Lloyd's List

Order glut at risk from lending black hole

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Research estimates that total financing requirements for newbuildings in 2011-2013 comes to $86bn-$100bn.

Most contracts are now agreed without finance in place and with lending tight questions are being asked as to how many ships will actually be delivered to their original buy rs

THE outlook for shipping and prices at yards act as re ulators of shipowner demand for shipbuilding slots, but so too does owners' ability to finance their orders.

Since the parallel markets and financial crises of 2008, greater difficulty in sourcing conventional ship finance has helped to stem the flow of newbuild contracting.

This has been less obvious since the start of 2010 whe owners began again to add significantly to an existing orderbook that in some sectors already approached a glut.

The squeeze on lending continues to be pronounced enou h to raise questions as to whether every ship on the orderbook will eventually be delivered to its original contracting owner.

"It is no longer a given that there will be finance for every order," says Ted Petropoulos, head of Petrofin Research in Greece, which this month unveiled new research into th industry's financing needs at the Martecma 'Building for the Future' conference in Athens.

According to Mr Petropoulos, there have been a number of "horror stories" in recent times — whereby owners have found their banks reducing the amount of finance for an agreed project or in isolated cases finding it withdrawn altogether.

"We see tight ship finance conditions continuing for this year," he says. "Yards may find their owners may be willing but unable to go through with a project."

With ship finance having become "difficult and expensive", the overwhelming majority of orders nowadays are inked without any bank finance in place, adds Mr Petropoulos.

"Buying for cash has become much more popular than in t past and owners reason you can raise finance later when conditions improve," he says. "At the same time, it raises the question of how firm some of the orders are."

Petrofin estimates that the total financing requiremen for newbuildings over the period 2011- 2013 comes to between $86bn- $100bn, depending on an assumption of an average newbuilding price ranging from $30m-$35m per unit.

The estimate range is based on 60% minimum financing. It assumes order cancellation rates of 15% for this year and next and 10% for 2013, and conversion rates of 20%, 15 d 10% annually starting this year. Meanwhile, it has factored in an estimate of 1,000 vessels newly contrac or converted over the period.

An orderbook worth $12bn for Greek owners alone will require an estimated $8bn in finance. That much is "emphatically not" already in place, says Mr Petropoulos.

The reasons why owners appear to be taking a risk on clinching finance later include the fact that loans have become more expensive, but also recent turbulence has prompte some to question whether paying commitment fees for two or three years is such a sound idea if the amount of fina required is not fully secured.

In the short term, the demand for newbuilding finance cannot be fully accommodated but over the three-year term Mr

Petropoulos feels that demand can be met.

Reasons for the projection that conditions will relax somewhat over the medium include the run-off from the existing loan book, some evidence for a return to active lending by some banks and the gradual mergence of financing from Asian institutions, particularly China.

Petrofin estimates that an average 10% annual run-off from a global drawn ship finance loan book of $420bn will yield $126bn over the next three years, so newbuildings by themselves will not mean an expansion in the overall ship finance book.

However, the consultancy projects a further $50bn will be required over the period for secondhand acquisitions, mergers and acquisitions, refinancing and other types of additional finance.

Altogether, it says total ship finance requirements fo both newbuildings and organic shipping finance is expected to exceed the loan run-offs by $10bn-$24.5bn over the next three years.

While 77% of the current global ship finance book derives from European lenders, with Germany dominant, financing from the Far East is rising, says Petrofin. Much of that is linked to support for national shipbuilding industries.

The fact that terms being obtained for ship finance business are the most lucrative for many years is also likely to attract those banks with sufficient capital adequacy once the outlook for shipping clarifies.

Overall bank capacity has been reduced recently, and t number of loans committed but not drawn has fallen dramatically — showing that banks are not expanding their newbuilding rtfolios by as much as the industry may wish.

But Petrofin’s research focusing on lending to Greek owners also sh ws that over the last six months the number of banks with lending capacity has grown from 28% to 44%. This suggests that, as far as Greek finance is concerned, the industry is coming out of crisis.

“Over 2011 we will continue to have very tight ship finance conditions,” says Mr Petropoulos. “Only the strongest, ablest and best will be able to access finance.

“But this will ease over the next three years as there l be more players and a return to competition”.

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