The Lloyd's List
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Athens

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What to expect from the Banks in 2010 and 2011

presented by

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MD

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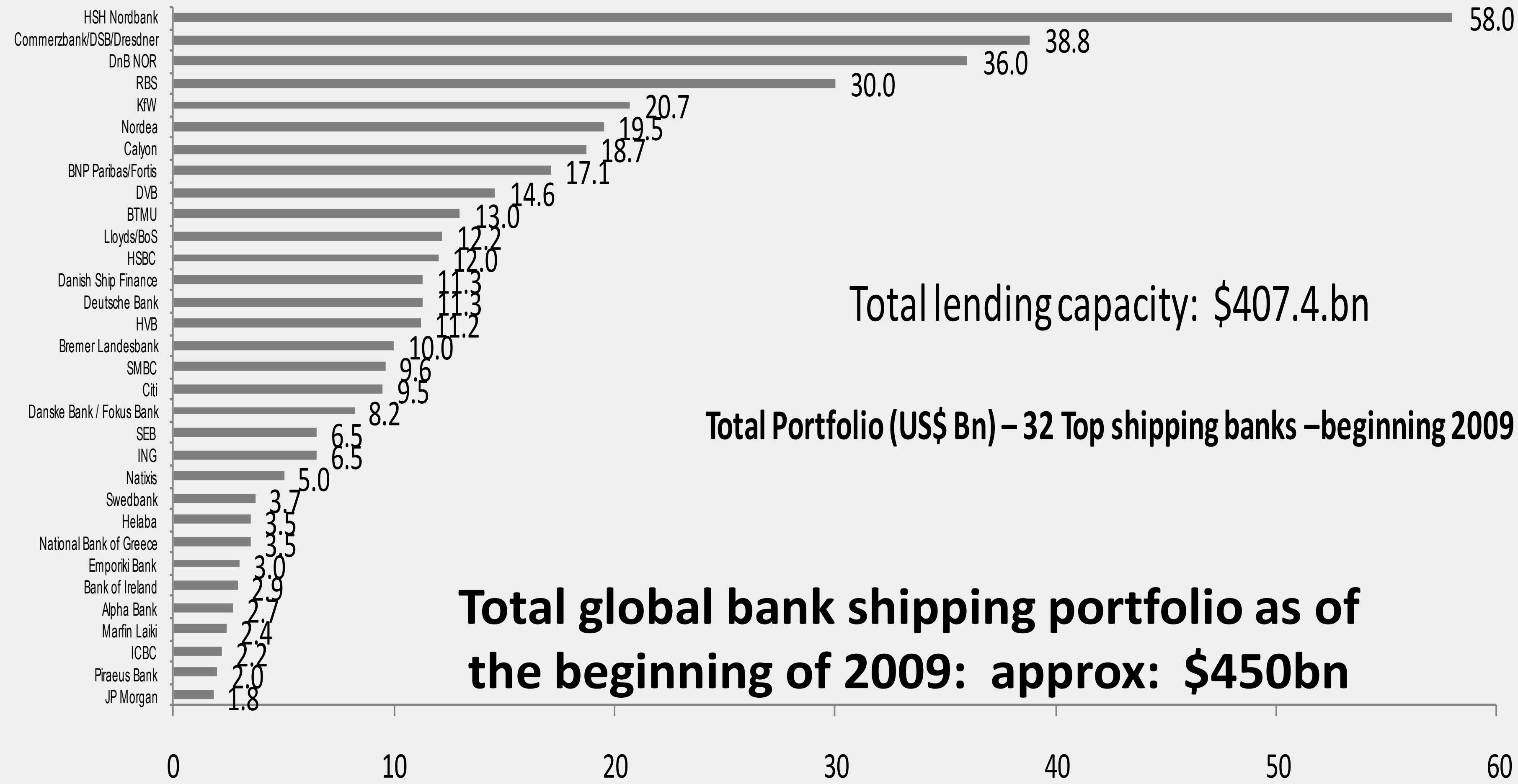
a. Global shipfinance, the financial requirements of the newbuilding order book and the debate about newbuilding slippage rates from 2010 onwards

Will there be sufficient finance for everyone?

