How is Greek shipping surviving the crisis?

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Since mid 2008, the world economy, the banking industry and shipping have been in continuing difficulties.

The slow down and erratic performance of the global economy and international trade has led to a slowdown in demand for shipping across most sectors with the primary exception of the LNG and offshore sectors.

This couldn't have come at a worse time for shipping, since the good market of 2003 – 2007 had laid the foundations of a gigantic ordering book, which more than doubled ship carrying capacity.

The resultant market oversupply has led to the drastic erosion of vessel prices and vessel incomes. This has resulted in most companies running their fleets with negative cash flows, continuously dipping into their liquidity reserves. Freight rates recently reached very low levels with most vessels in both the dry and wet sectors barely covering their operating costs.

The declining cash flow of the industry has also affected its ability to meet its financial obligations, resulting in across the board loan restructurings by banks, which had little choice but to provide. Of course, banks have started identifying and quietly reallocating assets among its clients, not only in an effort to shore up the creditworthiness of their shipping loan portfolios but primarily to avoid or delay taking losses.

The shipping banking sector, as part of the continuous global banking crisis, has suffered greatly. The number of banks still actively engaged in ship lending has been reduced to a pitiful few with the list of "existing" banks becoming longer and longer.

As we all know, shipping is a capital intensive industry, which requires financial support, both for the acquisition of vessels, as well as for servicing its bank debt. The virtual absence of ship finance, even for the larger and creditworthy clients, involving secure transactions that meet even current adverse market criteria, has led to an implosion for the shipping industry, where liquidity is scarce and economising is the order of the day.

For the shipping industry, which had gone through a period of drastic age, quality upgrading and growth in its fleet, with the resultant growth in lending, the adjustment to the catastrophic conditions prevalent over the last 4 years has been particularly painful.

In the interests of brevity, I have not provided numbers (which have been previously reported in our Petrofin Bank Research © and articles), but have kept to the main issues to present the background to the shipping industry's plight.

Greek shipping suffered, in line with all the other countries' shipping sectors, with the exception of the Chinese and other Far Eastern ones , where they have been to some extent protected by the growth of the Far East region, coastal trading, employment contracts and better support by both shipyards and Far Eastern banks.

