

Tanker finance shifts up a gear

Ongoing company consolidation in the tanker sector is focusing the financial sector's attention on a number of opportunities. Barry Parker reports

The tanker company consolidation game continues as Neptune Orient (NOL), advised by JP Morgan and UBS Warburg, is selling its American Eagle (AET) subsidiary to Malaysian International (MISC) advised by Citigroup.

Much grander than a shipping sale and purchase transaction, this corporate finance transaction brings about another big tanker player with dozens of ships and an end-to-end fuels distribution business.

Crude transporter AET- long known to be on the selling block, with 22-owned plus seven in-chartered aframaxs, along with several VLCC's - was a rich prize, ultimately going to MISC with price that will exceed \$1bn, including \$520m of cash (inclusive of a dividend payment to the sellers) and the assumption of \$500m in debt. AET's current chief executive, Joseph Kwok, is set to run the new entity, to be dubbed Eagle Ship Management.

On the finance side, we have seen further proof that big "club loans" are alive and well as the buyers will raise debt (in a speedy timeframe) to fund the deal, and also that not everyone (including the sellers here) is enamoured with the high financial leverage that comes with tanker shipping. Indeed, a major impetus for the deal, in relatively heady times for the tanker market, was the deal's ability to chip away at the \$2.7m debt load on the sellers' balance sheet.

The financial considerations trumped the obvious shipping synergies of going with obvious aframax players. Maybe the dealmakers at NOL decided, after reading the punditry of analysts who warn of the evils of too much gearing, to look beyond two likely buyers, as AET was sold. Two widely talked about contenders, General Maritime and Teekay, both had balance sheets that were sufficiently extended after recent additions of Metrostar and Navion, respectively. Perhaps, these buyers would have valued AET's lightering business more dearly than MISC, but NOL had been trying to unload American Eagle for at least two years and would not be selling with the de facto subject of buyers raising finance.

MISC, if anything, is a strong buyer. After NOL's shareholders approved the deal, market sources were suggesting that MISC would be paying with its own cash, to get the deal done quickly, with the remainder funded through a bridging facility that will be clubbed by Citigroup and HSBC. With a balance sheet exceeding \$3.bn, MISC's debt/ capital ratio is under 50%, and around 86% of shares are held by state oil company Petronas or other Malaysian government entities. By early July, MISC had reportedly arranged an \$850m bridge loan, with a maturity just under a year, at an attractive rate some 35 basis points over LIBOR. At maturity, the bridge loan will then be refinanced.

At the end of the day, after considering deliveries of aframaxs and VLCC's on order, the new entity will control a fleet of 53 deep-sea tankers. Additionally, MISC is very active in the large LNG sizes (with 18 vessels, including 15 of 130,000+ cubic meters operating notably from Sarawak into Japan, Korea and Taiwan), in the dry bulk trades (with 51 vessels), and container trades (with 27 ships). The MISC tanker fleet was most active in the east of Suez markets, particular in trades from the Arab Gulf to southeast Asia.

AET is best known for its US Gulf lightering business, where it is a market leader after splashing out \$18m on the purchase of MTL Petrolink, from Crowley Maritime, in the Spring 2002. This lightering field is shared with Skaugen Petrotrans, but also Heidmar and General Maritime.

AET's aframax are also regular visitors at refineries in the northeast USA, never too far out of position for US Gulf business. In spite of its lightering supremacy, a recent AET deal in the orimulsion trades may show the shape of things to come- efficient transportation on a worldwide basis. In this deal, commencing next year, AET agreed to provide VLCC transportation over seven option three additional years, for account of BITOR (a subsidiary of Venezuela's PDVSA), on cargoes destined for Singapore's Power Seraya. In addition to two Hyundai built VLCC's in the AET fleet (Eagle Vermont and Eagle Virginia, both built 2002), the contract will be serviced by three new buildings under construction for delivery 2004 - 2005. Transportation efficiency is the name of the game, with AET's Mr Kwok pointing out, "We are able to fully utilise capacity on both legs of the journey, and so, instead of returning empty back to Asia, the vessels will be earning revenue."

The deal also showcases a rich panoply of business strategies converging- much like east meeting west through the linkage of VLCC's operating with high utilisation. MISC, majority owned by Malaysian oil giant Petronas, can now achieve a worldwide reach. This acquisition is about enhancing MISC's "capability and capacity to better meet the needs and demands of its customers, particularly in regards to fleet size and flexibility, market reach and improved customer service," said the company. For NOL, the parent of container line giant American President Lines, meantime, the deal is about sharpening a focus, albeit into container shipping and logistics. NOL was also likely to be selling its additional tanker holdings- a mixed bag of smaller product and bunker tankers, which do not boast the youngish age profile of AET ships. While NOL is about lowered gearing, MISC's huge balance sheet has the capacity to absorb more debt as needed.

The generation gap

Sellers throughout the marketplace, including NOL's remaining tanker holdings, may also be looking at age profiles, as EU initiatives to ban single hull voyages and to accelerate the phase out of older units (fuelled by the Prestige disaster) are clearly gathering steam. The initiatives may find their way to a broader market, as the IMO is forced to be responsive to the same political pressures as a more nimble European Commission. Effective this summer, single hulled tankers will be prevented from carrying heavy fuels between EU ports. Such dictates will no doubt affect trading patterns worldwide, eventually impacting even the Far Eastern trading grounds for older ships.

Longer term, scrapping of deep sea Marpol impacted (Category 1 and 2) single hulled vessels by 2010, instead of 2015, will reduce vessel values in older fleets by hundreds of millions of dollars, and will reduce available vessel supply until new building kicks in. While Intertanko was up in arms about the actions of the European Parliament, at least two member companies, Connecticut-based OMI and Vancouver-based Teekay, with relatively young fleets, were both quick to point to themselves as beneficiaries of the EU's largesse.

Teekay, the aframax leader, is talking about a 15-vessel replacement programme, where new builds will replace older single hulled units. An up and coming contender, Intrepid Shipping, with ex Intertanko Chairman Richard du Moulin at the helm, has emerged as the buyer of two mid 1980's built Teekay vessels. Both ships will be technically managed by Connecticut based Groton Pacific. For now, Intrepid is privately owned, but du Moulin's history of involvement with listed firms OMI and Marine Transport Lines (now part of Crowley Maritime) suggests that Intrepid will not stop with just two ships.