Lloyd's List

Financiers lend support to fleet fervour

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- by The market for providing funds to owners has expanded newbuildings stay the dish of the day, but despite this growth, the bank have not significantly increased heir overall exposure, writes Nigel Lowry

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What is mildly surprising, says shipping consultant Ted Petropoulos, managing director of the Petrofin S.A. consultancy, is that growth in banks' overall financial exposure to the industry has not been even more pronounced.

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According to Petrofin Bank Research, the total Greek s ip finance loans portfolio only rose 3% in the second half of last year, slowing down after a huge leap in the first six months of the year.

However, the recently released study showed that loans from the 54 banks said to be in the market providing finance to Greek owners increased from $21.2bn in January 2003 to $25.5bn at the end of the year.

Petrofin attributes the slow-down in lending growth to Greeks' emphasis on newbuildings requiring future rather than present loans — as well as the impact from some loan repayments as a result of the sale of older vessels.

“Greek ship finance has maintained its dynamism with a number of banks entering and withdrawing from the market,” it says. “Overall, the robust performance of Greek shipping over e years and its attractive risk/reward characteristics, as well as the positive market outlook, has encouraged new entrants whose contribution is expected to grow.”

The study counted 10 foreign banks with a physical presence in Greece. They had a total portfolio of $10.1bn in loans to Greek owners, a 7% increase in the second half of 2003.

By contrast, the number of non-Greek banks active in the market, but without a presence in the country, was reduced from 33 to 29 institutions. Their collective ship lend g portfolio fell 3% to $9.8bn.

Meanwhile, the total of Greek banks involved in ship f ance rose from 12 to 15 by the end of last year. Their portfolio also increased by nearly 7%, to reach $5.6bn.

The Royal Bank of Scotland remained the largest indivi ual lender to Greek owned shipping, with a portfolio of $4.5bn.

In Petrofin's table of the top banks it was followed by Deutsche Schiffsbank and HSH Nordbank, each with portfolios of more than $2bn, and then National Bank of Greece, Alpha Bank and Credit Agricole Indosuez, all with individual portfolios topping $1bn at end-year.

In all, 16 banks were counted as having portfolios of more than $500m at year-end and overall the league table of top banks involved in the Greek market reflects a dramatic nge over the last decade or so, with continental European and

Greek domestic banks dominating instead of the numerous UK and US institutions that were to the fore in supporting an earlier phase of Greek shipping growth.

Mr Petropoulos says the financial character of Greek s ipowners and banking relationships, particularly at this moment when many owners are cash-rich from the recent windfall dry bulk market, are changing too.

“There have always been quite a lot of liquid Greek own rs, but this market has given them in general unprecedented liquidity,” Mr Petropoulos maintains.

“Greeks have also been looking at risk and containing r k despite the fact that they have this liquidity. They have recognised they are in a risky business with a lot of volatility — so they are effectively beginning to hedge.

“It is like a broadening of the mind, an ongoing proces , but nonetheless an element of hedging more than before is definitely there, and an element of risk strategy whic is much better defined than before.”

Mr Petropoulos notes that in his view hedging includes a much greater use of time charters to ‘lock in’ high revenues, selling of older ships, interest rate hedging and a greater use of FFAs and other instruments, although “this is in an embryonic state in Greece”.

At the same time, he notes: “They have gone for quality — and not only quality of ship. They have elevated thems a number of steps on the ladder and have done it, I think, without in any way ruining liquidity.

“It has changed the banking relationship because for th first time a good number of owners have much more cash in the bank than they have loans. Now clients have the upper hand, particularly when they have their liquidity in the bank that is financing them.”

Many banks have privately admitted that their shipping loans are extensively covered by owners’ deposits, with ratios of 80%, 90% and even more than 100% not being uncommon. They are less prone to admit it, but in the present situation many have acceded to owners’ requests for special deals, often in the form of a fra tion better interest on their cash deposits.

Even though margins have stabilised and in some cases been reduced, in Mr Petropoulos’ view banks ought to find present rates satisfactory. “Why would they not?” he questions. “The quality of clients, of management and of collateral are going up in leaps and bounds in the Greek shipping market, while spreads are still fairly stable.”

Market-leading Royal Bank of Scotland admits that in the Gree finance scene margins have come down, “reflecting better balance sheets and increased competition”, says head of shipping Lambros Varnavides.

“It is true to say that many Greek owners are cash-rich,” he agrees. “Many of our clients are holding back at the moment because they do not really want to pay current prices or order newbuildings four years ahead, but I believe next year there will be more activity again.”

Mr Varnavides, too, sees that the financial wellbeing in the industry has prompted a change in banking relationships — “in the sense that tourist banks are throwing money at people and that does affect the relationship in the more transactional area. It does not affect long-term large clients with whom we have a strategic relationship,” he says.

The RBS manager is more prone than many ship finance officers to detect a fly-by-night element in the ranks of banks serving the ship finance market.

“The long-term players are very few,” he contends. “I would say there are more tourist banks than long term players — especially in the Greek market. It has become a new port of call and everyone is getting in now.”

This view may, though, be a matter of the bank’s definition of long-term, since it has been 250 years in shipping and 150 years in Greek shipping.

Mr Varnavides says RBS will be supporting owners a goo ile longer. “We will be staying and increasing our portfolio significantly over a five-year period,” he states.

Dimitris Anagnostopoulos, head of Greek shipping for Dutch based ABN-AMRO, is another experienced ship-ping banker who detects signs of a feeding frenzy among banks.

“History repeats itself,” he comments. “There is a solid group of banks that have been committed for many years in the shipping industry and they normally follow a balanced lending approach.

“However I have seen not only certain newcomers but a g d number of opportunistic or aggressive lending transactions coming from some of those banks I would normally say b ng to the ‘solid group’. That is worrying.”

Overall, though, Mr Anagnostopoulos is optimistic abou e future of finance for the Greek-owned fleet.

“I think that one way or the other, the Greek-owned fleet will always find the necessary funds to either expand or modernise. However, parameters change, sometimes unexp tedly and we will all need to stay alert for the next market downfall.”

ABN-AMRO’s Greek Ship-ping Group this summer celebrates 30 years of active p esence on the Pireaus waterfront since Johannes van Brummen opened the doors of the first branch in 1974 on the Akti Miaouli.

Vassilis Mantzavinos, manager of the shipping unit of German bank HVB in Greece, is also cautious in the light of reactions to the present, unusually liquid state of the market.

“I do not believe that in the long run the capital mark ts are a serious alternative to bank finance in this highly cyclical market,” he notes.

“Of course we will see more companies entering the stoc market while high yield bonds will surely reappear. However it will only take the next market recession to remind eve one that the only reliable funding source is and remains the banking finance and owners equity.

Mr Mantzavinos adds: “I am disappointed by the short memory of key players and primarily banks.

“Overinvestment in market peaks is a rather certain rec pe for disaster.

“Our bank tries to avoid taking undue risks today so to ake advantage of opportunities during the next (inevitable) recession whenever this appears. This does not mean that HVB will not support its clients’ investment decisions today — it does indicate though that it is not the time to eng in an aggressive expansion campaign which may end up in tears in the not too distant future,” Mr Mantzavinos explains.

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