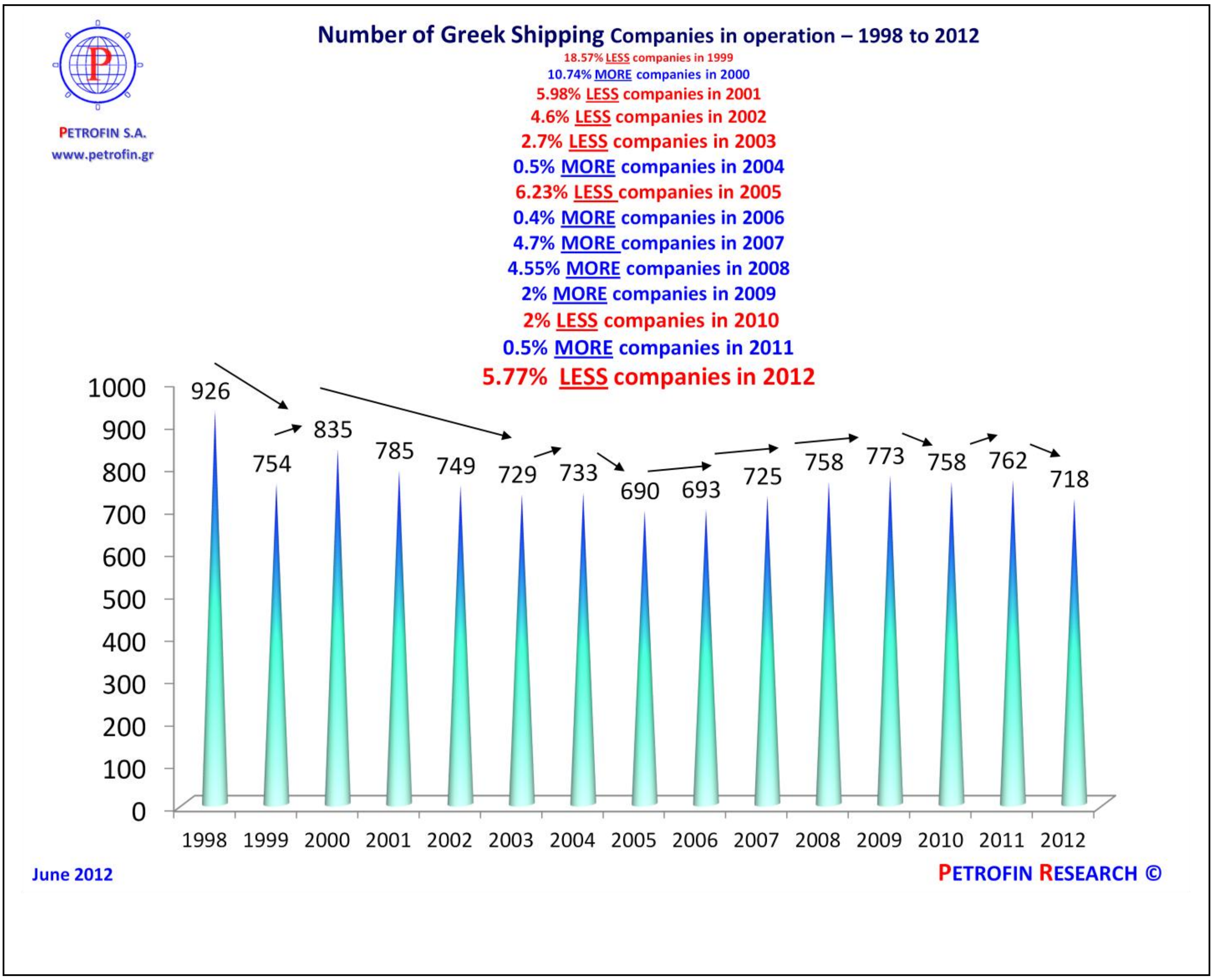
Greek owners have had to also deal with the adverse effects of the "Greek crisis" and the uncertainty this has generated both to them, as well as indirectly to financing institutions seeking to restrict "Greek risk". Although, Greek shipping is an international offshore industry unaffected by Greece's plight, this demarcation has been hazy for some banks.

As a conclusion, global shipping in general and Greek shipping in particular, have been labouring to meet their obligations under the most adverse conditions even encountered, whilst the industry's prospects, as to a recovery, remain hazy, at best.

Let me repeat this article's headline question, "How is Greek shipping surviving the crisis"?

According to the latest Petrofin Research ©, recently published, (see graph 1), the total number of Greek companies in operation in 2009 (when the crisis started to affect shipping) was 773, whereas the 2012 figures show 718, a 7.1% decrease. However, it is fair to say that between 2005 and 2009 the number had risen from 690 to 773 companies. It is also reasonable to say that Greek shipping company numbers reflect (with lags) the fortunes of Greek shipping, although there are other factors that also have a bearing that shall be analysed below.

