

The young one

At the age of 24, Harry Vafias is thought to be the youngest shipping executive ever to run a company. Has he just been lucky, or is his shipping acumen the sharpest in generations?

I have arranged to meet Harry Vafias, director of Stealth Maritime, part of the Vafias Group of shipping companies, at a restaurant in Shoreditch, East London. To be honest, I am expecting to meet the typical shipping scion - talented perhaps, but preternaturally shunted to the head of the company by virtue of being his father's son.

He strides in, carrying a massive golf umbrella, the kind which draws resentful stares from others in the crowd on a London street if unfurled during rush hour. It was given to him, he says, by someone he had had a meeting with earlier in the day, as he had forgotten to bring his own and ended up turning up to the meeting soaking wet from the rain. As he was already wet through at that stage, it was a bit late, unlike Vafias himself, who has built his precocious career on a talent for being right on time. As he says, "Timing in shipping is the number one thing."

The first good year

Vafias began his career with one Handysize bulk carrier, the Sea Muse, a gift from his father Nicolas Vafias who was keen to see his son join the family business. According to Vafias, he and his cousin Panos Vafias immediately fixed the vessel for a year. The timecharter brought in a small amount of money which enabled him to invest in secondhand tonnage at the end of 1999. "We had good relationships with the financiers due to my father, so we found a 19-year-old Aframax. I wanted to start with Aframaxes because they are the backbone of the tanker industry," he says. This vessel, the Afragold, was purchased from OMI Corp. She was a 1980s-built tanker with double sides and engines. The delivery of this ship, says Vafias, saw the birth of Stealth Maritime.

With two ships and a new company, he decided that it was time to start recruiting people. As he saw it, he had two choices: either to outsource the management of the ships or to establish his own tanker management team. "Being younger and risky", he decided to bring the expertise in-house and went about the task of poaching people from the other tanker owners and operators in Greece. "We took people from companies like Eletson, Latsis, Anangel American, people who had a lot of experience in sectors such as technical, vetting and operations."

In the first of many lucky chances, Stealth Maritime took delivery of the Afragold in March 2000, right in time to capitalise on the unprecedentedly high tanker market of 2000, during which some VLCC owners enjoyed earnings as high as \$100,000 per day. As Vafias says, the company started earning money from day one.

Off the back of the buoyant market, Stealth Maritime invested in another Aframax tanker, bought from NOL in Singapore. The single-hull vessel, eventually christened the Afrapearl, was at that time 18 years old. Stealth took delivery of the vessel in May 2000 and immediately fixed her for four months to Indonesia's national oil company, Pertamina.

At this stage, although Vafias was wary of buying new tonnage - "investing \$5-6m on a secondhand Aframax is one thing, but spending \$40m on a newbuilding is another story" - an offer that was too good to turn down came his way. He was adamant that if he did invest in a newbuilding, it would have to be steadily employed with a first-class charterer; fortuitously, Norden approached Stealth and offered to collaborate in the newbuilding, enabling both companies to buy one ship each, and to engage Stealth's vessel on bareboat charter for five years. Vafias decided to proceed,

encouraged by the thought that no matter what, the new vessel would be shielded from the fluctuations in the spot market.

Thanks to Norden, the specification for the vessels was of a high quality. And "the other good thing was that when we signed the bareboat charter to Norden, they immediately timechartered the two ships to TotalFinaElf for five years. We were therefore starting a very good relationship with one of the biggest charterers in the world," says Vafias.

As he describes it, "The banks were scrabbling to do business with us, because there such good names behind the project." The vessel - the Nord Stealth - was delivered in December 2001.

An odd ship

With his first newbuilding deal under his belt, Vafias turned his attention once again to the sale and purchase market. In August 2000, Sanko of Japan put a 19-year-old Panamax oil-bulk-ore (OBO) carrier on the market. Even though he was not particularly interested in Panamaxes, he thought that the price - scrap value - was too good to dismiss out of hand. As he tells it, everyone, including his father, tried to dissuade him from the purchase. "Everybody in the office was saying that it was very risky because it was an OBO, that charterers didn't want OBOs, that it had a dodgy engine and would require a lot of maintenance. So when the offers were invited, I decided to make a very low offer. The scrap value was \$2.5m, so I offered that. There was no other competition so we bought the ship."

