Greek ship finance: trends and prospects in a challenging world

by Ted Petropoulos
May 2024

Shipping market conditions in 2023 were mixed, offering both opportunities and challenges to Greek owners.

In 2023, the shipping markets were uneven with tankers, offshore, gas and chemical carriers experiencing improved conditions, whilst dry bulk and containers were experiencing soft markets. Overall, the Clarkson's second hand price index was flat compared to 2022, although tankers showed a 39% average price increase for the whole sector with dry bulk at minus 8% and containers at minus 13% (Clarkson's Shipping Intelligence).

Whilst geographical concerns and high energy prices prevailed aided by the attacks on the Red Sea route by Houthis and the difficulties with the drought creating congestion in the Panama Canal, owners tried to reconcile the relatively high vessel prices with correspondingly lower earnings in dry bulk and containers and questions over the longer term sustainability of the tanker market.

An issue facing owners was the high level of interest rates. This rendered cash flows difficult and insufficient to justify vessel purchases unless owners included a speculative 'hope' factor over possible higher rates in the future.

The above ship financing conditions were hardly ideal in 2023 with banks having to restrict LTVs (Loan to Asset Values) accordingly. Bank deal flow did improve as the year progressed as owners became more confident that future market conditions would improve in 2024 – 2025.

Greek owners concluded 226 S&P transactions in 2023 as opposed to 292 in 2022 but the total DWT involved remained virtually the same at 2.4m DWT (Clarkson's Shipping Intelligence). Greek buyer interest was increasingly drawn by newbuildings, resulting in the remaining newbuilding slots in the Far East to be filled quickly. However, this did not affect bank loans as deliveries would be 2-3 years in the future and economic prospects as well as anticipated higher scrapping offered a promising risk / reward balance.

By the end of 2023, Greek owners had amassed considerable liquidity. Some used this to place new orders, whilst many others used it to reduce 'expensive' bank loans. Hence banks found that even though loan volume had picked up during 2023, they could not maintain their loan portfolios due to prepayments and amortisations.

Overall, the latest Petrofin Bank Research showed that Greek related loans fell by 2% to $50,891m with the Petrofin Index for Greek ship finance falling to 308 in 2023 from 314 in 2022 and 443 at its peak in 2008 (see Graphs 1 and 2).

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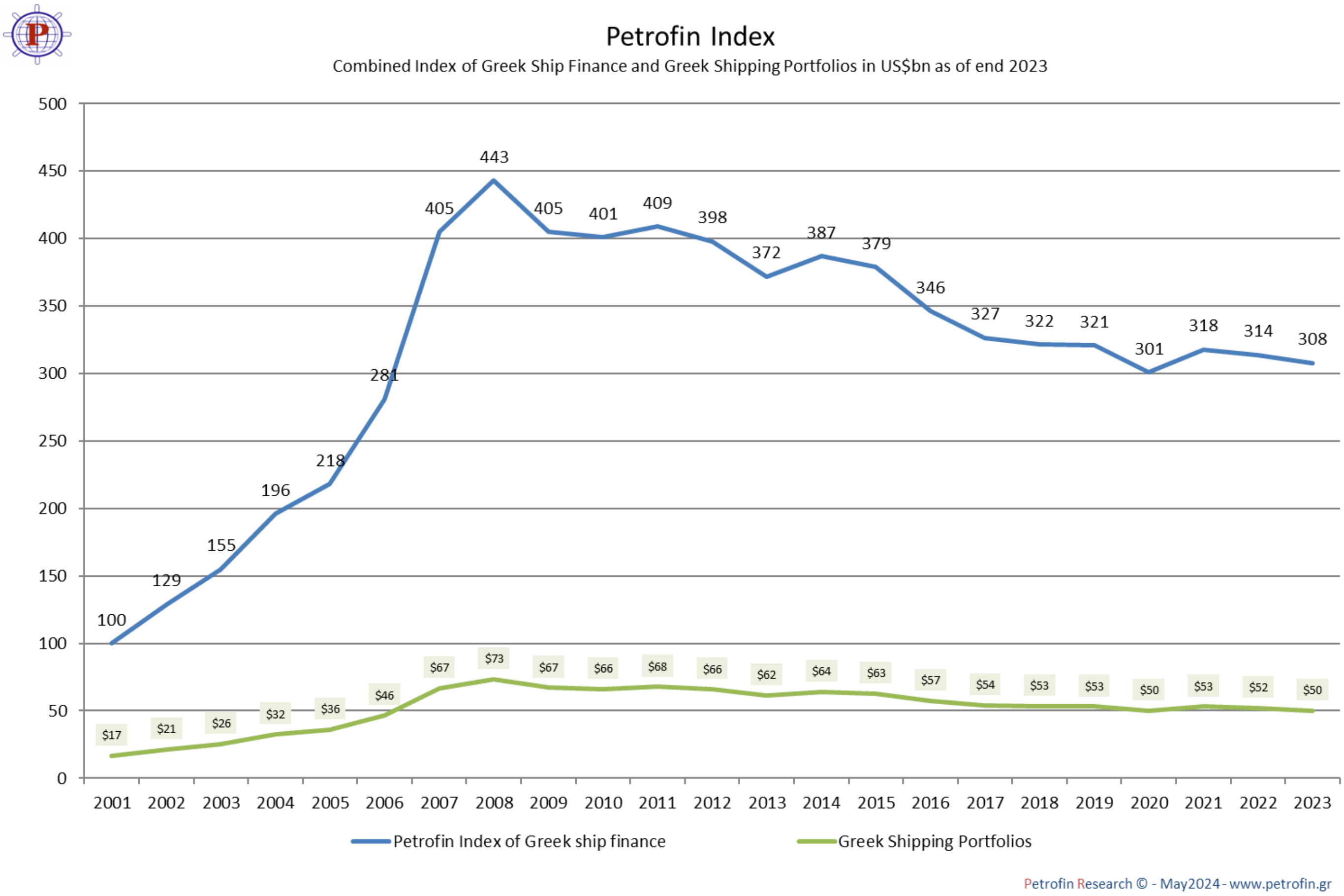
Graph 1



