The development and prospects of Greek ship finance

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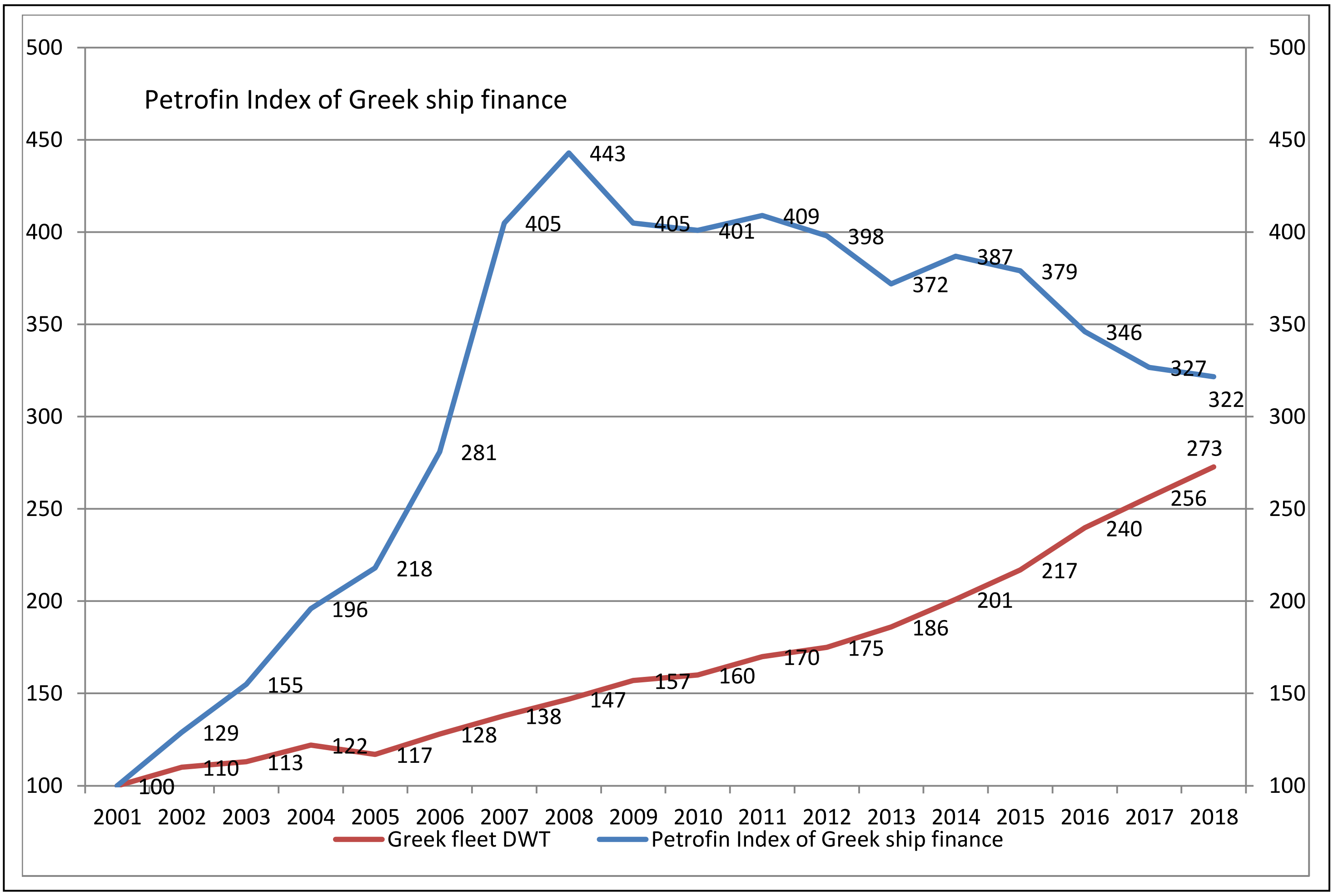
Finance for Greek owners is an essential part of the development of the Greek fleet. This has traditionally been provided by banks. The last ten years have, however, witnessed profound changes in the ability and willingness of banks to continue to perform this vital role.

In Graph 1 you will note the development of bank related ship finance since 2001 (Petrofin Bank Research ©), shown as the Petrofin Index.

