



# **SMI Conference**

**Limassol**

**11<sup>th</sup> May 2010**

**The role of the banks:  
will there be sufficient finance for all?**

**presented by**

**Ted Petropoulos**

**MD**

**PETROFIN S.A.**



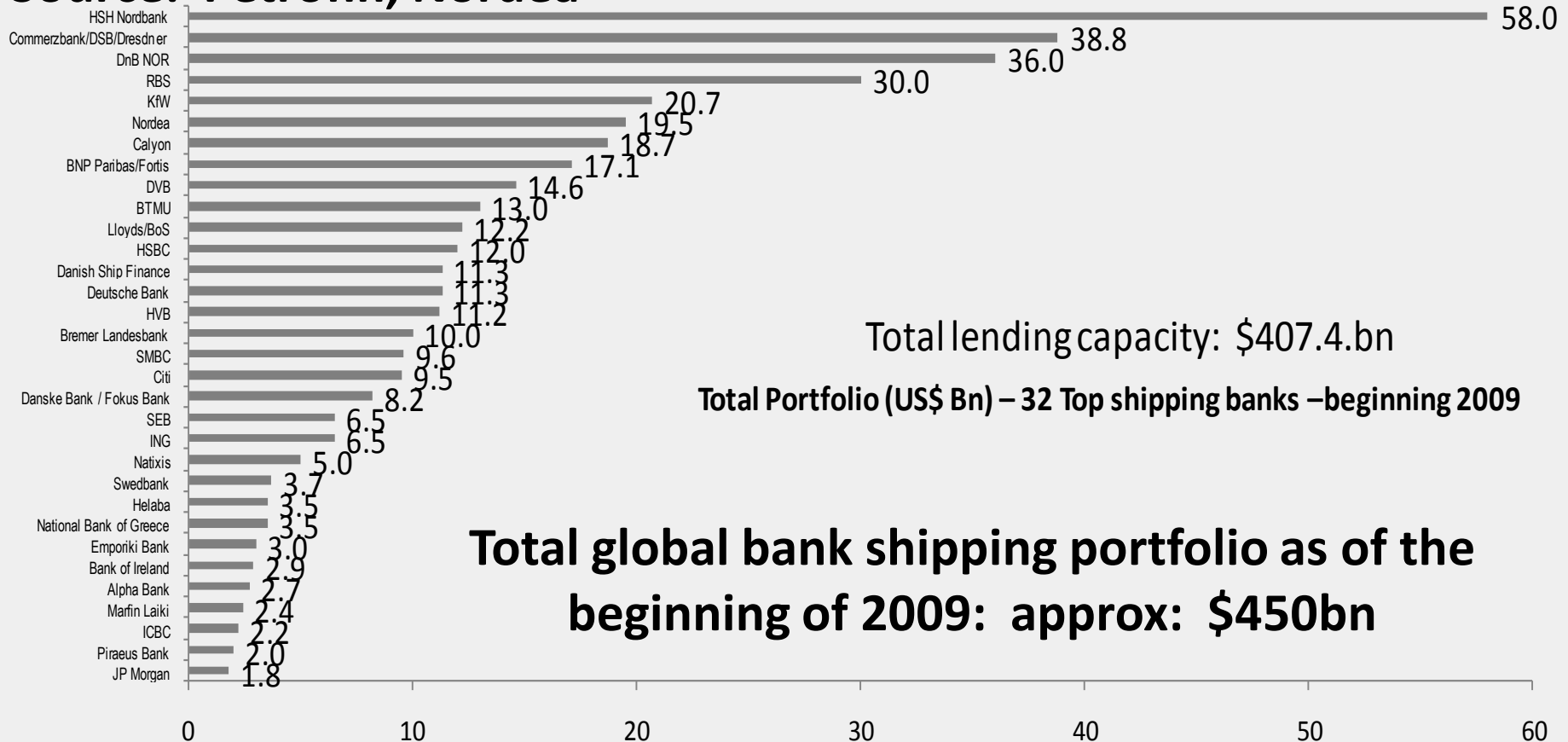
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**a. Will there be sufficient finance for everyone?**