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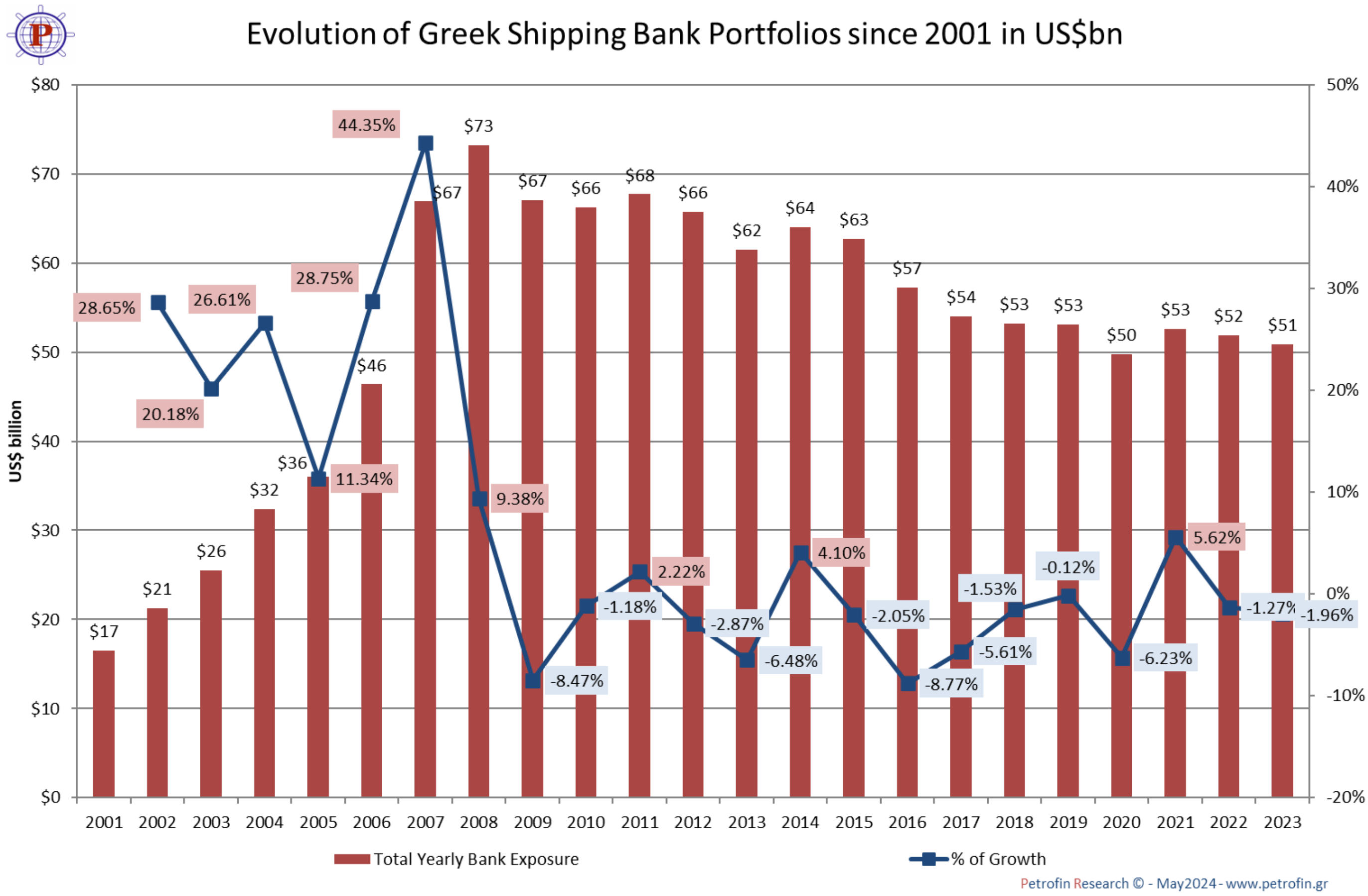
Graph 2



