Banking on quality

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Volume and quality do not always go hand-in-hand, but when it comes to financing the Greek shipping industry the two things are looking increasingly like sides of the same coin

Billions of dollars continue to be put at the service of Greek shipping companies to support the expansion and modernization of their fleets.

Exactly how many billions has long been a source of fascination and, by general agreement, the numbers have risen steeply in the last few years in response to the bigger, younger fleet that the nation's shipowners are running these days.

At a *Lloyd's List* Events conference in Athens, in June, two experts - a leading consultant and a well-known shipping banker - put the current banking portfolio of loans to Greek operators at $16 - 17bn, a level which accords closely to *Lloyd's List* own survey of portfolios of one year ago.

This amount could well go up in the near future. Consultant **Ted Petropoulos** of Petrofin made it clear that his company's count of $16.35bn referred solely to amount that had already been drawn down. He suggested that the market was already assured of another $3bn in commitments, which so far have not been used.

A dozen or more banks have disappeared from the list of financiers of Greek shipping in the last few years, leaving about 40 institutions currently serving the sector's loan requirements. Even so, the amount of lending has shot up spectacularly from an estimated $9bn in 1995.

"Bank numbers are not the complete story," noted Mr. Petropoulos. "What really matters is ship finance capacity - and this has increased."

The reasons for the impressive surge in lending to the industry go beyond simply keeping pace with the sometimes phenomenal acquisitiveness of Greek shipowners and can be traced to both sides of the lending equation.

No doubt it reflects the near-record plunge by Greeks into newbuildings, where the costliness of the exercise automatically suggests a higher financing requirement

However, Mr. Petropoulos felt there had been a more fundamental switch by banks of their own volition to financing larger, more corporate - style shipowners and hence tolarger loans. "The remaining banks have a clearer focus, knowledge and commitment to the Greek shipping market," he observed.

It is also worth noting that the recent dwindling in the number of financing institutions had little impact on capacity since their loan portfolios were generally taken over by banks staying in the field.

Another factor had been the rise of Greek banks within the local ship finance sector. They had increased their combined portfolios from about $1bn in 1995 to an estimated $3bn today.

With the exception of the National Bank of Greece, which has been in ship finance for about three decades, most of the local banks that are rubbing shoulders with their international counterparts along Piraeus' famous Akti Miaouli street are relative newcomers to the field.

In that context, the increase in Alpha Bank's current loan portfolio to an estimated $780m appears remarkable. The bank's ship loans have not only elevated it into second place behind the National Bank in the ranks of Greek institutions, but look to have put it above such solid foreign lenders as Citibank, Chase Manhattan, HSBC and ABN in terms of pure shipping loans.

Variety is the spice

If variety adds spice to the ship finance sector, then the list of banks backing the industry appears to have that, too, in terms of both nationality and their overall approach to their business.

Among the facts that might raise a few eyebrows from **Petrofin's Bank Research** is that the foreign contingent includes 21 banks that are conducting their business without a direct physical presence in Greece, as opposed to just 11 with a local shipping branch, if Chase's services office is included in that description.

That does not seem to have handicapped them much as the overall lending by such institutions is close to that done by the smaller number of banks with the offices in the country. German banks, in particular, appear to favour the arm's length method as this sub-list is led by Deutsche Schiffsbank, KfW - which is strictly a financier of newbuildings in German yards, Schleswig Holstein and Hamburgische Landesbank, all of which have portfolios topping $650m.

On the other hand, a number of the banks that do have a presence on Greek soil - chiefly Citibank, Chase, ABN, Indosuez and Fortis - are known to manage significant additional loan portfolios on a syndicated basis. A glaring exception to those following the syndications path in a big way is the Royal Bank of Scotland, which remains by far the largest individual lender to the Greek market with an estimated portfolio of $2.6bn. Of this, $1.6bn is thought to have been booked from its London shipping centre and an impressive $1bn by its Piraeus branch.

Petrofin, which separately charts the ebb and flow of companies comprising the wide-flung Greek shipowning community, underlined the fact that the boom in traditional finance is not a blanket covering all types of shipping firm equally.

Despite the overall increase, banks were increasingly being drawn to 'main tier' clients characterised by having larger fleets of at least 10-15 vessels and by their ability to use other banking services that offered added value for the financier

By contrast, Mr. Petropoulos saw small-to-medium sized shipowners as "the forgotten half of the ship finance market" - more than half, in fact, as he estimated that over 80% of a total 785 Greek shipping companies in existence operated fleets of under nine ships. A staggering 521 of these operated no more than four vessels.

Credit crunch

"There are clear signs of a credit crunch for owners in this category," he commented, saying that smaller operators often faced difficulty in raising finance at all, or at least had to accept higher yields, tougher terms and a lower percentage of the funds required.

