

Mega drybulk platform Star Bulk - keel firmly in place

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Remember when any mention of Private Equity (PE), at a conference or in an article, was followed by the word "consolidator", as in joining separate companies together? The "roll-up", another finance word, where smaller companies are placed together in a larger entity, activity continues, thanks to mega-investor Oaktree.



Oaktree's shipping appetite that stretches back to the pre-IPO days of Peter Georgiopoulos Among its 2013 shipping investments was a tie-up with the privately held Oceanbulk- not long after shipping banker Hamish Norton decamped from Jefferies & Company and moved over to the shipowner- a sign of things to come.

Earlier in the summer, 2014, Star Bulk Carriers, already a listed public entity in which Oaktree then had a minority stake, had acquired Oceanbulk along with other companies controlled by Petros Pappas, consisting of 15 dry bulk vessels already trading, with an average age of 5.6 years and an aggregate capacity of roughly 1.75m dwt. The deal, which closed in early July, also included contracts for the construction of 26 fuel-efficient, eco-design newbuildings- eight newcastlemaxes, eight capesizes and ten ultramaxs. As a result of the transaction, Oaktree became the majority holder (61.3%) of SBLK shares, having swapped Oceanbulk vessels for the additional equity. All told, some 54 million new shares (worth some \$650m) had been issued.

In the latest deal, expected to be tidied up by year-end, the fleet of Excel Maritime, some 34 vessels of 3.2m dwt comprising capesizes, kamsarmaxes and panamaxs is set to be acquired by Star Bulk, for \$635m. The fleet, mostly Japanese built, includes four panamaxs and one handymax aged 20 years or more. In January of this year, Excel had emerged after a bankruptcy restructuring with Oaktree, which had converted unpaid debt into equity, at the helm.

When the ink dries on the latest deal, and all the newbuilds have delivered by 2016, the bulked up Star Bulk will control a fleet of more than 100 vessels, which would be on the expanded company's balance sheet at around \$2.5 bn. Once the dust settles, long term debt on the fleet could approximate \$1.5bn - \$1.6bn, according to analyst projections. Star Bulk's acquisition of Excel will be financed, initially, with an

allocation of \$347m in the form of a share purchase, and \$288m of cash, mainly provided through a loan from Oaktree along with another investor Angelo, Gordon & Co.

So, at a time that many analysts feel that we have passed a cyclical trough, what is next for this newly emergent soon to be 11.8m dwt behemoth? Publicly, Oceanbulk has so far rebuffed speculation about further roll-ups. But consider that Oaktree is a major investor in the newly flying Eagle Bulk, and that Georgiopoulos, a long-time Oaktree ally, still is influential at Genco Shipping, and chairs Baltic Trading, which did not enter into bankruptcy. As for Eagle, Soph Zoullas remains in the crow's nest- but let us not forget that fellow Harvard alumni Hamish Norton was a key money raiser in the public equity markets for Eagle during his stints at Bear Stearns and then Jefferies & Co, which he joined in Summer, 2007 (just prior to a follow-on equity offering by Eagle).

Recent gains in capesize and panamax hires, albeit to barely breakeven levels in some cases, have surely not gone un-noticed by investors. With very little in the way of forward coverage, Star Bulk is positioned as a play on the: "...attractive demand dynamics of the iron ore trade and the contained vessel supply growth over the next two years..." according to Petros Pappas, in a late August regulatory filing. In his comments, Pappas also mentioned that "...we will continue to monitor and assess the market for further accretive growth opportunities...". In between the lines, number-crunchers, and presumably owners who might wish to join the roll-up, see upside for Star Bulk shares, which are priced below Net Asset Value. So, public pronouncements notwithstanding, the keel for a mega drybulk platform is now firmly in place.

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