Industry seeks out new sources

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Ship Financing by Gillian Whittaker

For years dependent on conventional banks loans, the Greek shipping sector is looking at new ways of financing its fleet

the merger between National Bank of Greece (NBG)and Alpha Bank will make the combimed group one of the biggest lenders to the Greek shipping industry, with a joint shipping portfolio totalling close to $2bn.

NBG has built a portfolio of some $900m, while Alpha, a comparative newcomer to the shipping business, has an outstanding loan portfolio of around $780m, although it is understood to have substantial additional commitments that have not yet been taken up.

The merger has highlighted a trend for consolidation in ship financing, with a dramatic decline over the last five years in the number of banks lending to the industry.

Russel Shields, managing director of HSBC's Wayfoong Shipping Services, told a conference earlier this month that about 130 banks worldwide are active in ship financing but only 35 are major lenders to the sector.

According to **Petrofin**, the Athens-based analysts, the number of banks lending to the Greek shipping industry has halved to 40 since 1997. The number of foreign banks that finance Greek owners through outlets based in Greece has fallen from 21 to 12 in the same period. Eight Greek banks still lend to the industry compared with 15 four years ago.

The cyclical nature of shipping, which leaves banks holding a sizeable downside risk, along with declining returns, helped trigger a flight from ship lending. Banks lost interest in smaller accounts, seeking larger portfolios, higher fees and fleet mortgages on newer ships.

However, overall borrowing by Greek owners has jumped since 1997 from $9bn to $16.6bn, according to **Petrofin**, partly because owners have taken advantage of cheap prices at Asian yards to launch extensive fleet renewal programmes.

Greek shipowners still control the world's largest merchant fleet, totalling 3,618 vessels of 168.4m deadweight tonnes (dwt), in March this year - equivalent to 18.6 per cent of total world tonnage. The figures include 252 ships of 23.3m dwt on order from shipyards around the world.

Traditionally, owners financed purchases through conventional bank loans, under relationships based on performance and personal contact. But in the changed banking environment, Greek owners have looked for other sources of finance.

An experiment with junk bonds in the late 1990s proved unsuccessful, with almost all the Greek owners who raised funds through high yiled issues inthe US coming to grief. Buy-backs have been arranged at deep discounts, leaving investors dissatisfied after months of bitter wrangling with the shipping companies.

Greek passenger shipping companies raised about Dr275bn on the Athens Stock Exchange, but a prolonged slump on the bourse has prevented them from raising fresh capital to finance extensive fleet renewal programmes underway with the initial financing provided through syndicated banks loans.

Attica Enterprises, which operates the Superfast fleet of high-speed ferries, in October raised €45m through a three-year convertible bond issue. NEL Lines, also listed on the bourse, plans to issue a convertible bond too.

Minoan Lines, the Crete-based ferry operator, has turned to the syndicated loan market to keep financing on track for its new building programme. A group of 12 Greek and foreign banks earlier this month arrange an €200m, 10-year syndicated loan to finance construction of three new ferries.

The Athens bourse has not yet opened its doors to ocean going shipping companies, which account for the bulk of the Greek-controlled fleet. Legislation approved by parliament more than a year ago has not yet been fine tuned, and companies have held off from applying for a listing.

Few Greek shipping companies are big enough to qualify for a listing on New York stock exchange, while the US market has shown little interest n the shipping sector. The exception has been Stelmar, the tanker operator controlled by Stelios Haji-Ioannou, founder of the low cost airline EasyJet,which has shown investors encouraging returns.

However, finance specialists are trying to provide alternative financing sources for Greek owners. Pelagos Financial Partners, based in Piraeus, intends to advise Greek owners on how they could tap Norway's capital market.

Christopher Thomas, Pelagos managing director, says for Greek owners wnating to raise a relatively small amount of $30-50m, the Norwegian bourse "is the place to go", but only in co-operation with local interests. "With the banks you get one chance and as there are fewer and fewer banks, you are getting fewer and fewer chances," he says.

Specialised funds are also starting to take shape. For example, Astrolabe Investment, based in London,is raising $150m for a new private equity vehicle that would invest in shipping.

However, traditional mortgage financing shows signs of reviving, given the current low interest rates. Eletson Corporation, a Greek operator of product tankers, last month redeemed a high yield bond issued in 1988, two years before maturity.

The loan to finance the buy-back - paid at par - was arranged by Citibank, an established player in the Greek ship financing market. The deal will enable Eletson to make savings amounting to $12m over two years on the interest rate differential between the bond and the new loan.

In Athens, a group of Greek owners have set up a new bank that will specialise in ship financing, in partnership with state-controlled Agricultural Bank of Greece. The shipowners hold a 51 per cent stake in First Business Bank, to 44% for ABG. The new bank has taken over Bank of Nova Scotia's Greek operations, including its $250m shipping portfolio, as a basis for launching the new venture.

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