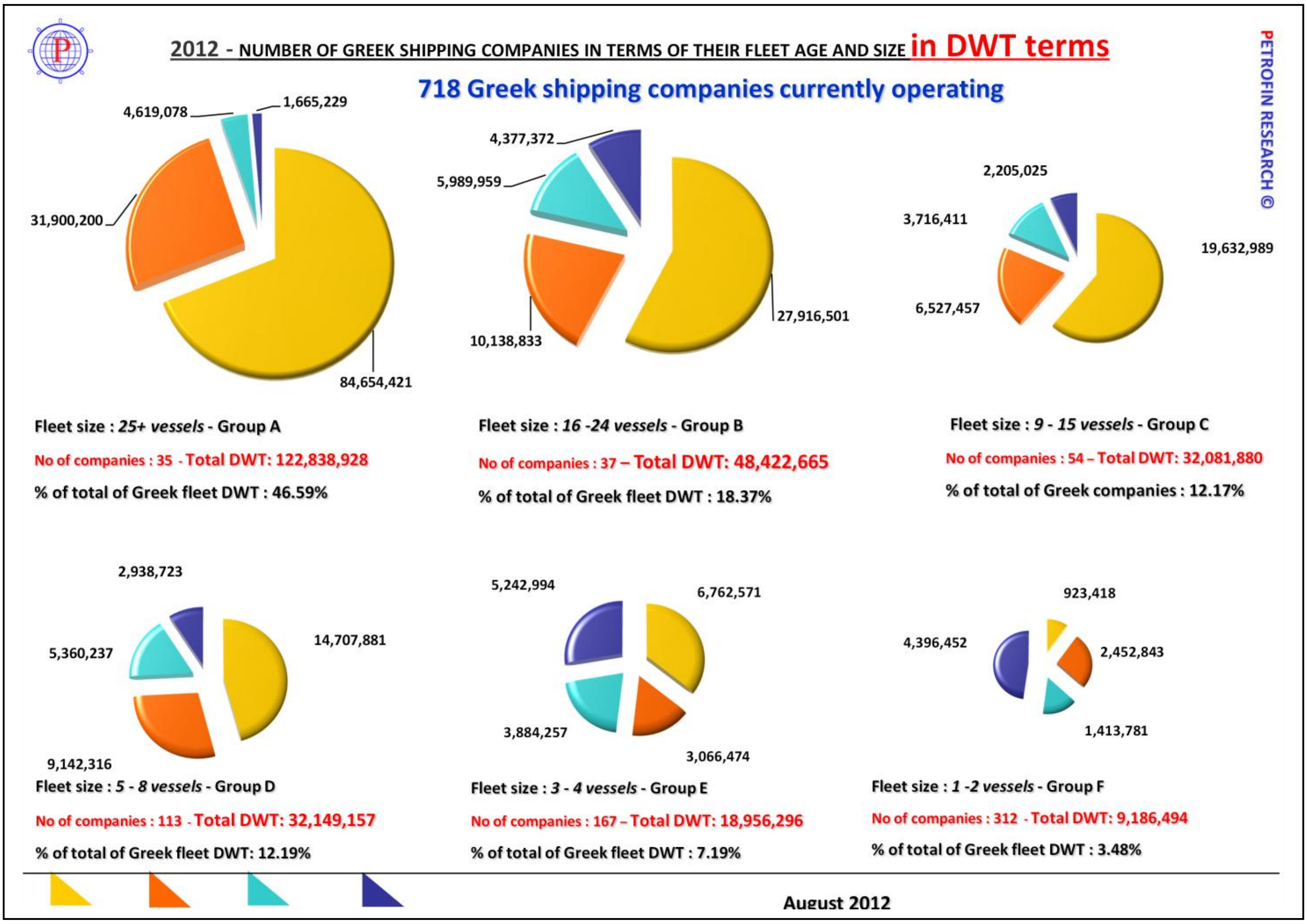
Graph 1



It should be stressed, however, that the majority of the departing owners have been small owners with 1 – 2 vessels, which are usually consisting of overage vessels. Between 2009 and today, the total number of such small owners fell by 31. The exit of such small owners is largely expected in crisis years, as their vessels may find difficulty to find employment and to continue trading, the costs of maintenance and surveys rise and holding on to such vessels may become uneconomic.

Consequently, with scrap prices still supportive, small owners may choose to dispose of their last tonnage and await a future opportunity to re-enter the market later. Interestingly, the largest fleet size groups, consisting of 16 vessels and higher, have increased over the 2009 – 2012 period from 66 to 72, demonstrating that larger owners have fared better during the crisis. These owners' share of Greek shipping has risen progressively over the past decade and now accounts for 65% of the total, whereas the smallest sector (1 + 2 vessels) has shrunk to 10.7% in 2012, even though, they still account for 43.4% of the total number of Greek shipping companies. Readers may wish to refer to graph 2 which shows the breakdown of the whole Greek fleet in DWT terms between the six different owner sizes in terms of fleet size, fleet age and fleet numbers.

