Lloyd's List

EXCLUSIVE: Financing faces stormy 2012

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Bank lending to shipping will continue to tighten through 2012.

Banks have
even more negative outlook than they did a year ago, reveals Petrofin survey

BANK lending to shipping is tightening and will continue to do so through 2012 as European banks that still dominate ship finance struggle and ship companies face cashflow problems as a consequence, according to the latest research of the global ship finance market

A survey of leading shipping bankers undertaken by Ted Petropoulos, head of Petrofin Research in Greece revealed that they have a significantly more negative outlook compared with a year ago.

The analysis puts aggregate global ship lending at about $500bn, including offshore support, but not including rigs and shipyard finance.

Interestingly, the shipping loan portfolio of the leading 40 ship finance banks, representing about 92% of the total, appeared to rise slightly from November 2010 at $461bn. However, Mr Petropoulos noted that most banks were decreasing their exposure. The apparent increase is mainly due to better information on Chinese ship finance, which is estimated to have added $10.8bn to the total figure so the total portfolio has not risen.

Despite its problems and planned downsizing, the biggest lender is still HSH Nordbank with about $42bn, including its $18bn non-core portfolio. The top six shipping banks had a combined portfolio of $176bn, accounting for 35% of total exposure of the leading 40 banks, down from 40% a year earlier, indicating the slowdown in lending by these institutions.

Nonetheless, European banks still heavily dominate shipping finance, accounting for 81.7% of the total, down only slightly from the 83.1% a year ago, while Asian banks have increased their share modestly to 16.8%, from 14.8% in November 2010.

Petrofin estimated additional ship finance requirements in the three years from 2012 of $126.3bn-$138.9bn, comprising funding for newbuildings, secondhand purchases, refinancing and other corporate purposes. Once normal loan run-offs are counted this implies an additional requirement of up to $34bn during the three-year period, which does not appear too daunting. But there could be a question mark over whether banks will be willing to re-lend all of the $105bn they receive from repayments.

An analysis of the top 40 shipping banks showed that the proportion reducing lending capacity increased to 46% from 30% a year ago and those with lending capacity slumped from 53.5% to just 29.5%. This indicates that active lending to shipping is becoming confined to a narrowing selection of banks.

Petrofin’s annual survey of top ship finance bankers reinforced the deteriorating prospects at least in the short term. None thought that European ship finance will revive in 2012 and the most favoured answer from more than 41% was that it will be 2014 until activity recovers, while a quarter thought that it will be 2015 or beyond.

Similarly almost half, 48.3%, expect the overall global ship finance loan portfolio to contract by up to 10% in 2012, with only 13.8% expecting an increase. This marks a sharp deterioration in sentiment since the same survey in November 2010, when 55% thought it would increase in 2011.

A huge 96.5% expect that non-performing loans will rise in 2012 , while none think they will fall. In November 2010 fewer than half forecast non-performing loans would increase this year.

Mr Petropoulos said that ship finance was concentrated on larger private or public financially strong companies with banks being highly selective, using limited liquidity sparingly to maintain quality client relationships, while rarely lending to non-clients.

The availability of loan finance is reducing due to a combination of reasons, some shipping-related and some due to wider banking trends. Moreover, shipping loan margins and fees are at their highest for more than 30 years.

The shipping industry is currently facing serious problems with cashflow inadequate to service bank debt and ship values continuing to fall. “The quality of shipping loan portfolios is declining, loan loss provisions and workouts are increasing and the industry is bracing itself for a tough 2012,” said Mr Petropoulos.

He suggested that any new lenders are unlikely to come from Europe and the US where banks are still trying to recover from the current banking and liquidity crisis, whereas Asian banks were financially stronger, with loan-to-deposit ratios allowing room for growth despite recent Chinese central bank restrictions.

But with shipping still heavily dependent on European banks, ship finance is highly sensitive to their recovery from the present crisis.

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