

Bankers sound note of caution

There are a diverse range of banks serving the Greek shipping industry. Here, LSE asks them what their views are on the future of the Greek market

The dramatic switch among Greek shipowners from seeking financing for secondhand tonnage to ordering newbuildings has done wonders for the majority of banks operating in the Piraeus market. With full ledgers, a hot tanker market, and the prospect of fee income from taking shipping companies to the Athens stock exchange, few bankers have seen anything like it. Those that have are now sounding a note of caution: Is this the peak of lending in the Greek market, and will there be a soft landing?

The market for shipping finance in Greece is remarkably homogeneous. Of the 835 Greek shipping companies identified by Petrofin (see *LSE* June 2000, pp11-14), nearly 85% are companies controlling fewer than eight ships. Most of these ships are wet and dry bulk carriers, and tweendeckers. The banks, however, are mostly interested in financing the larger owners. Most bankers *LSE* spoke to talked of acknowledging a market of about 100 of the largest owners, of which 30-40 are the target 'name' shipowners. Therefore, the target market is standardised around fleets in excess of 15 bulk carriers. The ferry market is now consolidated around a few operators, and, while containership financing is huge, it is limited to one dominant owner (Costamare).

Diversity

Conversely, the lenders serving this uniform market are quite diverse – from traditional lenders such as the Royal Bank of Scotland (RBS) to investment banks like Piraeus Prime Bank (see pp10-12). This diversity has now increased following the enactment of a law allowing publicly-quoted investment companies to invest in shipping companies (see this issue pp13-14). The irony is that the ASE is, in effect, looking for the same 30-40 blue-chip fleets as banks.

Last year was a crucial time for lenders in the Greek market. Freight rates were low and there were rumours of loan net asset values dipping toward the default level. The pressure to enact covenants was immense, but the banks acted coolly, knowing the cycle would come up eventually. This level-headed thinking paid off, and owners returned to the banks in a big way, taking advantage of low newbuilding prices to transform their fleets.

As at the end of the second quarter of this year, the deadweight of vessels on order to Greek-owned companies totalled 14.43m dwt, of which 3.24m dwt was ordered in that quarter. Therefore, the Greek portion represents about 16% of the orderbook, and orders placed in the second quarter amount to about the same amount.

More than half the Greek orderbook is devoted to tankers, and 22% of all tanker orders placed in the second quarter were from Greek shipowners. Altogether, Greek shipowners held 18% of the tanker orderbook.

This metamorphosing event also illustrates the village-like nature of the Greek shipping finance scene. There are an estimated 35-40 banking executives of senior loan level or above making the shipping finance decisions in Piraeus and Athens.

According to a survey conducted by *Lloyd's List* for Posidonia this year, there are 46 banks with an interest in the Greek market. These can be split into native Greek banks, foreign banks with a locally-established full-service office, and those foreign banks that lend through representatives in Piraeus or its environs. The graphics on this and the following pages show the relative size of the banks within these sectors.

Naturally not all banks will reveal their portfolio size and sometimes this is drawn-down loans only, committed funds, or includes all shipping-related business. By portfolio, this is taken to include all shipping finance business, including taking part in syndication. As can be seen, the total number of banks identified

as active in the market with portfolios over \$50m is 29. The sum of all the portfolios is about \$16.5bn.

As a sector, the foreign banks with full-service offices in Piraeus have the biggest share, taking some 56%, followed by the foreign banks with representatives holding just under 30%. This leaves only some 15% of the total portfolio active with local banks.

Greek banks

Alpha Bank is one of the newer players in the Greek market. A retail bank with 500 branches in Greece, the bank entered shipping in 1997 following the lifting of foreign exchange restrictions. The office of the shipping department overlooks an airy atrium containing a small retail section for the occasional ordinary depositor who finds himself at the newly developed end of Akti Miaouli. These are not the target lenders of the shipping department run by Christos Kokkinis. "My personal opinion is to go for the top names," he said.