Graph 1: Petrofin Index and development of the Greek Fleet



Petrofin Bank Research© - as of end 2018, June 2019

You will observe a rapid growth from 2001 to 2008, which then reversed for the last 10 years, mainly as a result of the global financial crisis of 2009. The index now stands at 322, which corresponds approximately to the levels of 2006 and is down by 27.5% since the peak of 2008.

During the same period (2001-2018), the DWT capacity of the Greek fleet grew continuously from a base of 100 to 273, despite the fall of bank finance (Graph 2)

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In this year's Greek ship finance research by Petrofin Research (www.petrofin.gr), you can review all the significant changes over the last 18 years. We should point out the decline of European banks from 97% in 2010 to 77% in 2018, as well as the fall of German banks from 27% to 16% for the same period.

In contrast, Greek banks have largely maintained their share from 24% in 2010 to 18.4% in 2018, despite the Greek related economic and banking crisis.

In Table 1 you will see the current Greek ship finance banks and their loan portfolios:

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Table 1: Bank ranking – in US$m

Greek shipping portfolios as of end 2018

Rank	Bank	Drawn	Committed but Undrawn	Total
1	Credit Suisse*	$5,900.00	$1,100.00	$7,000.00
2	DVB	$3,052.00	$47.00	$3,099.00
3	BNP Paribas	$2,800.00	$120.00	$2,920.00
4	Piraeus Bank**	$2,840.00	$0.00	$2,840.00
5	HSBC	$2,800.00	$0.00	$2,800.00
6	Citi	$2,500.00	$200.00	$2,700.00
7	National Bank of Greece	$2,327.70	$125.40	$2,453.10
8	Alpha Bank	$2,300.00	$40.00	$2,340.00
9	ABN AMRO	$2,100.00	$225.00	$2,325.00
10	ING*	$2,200.00	$0.00	$2,200.00
11	Hamburg Commercial Bank*	$1,700.00	$150.00	$1,850.00
12	Eurobank	$1,737.00	$103.00	$1,840.00
13	CHINA EXIM*	$1,800.00	$0.00	$1,800.00
14	KEXIM*	$1,400.00	$0.00	$1,400.00
15	DNB	$1,274.20	$105.13	$1,379.33
16	Nordea	$1,153.91	$183.03	$1,336.94
17	KFW	$650.25	$177.84	$828.09
18	DB - Deutsche Shipping*	$800.00	$0.00	$800.00
19	Unicredit	$760.00	$0.00	$760.00
20	Nord LB	$750.00	$0.00	$750.00
21	China Everbright Bank*	$650.00	$0.00	$650.00
22	Calyon*	$600.00	$0.00	$600.00
23	China Development Bank*	$450.00	$0.00	$450.00
24	CIT Maritime Finance*	$350.00	$0.00	$350.00
25	NIBC	$200.00	$0.00	$200.00
26	Aegean Baltic	$163.62	$14.24	$177.86
27	Amsterdam Trade Bank	$157.00	$0.00	$157.00
28	Qatar National Bank*	$150.00	$0.00	$150.00
29	Barwa Bank*	$150.00	$0.00	$150.00
30	Bank of Cyprus	$90.00	$0.00	$90.00
31	Hellenic Bank*	$80.00	$0.00	$80.00
	OTHER BANKS (21)	$6,700.00	$0.00	$6,700.00
	Total Greek portfolio	**$50,585.7**	**$2,590.6**	**$53,176.32**
	Overall number of banks	52	Petrofin Bank Research © June 2019	
	* Market estimate	** Excluding ferries		

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In general, 2018 was a year of contrasts. The German ship finance market continued its fall by -18.64% with few banks remaining committed to shipping. Although the pace of decline has been slowing down, there were still surprises to be had, as was the decision by Nord LB to abandon shipping altogether. Interestingly, HSH became Hamburg Commercial Bank owned by private Equity Funds with a reduced loan portfolio but still willing to continue to serve its clients.

The notable outperformers last year were Credit Suisse and BNP Paribas, closely followed by HSBC, Citi, ABN Amro and ING in the top 10.

Greek banks, on the other hand, against all odds, showed a robust performance last year, even though they are still handicapped by the Greek economy and a high percentage of nonperforming loans in the non-shipping sectors.

The Far East and North American shares continued to rise, failing though, to fully counterbalance the decline of German and UK banks.

The main competition to banks lies in Far East leasing. Chinese lessors have strongly developed and have also begun to address the requirements of smaller owners. The number of Chinese leasing companies has grown enormously and in the meantime their offered finance cost has declined now being on par or even lower than banks.