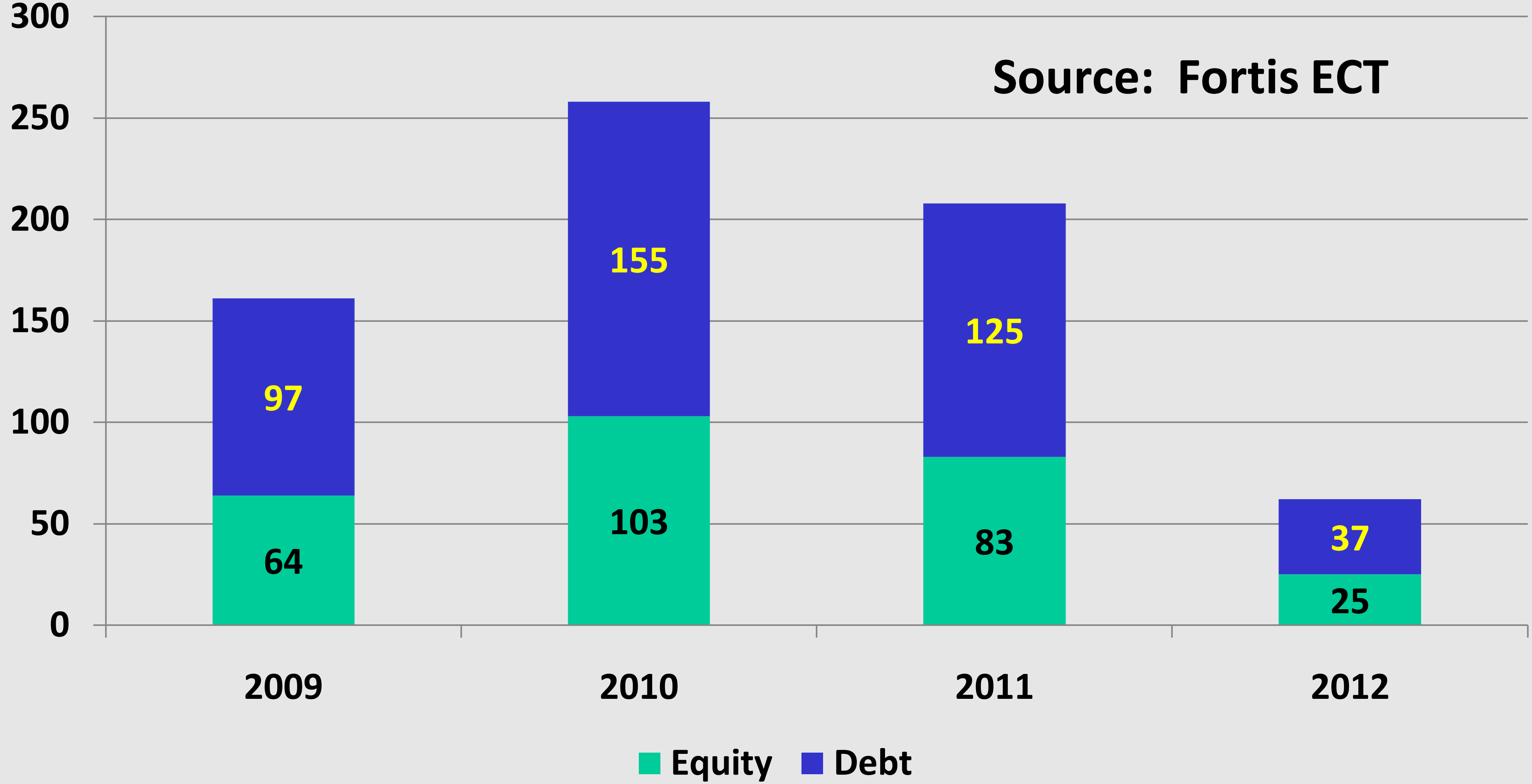
Financing the existing fleet

Source: Petrofin, Nordea



Will there be sufficient finance for everyone?

Financing the newbuilding order book:
Expected need for ship financing May 09 (60% leverage)