In this respect, Mr Kokkinis sees the competition as the National Bank of Greece, RBS, Citibank, Chase *et al.* This is a healthy environment, allowing top owners the choice of several committed banks. Alpha Bank's commitment runs deep, and, like several of the other banks target-

Top 10 banks

	\$m
Royal Bank of Scotland	2,200
Citibank	1,600
Hambesche Landesbank, Schleswig-Holstein, WestLB & NordLB	1,300
Deutsche Schiffsbank	1,200
Kreditanstalt fur Wiederaufbau (KfW)	1,200
Chase Manhattan	1,100
DNB Nedship	950
National Bank of Greece	800
Alpha Bank	700
ABN AMRO	650

Source: LSE/Lloyd's List

capital markets. Ian Fisher, a director of RBS in Greece, made it clear that the bank does offer a full service to the shipowner, and indeed that was one of its strengths, but the core activity was lending. The merger with NatWest was timely, as it expanded the asset base and hence extended the lending ability of the bank just as the demands for newbuildings increased.

Banque Nationale de Paris merged with Banque Paribas some six months ago to form BNP Paribas. The shipping portfolios of the two banks were co-joined and streamlined, with BNP Paribas retaining some loans. Since the Second World War, BNP Paribas has been very active in Far East Asia, particularly Hong Kong and the former French Colonies in southeast Asia.

Until some six or seven years ago, the bank did not have a specific shipping department. The arrival of Didier Salomon from Dreyfuss saw the creation of a shipping department, followed by the opening of offices in the shipping centres. The Piraeus office was opened in 1996.

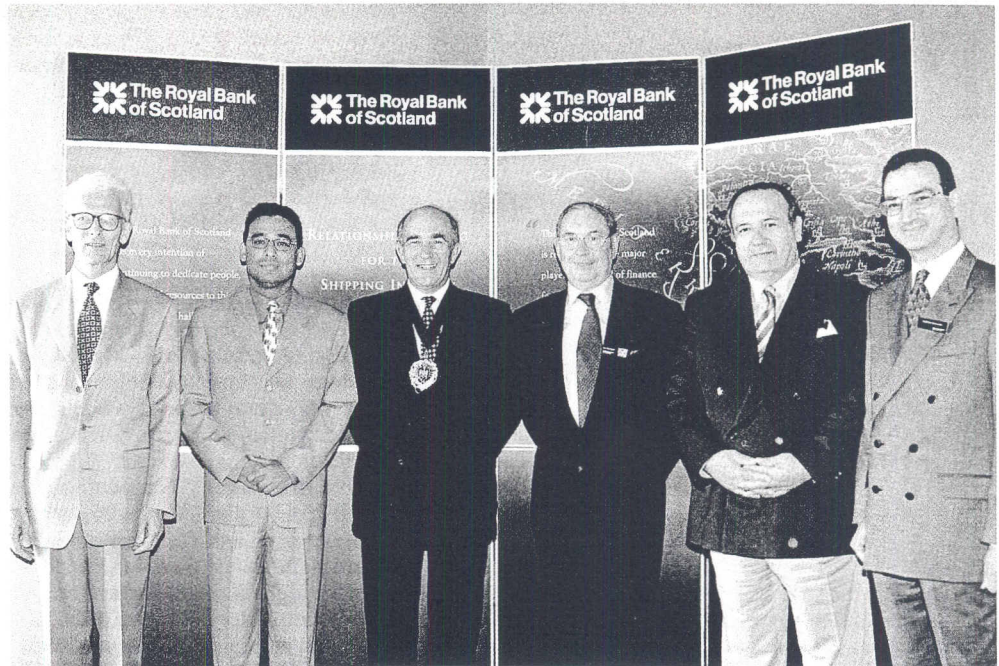
BNP Paribas has a low profile in the local shipping market. It partakes in big syndications, and sees its main role in offering a full, but discreet service to its local clients. This is the traditional role of a bank in the Greek market, and supporting the client is the driving force behind the business. Thus the bank may finance the vessels, property (commercial and private), and yachts of a single client.

"Any service the client wants, we try to do it" was vice-president of shipping Dimitris Panagoitopoulos's view of the bank's role.

Working under this policy, the bank has a portfolio in Greece of about \$200m. The bank will support all types of vessels except specialised and overage. "The bank is not a consultant, we take our own view, even if it means losing the deal," he said.

The ASE is not seen as a major threat to traditional banking, although it will take part of the finance pie. "Attica still has relations with banks," points out Mr Panagoitopoulos.