## a. Will there be sufficient finance for everyone?

### 1. Financing the existing fleet

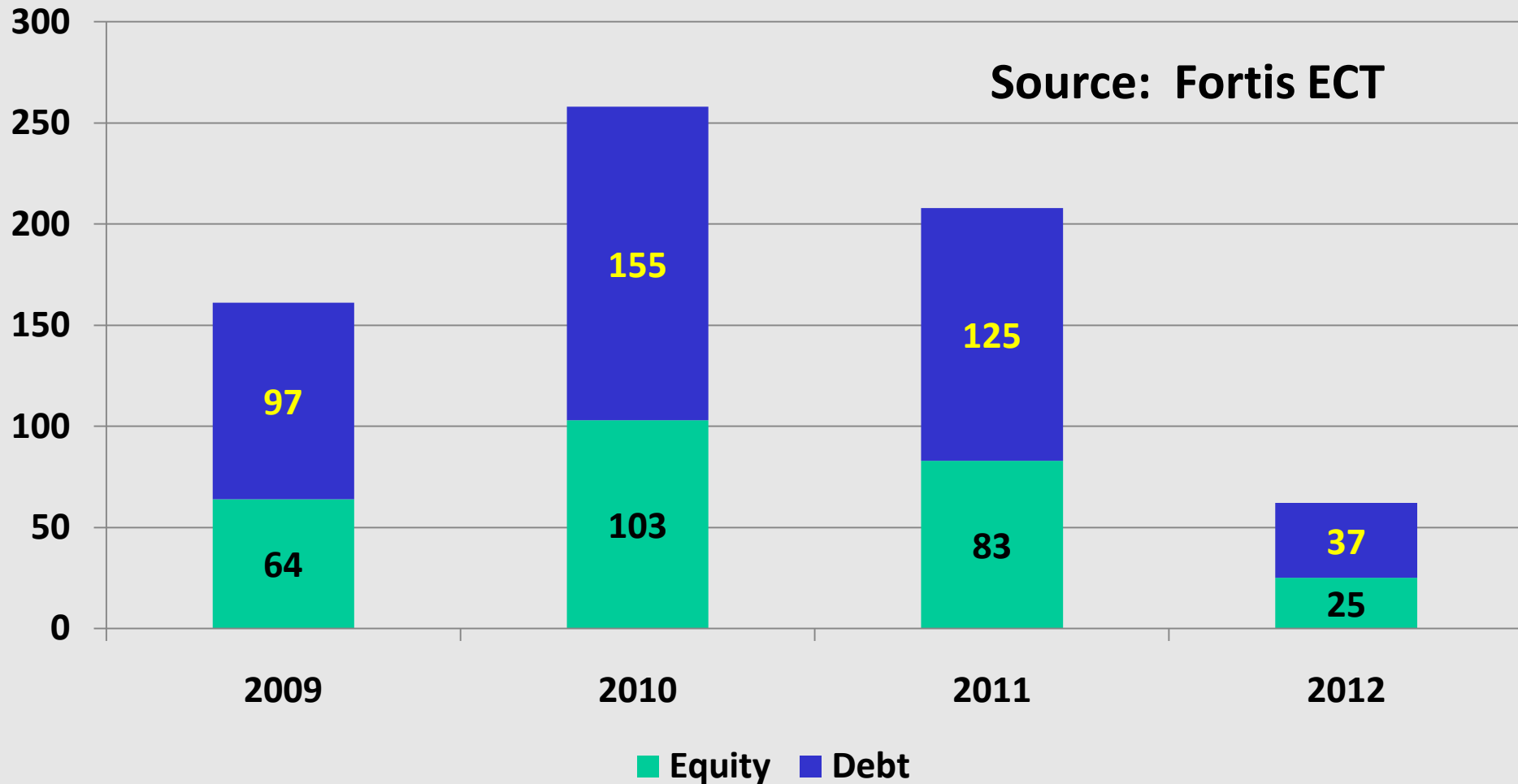
Source: Petrofin, Nordea



a. Will there be sufficient finance for everyone?

## 2. Financing the newbuilding order book:

Expected need for ship financing May 09 (60% leverage)



