b resales (source: [www.gmoundreas.gr](http://www.gmoundreas.gr)). In view of the current market situation, we will assume a figure of **\$25bn** for next year.
- Global newbuilding orderbook stands at \$545bn (Morgan Stanley) , or \$600bn (Marine Money). Let's assume a figure of **\$550bn**.



- **Newbuilding orderbook:**

A 65% finance requirement of the whole orderbook (\$550bn) would be of the order of \$357.5bn.

- **Second hand:**

A 60% finance requirement of including n/b resales amounts to \$15bn (60bn over 4 years).

- **New orders:**

Given that the shipbuilding orderbook is relatively full, we assume a further \$100bn in new orders over the 4-year period.

- **Cancelled orders due to lack of finance (delays not included)**

We estimate cancelled orders to be approx. 10% of the total n/b orderbook, i.e. \$55bn.

# Calculating how much banks need to provide

## A. Amount needed to be provided by banks

### 4-year period

Current orderbook finance figure at 65%	\$357.5bn
Of which already financed, i.e. 30% of global shipfinance figure	-\$135bn
Plus second hand + resale finance at 60%	\$60 bn
Minus repayment of finance of above second hand + resale at 30%	-\$30bn
Plus additional finance of new orderbook at 65%	\$ 65 bn
Minus cancellations	- \$55bn

**Total fresh new finance requirement : \$262.5 over 4 years**



# Calculating how much banks need to provide

## B. Inflow of liquidity into Banks in the meantime

Current shipping loans: \$450bn

Assuming annual loan repayment of:

b) 10% p.a. = \$45 bn  
x4years = \$180 bn

a) 12.5% p.a. = \$56.25bn  
x4years = \$225bn



# Calculating how much banks need to provide

## C. Is it really too much?

Total new net finance required over 4 years ranges between \$37.5bn and 82.5bn.

This is equivalent to 2% p.a. to 4.6% p.a. increase in global shipfinance amounts, required over the period.





What is demanded from the banking industry is an additional 2-4.6% p.a. of their portfolio to be added yearly to their exposure.

This annual shipfinance increase is far lower than the average increase over the last few years.

Lack of finance concerns are not related to the amount required but to the ability / capacity of banks to provide due to their inherent financial problems, the unstable financial markets and lack of liquidity.



# The Greek newbuilding fleet finance prospects

In May 2008, Petrofin Bank Research ©, calculated that :

- The total bank undrawn loan commitments as of 31/12/2007 stood at \$21.56bn.
- An estimated 80% of this figure represents newbuilding related finance, i.e. \$17.25bn.
- It is assumed that the \$32bn Greek order book value requires finance of approx 70%, i.e. \$22.4bn.
- It appears that approximately 77% of the Greek order book as of May 2008, had already been secured.



## The Greek newbuilding fleet finance prospects

- This could leave a further approx. \$5.15bn in additional finance to be arranged over the years.
- Compared to the total current bank exposure of the Greek fleet of \$66.941bn as of 31/12/2007, the above additional requirement spread over the next few years appears not to present a problem.
- Also, as the current fleet debt is being runoff, it seems that banks should be able to cover the required finance by utilizing loan repayments in their existing financed fleets, once the bank liquidity crisis shall have been overcome.