Physically, Citibank is one of the most prominent banks on Akti Miaouli. The changing blues of the bank's logo are highly visible, although the shipping department is located next door to the retail bank. Citibank is a long-established player in the Greek market, and has a simple, but effective, strategy. The bank has a list of the 30-40 top owners in Greece. Most have been – or are – currently clients to which the bank offers a full service, from loans for the ships, to investment management and treasury functions. The service is



highly discreet and, like Alpha Bank, Citibank sees its role as that of lender. "Citibank has selected the names it wishes to deal with. If a name decides to buy an older ship, Citibank will look at the deal. We are selective on names, not ship. Who is the owner, is it someone we want to deal with?", Marianne Moschou told *LSE*.

Chase sees its role in Greece as name lending rather than corporate financing. This may change with the corporatisation of shipping on the ASE, and, with Chase's merger with JP Morgan. Achilleas A Stergiou, vice-president of Hellenic shipping at Chase Manhattan, sees some parallel between the merger with Chemical Bank all those years ago. "Until then, Chase was geared toward traditional name lending (in Greece). Following the Chemical Bank merger, Chase became involved in large syndicated loans." The merger with JP Morgan will give Chase more access to equity and private equity. According to Mr Stergiou, the Piraeus market is changing slowly, and more shipping companies are becoming holding companies. One of the reasons for this is that "it is easier for banks to deal with them, and consolidations create larger transactions. This is part of a worldwide process." Chase, except the normal, plain vanilla, deals, will always try to provide clients with creative financing schemes/solutions in order to cover their needs and, for this reason, will be expecting to be paid for accordingly. "Sometimes the small shipowner's deal is too small for a large bank," he told *LSE*, "and Chase will not reduce price in order to compete."

Away from the gridlock that is the

Akti Miaouli, ABN AMRO is another foreign bank with such a deep presence it could be a native bank. Dimitri Anagnostopoulos confirms the view of Chase, Citibank and others that the small shipowner is no longer an interesting target. ABN AMRO in Greece is a full service lending operation. With a considerable presence in the large syndication market, ABN AMRO sees the loan market in Greece as a starting point for lucrative fees from cross-border deals. The bulk of the final fee may not come from arrangement fees, but from the insurance. Mr Anagnostopoulos does not see the ASE as a threat: "The well-known companies will not go on the ASE, they don't need to. Furthermore, the amounts to be raised are large – can the ASE handle this?"

Mr Anagnostopoulos has strong and clear views on shipping companies going on the ASE. There are limited funds available in Greece, argues Mr Anagnostopoulos, and other Greek industries see shipping as a threat, taking funds away from them. Echoing Mr Xiradakis's concerns, Mr Anagnostopoulos felt that everyone has to be very careful: "The reputation of Greece and shipping is at stake." Will Greek investors be able to handle the cyclically of shipping? Mr Anagnostopoulos was not too sure "mature investors create mature stock exchanges", and the track record of the ASE has been mixed. Mr Anagnostopoulos was scathing: "In my opinion, the Athens Stock Exchange oversaw the biggest transfer of wealth from the hands of the poor to the very rich Greece has seen since the end of the war." ❁

The Royal Bank of Scotland portfolio is geared towards the Greek market, and, when the newbuilding spree in Greece took off, the bank was a direct beneficiary

when the market is at a low point."

The company's philosophy is evidenced by its new business activity along with its involvement in the larger syndication deals. PPB was also involved in several smaller bi-lateral deals with companies in both the ferry sector and the dry bulk sector. These included acting as sole arranger for the financing of two panamax newbuildings for Brave Maritime through a combination of senior and mezzanine debt. The bank also took the role of arranger and underwriter in May of this year in a \$22m deal for the Petros Pappas company Oceanbulk marine for the financing of the purchase of second-hand bulk carriers.

Mr Rigas is quick to identify the problems facing small owners as the increasing polarisation of companies in the Greek market and cites the need for consolidation between those companies unable to obtain appropriate financing providing the need for further M&A activity.

The plight of the small shipowner is exacerbated by the continual increase of pricing margins, although Mr Rigas stresses that this increase is evidently slower than those experienced by markets such as northern Europe.

As evidenced by the Brave Maritime deal, filling the void of mezzanine finance has also been fulfilled by PPB and it is an area in which it is looking for further growth, even given the added risk. Mr Rigas agrees that the company tends to adopt a corporate approach rather than pure asset mezzanine finance.

"We are not afraid to take the risk associated with mezzanine finance, however we approach it more from a corporate standpoint preferring to leverage cashflow, rather than purely the asset."

With its involvement in pure mezzanine finance, the bank is naturally cautious of the development of credit enhancement techniques such as SMI and feels that it is better in the long term to take on risk rather than give it to insurers.