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

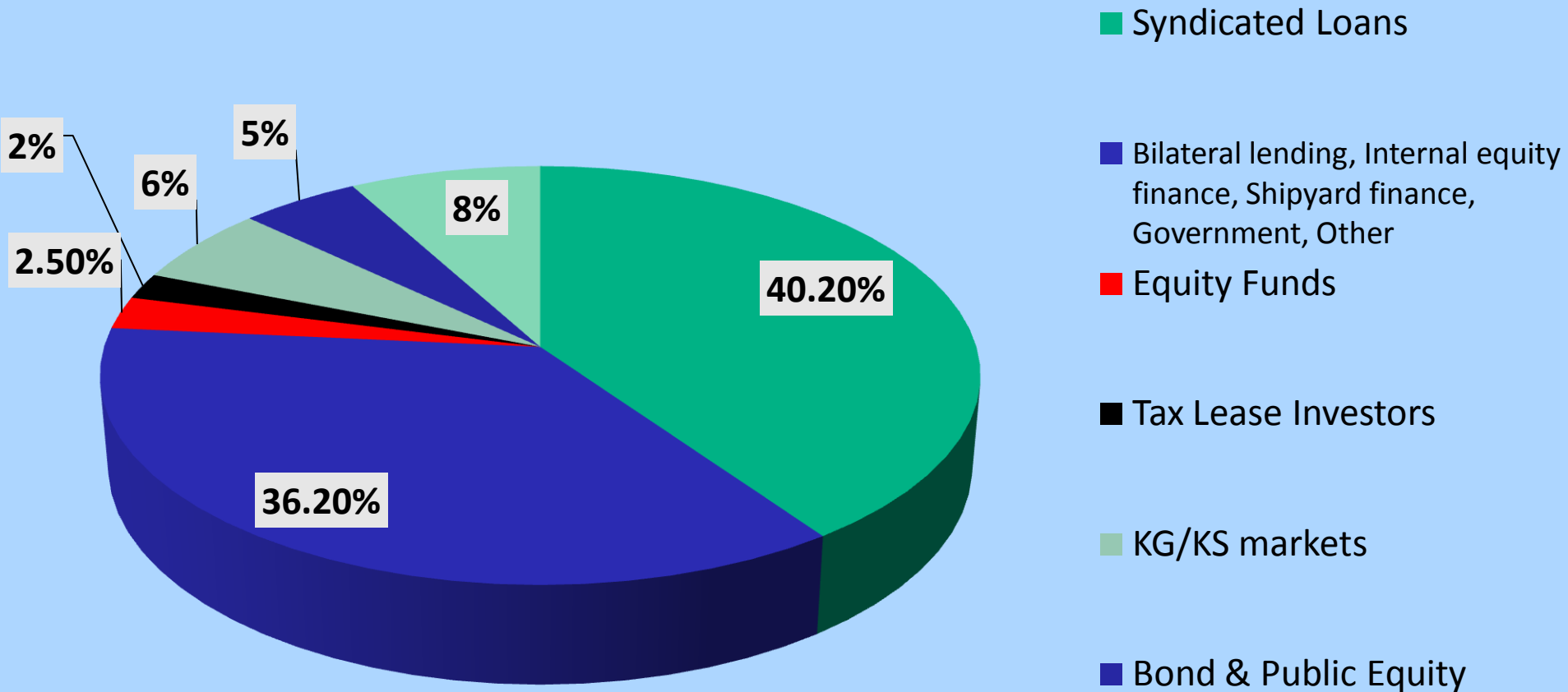
Total envisaged finance \$414bn!!!



