Shipping finance: Owners get that sinking feeling as crisis takes toll

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Greek shipowners have borrowed heavily to finance fleet exp sion and renewal, but hundreds of vessels still under construction are rapidly losing value as trading conditions have worsened in the global slowdown.

Some owners who can afford to lose deposits amounting to 10-20 per cent of the price are reneging on new building contracts rather than take delivery of a devalued asset.

Others who are too highly leveraged to take such a hit are trying to restructure their borrowing, while also seeking to delay deliveries in the hope that freight markets will recover next year.

“What we are seeing today is massive cancellations,” says Alexandra Papadopoulou-Soumaki, deputy head of credit and risk at HSBC in Greece. According to broker ip values have dropped by an average of 20 per cent and are projected to continue falling.

The fallout comes after a prolonged borrowing spree. A ng to Petrofin Bank Research, an Athens-based analyst, lending to Greek shipowners more than doubled from €32.3bn ($46.1bn) in 2004 to €73.2bn last year,

The global order book doubled over the same period, leavi g a large overhang of ships waiting to be delivered, equivalent to 70 per cent of the existing bulker (bulk carrier) fleet, 42 per cent of the container fl et and 30 per cent of tankers.

New buildings still under construction amount to about one-third of total Greek capacity of 263.6m deadweight tons – the world’s largest fleet, equivalent to 16.2 per cent of global capacity.

There have been no Greek bankruptcies so far but some owners may not survive i the downturn continues into 2011, say local analysts.

In previous crises banks have been quick to foreclose, particularly on untested newcomers. This time, however, lenders are being more accommodating in order to protect their balance sheets. Complex loan agreements are being overhauled. Covenants governing ratios of collateral to borrowing and earnings are being temporarily ignored. Repayments of principal are being consigned to “balloons” that in some cases will not become payable until 2019.

“Banks cannot take hostile action against owners who cannot meet their payments because that automatically means immediate write-offs which they cannot afford these days,” says Dimitri Anagnostopoulos, shipping adviser to ABN Amro. “They have to buy time and make some orderly restructuring.”

In exchange for pushing back principal repayments, banks have raised interest rates and required shipowners to inject fresh capital into their companies, either through ship sales or out of their personal assets.

For five years, until mid-2008, owners enjoyed an unprecedented boom as trade expanded with Brazil, Russia, India and China and freight rates rose to record levels.

Greek owners rushed to order more ships in Asian yards – often greenfield sites in China being developed with owners’ down-payments – with delivery dates as far away as 2013. The surge in rders drove the price of new buildings to record levels. Some owners made speculative orders, intending to re-sell ships as the market rose while they were still in the yard.

But as the credit crunch took hold, freight rates plummeted. The Baltic Dry Index, an industry benchmark, plunged 94 per cent between May and December 2008, while the tanker index fell 40 per cent.

This year the dry sector has seen a partial recovery, as China has begu to restore depleted supplies of iron ore and other commodities. But the tanker index has continued to fall. Last month it was 80 per cent down from the highs of last July.

Mrs Papadopoulou-Soumaki says that if yards show any signs of not being able to meet delivery dates, owners jump to cancel without incurring any charges. But even when yards comply there are cancellations: “If owners still have huge amounts to pay out, they might be willing to take the loss.”

HSBC Shipping Services said in a recent report that around 60 per cent of tonnage scheduled for delivery in 2010 and 2011 might not be delivered at all.

“We are counting on these cancellations to balance the supply-demand situation,” says Mrs Papadopoulou-Soumaki.

However, Chinese state-owned shipping companies are being encouraged by the government to take over orders cancelled by foreign buyers. Chinese owners are also buying up dry bulk tonnage at cheap prices, according to brokers.

In the longer-term a large increase in Chinese-owned tonnage would have an adverse impact on Greece’s shipping industry, which carried a high percentage of Chinese imports during the boom years.

“Greeks don’t have enough cargoes to justify the large size of their fleet,” says Mr Anagnostopoulos. “Asian countries and particularly China have a huge population and a huge volume of imports a d exports.

“China would prefer to have its own ships rather than paying foreigners very high freight rates when markets move up again. In the next round of a good market China will be self-sufficient, with its own fleet.”

Selling ships in a distressed market only compounds problems as mark-to-market policies governing ship portfolios put further pressure on collateral to debt covenants. For the time being, banks are looking the other way. But ther are questions about whether shipowners have the personal resources with w ich to shore up the ratios.

“Shipowners have not only lost in terms of the value of their collateral, but they also face lower freight rates, a d if the cash they have accumulated in good markets has been invested in shares and bonds, these have lost value as well,” Mr Anagnostopoulos says.