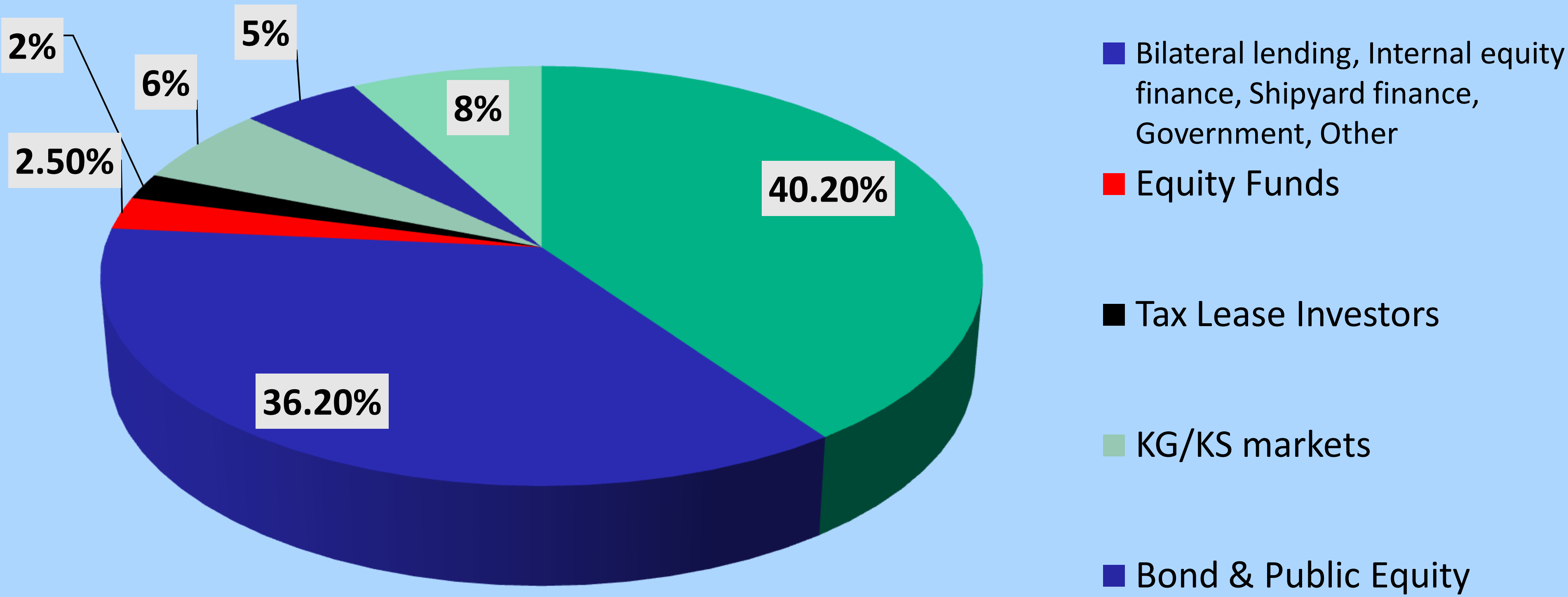


Total envisaged deliveries 2009-2012 worth $699bn!!!

Will there be sufficient finance for everyone?

Financing the newbuilding order book

Traditional Sources of Capital for Shipping



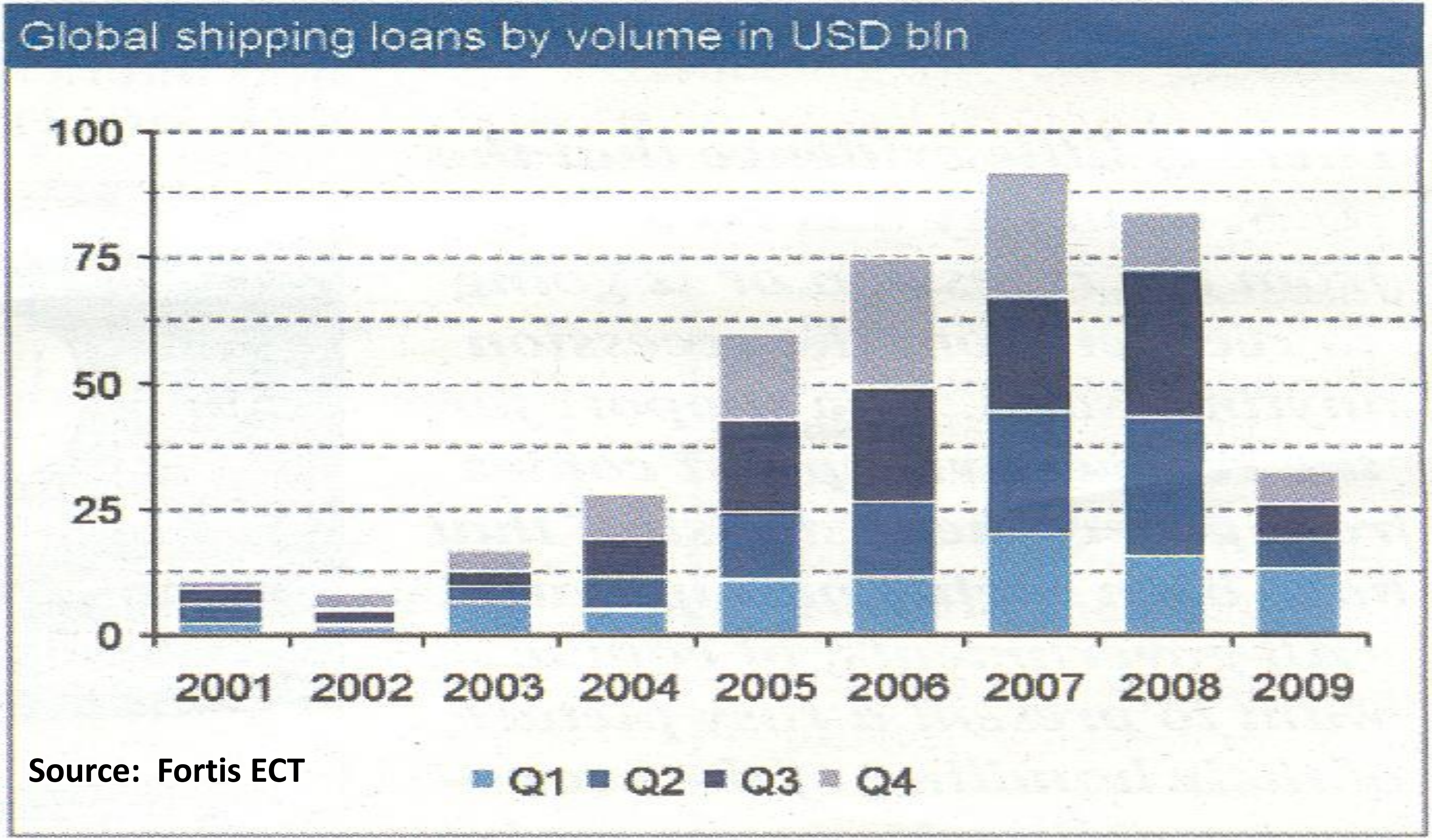
Bank loans have traditionally satisfied approx. 75% of capital requirements