The response by banks has been one of primarily dealing with their own proven clientele, thus hardly considering any new clients. Often owners have no choice but to rely on leasing to finance their newbuildings or modern acquisitions. Over the past couple of years, Japanese leasing companies have selectively provided finance to Japan linked clients, favouring those with a long record in dealing with Japanese shipyards and banks.

Among owners, the two tier lending market continues to dominate as a lending model. The top owners achieve low cost facilities with flexible terms whilst the smaller owners struggle to secure finance. The presence of private Equity Funds in Greek ship finance has been subdued largely because of their high cost despite offering higher loans than banks. Overall, bank margins have begun to slide as the emphasis is focused on size and quality. On the whole, however, most banks have enjoyed a secure loan portfolio with few nonperforming loans in respect of loans provided in recent years. Banks which have nurtured bad loans for a number of years, have continued to offload them primarily to private Equity Funds. Some private Equity Funds, e.g. Cerberus, developed enormous fleets of managed/controlled vessels on the basis of which they hope to make exciting returns.

All banks that recently entered the ship finance market are experiencing solid growth. These include Amsterdam Trade Bank, Bank of Cyprus, Hellenic Bank, M&M and, recently, Astro Bank. It should be noted that many smaller national Far Eastern and Middle Eastern banks are also developing their shipping presence.

The shipping markets in 2018 were not inspiring but did provide some support to banks. The dry bulk and LNG sectors witnessed good performances. As the year developed, there was (and still is) growing concern on the impact of trade wars and restrictions, the effects of Brexit, the mounting geopolitical tensions, as well as the effects of the Vale dam disaster which has severely curtailed the Brazilian iron ore production and exports.

Banks are becoming increasingly worried of the slowdown in international trade growth as a result of the higher tariffs imposed by the US and China and how this could impact international trade in the coming years.

A slowdown in newbuilding orders and deliveries has helped counterbalance the declining international trade growth but scrapping is still relatively low levels.

The new 2020 fuel regulations, as well as the implementation of the Ballast Water Management system have added to the challenges of the shipping industry and the banks. Banks have also begun to look into the environmental issues related to shipping and their clients. As a result, loan approvals have become longer and uncertainty has grown further.

Despite all the above restraining factors, Greek shipping has continued to grow and this underpins the interest of banks in Greek shipping.

Over the last years, the Norwegian capital and banking market has developed strongly and has provided some solutions to Greek owners in financing, investment support, leasing/bareboat and joint ventures. Consisting mainly of current and ex shipping parties, Norwegian investors have displayed good timing and shipping experience. This has attracted many Greek owners, e.g. Alafouzos and others.

What of the outlook for shipping banks in the next years?

The adjustment process by overleveraged and aggressive banks has come to near its end after 10 years since the 2009 financial crisis, with few banks nowadays nurturing sizeable bad shipping loans. Those remaining are busy disposing of the last loans. As a consequence, both the survivors of the above contraction and the recent bank entrants are expected to once again drive ship finance higher. The recovery though is expected to be slow, as banks are still constrained by capital restrictions and develop increasingly demanding risk and compliance departments.

To a large extent, it is the performance of the various shipping sectors, as well as the overall global economic and geopolitical factors, that will determine the immediate future and commitment of shipping banks. Owners' appetite for additional newbuildings and second hand purchases will also be dependent on the above factors. However, interest in LNGs and tanker vessels continues unabated, seemingly unaffected by global economic and geopolitical issues.

Overall, banks continue to face capital constraints and stricter risk and compliance policies. As a consequence, the bank funds available for Greek ship finance have to compete with other non-Greek ship finance, as well as all the other lending opportunities available to banks. Admittedly, ship finance loan yields are quite attractive and banks have developed a highly selective approach in an effort to minimise potential provisions.

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We anticipate that provided shipping markets do not face a collapse due to geopolitical risks and/or trade war tariffs that Greek ship finance should stabilise at around the end 2018 levels. A key factor supporting the above expectation is the near complete exodus of banks which decided to quit ship lending.

Banks have begun to adapt to the changing ship finance conditions by emphasising more their non-risk services and corporate support they could provide to owners. A key example of this is DNB which is changing its 'shipping mix'.

We look forward to next year's Greek ship finance research in order to see if the last 10 years bank ship finance decline could reverse.