'Perfect storm' hits shipping

A recent shipping event in New York sponsored by local Greek and Norwegian business groups built its content around the theme of the 'perfect storm'. Barry Parker examines whether the metaphor is appropriate for the state of the industry

Nearly all New York-listed drybulk companies have struggled with sliding ship values, cash inflows below break-even levels and recalcitrant counterparties — all of which have been mainstays of conversations among ship financiers across the globe. These problems have led to fresh approaches to the issue of financing ships — some traditional and others reflecting the unique nature of the current economic and financial environment.

At a shipping conference in New York in February, a panel of bankers that included Colin Manchester, head of shipping coverage for the Americas at Royal Bank of Scotland (RBS); Harald Serck-Hanssen, head of global shipping, offshore and logistics at DnB Nor; Andrian Dacy, global head of shipping at JP Morgan Chase; and Randee Day, managing director and head of maritime at Seabury Group, seemed to fall neatly into two camps. Manchester and Serck-Hanssen offered a matter-of-fact view of commercial lending, one feature of which is that owners are having difficulties with cashflows. The other two panel members devoted remarks to the potential roles of private equity, in which an outside investor may take over an existing company or, possibly, a soured deal.

Serck-Hanssen set the tone by describing the simultaneous depression in shipping and overall financial crisis as a "dangerous cocktail". When queried about the proportions of ingredients in the mixture, the DnB banker was quick to point out: "The overall financial slowdown is a bigger factor. These days it is easier to find equity than debt — even some of the strongest shipping companies are having difficulties raising money."

Turning his attention to the very limited syndicated bank market, Serck-Hanssen noted that syndication difficulties began with the first wave of credit difficulties in 3Q07. The current situation "did not happen suddenly", he said, "but the full brunt took another year to be felt". Serck-Hanssen said that syndicated credits were down significantly in 4Q08, adding that a challenge for bankers now is "maintaining discipline in syndicate — to get a group of banks to go along with changing terms in existing transactions". In the new environment, he said, "USD100 million of lending is a large deal. The business getting done is mainly bilateral, between a lender and a trusted and well-known client."

For DnB's part, a relationship-driven approach is paramount. Serck-Hanssen explained: "Good shipping groups offer margins that may be better than other industries. We look at the total return, which includes non-lending activities such as cash management, investment banking and sometimes bond deals."

Serck-Hanssen, overseeing a portfolio of some USD35 billion in assets, said: "At DnB, we continue to be creative but are less active than in 2008, when we were a top mandated lead arranger. We don't want to join shipping's hall of shame." He did add that DnB Nor "would aim to find an amicable solution, if restructuring is needed. We will take a constructive approach if our clients are faced with difficulties".

Lately, *Jane's* and other outlets have chronicled a number of shipping loans that have been reshaped to cope with changed circumstances. Shortly before the end of 2008, RBS had agreed to amend one such credit facility, with borrower Eagle Bulk Shipping. Both RBS and Eagle were quick to explain the challenges faced and the creative solutions devised to surmount the challenges.

In essence, the USD1.6 billion credit — underwritten by RBS with a portion then sold down in late 2007 — was amended to USD1.35 billion, and the margin increased from 0.90 per cent to 1.75 per cent. At the same time, and with approval from RBS, Eagle Bulk reduced the size of its bulk carrier vessel order book at a Chinese shipyard. Previously at some three dozen vessels, the order book was pared to convert eight of the ships to options rather than firm orders. In the RBS credit, the minimum security value (ratio of vessel value to loan outstanding) was adjusted downward from 130 per cent to 100 per cent, with the calculation of vessels' security value adjusted to reflect deposits on newbuildings. The borrower's requisite net worth was lowered to USD75 million (contrasted with USD300 million previously) for 2009, with annual reviews in later years. Principal repayment of the restated credit begins in 2012, with a balloon payment due in 2017.

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>
> **Harald Serck-Hanssen**
> DnB Nor

Sophocles N Zoullas, chairman and chief executive officer (CEO) of Eagle Bulk, although skirting around the specifics of the tripartite arrangement between owner, shipyard and bank, stressed the importance of management experience; relationships with lenders and shipyard partners; and keeping an eye on the pulse of the market and reacting accordingly and early. Zoullas said: "In speaking to our Asian partners, we could see that after the Olympics [in August 2008], merchants in Asia were having difficulties getting letters of credit. We began looking early at the scenario of what happens if the market falls off a cliff." Zoullas revealed that an important financial metric for Eagle Bulk's internal stewardship has been the all-in cash break-even per day (including the debt servicing component). He added: "We have continued to manage around the break-even; it is a bellwether indicator tied to liquidity."

RBS banker Manchester also referred to the importance of relationships: "I don't think that bilateral deals really went away." He also presented the case that banks were increasingly allocating capital to clients involved with the banks in what he referred to as "robust relationships", as opposed to pure asset finance, which has the danger of trapping bank capital in long-term low-yielding "legacy debt".

Manchester, who covers the waterfront from an office in Connecticut, reiterated DnB's point about the move away from large banking syndicates. He pointed out the positive element: "In a bilateral deal, you can take the right decisions quickly and do what is best for the bank."