The long term fall is mostly due to the exodus of major ship lenders over the previous years, primarily from Europe, as banks increasingly focused on non asset based lending as well as lending closer to home. It would appear though that this trend seems to have run its course as over 80% of existing lenders, according to Petrofin Research, seem to have both the appetite and capacity to grow.

A key feature of 2023 was the increased popularity of Sale and Leaseback deals, as well as greater interest in ship lending by funds. Such providers would offer competitive pricing and most of the time a higher LTV and longer maturities which Greek owners found attractive. Admittedly, SLBs were more prevalent among public companies and / or major owners, which sought the opportunity to release capital where appropriate or finance new acquisitions or newbuildings using less of their own capital. Such competition became intense and denied shipping banks the opportunity to conclude more business.

The exception to the rule was the Greek banks which managed to grow despite the SLB competition from $14.08bn in 2022 to $15.8bn in 2023 (Graph 3).

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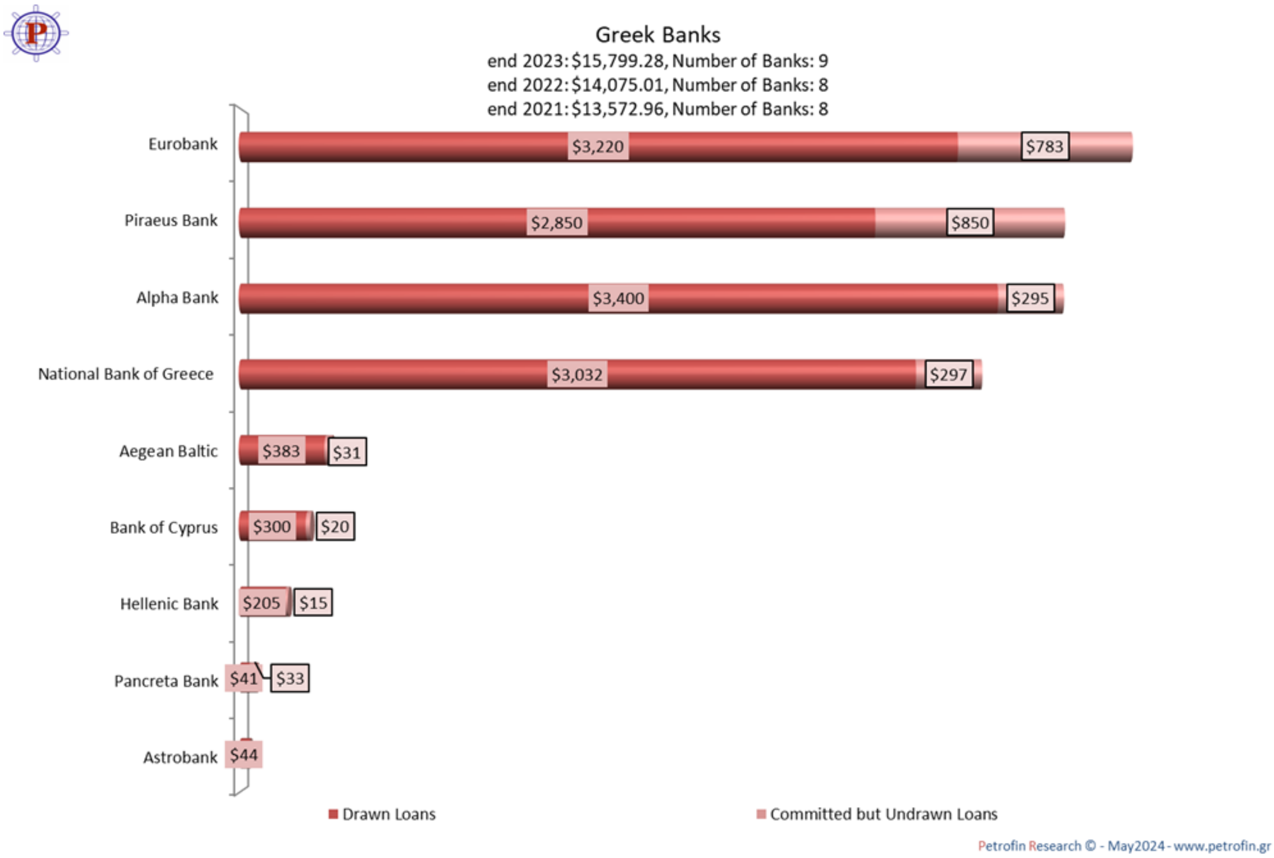
Graph 3