# The state of the shipping market today



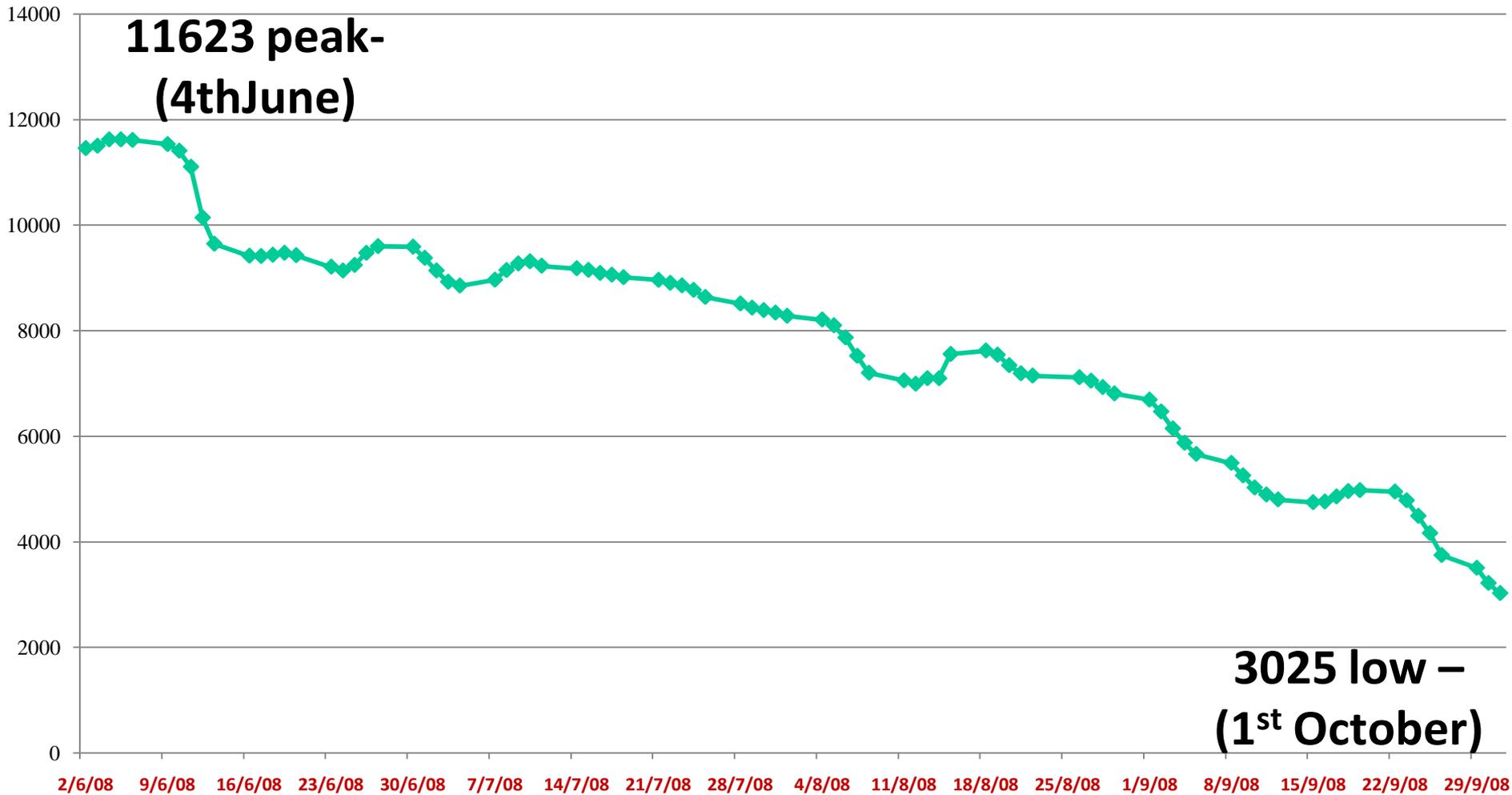
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- The main issues



# Baltic Dry Index, June - October 2008

BDI



# Dry Bulk Market – 26<sup>th</sup> September 2008



Source: Baltic Exchange

## Average Basket TC Rates





# Sale and Purchase and Scrapping

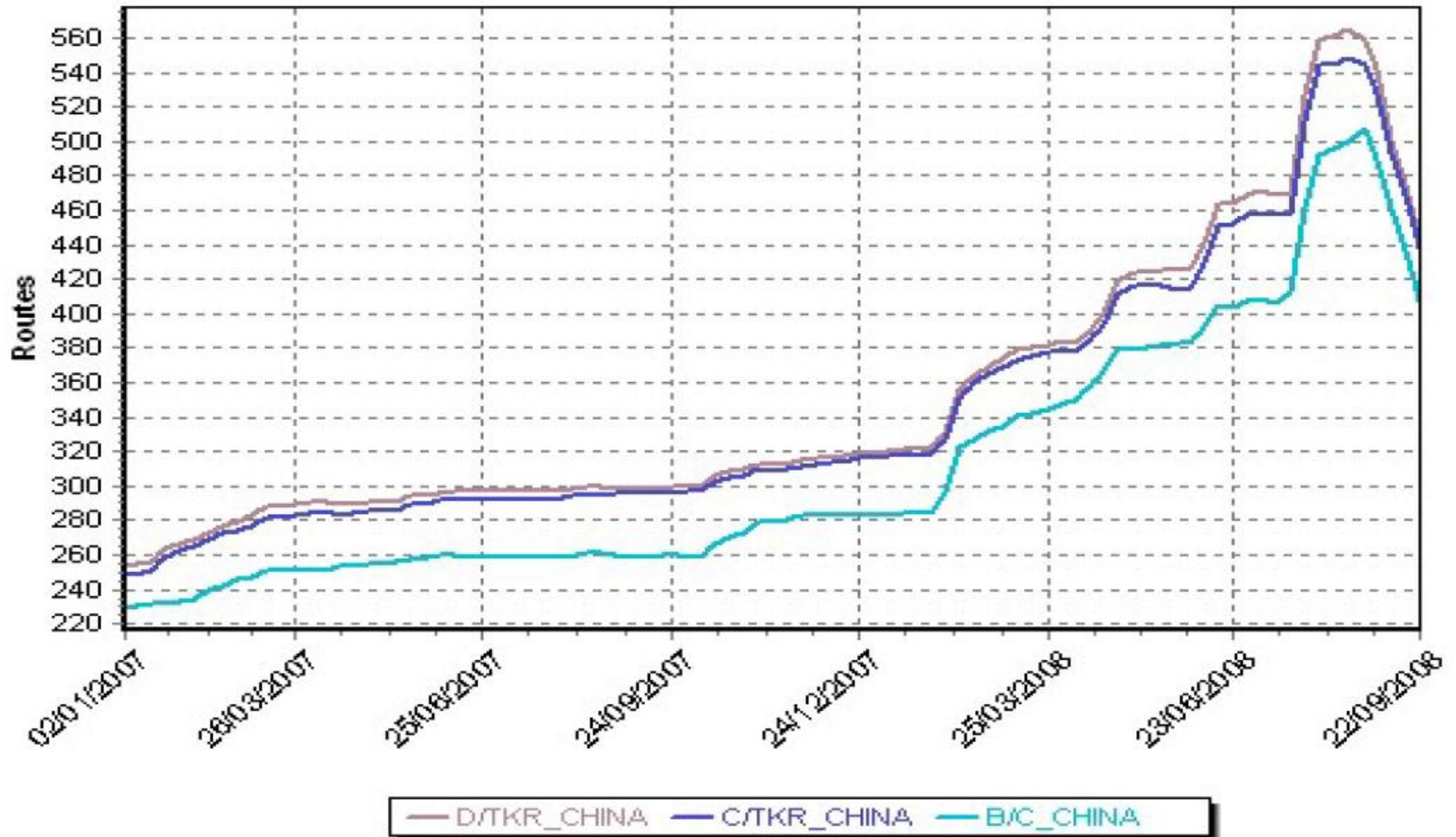
Weekly Results as Published by the Baltic Exchange At:				22-September-2008
<b>Baltic Sale &amp; Purchase Assessment (BSPA)</b>				
TYPE	SIZE	AGE	PRICE (US\$ in mil)	CHANGE (US\$ in mil)
VLCC	305,000 dwt	max. 5 years old	160.227	-1.323
AFRAMAX	105,000 dwt	max. 5 years old	77.323	-0.121
MR PRODUCT	45,000 dwt	max. 5 years old	52.592	-0.516
CAPE SIZE B/C	172,000 dwt	max. 5 years old	145.743	-3.924
PANAMAX B/C	74,000 dwt	max. 5 years old	83.988	-2.212
SUPER HANDY B/C	52,000 dwt	max. 5 years old	67.845	-2.380
<b>Baltic Demolition Assessment (BDA)</b>				
TYPE	REGION	LIGHT SHIP	PRICE (US\$ / LDT)	CHANGE (US\$ / LDT)
DIRTY TANKER	CHINA	15,000 - 25,000	443.333	-31.667
DIRTY TANKER	SUBCONTINENT	15,000 - 25,000	615.833	-50.834
CLEAN TANKER	CHINA	6,000 - 10,000	438.333	-30.000
CLEAN TANKER	SUBCONTINENT	6,000 - 10,000	607.500	-48.333
BULK CARRIER	CHINA	7,000 - 12,000	407.500	-29.167
BULK CARRIER	SUBCONTINENT	7,000 - 12,000	558.333	-57.500