## a. Will there be sufficient finance for everyone?

### 2. Financing the newbuilding order book

#### Traditional Sources of Capital for Shipping



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

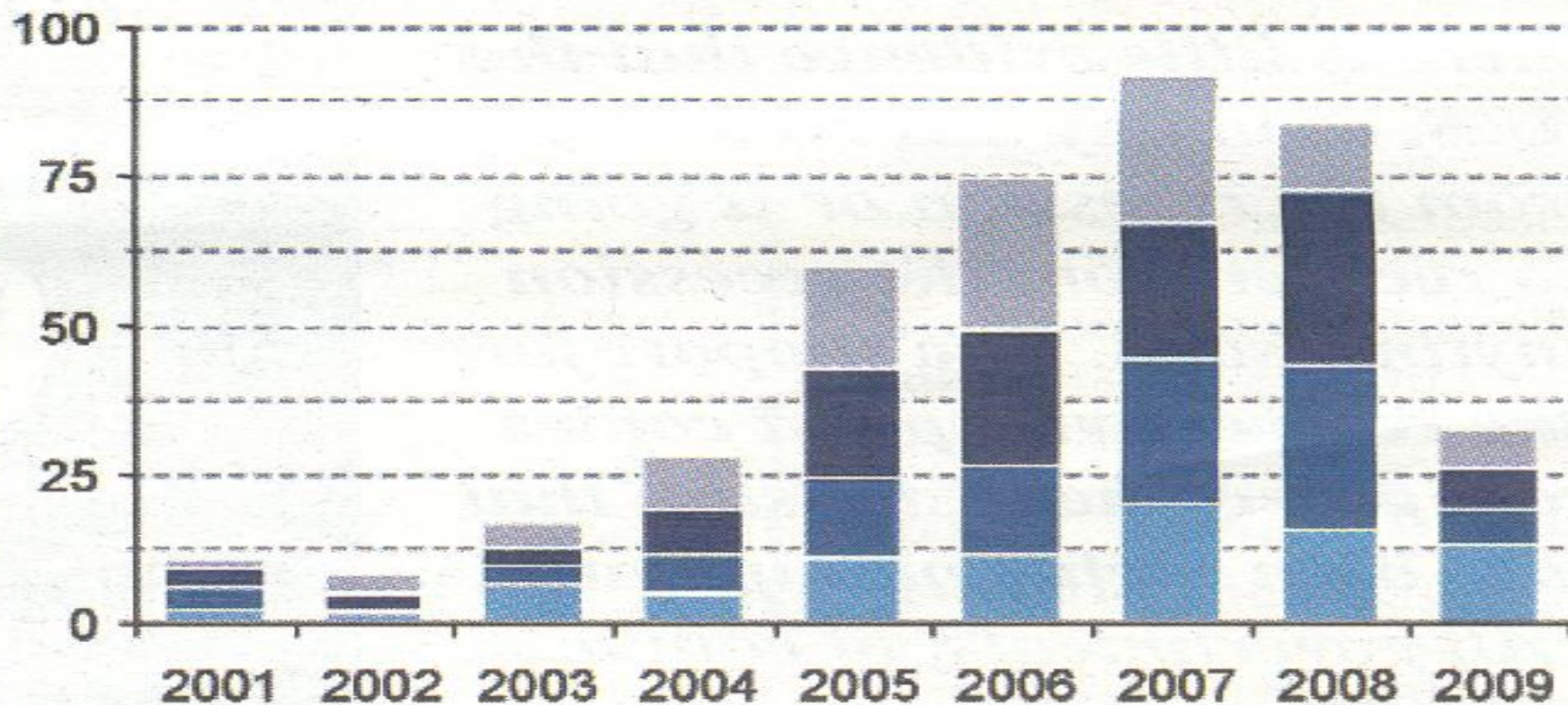
Source: Fortis ECT

a. Will there be sufficient finance for everyone?