Greek banks had an advantage in having long term close relationships with Greek clients, as well as benefits from ancillary services. Additionally, as the credit rating of Greece and of the banks improved, loan margins became more competitive and Greek banks experienced a considerable growth in deposits from shipping clients. Without on the whole increasing their LTVs, Greek banks were able to grow by 12.25% in 2023 and to show the highest level of year end commitments that were yet undrawn by 60.83% year on year. In Graph 4, you will see the relative performance of Greek banks against non Greek banks over time. Since 2016, Greek bank loans almost doubled.

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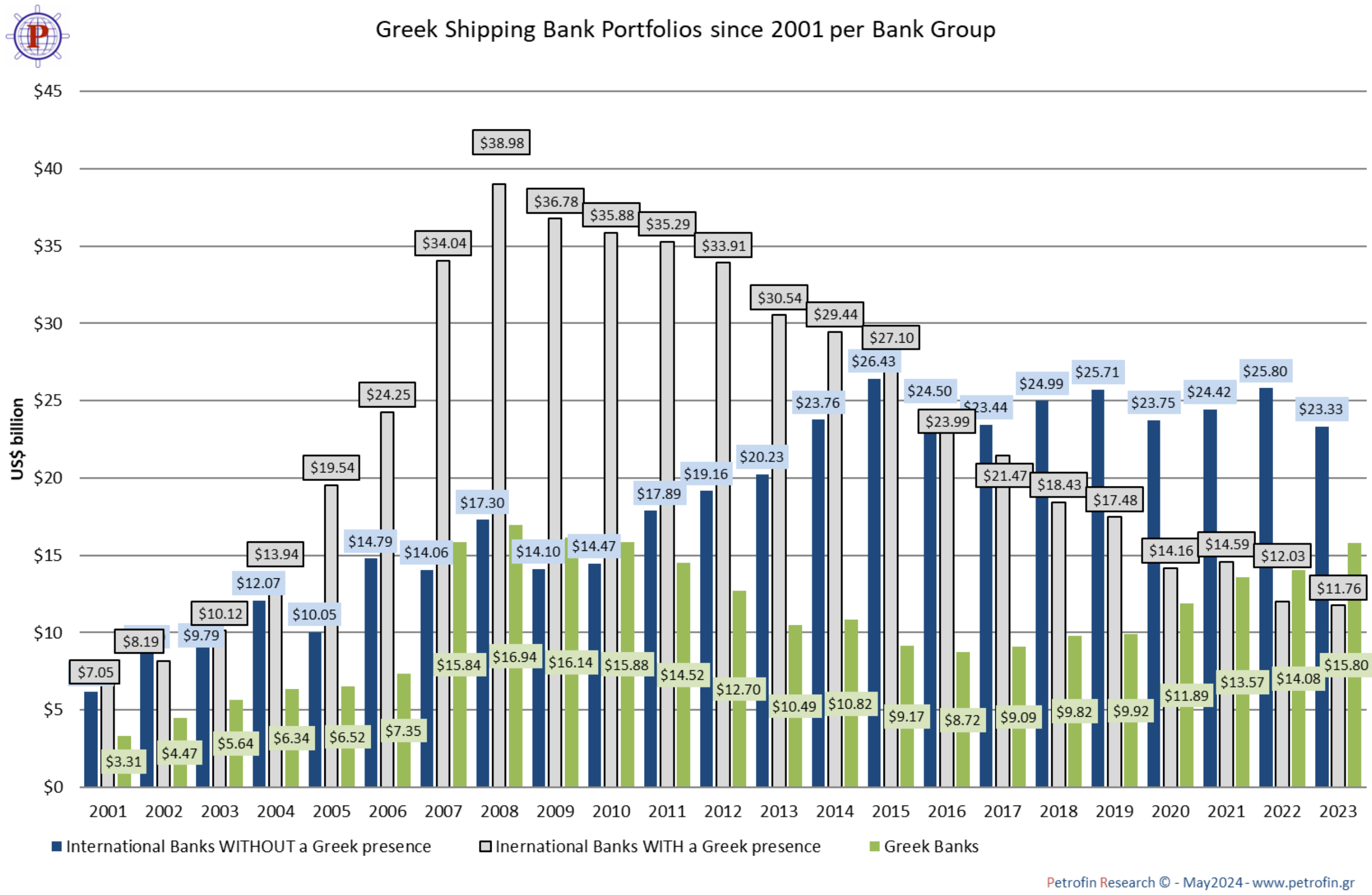
Graph 4



There has been no change in the top spots with UBS (Credit Suisse) still being the top among all banks and Eurobank top among Greek banks. With the departure of HSBC from having a Greek presence, it is noteworthy that the number of International banks with a Greek presence declined to 6 from a total of 11 in 2015. With much improved electronic communications, banks interestingly focused on reducing their international presence and costs by bringing it closer to home and this is one reason for the decline. It is arguable in the improved economy of Greece and higher credit rating, as well as excellent performance by shipping that Greek shipping might entice some of the departees to return via representative offices as this invariably assists marketing.

