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Money trickles in with return of confidence

An analyst believes the relationship between banks and owners will reignite but warns against any rash moves.

This year, Greek shipowners may find that financing comes more as a trickle than a flood, although availability is showing some improvement.

For many years, Greek shipping has been the darling of the banks and up until 2009 the loan portfolio had been constantly growing.

At the end of last year, however, the portfolio controlled by 41 banks lending to the Greek market registered an 8.5% decrease to \$67bn, as compared with \$73.2bn in December 2008.

Ted Petropoulos, head of Athens-based analyst Petrofin Research — which produces annual figures on bank finance to the Greek shipping industry — predicts that although there will be an improvement in the availability of finance as 2010 progresses, it will be very slow.

While banks are recovering their confidence, the instability of financial markets, still prevalent today, is holding them back, Petropoulos feels.

“Their risk appetite has received a huge blow and time is needed to recover,” he said.

However, as shipping markets demonstrate continuous improvement and the quality of loan portfolios also improves, banks will be attracted by the high margins, low loan-to-value ratios and strict lending terms that can be obtained from their highest-quality clients, the analyst believes.

“Over the next couple of years, barring a major calamitous event, ship finance will resume in an earnest way,” Petropoulos said.

Petrofin Research obtains information for its annual analysis of the sector from the banks themselves but many industry players say they think banks are not being totally open about exactly how much business they are doing. Whereas the financial institutions say they are lending, owners have in some cases found themselves having to sell at a discount newbuildings contracted without finance as sources of money dried up.

TradeWinds calculated recently that as many as 100 newbuilding orders by Greeks had been reported from the end of 2009 to the end of April but Petropoulos stresses that it is important to distinguish between totally fresh Greek newbuilding orders and what he terms “converted” contracts.

In the dry-bulk sector, both for 2009 and so far in 2010, there has been approximately 40% slippage as a result of order cancellations or agreed delays in deliveries. At the same time, as the dry-bulk market began to show a recovery, the rate of outright cancellations slowed down.

The answer to reconciling these two apparently opposing facts, Petropoulos says, lies in the concept of “converted” orders.

The cancellation of the original order and its replacement by new orders involving the same or different vessels and, invariably, later delivery dates is a very elegant method of addressing the problem, he says.

An owner obtains recognition of his down payments, postpones the need for additional instalments and achieves a later delivery, by which time — hopefully — there would be a booming market.

The shipyard manages to keep its orderbook full and maintains a relationship with a client. The bank can then tear up the old loan agreement and obtain a new one with much higher margins, additional fees and stricter terms, explains Petropoulos.

“Consequently, although there are a number of fresh newbuilding orders in my opinion many new orders are mere reincarnations of previous orders and, such, do not require new ship finance,” he said.

The analyst adds that in relation to ship finance, the industry has performed well. There have been few write-offs and the initial rush of provisions has now dissipated due to the market recovery.

A significant element, too, has been the willingness of owners to co-operate with their banks and support their businesses.

Much has been said recently about the entry of Far Eastern banks into the wider ship-finance scene. Petropoulos agrees that the shift from west to east has already begun and with the world’s liquidity concentrated in the Far East, Far

Eastern banks have both the capacity and financial strength to compete with those in the West.

But what is holding back the rate of progress is, in a word, "nationalism", he says.

Chinese banks interested in lending to Western owners look for a Chinese angle, whether it is the shipyard, the trade, the flag or the crew. In the absence of a "Chinese factor", the interest of Chinese banks is limited.

"Far Eastern banks have started to look at large publicly quoted shipping companies but their interest has been very limited so far," Petropoulos said.

Under another hat, the analyst is also a shipowner and as such admits he is cautious about the dry-bulk market outlook for 2011 and 2012. His concern lies with the supply side.

The capacity of shipyards to produce vessels is much higher than the ability of demand to utilise them, which is where the problem lies.

"Until now the lack of ship finance has been a restricting factor and thwarted new orders. Lately, an overconfidence has started to return, whereby unfinanced orders are being placed. This is a scary development," Petropoulos said.

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