## 2. Financing the newbuilding order book

**Credit tightness since mid 2008:**

Global shipping loans by volume in USD bln



Source: Fortis ECT

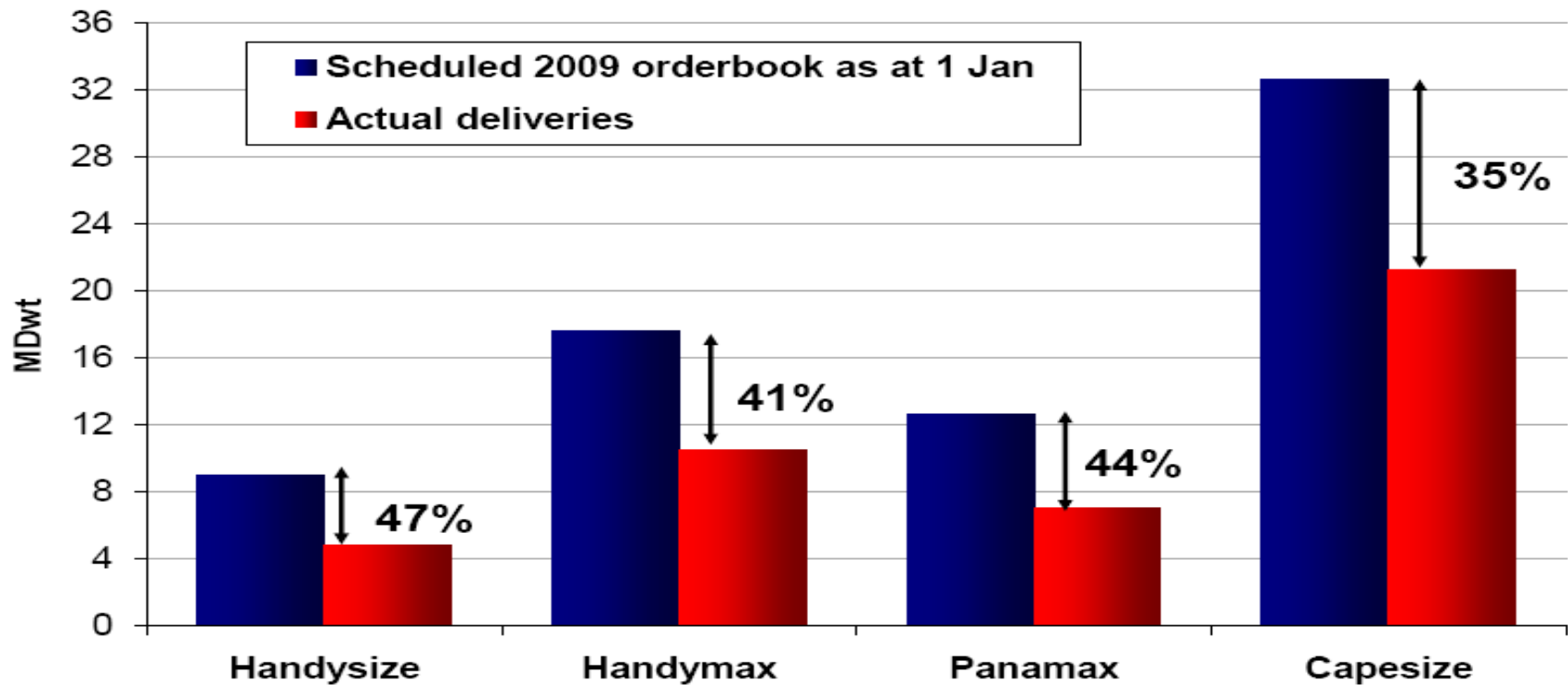
■ Q1 ■ Q2 ■ Q3 ■ Q4

a. Will there be sufficient finance for everyone?