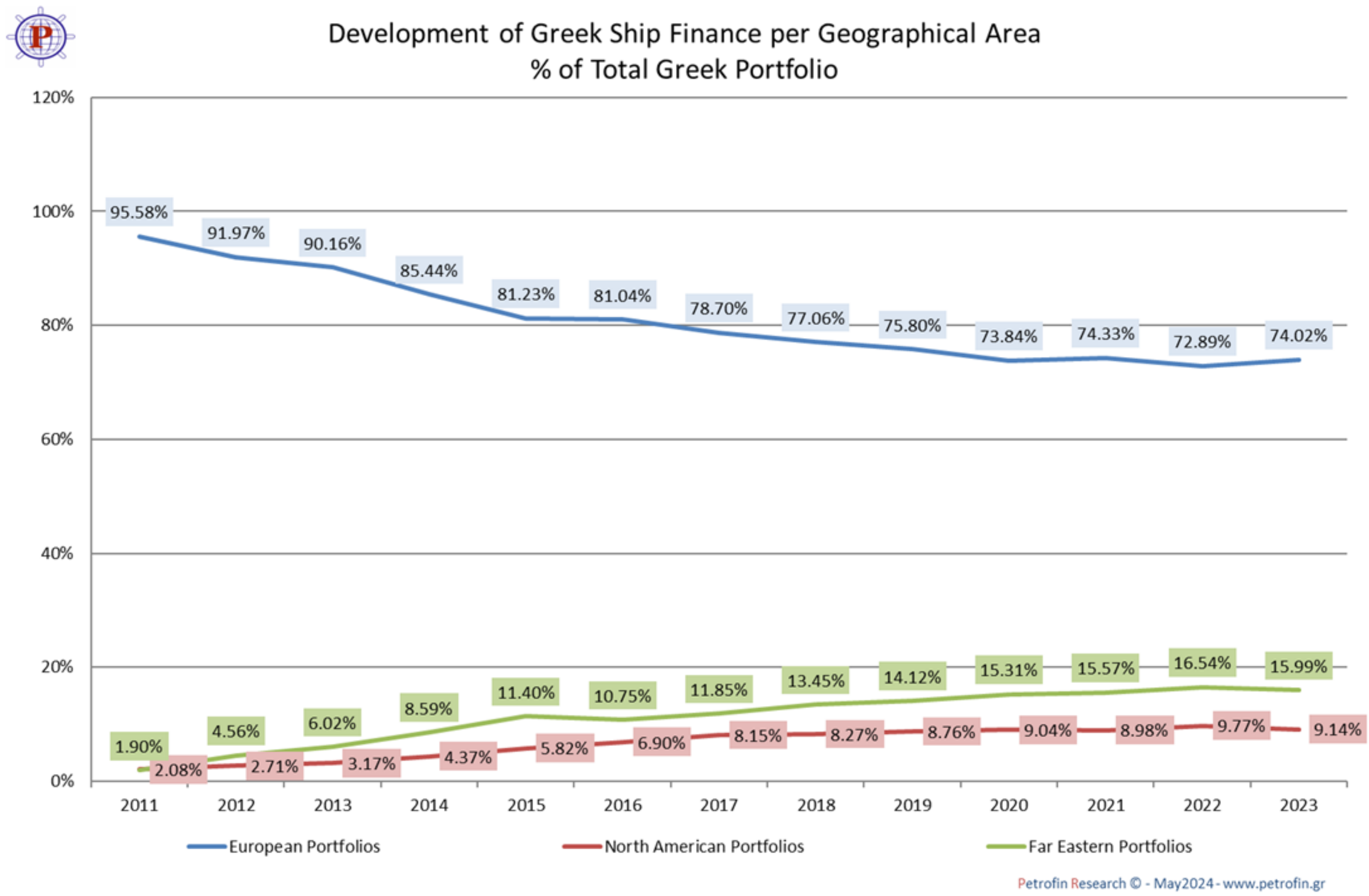
On the other hand, international banks without a local presence have remained at approximately 35-40 since 2015, with marketing taking place remotely or by visits and focused on the existing clientele.

The overall number of banks remained the same year on year at 50, although it is reasonable to say that those now lending are more committed to Greek shipping lending than before.

Far East financing experienced good growth especially via SLBs whose value is not known precisely. However, most major Japanese, Chinese and Korean banks are engaged in ship finance bilaterally or via SLBs with an increasing interest in Greek clients.

In Graph 5, you will see the development of Greek ship finance per geographical area.

Graph 5



Newbuilding related bank finance has also increased by 14.2% year on year reflecting the renewed interest by Greek Owners in newbuildings, both with dual fuel design but also the latest IMO Tier III eco engines.
It was a challenging year form syndications for most banks with the exception of BNP Paribas showing a 287% year on year increase.

Capital market activity in 2023 was subdued across the board with shipping IPOs, follow ons and shipping bonds, all decreasing, especially compared to 2022.

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Conditions for raising capital in 2023 were not supportive. However, it is noteworthy that the Scandinavian investment market remained strong with numerous shipping investments and high investor appetite.

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The biggest issue facing shipping, and of course, Greek shipping, at the moment is the transition towards decarbonization. This affects all activities across the board, S&P, chartering and definitely finance. Alternative fuel orders in the global fleet have, undoubtedly, dominated the news and the alternative fuel orderbook in 2024Q1 has reached 49.5% of the total orderbook. It should be noted that the rise since last year is only 1.7% (Table below).

In million GT

	Total Orderbook	Alt. Fuel Orderbook	Alt. fuel % of orderbook	Demolition
2023Q1	188.3	90	47.8%	1.8
2024Q1	222.4	110.2	49.5%	1.8
y-o-y growth	18%	22%	1.7%	0%

Source: Clarkson's *Petrofin Research © - May 2024*

Furthermore, regarding the Greek fleet, according to Clarkson's, Greek orders in 2024Q1 have showed a year on year reduction in contracting of 3.5%. Other major regions such as China and Japan showed much bigger decreases. On the other hand, regions such as the Middle East (Qatar), Norway, US and Singapore have shown a significant rise in new orders.

