

**Presentation by Ted Petropoulos**  
**IIR Shipping Finance Conference, London**

**Slide 1**



**Slide 2**



**1. SHIPPING INDUSTRY RELATED  
FACTORS AFFECTING SHIPPING FINANCE**

- **VESSEL EARNINGS :** Remaining at Near Historically Low Level  
Widely held expectations of an early recovery
- **VOLATILITY OF EARNINGS :** LOW, DECREASING
- **IMMEDIATE PROSPECTS :** ENCOURAGING but based on sentiment and  
not in numbers
- **QUALITY OF EARNINGS :** Steady, Small Quality Improvement
- **PATTERNS OF TRADE :** Slowly Reverting To Normal Patterns;  
PACIFIC Showing Positive Signs Of  
Improvement;  
ATLANTIC Steady
- **COMMODITY PRICES :** RISING

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**Slide 3**



## 1. SHIPPING INDUSTRY RELATED FACTORS AFFECTING SHIPPING FINANCE

- **VESSEL PRICES :** Overall prices across all sectors have begun to rise  
Dry bulk vessels rising  
Tanker prices steady  
Container vessel prices beginning to stabilize/increase  
Other sectors: remaining poorer but beginning to stabilise
- **NEWBUILDINGS :** Prices hit bottom and rebounding  
Newbuilding orders expected to slow down as berth availability decreases and prices increase
- **POINTS :** OPEC Stability / Restraint supports sharp rise in price of oil

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**Slide 4**



## 1. SHIPPING INDUSTRY RELATED FACTORS AFFECTING SHIPPING FINANCE

**OVERALL VESSELS' TRADING :**

- Lack of cargoes in specific areas
- Better balance of trade, however.
- Encouraging prospects for dry bulk and container vessels
- Tankers' prospects: uncertain

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**Slide 5**





## 1. SHIPPING INDUSTRY RELATED FACTORS AFFECTING SHIPPING FINANCE

- SCRAPPING PRICES : Remaining at depressed levels;  
expected rise in Autumn.
- LAY UPS : Steady
- INTEREST COST : Steady;  
Prospects of Increase in US\$  
Interest Rates by 0.5 - 1% over next  
year.

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**Slide 8**



## 1. SHIPPING INDUSTRY RELATED FACTORS AFFECTING SHIPPING FINANCE

- VESSEL VALUES : Rising across all sectors;  
especially in Dry Bulk
- S & P : Rising as Greeks pile in.
- OVERAGE VESSELS
- S & P ACTIVITY : Improving; better balance between  
sellers and buyers, finance still very  
difficult.
- SHIPPING COMPANY  
FAILURES : Fewer, less rumours
- HIGH YIELD DEBT ISSUES : Very little activity; will increase in  
line with market's fortunes; expect higher  
cost, higher scrutiny, higher quality

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**Slide 9**



## 2. NON - INDUSTRY FACTORS AFFECTING SHIP FINANCE

<u>FACTORS</u>	<u>RECENT TRENDS / CONCERNS</u>
<ul style="list-style-type: none"> <li>• <u>FAR EAST CRISIS:</u></li> <li>• <u>CHINA:</u></li> <li>• <u>OTHER AREAS:</u></li> </ul>	<p>Bottomed out and slowly improving; encouraging economic news, structural problems in Japan beginning to be addressed, export led recovery, fewer company failures, still shaky.</p> <p>Still growing but quality of growth in doubt; sensitive to US trade imbalance news; local currency still vulnerable; anticipate devaluation which may destabilise Far East market for a while</p> <p>General recovery; Some better prospects for Russia and Ukraine over next year.</p>

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**Slide 10**



## 2. NON - INDUSTRY FACTORS AFFECTING SHIP FINANCE

<u>FACTORS</u>	<u>RECENT TRENDS / CONCERNS</u>
<ul style="list-style-type: none"> <li>• <u>INTERNATIONAL CAPITAL &amp; STOCK MARKETS:</u></li> <li>• <u>WORLDWIDE ECONOMIC GROWTH:</u></li> </ul>	<p>Volatile but still strong and at record levels; subject to abrupt profit taking.</p> <p>Rising, clearer and more encouraging prospects, increasingly positive effects on International Trade and Shipping.</p>