Upon delivery, Stealth put the vessel through its special survey, having decided to reclass her as a Panamax tanker, rather than as a Panamax OBO. "When the special survey was finished," says Vafias, "we had a normal double-hull Panamax tanker."

Vafias succeeded in chartering the vessel, named the Panoil to the American oil trader Westport for six months for \$18,000 per day, which was "well in excess of the vessel's running costs". Before the charter ran its course, Stealth managed to sell the vessel on to the American oil trader Chemoil for \$5.5m. When relating this coup, Vafias is hard put to restrain his excitement. "That was basically a 350 per cent return on our money, which I don't believe many owners can do in only nine months. After that nobody questioned my decisions, my ideas or my proposals. It was the greatest shipping deal in our company since my father had started in 1972. After that I gained his trust 100 per cent."

In November 2000, another Panamax tanker caught Vafias' eye - a 20-year-old single-hull vessel owned by Tokyo Tankers. "Since the Panoil was making such good money, we decided, why not buy the tanker, what with the prices being so low and the charter rates so high. We knew we could repay the debt quickly. We called her the Pancrude."

By the end of 2000, Stealth Maritime had two Aframaxes and two Panamaxes, plus one Aframax newbuilding on order. Reflecting the great wet market and the not-so-great dry market, Stealth Maritime, with only four trading vessels, had a better cash flow than Brave Maritime, the bulk carrier-owning arm of the Vafias Group headed up by his father Nicolas Vafias, which had 12 vessels. "We were making money from the cash flow so we could invest whatever we wanted," says Vafias. "We didn't have any restrictions from the banks. So for that first-round of buying, our last ship was a 1984-built double-sided Aframax, which we bought from Agip Petroli in February 2001. She was named the Afragem."

A time to sell and to buy

By mid-2001, Stealth had stopped expanding, both because the company had grown so rapidly over the past year and because the tanker market started to slow down. "From \$18,000-19,000 a day, we fell back to \$10,000 or lower," says Vafias. "So we thought about trying to sell some of the older ships in order to at least make some

money from the S&P." The Sea Muse, the bulk carrier with which Vafias had built up Stealth Maritime, was the first to go.

"Then we waited to see what would happen with the tanker market," he says. "We wanted to have period employment for the vessels in order at least to be covered from the bad market, so we fixed the Pancrude to Heidmar for a year."

In spite of the downturn in the market, it wasn't long before Vafias gave into his acquisitive streak again. He saw the bad market as an opportunity to move into very large crude carriers (VLCCs). "The ships that suffer more in the bad market are those that become cheaper the quickest, and as always, the bigger ships suffer more.

Therefore the VLCCs were suffering more than the other sizes. I proposed that we should move into VLCCs as they were quite attractively priced. After a lot of thought, my father agreed with me that it was the right time to move into the market, but we needed a long term timecharter. The breakeven point for a mid-late 80s VLCC is \$15,000-17,000 a day, but the rates were at that time around \$8,000-9,000."

Stealth was considering a 1986-built single-hull vessel on offer from Shinwa and went to Hyundai Merchant Marine (HMM) to ask if it was interested in taking it on a bareboat basis. HMM agreed to charter the vessel for \$13,000 per day, which meant that the vessel was covered before the ink on the S&P contract even had time to dry. Stealth acquired the vessel, renamed the VL Cosmos, for \$20m, a significant discount off the going price of nearly \$30m from the year before.

The Stealth fleet now stood at six vessels, three of which were fixed on either bareboat or timecharter.

Father and son

At this stage, out of a sense of filial duty and a desire to repay his father for helping him to get his start, Vafias bought a 1983-built Capesize bulk carrier, the Gladiator, from Brave Maritime. Vafias immediately fixed the vessel for a year.

In early 2002, as the tanker market continued its descent into the doldrums, Vafias continued to seek long term timecharter cover for his tankers. He fixed the Afragem to Chemoil for six months and rechartered the Afrapearl to Pertamina for six months. "In the first and second quarters of 2002 I had the amazing percentage of 90 per cent period coverage, which was the best in the tanker market," boasts Vafias.

This security enabled him to consider buying yet another vessel, another VLCC.

"Because the market was still very bad, VLCCs were getting cheaper and cheaper all the time. And because I knew that with only one VLCC, you will not be well known to the charterers, I was searching for a good opportunity to invest in one more VLCC."