In addition, Greek alternative fuel orders are limited to 4 methanol, 33 LPG, 80 LNG dual fueled vessels and from the rest of Greek orders approximately 37% are scrubber fitted vessels. It is evident, therefore, that the process of decarbonization concerning the Greek fleet seems to have slowed down for now. This is due in part to the dearth of alternative fuel ship building slots on account of numerous newbuilding orders using conventional technology. Also, the good markets are delaying the recycling of older vessels, which has remained unchanged in 2024Q1, and for public companies, investor appetite is for maintaining dividend flow. This emphasis on dividends dissuades companies from ordering new greener technology vessels which require a longer investment amortization period. Should the European carbon penalties be extended to other regions and in the event that new green technology might develop e.g. ammonia run main engines, it is possible that the decarbonization process might pick up pace once again as 2030 is approaching.

Greek owners remain overwhelmingly bullish of the shipping markets. This is evident by the competition for vessels (especially modern eco units) coming up for sale, as well as in seeking newbuilding slots, now stretching up to 2027 – 2028. Despite geopolitical tensions and uncertainty, it is widely believed that the ton/mile increases, as a result of these factors, will not disappear any time soon. Moreover, there is a widespread belief that sooner or later US interest rates will start falling and that cash flows shall improve. It is this belief and the scarcity of newbuilding slots that has resulted in an average increase of 3% for tanker prices, 8% for dry bulk prices and 12% for container vessel prices, in the first months of 2024. Overall, the Clarkson's second hand price index is showing a 10% increase for the first 3 months.

However, for ship lending to increase, the volume of second hand vessel sales must rise and however, due to the limited availability of vessel candidates for sale, S&P activity by Greeks remains similar to 2023. It is possible, therefore, unless vessel sales shortly rise, that the volume of ship finance may not rise, despite the increased appetite of many banks. Newbuilding deliveries in 2024 are also not appreciably higher than 2023 and they are only expected to rise from 2025 onwards. Hence, it is difficult to see from where loan growth might arise.

Competition from non-bank sources of lending remains high, especially as both lending is still focused on an approximately maximum 60% LTV, whereas SLB at 70% or over. It is anticipated that once interest rates shall fall, SLB attractiveness might further increase, unless banks decide to offer more competitive terms.

One area where banks have offered more competitive terms has been in loan margins and arrangement fees, where for medium size clients margins have reduced to 2.5% over SOFR or less. Greek banks, in particular, are keen to offer even lower margins, where LTVs are lower. What might produce additional bank loan volumes, might be the financing of takeover and mergers occurring between public companies. The discount of share price over book value of shipping stock has prompted the interest of many buyers e.g. Star Bulk, Economou and others. Here, banks might play a pivotal role, especially where the offer is a cash or part cash offer. Where the banks can play an important role is in vessels offering new technology and reduced emissions. Most of such vessels are dual fuel and usually purchased or ordered by public companies or major owners. As banks are interested in financing low emission vessels, in line with their ESG policy and the Poseidon principles, this is an area in which the banks could compete effectively.

Banks have been cautious in their lending. Whilst it is not expected that they will become aggressive, as their clients' financials and liquidity become even more robust. It is expected that they will be able to compete more effectively in the future and offer more attractive terms. Banks have the benefit of enjoying additional non-loan related income from annulling services, which is expected to grow. In addition, investment related banking is expected to develop further in 2024.

A point of concern lays with the Basle IV new guidelines, becoming effective in 2025, whereby asset financing, such as shipping, may require more capital allocated for each loan. This and other regulations coming into effect may well undermine a bank's ability to offer low loan margins and may give a further advantage to leasing / SLB structures, which are not subject to these regulations.

Public markets are recovering and are expected to be more active in 2024 and the same applies for the Scandinavian market. Syndications and club deals are also expected to mark progress in 2024, for large scale refinancings and newbuilding finance.

Greek bank finance is entering into a new phase, where bank demand for loans and competition will become fiercer, especially for top tier clients but where overall volumes may not permit significant growth. Despite the above, Greek banks remain fully committed to ship finance and are expected to outperform non Greek banks in 2024.