According to Mr. Petropoulos, who has often spoken up as a champion of smaller Greek shipowners, there were many reasons behind this bleak state of affairs. "Shipping credits have become standardised and banks have enjoyed good ship loan demand from newbuildings, which absorbs loan capacity easily and in line with their credit policy. Consequently, small loans to small owners are time-consuming and an uphill task," he said.

The plight of smaller operators tended to be further complicated as they tended to run older fleets, something else which was increasingly frowned upon by banks. Furthermore, among banks themselves traditional smaller or niche institutions had disappeared from the market, removing most of the natural partners for smaller owners.

Consolidation process

Partly as a result of this, **Petrofin** sees the number of Greek shipping companies shrinking to below 300 by the end of the present decade. "That is not something ominous, it is just part of the consolidation process," said Mr. Petropoulos. "The industry is very fragmented and it is a fact that most small companies with one or two vessels will be unable to survive in the new state of affairs." He felt this would not affect the overall scale of Greek shipping as the average size of companies would grow. Overall, fleet capacity "may well increase as Greek owners replace small, older unitswith large younger ones".

At the same time, he forecast that the industry would be increasingly well served by a range of financing options. "As the quality and average age of the Greek fleet in general and that of the leading owners in particular shall greatly improve, we foresee increased appetite and investment in Greek shipping by non-Greek banks.

"In particular, we foresee new banks entering the market and focusing on the opportunities offered by the smaller-to-middle market owners. Those owners represent an opportunity which is just too good to be missed by banks," he said.

"The strategy followed by banks over the last three to four years, which has been a flight to quality, size and young age, shall pay off in reduced loan write-offs and problems. As the quality improves, other international banks will reassess Greek shipping and there will be an overall increase in ship lending."

Mr. Petropoulos noted that this would involve enormous capital resources, but foresaw that large insurance companies and newly-developed Greek venture capital funds would ultimately contribute to the financing of the industry. International capital markets would relieve some of the burden on banks by accepting shipowners of substance.

"There is a clear and definite role for the Athens Stock Exchange. By the end of the decade there will be a well-developed and active shipping presence in the exchange," said Mr. Petropoulos.

Closed doors

So far, the only shipping activity to speak of on the Greek stock market has been through the ferry sector. Ferry lines have been permitted to list since 1995, while the door remained closed to the ocean-going shipping industry where the country is so strong.

That changed last year with the passage through parliament of law 2843, which in theory introduces a new animal to the stock market - 'portfolio investment companies for the shipping industry', otherwise known through their Greek initials as EEPNs.

But since the public listing route became available to them, Greek shipping companies have failed to muster even a single application. Sentiment being the only thing that can be measured up to now, has lurched to and fro within the shipping fraternity as far as the desirability of local stock listings are concerned.

The legislation, according to most in the industry, got things wrong in key respects and certain clauses in the law are seen as stifling for the prospects of any company that might be listed. It is possible that legislators were partly encouraged to err on the side of caution by the positively queasy attitude in public that industry leaders initially held towards the notion of shipping floatations in Greece. However, shipping folk would claim that even if that were so it was no excuse for blunders that would discourage an entire market.

Under existing requirements, EEPNs have to have initial share capital of at least Dr10bn ($27m) and the company should have a minimum fleet of six ships of at least 3,000gt. Up to two newbuildings still under construction could count towards this number.

A detailed business plan must accompany applications, while the prospectus has to include data on directors and any shareholder controlling more than 5%, with an obligation to notify the bourse if any of these individuals have been significant players at a company that has gone bankrupt or is under liquidation.

Majority shareholders in such a shipping vehicle must be of European nationality, while two-thirds of the ships controlled by any EEPN should be registered under the Greek flag or the flag of another EU state, or European Economic Area nations Norway, Iceland or Lichtenstein. Post-listing, companies are required to maintain a minimum fleet strength and face deletion if the number of vessels drops below three during their lifetime as a public company.

Larger shareholders, defined as holding more than 5% of shares, are locked into at least half of their initial investment for the first two years of the company's life. Moreover, EEPNs are prevented from borrowing more than 25% against their investments.

Benefits

According to the stock exchange, EEPNs offer the right dose of transparency as well as clos official monitoring of listed companies that will protect investors. At the same time, it maintains the recipe did not interfere with the industry's existing offshore-style benefits and is liberal on some matters, such as waiving income tax for the comapny itself and its shareholders.

Nevertheless, after the market's negative reaction to the balance of the legislation, the authorities have conceded that in a number of aspects the law needs amending or clarification.

Panayotis Alexakis, the president of the Athens Stock Exchange, recently pledged that the law "will be amended very soon in an effort to meet theneeds of the shipping market more effectively".

Among the changes now being advocated are the abolition of restrictions on transfer of shares and freedom for shipping firms to borrow at their own discretion as long as consolidated leverage does not exceed 70% of assets.

Mr. Alexakis called this "a reasonable level of leverage and flexibility without exposing investors to excessive financial risks."

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