Ship finance: Diversity of funding is wider than ever, but banks narrow their focus

The era of cheap money ended for shipping a good while ago and competition is intensifying

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Many financiers are going 'big' and 'green', putting in doubt future funding for smaller owners of older vessels

THE GROWTH OF THE GLOBAL FLEET IS INCREASINGLY RELIANT ON FUNDING FROM OTHER CHANNELS: A POTPOURRI OF LEASING, PRIVATE EQUITY, ALTERNATIVE LENDING SOURCES, PUBLIC MARKETS AND EQUITY INVESTORS.

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IF DIVERSITY of financing sources is the main determinant of health, the shipping industry is living through a golden age.

Banks, increasingly evenly distributed across the world, are probably still the main providers of ship finance.

However, the growth of the global fleet is increasingly reliant on funding from other channels: A potpourri of leasing, private equity, alternative lending sources, public markets and equity investors.

Diversity, though, is not always the same thing as choice.

Shipowners' access to much of this glorious gamut of financing is increasingly governed by two metrics: The size of the candidate company's balance sheet; and the scale of its commitment to the green transition.

Ted Petropoulos, managing director of Petrofin, a ship finance consultancy and research group, sees a "relentless" and increasing trend towards latest-technology "eco" vessels that command the best terms from lenders abiding by the sector's Poseidon Principles.

Signatories to the Poseidon Principles — which purport to provide a framework for integrating climate considerations into lending decisions in order to promote decarbonisation of shipping — accounted for close to 60% of all bank finance for the industry in 2023, according to Petrofin.

"Smaller firms with associated limited capital availability may well struggle to acquire modern vessels and may remain with older technology ones with a problematical future," Petropoulos said.

"Of course, in a good market, all vessels will do well and will obtain some finance — but the prospects for older technology vessels over the next years is in doubt."

Petropoulos acknowledged that the industry is still grappling with the lack of a proven new technology offering near-zero emissions, and a widespread assumption that under those circumstances, the existing fleet will remain employable for some time.

However, a two-tier chartering market has already developed, he said.

"The trend towards eco vessels and the adoption of emission-reduction devices will continue and banks will become ever more focused on the 'greenness' of their fleets," he said.

"They will aim to enhance their green profile and demonstrate their support towards the process of reducing emissions."

In its latest annual check-up on the world of ship finance in July 2023, Petrofin provided an estimate of $525bn for outstanding global ship finance.

That included all forms of lending, as well as leasing, export credit finance and alternative providers of various stripes.

Total bank lending, though, approached $350bn — or two thirds of the total.

Stripping out some of the more local lenders and focusing on the top 40 shipping banks globally, Asian and Australian banks had bumped up their share of the lending to 44%, while European banks continued travelling in the opposite direction, dipping just below 50% of global exposure to the industry for the first time on record.

Much of the decline has come from the German and Scandinavian banks that were among the most committed lenders to the industry not much more than a decade ago.

The UK banking sector — nowadays shorn of the Royal Bank of Scotland as a shipping lender — has receded further, too, with the withdrawal of HSBC from the Greek market.

Today, European banking support for shipping is led by French and Dutch institutions. BNP Paribas is likely to stand at the top of the rankings again in 2023, with a portfolio of more than $20bn, including the bank's involvement in the cruise and offshore sectors.

Like many of today's larger portfolios, however, it is no Noah's Ark of all creatures great and small, but has been built up with a fairly rigid focus on the large corporate shipowners, to the near exclusion of smaller companies.

A recent $2.8bn refinancing package for GasLog — said to be the largest ever commercial loan package for a shipping company — underlined that for this sort of customer, finance is very much available and in big numbers.

BNP Paribas and Citibank co-ordinated the transaction, which involved 14 banks and included specific performance-linked elements related to sustainability and gender diversity.

Looking around Europe, Greek banks are also worthy of an honourable mention, as they are continuing to steadily increase their lending to Greece-based owners.

In Asia, Japanese banks have begun to figure more prominently in the list of leading lenders to the industry, contributing 11 out of the top 40.

Chinese banks and leasing companies are projected to become the leading providers of ship finance in the not-too-distant future.

"This seems to be inevitable, but it's a welcome prospect," said Petropoulos.

"Chinese lenders have become international and adaptive and have built up a large presence, especially for large-ticket financings."

At the same time, he felt it important that Western ship finance capacity and expertise is maintained, "as this provides competition to Far East lenders and provides options to [Western] owners".

While some associated the recent rise in interest rates as signalling the end of the era of cheap money, Petropoulos argues that this actually happened in the aftermath of the Lehman Brothers crisis in 2008 as banks found themselves overexposed and overleveraged.

"This applied mostly to Western banks," he said.

"With the imposition of minimum capital adequacy rules, banks had to deleverage and this was easier in the case of shipping, so many banks left the ship finance field or severely curtailed lending while increasing minimum margins on loans."

However, this process "appears to have run its course" and Far Eastern lenders have filled much of the gap that was created, he said.

"Today, as shipping has largely been successful and owners have strengthened their financials and liquidity, competition has intensified and loan margins have declined — especially for larger or public companies," Petropoulos noted.

This article is part of Lloyd's List's 'Outlook 2024' special report, which can be viewed in full here