# Scrapping - 26<sup>th</sup> September 2008

(BDA) BALTIC DEMOLITION ASSESSMENT - CHINA (01/01/2007– 26/09/2008)

## Baltic Indices and Routes



# Banks

## *Challenges*



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- 1. Staying alive**
- 2. Building liquidity reserves**
- 3. Reducing their cost basis**
- 4. Return of trust in interbank dealings**
- 5. Liquidating bad investments**

# Banks



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## *Challenges, cont.*

6. **Keeping clients satisfied / loyal**
7. **Containing bad loans**
8. **Keeping shareholders happy**
9. **Meeting tougher regulatory constraints and scrutiny**
10. **Disposing of non-core businesses**
11. **Increase loan portfolio yields**
12. **Maintain / increase income from non risk transactions**

# Banks

## *Opportunities*



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- 1. Developing strategic relationships**
- 2. Acquiring banks / assets (loans, customers and expertise / staff at a discount)**
- 3. Locking in high yielding / enhanced risk assets**
- 4. Increase long term shipping portfolio yields**
- 5. Increase capital / improve key financial ratios**
- 6. Develop longer term and secure funding**
- 7. Realize strategic goals**

# Owners

## *Challenges*



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- 1. Staying afloat**
- 2. Contain market, interest and foreign exchange exposure**
- 3. Meet loan repayments**
- 4. Adhere to financial covenants**
- 5. Maintain open dialogue with banks**
- 6. Develop free liquidity reserves**

# Owners



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## *Challenges, cont.*

- 7. Prepare contingency planning analysis**
- 8. Maintain high morale ashore and on board**
- 9. Keep cost base low**
- 10. Obtain finance for unfinanced newbuildings**
- 11. Obtain stand-by lines of credit**
- 12. Renegotiate bank loans if required**
- 13. Keep charter income flowing**
- 14. Minimise disputes with charterers**

# Owners

## *Opportunities*



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- 1. Continuously assess opportunities in sale and purchase and / or chartering**
- 2. Optimize investment decisions**
- 3. Determine target prices for vessels to be acquired**
- 4. Select market segment (s) to expand / contract**

# Owners

## *Opportunities*



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5. Take advantage of close relationships with banks
6. Selectively pick qualified staff ashore
7. Selectively pick quality crew for the fleet
8. For listed companies, consider buying-in stock or acquiring other more depressed listed shipping companies



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# Conclusions