Source: Fortis ECT

Will there be sufficient finance for everyone?

Financing the newbuilding order book

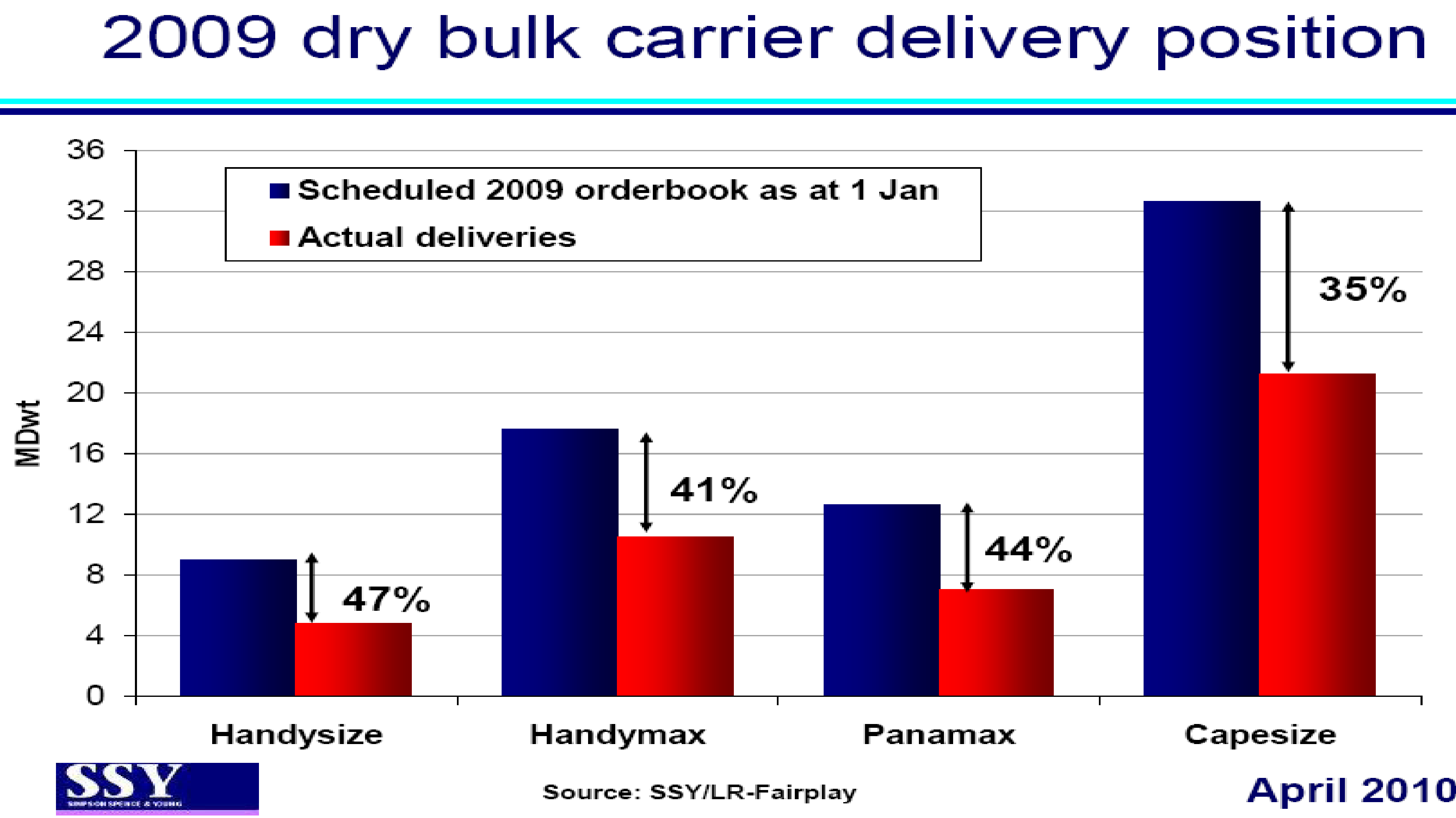
Credit tightness since mid 2008:



Source: Fortis ECT

Financing the newbuilding order book

For example, the Dry bulk delivery position

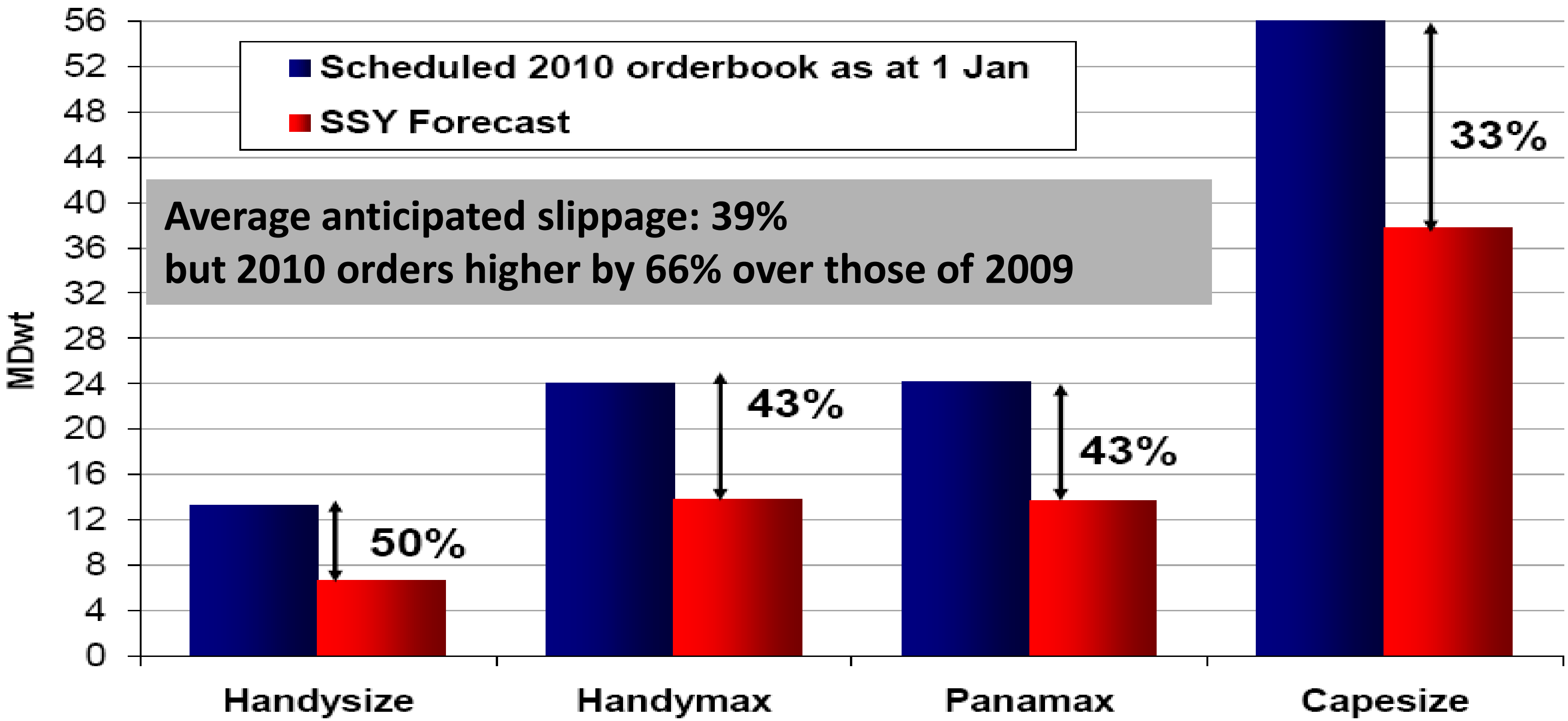


Will there be sufficient finance for everyone?