A desire to forge better relations with the major charterers also motivated him to buy another Capesize bulk carrier from his father, named the Australian Fame, as she would be loading cargoes in the Antipodes.

In the autumn of this year, Stealth chartered the Afrapearl to a Russian oil company with a purchase obligation after 12 months. "It was such a good deal, as similar ships were being sold for \$3.5m, and the trading profit out of the timecharter plus the purchase obligation valued the ship at \$7m, whereas all my competitors sold for half that value."

Having done that, Vafias felt ready to finally invest in the VLCC he had been searching for, a Mitsui-controlled 1987-built vessel, which he renamed the VL Neptune. It was, he claims, the cheapest VLCC sold since 1999, bought for 'only' \$14m. When the purchase was agreed, the tanker market stood at WS35 (timecharter equivalent of \$7,500 per day), but in another coincidence of timing, Stealth took delivery of the vessel during the recent spike in freight rates prompted by the talk of war emanating from the US. "We took delivery when the market was at WS100," says Vafias. "On her first voyage alone we made a nice profit after debts and running costs. It was very lucky."

In spite of the unnaturally high freight rates, Vafias is keen to eventually fix the VL Neptune on long term timecharter as well. "Charterers are interested in timecharters

because the market is uncertain. If they can fix ships at \$20,000 a day, it's a win-win situation for everybody. If they fix for three years, it should be a good deal." According to Vafias, Stealth is currently in talks with three Far Eastern charterers at the moment, but the company is not necessarily rushing negotiations, as it believes that the spot market will be good until at least January. "I personally believe that the market will be good until January. Once the US attacks Iraq, the market will soften because nobody is going to load two-million-barrel ships while there are bombs flying around the Middle East." He is equally as confident about this prediction as he has been about every other one he has made over the few years of Stealth Maritime's relatively short life as a company.

For the future

Vafias' plans for the future of Stealth include a fleet renewal programme and an increased focus on fewer sizes of ships. "We are involved in four different types of ships," he says. "What we want to focus on is less types so we can become more well recognised by the charterers and grow our experience in less types." On the tanker side, he is interested in focusing purely on VLCCs and Aframax; on the bulk carrier side, he would prefer to be involved only in Panamax and Capesizes. In addition, he is looking to move into the LPG sector for several reasons. Firstly, it's a steady business; secondly because it is possible to find long term employment for the vessels; and thirdly because the company is interested in looking at projects outside of shipping, further up the logistics chain.

Tradition and innovation

There is something very Greek about Vafias' success: he is the perfect synthesis of the respect for tradition and the talent for innovation which characterises Greek shipping, which is both family-based and fiscally modern. He is willing to take risks when buying vessels, but at the same time, he ensures that he has long term timecharter cover.

I inform him that he is the first person that I've ever interviewed in the shipping industry who has been younger than me and then ask him if his youth has been an obstacle in any way. "People in shipping are not receptive to the younger generation," he says. "When I started doing all these deals, people were saying, 'Who is this guy? What is he doing? He's going to ruin his father's business. Where is he finding all this money to invest?'"

"But to be honest, I don't give a damn. When you're very transparent, you don't have anything to hide. I do a deal, and when the press calls me up, I tell them what I've done. And my grandfather always said that it's not what you say, it's what you do." It is clear that Vafias, like many Greeks in the shipping industry, is strongly family-oriented. His respect for and gratitude towards his father are apparent, as is his reverence for his grandfather, Haralambos Vafias, a self-made man who as a youth left his home island of Chios to establish a meat exporting company in Argentina. As a young man himself, Vafias places equal value on the experience acquired through years in the industry and the importance of recruiting young people across all facets of operation. "Finding good seafarers is very difficult, and even if you find them, it is difficult to keep them," he says. "The only thing I can say is that there are two ways - giving the good people you have incentives to stay in your company and bringing in young people who don't necessarily have experience and training them to become officers or captains. This requires dedication and extra expenditure; during the first few years you spend without getting anything out of it. But in the long term it works out fine, because you will have young people who have known you and trust you and will be eager to get promoted and remain with the company."

A typical 24 year old

As we wrap up the interview, we start to talk about matters unrelated to shipping. His birthday is on Valentine's Day, he says, and he is planning to celebrate it by throwing a party for all of his friends. In some senses, he is just like any other 24 year old; in others, not at all. We settle the bill and get our coats; he gathers his umbrella and we walk out of the restaurant.