Shipping bankers take stock

Bankers recently gathered in New York to address the changing landscape of shipping finance and discuss templates for future deals. **Barry Parker reports**

In late June, just as the big annual Marine Money ship finance conference was beginning in New York, drybulk specialist Navios Maritime Holdings, listed on the New York Stock Exchange, announced a transaction which was heralded by speakers over the three days of the conference as a template for numerous ship financings going forward.

Navios worked out a deal with Commerzbank and the South Korean Sungdong shipyard to acquire four capesize bulk carriers currently under construction, for delivery between late 2010 and early 2011. The ships will go into charters with terms ranging from five years on one vessel to between 10 years and 12 years on the other three ships. The four ships, three of which were said to have been ordered by Greek shipowner Alba Maritime, are valued at an aggregate amount of USD324 million.

The principals of Alba, members of the Dushas family, had figured prominently in a USD1.1 billion drybulk deal completed in the better times of 2007 when another entity under their control, Anemi Maritime, sold contracts on more than two dozen drybulk ships to be constructed in a Chinese yard to supramax sector specialist Eagle Bulk Shipping.

In a pivotal part of the Navios deal, Commerzbank, which had controlled three of the four shipowning companies, agreed to provide USD240 million of debt towards the four vessels, with a 10-year term – nearly matching the 9.75-year average length on the charters – with a balloon payment calculated on a 17-year profile, reflecting long-lived assets, at a margin of 225bp over Libor.

'We are in times that are far from normal; we need to be innovative'

Angeliki Frangou
CEO, Navios

Speaking at the conference, Angeliki Frangou, chief executive officer (CEO) of Navios, said that after foreclosing on the other owner, Commerzbank was "willing to provide favourable finance".

The deal is a win-win situation. When banks suddenly become vessel owners, placing those ships with strong and highly competent owners is an important victory for any bank. For an owner, gaining finance is also a victory.

At the heart of the financing is an arrangement that depends on the vicissitudes of the capital markets. Frangou also remarked: "We are in times that are far from normal; we need to be innovative."

Navios has taken advantage of an attractive window, issuing USD165.2 million of preferred stock that must be converted into common stock prior to a 10-year maturity. Of this amount, USD112.4 million will be applied towards the newly acquired vessels.

A further USD52.8 million will go towards reducing Navios's required equity contributions on three other capesize bulkers under construction at the same shipyard, set to deliver later this year. Each vessel has already been fixed, with charters ranging from five years at USD57,000 per day to 10-years at USD40,000 per day on the two other vessels.

The new Navios stock, which will pay a preferred dividend of 2 per cent annually, can be converted into common shares at any time at USD14 per share, well above the market price of under USD4 per share just prior to the issue.

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If holders do not convert at USD14 per share, a mandatory conversion at USD10 per share will occur, partly after five years – for 30 per cent of the preferred shares – and then at maturity for the balance. According to Navios, the new preferred shares are senior to common shares but junior to debt obligations.

The 'mandatory' feature, with shares converting at USD10 per share or USD14 per share in the voluntary scenario, means that fewer shares would be issued than if Navios followed the recently popular 'at the market' (ATM) approach.

A quick calculation shows that under an ATM scheme some 41 million shares would have needed to be issued at current prices to aggregate USD165 Million, versus 14 million at USD10 per share and 11.8 million shares at the USD14 per share price. In recent months, ATMs have been

Bob Fildes: 1040867

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