Financing the newbuilding order book

For example, the Dry bulk delivery position

2010 dry bulk carrier delivery position



SSY

Source: SSY/LR-Fairplay

April 2010

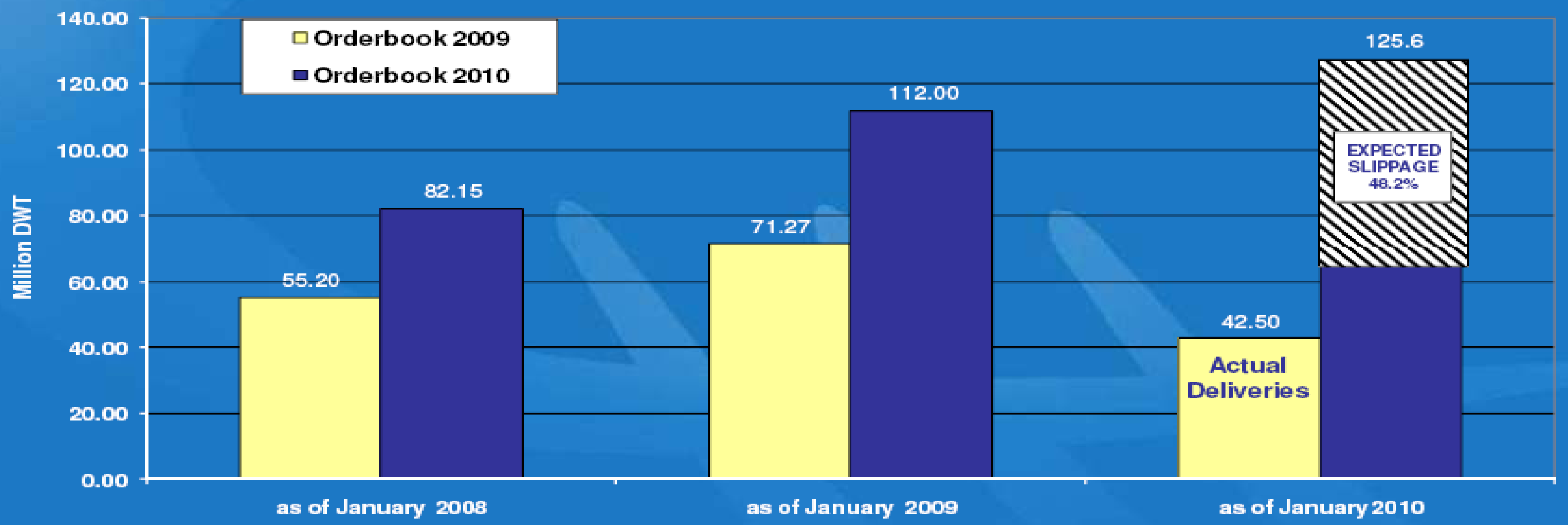
Will there be sufficient finance for everyone?

Financing the newbuilding order book

Changes to the Orderbook Projections: Source: Navios, based on Clarkson's data

Changes to the Orderbook Projections

- Non-deliveries for 2009 = 40% (29.8 m dwt)
- Non-deliveries for 2010 projected at 48% (60.5 m dwt)



Source: Clarksons'