Graph 2


2012 - NUMBER OF GREEK SHIPPING COMPANIES IN TERMS OF THEIR FLEET AGE AND SIZE in DWT terms
718 Greek shipping companies currently operating
PETROFIN RESEARCH ©
4,619,078
1,665,229
31,900,200
84,654,421
4,377,372
5,989,959
10,138,833
27,916,501
2,205,025
3,716,411
19,632,989
6,527,457
Fleet size : 25+ vessels - Group A
No of companies : 35 - Total DWT: 122,838,928
% of total of Greek fleet DWT : 46.59%
Fleet size : 16 -24 vessels - Group B
No of companies : 37 – Total DWT: 48,422,665
% of total of Greek fleet DWT : 18.37%
Fleet size : 9 - 15 vessels - Group C
No of companies : 54 – Total DWT: 32,081,880
% of total of Greek companies : 12.17%
2,938,723
5,360,237
14,707,881
9,142,316
5,242,994
6,762,571
3,884,257
3,066,474
923,418
4,396,452
2,452,843
1,413,781
Fleet size : 5 - 8 vessels - Group D
No of companies : 113 - Total DWT: 32,149,157
% of total of Greek fleet DWT: 12.19%
Fleet size : 3 - 4 vessels - Group E
No of companies : 167 – Total DWT: 18,956,296
% of total of Greek fleet DWT : 7.19%
Fleet size : 1 -2 vessels - Group F
No of companies : 312 - Total DWT: 9,186,494
% of total of Greek fleet DWT : 3.48%
August 2012

Despite the crisis, the total Greek fleet rose from 237,288,216 DWT in 2009 to 263,635,420 in 2012, demonstrating the continuous growth in capacity of the Greek fleet. Moreover, the average age of the fleet has continued to fall and according to Petrofin Research ©, has now fallen to 8.7 years, a remarkably low figure. In conclusion, Greek shipping has thus far weathered the storm successfully.

A secondary question that arises is how has it been able to do so?

To a large part, the Greek shipping industry's performance to date can be attributed to its ability to adjust and cope in the face of adversity. Cost cutting, flexible solutions and proactive thinking have helped. More tangibly, most owners have continued to support their fleets by using their liquidity reserves and / or the sale of older vessels or unwanted assets.

This financial commitment is and shall be tested to the maximum during the current cash flow squeeze, whereby loan repayments, if any, are being mainly achieved via owner cash injections . In many cases, cash strapped owners abandoned their new-buildings or reduced their fleets, to maintain their new-building orders.

Undoubtedly, though, the main contributor to the success of Greek shipping has been the quite support and flexibility shown by banks. Banks, either due to their own internal weaknesses or realising that only through flexibility on their part would losses be averted, have restructured a very high percentage of loans, by adjusting the nearby loan installments and waiving minimum asset cover and other financial covenants. This has "kicked the can down the road" for a few years and the process has been profitable, as margins on "restructured loans" have increased.

To a large extent, the young age of the Greek fleet has permitted this accommodation. However, there exists a time limit for such delays, as the banks' collateral vessels grow older and the banks more impatient. The continuous fall in vessel values has resulted in banks sitting on large uncovered loan exposures, which have lately been rising, rather than falling.

Clearly, the toughest hurdles lie ahead for Greek shipping, as liquidity tightens further and bank finance dwindles. The tough conditions can be seen from a marked slowdown in new-building orders (down 31% y o y), as a direct result of lack of finance and the poor industry's prospects.

What has helped Greek shipping has been the low US Dollar interest rates even though loan margins have more than doubled over the last 4 years. In most cases, owners and banks are locked in a tight embrace, where they need to hold to each other, in order to keep on dancing.

The key question that remains is how long will current conditions last?

This is the most difficult question to assess. One thing “that has been clear is that the “recovery” date has been slipping from 2012 to 2013 and now 2014 onwards. The main reasons for this delay is that the cancellation and slippage figures for vessels being delivered in 2012 have been less than anticipated and fresh ordering has continued, even at subdued levels.

Shipyards are promoting their new eco design vessels, in order to drum up orders and fill up their rapidly vanishing forward order book. This, plus increased shipyard related new-building finance by Far Eastern financial institutions will undoubtedly keep the supply side growing. Any relief will have to come from the demand side, where current growth estimates are wobbly, at best. An optimistic scenario with a revitalised China and growth recovery is the West plus a restored banking system leading to an improved confidence by consumers, depositors and industrialists, does exist. Currently, though, the odds are for further difficult years ahead, for the Greek shipping industry. Under such continuing difficult conditions, we anticipate further consolidation in the total of Greek owners, with an even heavier concentration of the Greek fleet among the largest and financially more robust owners, with access to both capital and liquidity.

Despite the above, we do not anticipate any shrinkage in the Greek fleet capacity, as more and more owners are seeking the purchase of young inexpensive vessels, in anticipation of a future recovery, as and when it shall materialise.