Lloyd's List

Bankers rule out a happy new year for ship finance

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- by David Osler

Not one banker in a Petrofin straw poll predicted a revival in European ship finance next year.

Despite the banks' exodus, global lending to sector is still worth $475bn

BANKS retain a collective shipping exposure of $475bn, which is little less than the gross domestic product of Norway: that fact needs to be stressed after a 2012 in which negative headlines dominated Lloyd's List's coverage of ship finance.

It underlines the point that shipping remains an important niche market, even in a year when Commerzbank announced that it is pulling out of the sector altogether and other players were scrabbling to sell up.

The German lender said in its most recent quarterly results statement that it expected to lose more than $340m on shipping loans associated with its Deutsche Schiffsbank unit. So it can hardly be blamed for wanting out.

Nor is it the only one. In June, France's Société Générale offloaded a third of its shipping portfolio, worth about $2bn, to Citibank of the US. Meanwhile, Lloyd's finally got shot of a $750m tranche of its worst shipping loans at a deep discount.

Among the other financial institutions, Santander is seeking to dispose of loans inherited when it acquired Alliance & Leicester in 2010 and Bank of Ireland is also heading for the door.

Analysts warn that considering the state of both the banking and shipping industries right now, buyers would probably expect discounts of 30% or more before expressing any interest.

Indeed, rumour had it that the Lloyd's/Oaktree deal was done at about 50-55 cents on the dollar, although neither side was ready to discuss matters.

The upshot is that for those seeking finance, things have undoubtedly been tough. Indeed, one recent conference saw leading ship finance analyst Ted Petropoulos suggest that the prospect of the average shipowner getting a new 10-year loan was little better than his chances of winning the lottery.

Anecdotally, it has been suggested that the number of banks actively seeking new shipping business has probably shrunk to just 15 or so, from around 50 five years ago.

Existing clients took priority for such syndicated loans that were available for refinancing and restructuring. LNG and offshore projects also found favour with the bankers.

Germany's once seemingly invincible KG system found itself in obvious trouble, with further bankruptcies widely predicted, according to local finance sources.

One Hamburg-based lawyer, who asked not to be named, told Lloyd's List that he believed that something like 800 KG ships — around 20% of the overall tally — are struggling.

A report from Moody's Investors Service suggested that Germany's 10 largest banks have $128bn in exposure to shipping risk. That is more than double the value of their holdings of government debt from Greece,the Irish Republic, Italy, Portugal and Spain.

Italian owners, too, experienced a virtual freeze on new lending this year, in a country where as much of 80% of outstanding shipping loans are held by domestic banks.

Yet, as we stated in our opening paragraph, based on research from Mr Petropoulos's consultancy Petrofin, ship lending as of November 2012 came in at $475bn, including the offshore support sector, but excluding rigs and shipyard finance.

Given that the world fleet of all types, sizes and ages numbers 92,707 ships, according to then-current statistics from Clarksons, that averages out at just $5.1m per ship.

Petrofin says that the top 40 shipping banks account for $422.1bn of overall lending, or 88.9% of the total.

Leading the way by a considerable margin is HSH Nordbank, with estimated exposure of $39bn, followed by DNB on $26bn, Commerzbank/Deutsche Schiffsbank/Dresdner at $25.5bn, KfW at $18.2bn, RBS at $18bn and Nordea at $17.5bn.

In percentage terms, the market share of the top six is down less than one percentage point, from approximately 35% last year to 34.2% this year. However, the decline in the European bank portion of top 40 exposure is more marked, falling from 81.7% to 75.1% over the same period.

Asia also seems to be offering cause for hope.

China Development Bank, for instance, has just opened its first dedicated ship finance unit. Based in Dalian, it aims to serve the needs of domestic shipbuilders, shipping companies and overseas shipowners that place orders at domestic shipyards.

Although nobody can accurately predict the year ahead, the consensus seems to be that 2013 will be no great shakes either. Not one banker in a Petrofin straw poll predicted a revival in European ship finance next year.

Nor did any of them back the proposition that global lending would rise, with almost 80% predicting that it has further to fall.

Happy new year? It’s not looking likely.

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