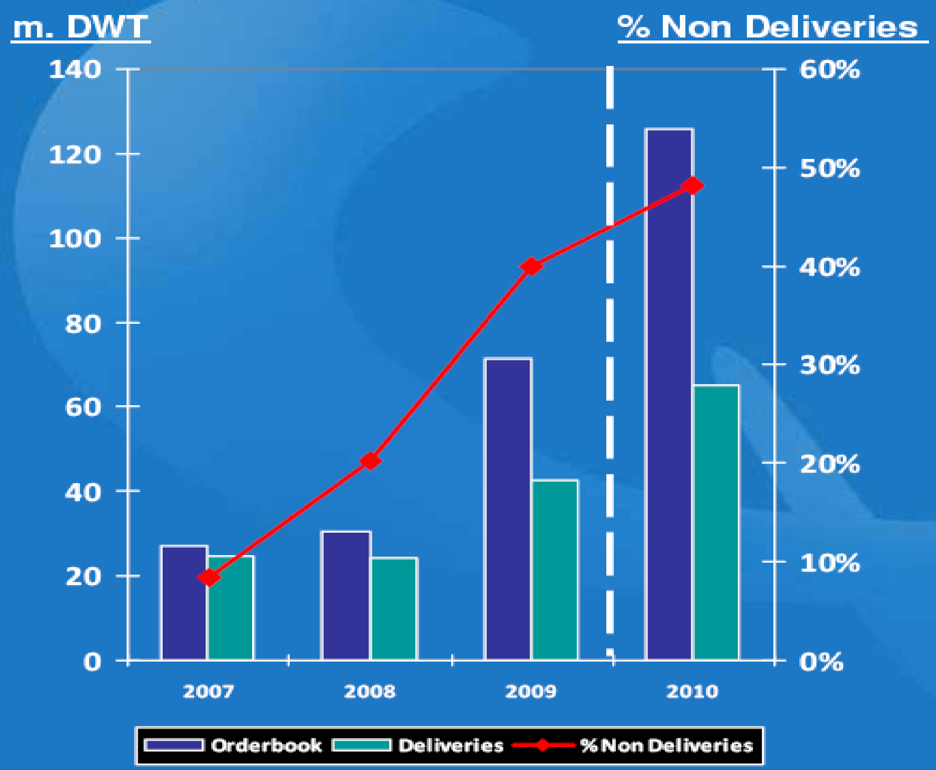
Navios Maritime Partners L.P.

Will there be sufficient finance for everyone?

Financing the newbuilding order book

Dry Bulk Orderbook: Source: Navios, based on Clarkson's data

Dry Bulk Orderbook: Actual and projected non-deliveries



- 2010 Q1 deliveries 16.3 m dwt equating to 41% non-delivery
- 2010 expected deliveries 65.1 m dwt equating to 48.2% non-delivery
- Conservative lending environment causing non-deliveries
- Renegotiations commonly result in delivery postponements and cancellations
- Non-deliveries for 2009:
  - 40% by dwt (71.3 dwt expected, 42.5 dwt delivered)
  - 45% by number of vessels (962 newbuilds expected, 531 actual deliveries)

Source: Scheduled and actual deliveries data from Clarksons (Apr 2010).

Will there be sufficient finance for everyone?

Our opinion on the financing capacity of the newbuilding order book

Our opinion on the financing capacity of the newbuilding order book

-It is estimated that the global newbuilding order book at the end of 2009 was $450bn for the period 2010 to 2013 inclusive (4 years)

-It is projected that newbuilding cancellations and / or delays shall average at least 30% over the period reducing the order book over the 4-year period to approx $315bn.

- Assumed max 60% leverage or approx $200bn of which 40% already committed and contained in the global loan figures.

Our opinion on the financing capacity of the newbuilding order book

-Consequently, uncommitted newbuilding finance over the 2010-2013 period estimated at $113.4bn.

-Global second-hand and resale market for dry bulkers and tankers for first the 3 months of 2010 amounted to approx. $4.65bn (www.gmoundreas.gr) or a projected approx. $18.6bn for 2010.

- Adding a further $5bn for container and other vessels, this would raise the average figure to $23.6bn. We anticipate 50% new finance minus 25% sellers finance being retired being the equivalent of approx. $5.9bn for 2010.

Our opinion on the financing capacity of the newbuilding order book

-We project for 2010 – 2013

a) a pick up in S&P activity raising the 4-year final requirements to approx. $30bn.

b) increased financial requirements for mergers and acquisitions of a further $25bn

c) finance for the additional orders placed*. We anticipate additional finance requirements for such fresh of approx $50bn over the 4 year period

* *We have recently seen a pick up in new orders, representing either fresh orders or converted previously cancelled orders*

Our opinion on the financing capacity of the newbuilding order book

- We estimate, therefore, that the fresh new finance requirements of approx $218.4bn over 4 years, representing approx 48.5% of the current global loan totals

-Due to the cash flow squeeze across all sectors and despite owners injections of new capital, the natural wastage of the global loan book, (via repayments) is assumed at approx 10% p.a. or approx. $45bn p.a.

Our opinion on the financing capacity of the newbuilding order book

-It is anticipated that the above natural wastage shall improve over the years and especially from 2012 onwards.

-Our estimates for new shipfinance requirements (putting aside retiring debt) amount to $218.4bn over 4 years (2010-2013), where as Fortis estimates a total of $317bn over the 3 years 2010-2012): As such, forecasts vary greatly.