Equity involvement

Naturally, as an investment bank, PPB is appropriately equipped to handle the issuance of equity whether in a private or public format.

According to Mr Rigas, the search for private equity is a constant quest for shipowners.

"Shipowners' thirst for private equity has been very apparent over the last couple of years. However, the

use of private equity can bring about several conflicts of interest between shipowners and financial investors."

PPB is an equity provider in a private equity fund for dry bulk operator Golden Union. The Cape Investments Corp (CIC) fund includes Den norske Bank, a leading Swiss bank, Greek institutional investors and a Golden Union equity stake. In January this year, the fund completed a \$50m private share placement to private investors. The total fund size is \$200m, with an equity tranche of \$85m and the remainder funded through senior debt. CIC currently owns a single 146,000 dwt bulker and the extra equity is financing the construction and delivery of two 170,000 dwt capesize vessels currently under construction at Hyundai Heavy Industries in South Korea and due for delivery in 2001 and 2002.

The equity involvement has given the investors a place on the board of the company and is currently producing profitable returns. All of the investors have committed the appropriate amount of cash and there was no contribution in kind, which is quite unusual for a private fund. According to Mr Rigas, the bank's knowledge and expertise in private equity has meant the deal structure presents a clear exit strategy.

"The main problem with private equity is the clear definition of the owner in the deal. In this particular case, the owner is aware of his position as a minority player in the fund and will accept the decision of the fund managers."

The deal certainly looks watertight and, with a conservative debt structure and transparency of ownership, the possibility is there for a listing.

The bank is a firm believer in a clearly defined and immediate exit strategy due to the volatility of the shipping market. According to Mr Rigas, it is imperative to have in place an immediate strategy and the discipline to induce such a strategy. Another problem recognised by PPB is the need to manage the fund correctly and not be drawn into financing the unnecessary.

Private equity is an appropriate product for ship ventures as it provides a flexible decision-making process and is a more sophisticated method of undertaking risk. From an investor's point of view it is more demanding as the bank plays a far more active part than a public investor.

As to be expected, the bank is closely following the development of the criteria issued by the ASE for

Factfile: Piraeus Prime Bank

Company Structure

ADDRESS:	PIRAEUS PRIME BANK 16, 1 Merarchias St 185 35 Piraeus Greece
TEL:	+301 41 86 313
FAX:	+301 41 86578

Structure

A 100% wholly owned subsidiary of Piraeus Bank Group.

Type

Investment bank offering full range of investment banking services for shipping companies. Also provides debt and equity underwriting, syndicated loans, senior and mezzanine debt, private and public equity placements.

Shipping group

Officers responsible for shipping:
Stelios Niotis – executive board member
Matthew Rigas – head of shipping

ocean-going companies and is extremely well-placed to tackle the eventual flow of shipping IPOs. Its subsidiary Sigma Securities handles the largest market share in terms of daily trading volumes with a large network of investors. The group also has a 17.7% market share of participating in all IPOs on the exchange as either lead underwriter or a co-underwriter. From a shipping perspective, the bank was underwriter for Anek Lines' initial public offering in December 1998 from which the ferry company raised \$67m for the financing of newbuilding and the upgrading existing fleet. PPB has also recently advised NEL Ferries for a share capital increase through a rights issue and is still acting as adviser for Festival Cruises' proposed listing on the ASE.

Nevertheless, according to Mr Rigas there are still a number of issues to be addressed before the listing of ocean going companies. The most important issue at present is the mysticism surrounding the valuation of traditional Greek shipping companies and whether the majority will be able to achieve a valuation above net asset value. This area undeniably brings into question the topical issue of accurate vessel valuations.

"The much-publicised high-yield activity has brought to the atten-

A number of companies have put their hat into the ring for a possible listing, but PPB believes that the number of companies actually meeting the criteria of the stock exchange will be small

tion of equity underwriters as well as regulators of the ASE the necessity of accurate fleet/company valuations. This will be an important issue when companies consider the possibility of a listing. Underwriters will need to be able to analyse discounted workflows and net asset values and compare them with ratios such as P/E, P/EBITDA or P/Book to establish an accurate valuation for the companies seeking a listing."

Mr Rigas advocates that shipowners must undertake the process of defining clear goals and objectives to be achieved through a listing. Understandably, the hype surrounding the opening of the ASE doors has led to a number of companies putting their hat into the ring for a possible listing, but PPB believes that the number of companies actually meeting the criteria of the stock exchange will be small.