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**Slide 11**



## 2. NON - INDUSTRY FACTORS AFFECTING SHIP FINANCE

FACTORS	RECENT TRENDS / CONCERNS
<ul style="list-style-type: none"> <li>• <u>INTERNATIONAL INVESTOR</u></li> </ul>	<p><u>CONFIDENCE &amp; PROSPECTS</u> : Over confidence; uncertain prospects though; Flight to quality re-appears.</p>
<ul style="list-style-type: none"> <li>• <u>FAR EAST BANKING</u> :</li> </ul>	<p>Overall recovery, Japanese bank portfolios slowly improving, Korean bank crisis being overcome, worst over. Mergers and acquisitions in the banking industry increasing</p>

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**Slide 12**



## 2. NON - INDUSTRY FACTORS AFFECTING SHIP FINANCE

FACTORS	RECENT TRENDS / CONCERNS
<ul style="list-style-type: none"> <li>• <u>INTERNATIONAL BANKING</u></li> </ul>	<p>Stronger through M &amp; A, better balance and distribution of earnings, strong capital ratios, aggressive marketing, especially for risk free products and services.</p>
<ul style="list-style-type: none"> <li>• <u>INTERNATIONAL TRADE</u> :</li> </ul>	<p>Steady, encouraging signs, 1999 growth at 2-3%; 2000 growth expected at 4% plus levels.</p>
<ul style="list-style-type: none"> <li>• <u>COMPETITION</u> :</li> </ul>	<p>Increased competition to shipfinance by other sectors offering better quality risk / reward characteristics and prospects</p>

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**Slide 13**



## MAIN CONCLUSION

- International economy growing - confidence returning
- Immediate prospects for recovery
- Improved outlook for the international economy; International trade, banking and investors' confidence affecting positively all aspects of shipping
- Prospects for modern vessels high - prospects for overage tonnage still bleak but some improvement expected

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**Slide 14**



### 3. HOW HAS SHIPFINANCE BEEN AFFECTED BY INTERNATIONAL AND SHIPPING CONDITIONS AND TRENDS

- Shipping banks' portfolios have been maintained; quality began to improve as prices/earnings have improved; still a high percentage of clients in the «watch» category
- Shipfinance activity rising especially for newbuildings
- Banks have stopped restructuring and are aiming at loan reductions; improvements in loan portfolios through asset sales
- Foreclosures, auctions and forced sales at a minimum
- Declining no of loans in default
- Shipfinance for older vessels still problematic
- Only high quality companies enjoy access to competitive shipfinance and terms, usually involving newbuildings

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**Slide 15**



### 3. HOW HAS SHIPFINANCE BEEN AFFECTED BY INTERNATIONAL AND SHIPPING CONDITIONS AND TRENDS

- More information required for loan monitoring causing strain with clients
- Flight to quality and size by shiplending banks
- More stringent and scrutinised lending by banks
- Greater use of loan covenants, emphasis on liquidity and asset quality
- Falling lending ratios and increased spread/fees required by banks in new lending
- A number of shipping banks have left the sector or have merged their shipping departments as a result of Mergers & Acquisitions; Exodus slowing down

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## Slide 16



### 3. HOW HAS SHIPFINANCE BEEN AFFECTED BY INTERNATIONAL AND SHIPPING CONDITIONS AND TRENDS

- Increased uneasiness among shipping banks personnel over the length of the recession in shipping and their future
- The majority of banks are increasingly wary of entering into new loans and / or new lending relationships with small to medium owners even when these involve modern vessels
- Reduced concern shown by shipping banks towards Far East charterers' ability to meet their commitments
- Shipping banks are continuing to emphasize non-risk products and services especially now that shiplending activity has virtually disappeared.

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## Slide 17



## WHAT OF THE FUTURE?

- Increasing confidence in the international economy, growth and increase of International Trade
- Year 2000 is expected to be a year of recovery with 2001-2002 being years of relatively high earnings and prices. Newbuilding prices shall show massive rises over the next 2-3 years
- Scrap prices to improve
- Shipfinance shall make a comeback as banks are looking to capitalise on the sector's positive outlook
- Shipping bank loan portfolios will recover as vessel prices/earnings improve; shipping banks appetite for shipping risks shall return

## Slide 18



## WHAT OF THE FUTURE?

- Long-term shiplending capacity not affected by banking Mergers and Acquisitions. Strong capital ratios and appetite for risk provide good support
- Economies of scale encourage larger shipowning/shipmanagement units; Reduced fragmentation; Greater separation of ownership and management more likely
- Shipping investment returns and Capital opportunities high over next 2-3 years
- Shiplending returns and conditions expected to improve
- Confidence in shipping is back. Exuberance should be avoided as the industry has a continuous tendency to damage its own prospects via overordering