## 2. Financing the newbuilding order book

For example, the Dry bulk delivery position

# 2009 dry bulk carrier delivery position



Source: SSY/LR-Fairplay

April 2010

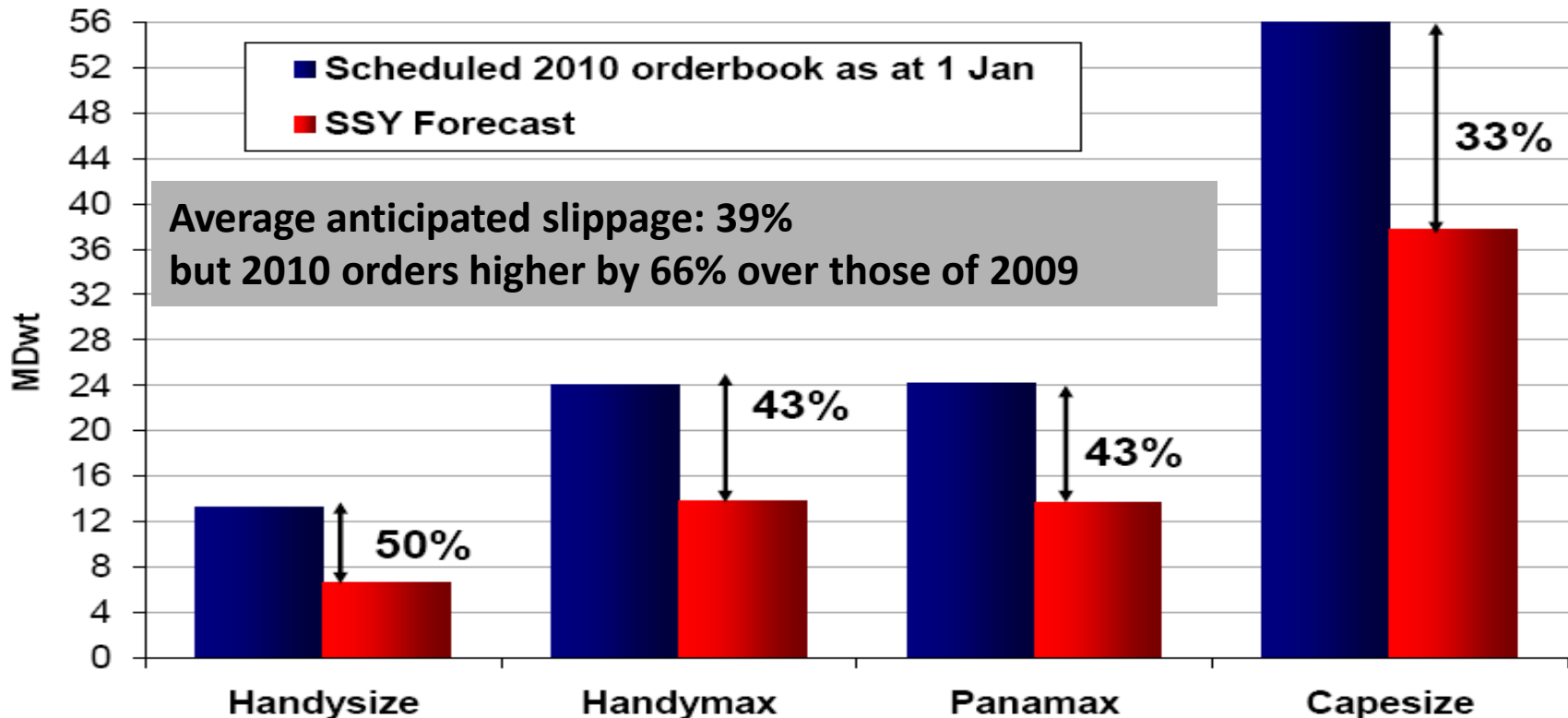


## a. Will there be sufficient finance for everyone?

### 2. Financing the newbuilding order book

For example, the Dry bulk delivery position

# 2010 dry bulk carrier delivery position





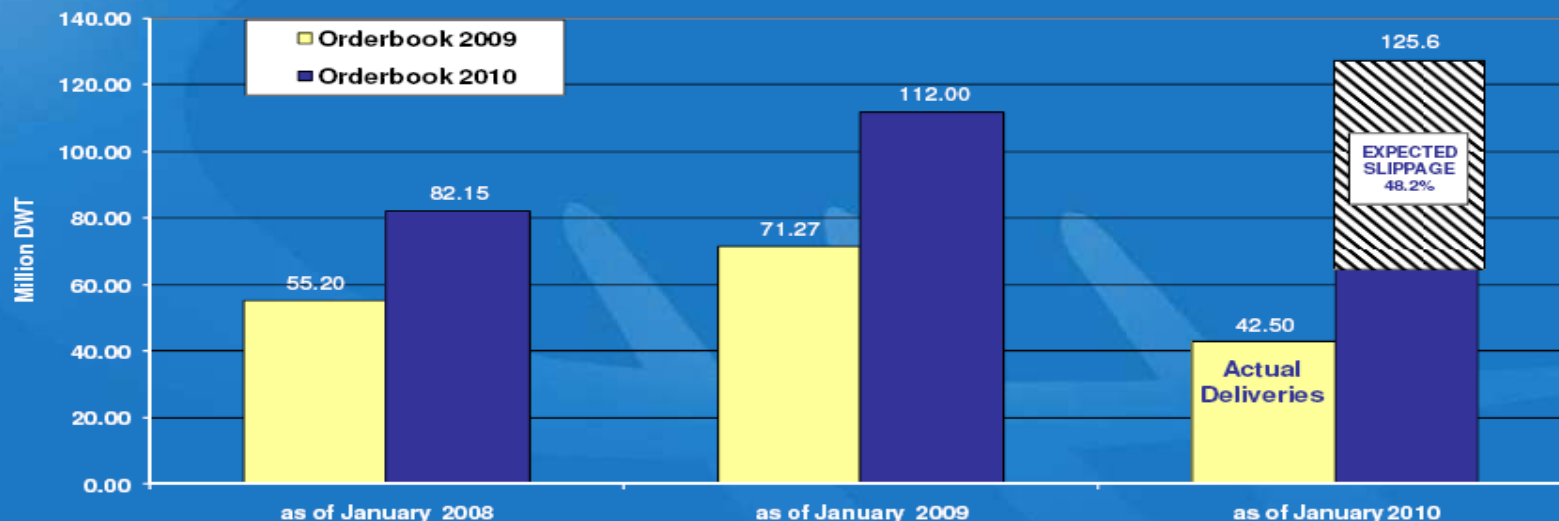
## a. Will there be sufficient finance for everyone?