-Consequently, assuming that retiring debt ($180bn) was channelled into new lending (a rather big assumption), the additional ship finance global requirements at approx. $38.4bn are not excessive from a demand for finance point of view.

b. Restructuring of loans / avoiding foreclosures

SO FAR, SO GOOD. WHY?

b. Restructuring of loans / avoiding foreclosures

1. Banks remained vigilant and cool
2. Depth of crisis brought banks and clients closer together
3. Very few shipping collapses. Limited ability by banks to absorb losses due to the banking crisis
4. Loan restructures provided a safety valve
5. Robust recovery of international trade and high growth by China boosted sentiment
6. Initial charterers' failures stopped

b. Restructuring of loans / avoiding foreclosures

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7. Dry bulk recovery of values and freight rates boosted confidence
8. Client cash flows displayed resilience and in dry bulk an unexpected recovery
9. Banks' tough stance towards existing newbuilding finance reduced overall bank exposure
10. Banks' attention turned to 'yield' enhancement
11. New loans and restructures provided yield incentives for banks

b. Restructuring of loans / avoiding foreclosures

12. Covenant waivers assisted profitability
13. Banks' liquidity issues demonstrated the symbiotic cross dependent relationship between banks and clients
14. Bank loan portfolios (via repayments and higher asset values) showed an improvement
15. Greek banks showed a special commitment towards their Greek clients
16. The successful 'co-operative' approach was increasingly seen as a winning strategy

c. Covenant waivers: round three?

1. Reduced requirements due to loan repayments and vessel values appreciation
2. Even clients still in need of covenant waivers are in a better financial position
3. Banks have an enhanced ability to provide waivers
4. Banks' last opportunity to increase yields (unless market shall collapse)

d. Is Patience running out?

1. Banks' patience rewarded
2. Banks' loan portfolios improving
3. Truant loans decreasing
4. Container sector still suffering
5. Only banks anticipating a sharp shipping recesion may wish to take action now

e. When will banks return to ship lending and on what terms?

1. Global economic growth improving (IMF forecast 2.3 and 2.4% growth for 2010/11)
2. International banking losses abating but financial instability remains
3. Enhanced capital and liquidity position of international banks
4. Ability of Greek banks to maintain market share in doubt (Petrofin Bank Research 2010 showed Greek banks having 24% market share as of end 2009)

e. When will banks return to ship lending and on what terms?

5. Improving shipping recovery prospects due to high Chinese growth, global GDP and international trade growth, and higher ton-mile requirements

6. Despite shipping recovery, newbuildings slippage continues at approx. 40% and high port congestion and limited scrapping is keeping the supply side from running away.

7. Based on the net addition to dry bulk capacity over the first quarter of 2010, the annual dry bulk supply growth is estimated at 15% for this year.

8. However, overall shipping prospects for 2011 and beyond still unclear due to large order book and fresh newbuilding order spree

e. When will banks return to ship lending and on what terms?

9. Current shipping loan margins / fees are very attractive and at the highest level for over 40 years

10. Loan advances at approx. 50 – 60% of current vessel values plus strict loan terms and covenants are very appealing for new lenders with capacity to lend

11. Overall, we anticipate a gradual recovery of European banks and more bank competition for 2011 onwards. However, loan margins and terms to remain near current levels for 2010 with a mild correction in 2011.

12. Key to the lending attitude of European banks will also be the defection of their clients towards Far Eastern banks

f. New banking players in the horizon?

1. Far East rules; ok?

2. According to Bank of China, Chinese banks hold currently between $88-102bn in shipping banks, i.e. approx 20-22% of global shipping loans.

3. Increasing Chinese , as well as S. Korean, bank loans in support of local newbuilding orders and local clients

4. Growing Chinese banks' appetite to finance publicly listed non-Far Eastern shipping companies.

5. How will European banks respond to the challenge?

6. Our expectations

List of Far Eastern banks involved in ship finance:

Chinese banks

-China's Export-Import Bank (Exim Bank)
- Bank of China
- ICBC
- China Construction Bank
- Corporation Bank of Communications Co
-China Development Bank (CB)
- Industrial and Commercial Bank of China Limited
-China Export and Credit Insurance Corp
- Overseas Commercial Bank of China

- Japanese Banks

-Mitsubishi UFJ Financial Group
-Sumitomo Mitsui Banking Group
-Mizuho
-Japan Bank for International for Co-operations

Korean banks

Korean Development Bank
Korea Export Insurance Corp
Korea Export Import Bank

Singapore-based banks

Overseas United Bank
DBS Bank

Summary and Conclusions