Cautious cashiers

Bankers are wary of newbuildings

LENDERS are no longer excited by the prospect of newbuilding financing. "In the aftermath of September 11 combined with the economic slowdown, newbuilding finance has virtually come to standstill," observes Ted Petropolous from Greek finance house Petrofin. Banks have stepped up their lending requirements in general and specifically in terms of employment/charter cover for at least a few years, reduced finance percentages and evidence of corporate strength and liquidity. Commercial ship financing has got tougher and there are no sectors that offer easy deals any more.

"There is ample financing capacity available within the market; however with the overhang of the massive order books in most markets, it is almost impossible to justify a newbuild finance in the absence of a [reliable] charterer for the vessel," Russell Shields, managing director at Hong Kong and Shanghai Banking Corp's (HSBC) shipping division told *Fairplay*.

Petropolous: "newbuilding finance has virtually come to standstill"

While costs are low in terms of interest and bunkers, cash reserves of owners who are now forced to the spot markets are being rapidly eroded by the low level of earnings that vessels – especially the larger sizes – can produce in the short term. Risk profiles appear to be increasing each day as the market slump continues.

For the first time, some of the major players, such as the German and Dutch banks with a fair share of container newbuildings and overall container exposure, are witnessing laid-up container vessels and hence also biting their fingers when offered a newbuilding finance opportunity. Although big German players such as Deutsche Schiffsbank, Vereins-und Westbank and others are faced with certain problems loans, the banks say they are still cautiously active.

Nevertheless, banks such as France's Credit Lyonnais seem optimistic. As Stanislas Roger, its head of shipping, confirmed, the bank remains very active in shipping. "Thanks to a wise approach and measured development we have had a good year in 2001 despite deteriorating market conditions," he said. He is not alone in finding 2001 a vintage period, with one observer describing it as a "champagne year for newbuildings", seeing it as a turning point for the industry. "After the very heavy ordering in every segment of the market, including tankers, bulk carriers, container ships, gas tankers and cruise, we expect deliveries in 2001 to reach 50M DWT," Dr Martin Stopford, managing director of Clarkson Research and author of *Maritime Economics*, told *Fairplay*.

In fact, according to *Fairplay* data, newbuildings due or delivered in the past year exceed 51M DWT compared with 42M DWT in 2000. "I doubt if this level will be surpassed for a good many years; the shipbuilding industry has at last reached the peak of the 1970s replacement cycle," suggested Stopford.

This year appears to hold less appetite for new orders compared with the booming past couple of years. With fingers burnt from the US recession, bankers and owners appear reluctant to lend or borrow under the current weak global economic conditions. Particularly in the container and cruise sectors, owners struggle to fulfil loan repayments with many on the brink of extinction. Following such defaults, some lenders such as JP Morgan, Chase and Citibank are restructuring within divisions, laying-off personnel and cutting costs to cover losses.

Nonetheless, two favourable factors are cash liquidity and low interest rates. Despite the recession, some cash-rich shipping investors may be looking for bargains when they think the time is right. There may be bargains available on the second-hand market but few owners are prepared to sell at big discounts – more so in the tanker market than dry bulk – leaving newbuilding as the only option, provided the price is right. "My guess is that the downward trend in newbuilding prices will continue during 2002," said Stopford. Owners such as Erck Rickmers, who is ordering four 5,700 TEU container vessels at Samsung Heavy Industries through his German finance house Nordcapital, may perhaps seize this cheap opportunity to order additional vessels. Looking ahead, ship-

Batten down the hatches!

"BATTEN down the hatches!" warns Russell Shields, managing director at Hong Kong and Shanghai Banking Corp's (HSBC) shipping division. And Dr Martin Stopford, managing director of Clarkson Research, says that "yards can expect a tough year in 2002, but they are used to that. Despite the gloom, markets are still tightly balanced, so you can never rule out that unexpected 'bounce-back'." But there may still be a positive outcome and the uncertainty could emerge as a passing phase, with the market slowly recovering in 2002. But that, said one observer, depends on "bankers remembering the main purpose of their existence – lending."

So the next few months look like hard sailing, even for the most seaworthy companies and banks. Inevitably, the birth of the world's largest single-currency trading bloc will have a major impact on shipping in Europe, which in turn may have a 'trickle-down' effect on rest of the world.

But since its launch as a shadow currency, the euro has declined against the dollar. Experts foresee various consequences – primarily a period of currency volatility, so shipping should gear itself up to protect itself from any currency swing. Ship owners need to be especially careful with euro borrowing, and write newbuilding contracts in the currency of earnings. While the price on the table in euros may look attractive, that could change rapidly if the euro strengthens. The cost of hedging currency risk is typically 0.5-1.0 per cent, which is a small price to pay for unwanted headaches.