### 2. 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)

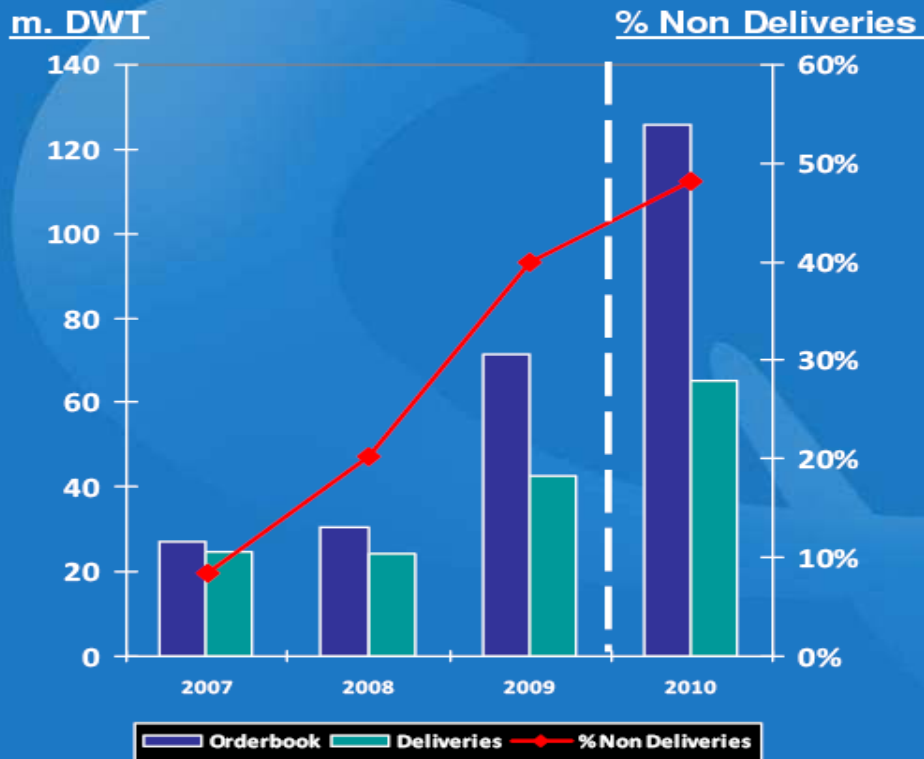


## a. Will there be sufficient finance for everyone?

# 2. 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).

## **Our opinion on the financing capacity of the newbuilding order book**

## Our opinion on the financing capacity of the newbuilding order book



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- 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](http://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 organic additional finance requirements 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



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- 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.**



**a. Will there be sufficient finance for everyone?**

**4. Do western banks have the capacity / ability to provide the above financing?**

**5. Do western banks have the appetite to add to their shipping risk?**



## a. Will there be sufficient finance for everyone?

### 6. Will Far Eastern banks pick up the slack?

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

#### - 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
- Overseas Commercial Bank of China



**a. Will there be sufficient finance for everyone?**

## **6. Will Far Eastern banks pick up the slack?**

**For the first time an overall figure has been estimated by the Bank of China of the total of Chinese bank shipping portfolio, which stands between \$88-102bn.**

**Therefore, out of a total global portfolio of approx \$450bn, this represents 19.5-23%.**



**a. Will there be sufficient finance for everyone?**

**7. Is availability of finance a subject of client size**

**8. Conclusion for the next 2-3 years.**



b. How are banks dealing with the shipping crisis?



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**1.Crisis, what crisis?**

**2.‘Steady as she goes’**

**3. Loan portfolio quality issues**

b. How are banks dealing with the shipping crisis?



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**4. Enhancing loan yields**

**5. Dealing with the newbuilding order finance issues**

**6. Legal considerations**

**7. Prospects**

## c. Will there be a lot of foreclosures and repossessions?



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**1. Asset cover and / or cash flow issues**

**2. Provisions, problem loans as percentage of loan portfolio size**

**3. Banks' willingness to play the 'fall guy'**

**4. Dealing with truant clients?**

**c. Will there be a lot of foreclosures and repossessions?**



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**5. The true cost of foreclosures**

**6. Will 'vulture' and 'special situations' funds justify initial high expectations?**





## **d. How banks view professional ship managers?**

- 1. Bank experience to date**
- 2. Identifying pros and cons of professional ship managers versus private management.**
- 3. How can professional ship managers benefit from the banking / shipping crisis?**
- 4. Client experience to date**
- 5. The future of professional ship management in the light of future challenges for the shipping industry**



**d. How banks view professional ship managers?**

**Conclusions**