One criterion, the issue of flag, will cause problems to many owners considering the move, as those currently under a flag-of-convenience will need to endure further operational costs to meet the requirement of registration under an EU or affiliated offshore registry.

PPB is not alone in its fears of manipulation by asset players and perceived abuse of the system for purely financial reasons. The problems lie in the principle that shipowners will constantly want higher values, whereas the investor will be looking for low share values and Mr Rigas believes that this will be an area of conflict.

"It would have been easier if the shipping market was at a low in order to take advantage of low vessel prices for fleet expansion."

Another danger from a banking perspective is the level of pricing for IPO fees and the possibility of other banks tempting shipowners and breaking the trend that it is hoped will be put into place by the major banks and the stock exchange.

According to Mr Rigas, the pricing structure of IPOs should be kept at consistent levels. Additionally, owners should have expectations from the market, consistent with valuations provided by other international equity markets. "With underwriters erring on the cautious side; it will help protect the public and help to provide accurate valuations of the selected companies."

The aim of PPB is to bring to the

market large groups of companies specifically geared up for a public listing and to set the bar at a sufficiently high level enabling a limit to be set on the size of companies and the amount to be raised. Once this has been achieved and there is a clearer picture of the funds available, then the criteria will be set for future listings.

It is clear that the company must have a set strategy to be a plausible candidate for listing, as to use the fund purely for debt reduction will not be a significant reason for listing. Prospective candidates must have a business strategy with a clearly defined focus. The use of funds must also be specifically identified in order to convince the stock exchange. A company that dedicates finance to an expansion plan specifying the number of newbuilds and their use in the market will find the exchange more receptive than a company that has no clear use for the additional funds.

With the stigma of Greek companies involved in high yield bond failures still fresh, regulations have also been put in place stating the declaration of any other businesses that may have previously been declared bankrupt or have defaulted on interest and bondholder payments. In addition, companies or the management of companies that are listed on other stock exchanges must produce a comprehensive track record of shares listed, performance and any other pertinent information.

Preparing for entry

Mr Rigas believes that entry is likely towards the end of next year. ASE has organised a separate entry system for ocean going shipping companies from the 250-plus other companies willing to list. Entry is unlikely to be any earlier, thus giving the companies the time needed to implement the various regulations.

So it seems that the deluge of companies and the hype surrounding the placement is a false dawn for Greek shipping. PPB believes that the bulk of the Greek companies will not be listed and the total amount of finance will be small in comparison with the amount available through debt and private equity. Nevertheless, there will be opportunities for those companies that meet the specified criteria and PPB perceives an important role to play as

an adviser and underwriter.

There will also be the opportunity for underwriters to use foreign institutional investors for the larger deals, which again calls for clear transparency on the company's behalf. The smaller issues can be raised within the spectrum of Greek retail investors.

Consolidations

In respect of M&A activity, the bank's primary focus is on corporate consolidation such as the recent moves in the Greek ferry sector and it has been extensively involved with the consolidation within the sector, acting as adviser for various companies. From a dry bulk perspective, Greek companies have traditionally searched for foreign companies valued at a low price and big foreign corporate companies are unwilling to sell at a discount.

According to Mr Rigas, PPB tries not to advise in a traditional M&A capacity as many of the traditional owners do not like to pay for advice.

"It is now becoming tougher and tougher for owners to renew fleet, as they are forced to make large investments and, for a family-owned business, this translates into a need to invest large portion of equity. There will naturally be a process of consolidation by smaller shipping groups in order to have access to both equity and debt capital and this will create a need for advisory and corporate finance services. PPB is focused on a corporate style of shipping finance, able to advise as well as raise equity or lend money to shipping companies that will be going through this process," he said.

Looking at the future, Mr Rigas believes the recent ferry disasters may affect their market in the same way the *Erika* disaster affected older tanker tonnage. Structurally, there will be a gradual phasing-out period in the ferry market, with the abandonment of the cabotage regulation. The opening up of the protective cabotage market will see the entrance of foreign companies, although there is still a problem with existing infrastructure, and there will be intense competition between existing Greek companies. The increasing trend of fleet renewal and enhancement will create more business for banks and revitalise a young secondhand tonnage market. All this with the opening of the ASE and it appears PPB will have an intense period of activity in the Greek arena for the next few years capitalising on its dual role as investment and specialised shipping bank.