

The best of times, the worst of times

Both the owners who consume capital and the financial institutions that source it have consolidated dramatically over the past few years; as a result, bigger deals increasingly becoming the norm. By Barry Parker

The beginning of 2003 was shaping up as "the best of times, the worst of times" for modern double-hull tonnage, and older single-hull tonnage, respectively. Fears of war in the Middle East in an environment of outright prohibitions on single-hull visits to ports or passages through certain waters and shortfalls from Venezuela were all ganging up to boost oil prices. Freight rates for the good vessels rose on the back of the chartering spurt which sent WS rates for relatively new VLCCs up into the WS triple digits, equating to TC returns \$100,000 per day in some cases.

The Prestige incident has been the catalyst for some soul searching around the industry, but the finance community was already on a course away from older tonnage. Most tanker financiers were well ahead of the market's end-year crisis, having already moved in the direction of quality vessels and transparent operations. London-based Ian Fisher, from the Royal Bank of Scotland's (RBS) shipping team, says "This incident will merely serve to accelerate the drive towards higher quality tonnage with an increasing emphasis on newbuildings."

The divide between single versus double and between good deals and bad deals grew wider in late 2002. Now, taking a cue from the EU, even the US Senate Commerce Committee recently held hearings regarding the phase-out of older tankers. Look at how easily Hellepont, an international company whose biggest customers are VELA and Shell, has been able to finance three ULCCs delivering into a strong market. The final Daewoo vessel delivers this spring. As Fisher notes, "Newer, higher quality tonnage necessarily implies higher investment levels."

Ted Petropoulos at Petrofin describes the finance situation succinctly: "Dedicated shipping banks do continue to lend against tankers, but their preference is for a) established large tanker owners, b) newbuildings and c) very young vessels against charter." Alluding to Greek mythology, he likens an owner's quest for finance on most single-skin vessels to Diogenes' search for an honest man, lamp in hand in the bright Athens sunlight.

The Prestige incident is definitely on the minds of bankers, but there is a good news/bad news angle. Petropoulos laments the unilateral over-reactions of governments, but points out that accelerated retirement of single-skin vessels will bring about a more rapid shrinkage of the tonnage overhang. He goes on to describe banks as being "dead scared" of lending on older single-hull ships and comments that whatever lending does occur comes with "harsh terms".

Dagfinn Lunde, now heading up several billions of dollars' worth of transport activities at DVB, describes his bank's views as follows: "We have analysed our portfolio in detail and are quite happy with it in view of the possible consequences [with respect to age restrictions]." It is his bank's policy, he said, to not lend on tonnage more than 15 years old and to pay down all loans to scrap value by the time vessels are 20 years old.

Differing perspectives were evident in other aspects of bankers' views about the marketplace. Post-Prestige fleet number crunchers will probably be working with fewer bottoms in their models but questions about an "overhang" of tanker tonnage did not elicit uniform responses. Petropoulos still sees an excess of supply in the sector but notes that "the order overhang will be addressed by the accelerated scrapping and obsolescence of older single-hull vessels." Lunde, who closely watches the actions of the EU, says that DVB does not presently worry about excess supply (only seeing the overhang in the larger containership sector), but he does acknowledge that "regulatory developments" will strongly influence the bank's views.

Over the past few months, the tanker sector has seen a number of notable banking deals. A long term financing package is still in the works for Teekay Shipping, which is acquiring Statoil's shuttle specialist Navion subsidiary for \$800m. The Vancouver-based Aframax leader, with a fleet that will number nearly 150 mainly Aframax vessels (aggregate 14.7m dwt, average age under 10 years), will draw on \$500m of short term funding put together by DNB while a take-out package, in the form of a term loan of around seven years duration, can be assembled. Teekay has been mentioned, along with New York-based Genmar (see article on page 8), as a contender in the quest for NOL's American Eagle Tankers. While the Navion deal, expected to close in the first quarter of 2003, pushes up Teekay's debt to capitalisation ratio to around 50 percent, the highly stable earnings from Navion's charters have enabled Teekay to fix its debt cost on the transaction at around 4 per cent over the next three year - well below its average borrowing rate of "around 6.5 to 7 per cent".

The topic of consolidation, among the financiers, the owners (Aframax and otherwise) or the charterers, is heavily on the minds of the banking community. Both Dagfinn Lunde and Ted Petropoulos feel that Club deals were increasingly prevalent. Petropoulos says that syndication deals (where one bank runs the books and brings in others) are unwieldy while Lunde stresses that "it is more important to have many banks" that can come together in a Club deals, rather than a shorter roster of megabanks with big balance sheets. Petrofin did not see any shortage of ship finance capacity. RBS' Ian Fisher says that "shipping banks need to grow with the market that they aim to attract" and goes on to talk about "bigger deals becoming the norm". But consolidation may have its limits - some pundits openly wonder whether Teekay's balance sheet can absorb an AET acquisition with its conservative ratios intact.

Syndication deals are not completely dead in the Greek marketplace or elsewhere, with both Tsakos Energy (TNP) and product specialist Eletson financed in groups where Deutsche Schiffsbank reportedly played a leading role. Teekay acquired five Aframax vessels under construction for Tosco last year, financed with a 10-year syndication for slightly under \$200m led by two big Norwegian banks. Other transactions of note have included Citibank leading the big group advancing a similar amount to Hellespont, which has now taken delivery of three ULCCs (priced in the region of \$90m each) in the Daewoo order. The scorecard on Tsakos Energy's newbuilding programme is "five down, five to go". TNP has been busy putting term financing in place, to the tune of nearly \$300m - taking advantage of low rates (around 3 percent all in at current LIBOR) with institutions reportedly including the Commercial Bank of Greece, the Royal Bank of Scotland and the Deutsche Schiffsbank. Low funding costs are helped by the modern fleet, with newbuildings pushing the average age to under seven years.

Low single-digit interest rates, very high time-charter rates and time charters equivalent from spot trades, a continuing flow of big deals with substantial companies- it all looks like the best of times on the surface. But control of oil will be a key factor in any Middle Eastern hostilities, suggesting many treacherous currents just below the smooth surface.