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Cash-rich owners set to take pick of older bargains

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- by Nigel Lowry

Dragnis: “You must be prepared to act quickly and use your own cash.”

Lack of bank interest in mid-life vessels may drive down prices further

STRONGER shipowners with healthy cash balances are likely to grab many of the best deals in all three main shipping sectors as the options to finance vessels, especially middle-aged and older ones, continue to shrivel.

Moreover, with cash becoming ever more king in the industry, the more handsome discounts being demanded by owners putting more of their own cash at risk could act as a key additional weight on asset values.

Instances where owners have picked up bargain containerships without recourse to bank financing in the last few months have multiplied, but the trend is also said to be advancing in the beleaguered tanker industry and more cash purchases of bulkers are unlikely to be far behind.

One such cash deal was Goldenport Holdings’ $5.2m swoop for the 2,100 teu containership *Conti Seattle*, which came to light last week.

London-listed Goldenport has just decided to suspend its dividend, at least for the last semester, in order to preserve its war chest for similar acquisitions.

“There are one, two or three banks which are still lending, but borrowing is more expensive and it is taking more time to arrange debt finance,” Goldenport chief executive John Dragnis told Lloyd’s List.

Among those banks still prepared to provide loans, interest was “skewed heavily towards younger vessels”, said Mr Dragnis, leaving deals for older tonnage in limbo unless owners are prepared to bankroll them with their own cash.

“There are some mid-life vessels which are good quality assets, built in the late 1990s or early 2000s when owners had a lot of bargaining power and could insist on very high standards. Some are also quite efficient,” Mr Dragnis said.

“In these cases you must be prepared to act quickly and use your own cash and then maybe group a number of assets together and gear up later.”

Goldenport was interested in both markets where it is active, bulkers and boxships, though, as the recent Conti Seattle purchase suggested, it “prefers the container sector for now”.

Costamare has also financed a handysized boxship purchase entirely from its own equity in the last few weeks, paying $6.8m for the 2,458 teu *Pembroke*, a price hailed by specialist brokers as establishing a new floor.

But the New York-listed owner’s recent exploits suggest that for the very strongest companies in the business, a bracket in which Costamare is seen as falling, there will always be more options. Only a month earlier it obtained 100% finance from Hypovereinsbank for another feeder acquisition and it is understood there is scope for it to tap the same funds for further distressed deals if it wishes to.

The perception that cash buyers may walk off with the cream of a certain type of opportunity is strongly endorsed by ship finance expert Ted Petropoulos, managing director of the Petrofin consultancy.

“There is a band of vessels between eight and 12 years of age, which are the ladies nobody wants to date. The banks are not interested, even less so than for the more modern vessels,” said Mr Petropoulos.

Sellers could afford to drop prices to the extent that the ship has had a good run and has repaid a lot of its debt, while a cash buyer was likely to be more aggressive in making a low offer.

“Provided the recovery takes places in the next three years, they will have the benefit of the upside and, if you have the cash to buy, they represent the best target, the best value for money,”said Mr Petropoulos.

“The return on this investment has to be higher because the owner is committing more capital and therefore the price has to be lower.”

Mr Petropoulos said that the trend was “only now beginning, mostly in container shipping but the same with tankers where cashflow dried up some time ago. However, dry bulk would shortly follow as cashflow disappeared, he said.

The field of candidates able to fund purchases out of their own cash, however, will inevitably narrow the larger and younger the target ship.

Goldenport, which had cash of about $32m on its balance sheet at mid-year, said it was determined to continue its fleet renewal and that there was only a difference of about $1m between the price paid for the 15 year-old *Conti Seattle* and the money which can be recouped on similar ships 10 years older which are being phased out.

The most recent boxship disposal by the company was three months ago when the 26-year-old *MSC Finland*, a 3,000 teu vessel, reaped a demolition price of $7m.

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