Greek owners search for alternatives as bank finance shrinks

With the diminishing presence of German banks and tough circumstances for domestic lenders, Greek owners are having to look for other options to make up the funding shortfall

Greek shipowners are at the head of the queue for a dwindling supply of bank finance and are looking closely at other ways to fund their growth.

A fleet of close to 3,700 ships needs a lot of financing.

Annual research produced by Athens-based Petrofin showed that at the end of December 2012, the total portfolio of bank lending to Greek shipping stood at $65.78bn, down from $67.69bn the previous year.

Analyst Ted Petropoulos points out that there was a drop in committed, but undrawn, financing, from $7.1bn in 2011 down to $5.8bn last year.

The significance of this was that as previous commitments — essentially for newbuildings — turned into loans, they were not replaced by fresh deals.

In 2012, a total of 51 banks were financing the Greek shipping industry, but with the shrinking presence of German banks and the even more straitened circumstances of domestic banks, that number is already contracting.

The shipping portfolio of Greek banks at the end of 2012 stood at $12.7bn, down from $14.5bn the previous year, and, as Petropoulos notes, none of the nine Greek banks recorded growth.

This year’s recapitalisation of the Greek banks has meant some have already disappeared, such as First Business Bank (FBB), the healthy part of which was absorbed by the National Bank of Greece after FBB was unable to come up with the required amount to recapitalise.

The sole Greek bank that did not require any help from the Hellenic Financial Stability Fund was Aegean Baltic Bank (AB Bank), which managing director Theodore Afthonides happily says had “very big capital adequacy — to the tune of 35% — compared to our size”.

AB Bank, which specialises in ship finance, does indeed have a small individual portfolio that Petrofin set at $308m at the end of last year. But it has always been very active in syndicated lending and, including syndicated loans under management, its total portfolio comes to around $1.7bn.

“Of course, these years, AB Bank has not been able to do any significant financing,” Afthonides admitted, citing a lack of available funds.

Many, including bankers, agree that now is the time banks should be providing financing, when asset values are at reasonable levels. But the liquidity is just not there, says one chief financial officer.

In previous low market cycles, former captains and chief engineers would pool their savings and get started with a first low-cost buy. But today observers say there is little hope for start-up operations and the hardest squeezed are the small owners who are finding it increasingly difficult to raise funds.

So what are the alternatives? There was a wave of Greek companies that made it onto the public markets, the majority of them between 2005 and 2007. Some are going to survive, some are not, according to market watchers.

“It is very important that 2013 is the first year that shipping equities appear to have bottomed out and investors can clearly identify who is going to survive and who is going to be dealing with the problems of the past,” said George Elliott, chief executive of Maistra, a company managing a fund that invests only in listed entities.

“It is clear now who is able to attract equity and raise money, and these are the players who, in 2014, will definitely have access to debt as well,” he said.

Because of the generally less specialised nature of their investments, options such as export-finance agencies are not open to the majority of Greeks, so the buzz phrase has become “private equity”.

A number of deals have been done, but, interestingly, although market observers talk of a parade of Greek owners to New York and US investors to Greece, there have not been as many as might have been expected.

It was a very low-profile Greek player that pioneered the trend a decade ago. Nicolas Frangistas, chief executive of Franco Compania Naviera, reveals that his company made its first deal with a private-equity firm back in 2003. Since then, it has completed two more such tie-ups.

partners' identity remains under wraps

For reasons of confidentiality, he will not reveal the partners in any of the deals, but says he has always believed this was a good way of raising equity for shipping.

"I'm sure there are going to be more deals in the future, even more so today when there is a lack of finance for traditional shipowners," he said.

Frangistas says that for a joint venture with private equity to work, the owner must be prepared to accept the fact that, in most cases, the money men like to make the major decisions. Secondly, he or she must be very organised at a management level, totally transparent, have a very good reporting system and accurate budgets.

"Bear in mind, these people are very sophisticated and it is another way of doing business," he said.

Chemistry between the parties is also of prime importance, Frangistas believes.

"At the end of the day, it's still a people business. Behind the numbers and the companies, there are people," he said.

But there are disadvantages too. As Frangistas points out, private equity is driven by returns.

"Once they achieve the desired returns and the market is there to support the sale of the asset, they sell," he said. "They don't hesitate."

For a company that has increased its fleet through private equity and then finds that the ships are sold, that means an increase in management costs.

"I would say the choice goes to quality operators who can understand the necessity of partnership with an institutional investor and what goes along with it," said George Youroukos of Technomar.

Technomar is widely reported to have done a couple of deals with US equity manager Kelso, although Youroukos has never confirmed the relationship.

Nevertheless, he talks like one who knows the ropes.

"You have to be prepared to change your way of thinking, the traditional shipowner's way of thinking, to have a successful co-operation with a regulated company," he said.

Youroukos believes few private-equity firms can invest in the sector simply because their model of investment does not fit with shipping unless they can think outside the box. Private-equity firms are meant to buy existing companies, he adds.

Differing expectations

Several people flag up the fact that the mentality of a traditional shipowner does not really sit well with the mentality of an institutional investor.

"There is a disconnect on expectations and that disconnect is at a few levels," said George Syllandavos, chief financial officer and co-founder of Nautilus Maritime.

"The traditional Greek owner is used to having complete control, making the investment decision, making the chartering decisions and, in general, not giving anybody any reporting. With private equity it's entirely different."

While private-equity investors want to use the shipowner's expertise in the field and some of his investment, they are the majority equity providers and control investment decisions and the divestiture decisions, as well as having a say in the chartering strategy and in the operation generally, Syllandavos notes.

Out of the known tie-ups between Greek interests and private equity, two have been concluded with listed companies. The first was between Euroseas, Rhone Capital and Eton Park Capital Management, and, in May this year, between Costamare and York Capital Management — highlighting the importance of a familiarity with the requirements for transparency and reporting.

burgeoning relationship

Observers say private-equity firms feel comfortable with the transparency of public companies and comment that the burgeoning relationship between Petros Pappas's Oceanbulk group and US private-equity giant Oaktree Capital Management has benefitted from the fact that the ships being purchased are going under the management of listed StarBulk, of which Pappas is also chairman.

"The big players in private equity have finally decided that the best time to invest in shipping is when the returns are not there and when the target IRR [internal rate of return] cannot be met," said Elliott.

Up to now, Elliott and others say private-equity firms have been trying to learn about shipping, which, Syllandavos adds, was always “a little bit exotic”. The bigger outfits had been looking at the shipping market since the crisis of 2008 because they believed there would be a lot of distress early on. Many of them were thinking of investing in 2010. Most of them didn’t, according to Syllandavos.

“It has taken most of them two or three years to get that educational process going,” he said. “I think they have come to understand that it’s not just the investment in steel — it’s also the workings of the company that manages the steel.”

Despite the hype, there seems to be a widespread agreement among those in the know that while $2bn may have been allocated to Greek shipping by private equity, only about half of this has actually been committed so far.

“I have to admit that 2013 is the first year that we do actually see some deals being executed,” Elliott said.

He described 2012 as “the year of signing joint ventures and letters of intent, MoUs [memorandums of understanding] and term sheets”.

He believes that 2013 is the first year when private-equity investors and shipowners are actually jointly putting their hands in their pockets and buying on a bigger scale as opposed to the one or two scattered deals in 2011 and 2012.

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