World Wide shake up for Norwegian shipping

Two world-class deals in the Norwegian shipping market has set the merger and acquisitions sector alight. Barry Parker examines how the deals came about and what the future holds.

Trend-spotters in the tanker industry were buzzing in early April as another mega transaction as Bergesen was grabbed by the family controlling World Wide Shipping. At the same time, Frontline, historically a predator, was now signaling that it would increasingly be recycling its recent windfalls back to shareholders through dividends. Perhaps, this telescopes a perception of a dearth of investment opportunities and that the consolidation trend has lost momentum.

The biggest deal seen was a company controlled by Dr. Helmut Sohmen, best known for stewarding the private Asian giant- World Wide Shipping, announcing that it was acquiring a majority stake in Bergesen, headquartered in Norway. This deal is an important waypoint of further consolidation of the big VLCC fleets, but also reveals the flow of other industry currents, besides the oft cited economies of scale. Consider that Bergesen's burgeoning LNG business was a key driver for Sohmen/ World Wide, and consider that some pundits have painted the deal in the colors of an inexorable industry shift south and eastward around the globe.

Additionally, a high profile private company will now be controlling a quoted company- with the Bergesen management team still at the helm of their business, at least for now. Worth watching also are the predilections of Andreas Sohmen-Pao (Helmut's son) with creating recognizable "brands" in the shipping industry, surely raising a host of questions for the nameplate being consumed. For all the talk of transparency as a rationale for public share listings, stealthy acquirers can slip in, brewing up an unpalatable potion for a family business (Bergesen had been private up until its listing in the mid 1980's).

Headline acquisitions

The big fleet acquisitions, while splashed across the headlines after an announcement, have been bubbling below the surface for quite awhile. In the case of Helmut Sohmen, the timeframe may be measured in decades. Austrian born Dr. Sohmen is the son-in-law of the late Sir Y.K Pao, who ruled the seas in the 1970s glory days with the largest fleet at that time, comprising some 200 ships totaling 21m dwt. Today, World Wide's fleet, mainly tankers is down to a still huge 9m dwt.

Mr Pao's World Wide stayed ahead of market vicissitudes in the late 1970s and into early 1980s, reducing its tanker exposure with diversifications into the dry bulk sector. But Sohmen, trained in the law and political science, understood that the tanker marketplace was ultimately a raw battlefield between independent owners and the oil companies. Though independents get could reap riches at times of adversity, such as the 1956 Suez Canal closing that helped put Y.K. Pao on the map, enduring success came from market concentration.

In the mid 1990's, while Sohmen was vigorously preaching the virtues of cooperation among owners in a tepid market, Sohmen family companies were quietly implementing the strategy at a boardroom level, having acquired a majority of the voting shares in Nordstrom & Thulin, as N & T Chairman Ronald Bergman, was nearing retirement. Around 1999, the Sohmen interests picked up the remainder to N & T (which had acquired Swedish rival Argonaut in the tanker take-over wars along the way). The once- listed company, now private, then sold out its interests in dry cargo, and was moved effectively to World Wide's Singapore base. A different approach to branding, perhaps?

Investment decisions

The investment in Bergesen began, during 2001, in a similar "strategic" way, with the Sohmen companies purchasing an interest in the company that reached just under 10% in April 2002.

By April 2003, the percentages had gradually been bumped up to 17 % of shares and 13 % of the votes, forcing Bergesen to contemplate its financial and future. After a year which saw ongoing company share buybacks and negotiations on a new credit line, family insiders Morten Bergesen and Petter Sundt were contemplated taking the company private with the backing of DNB- a large Norwegian financial institution, but abandoned the idea (which would have necessitated selling off some jewels to support the leveraged financing).

Sohmen then made an offer to acquire shares from Morten Bergesen and Mr Sundt, which pushed the Sohmen holdings to 51.5 % of votes (through ownership of the "A" shares) and 44.3 % of overall share capital. An acquirer amassing such levels of control is then obliged, under Norwegian law, to tender for the remaining shares.

The price tag for all these shares is a staggering NK10.bn (US $1bn), overall, representing a roughly 28% premium over the recent share prices. Looked at from another angle, the company valuation compares favorably with Teekay (worth around $1.5bn based on recent prices), and Frontline, valued at a shade under $900m.

World Nordic, Sohmen's acquisition vehicle, will spearhead the raising of debt, through a bank syndicate, to support its purchase. Hong Kong Shanghai Bank (HSBC), where Helmut Sohmen is a director, is set to play a leading role in the financing.

There are multiple attractions in the deal- the primary drivers being the gas business and secondarily the VLCC's. Bergesen had been a VLCC player, recently booking gains by flipping modern units and yard slots to book capital gains, but also operating 12 vessels with of 3.8m dwt aggregate. However, the decades old dreams of greater market clout may be short - lived, as only 3 of the Bergesen's remaining large tankers are built in the 1990's.

The allure of gas transportation, mainly LNG, is compelling to the Singapore based acquirer- which lacks in presence in this rapidly growing sector of the energy markets. Bergesen, blessed with Algerian and Nigerian LNG contracts, is set to become a major player in the LNG sector, albeit in Atlantic rather than Asian trades- with 3 x 138,000 M3 and 4 x 145,000 M3 newbuildings (all using GTT membrane type cargo containment) contracted at Daewoo. The first vessel, "Berge Boston", has delivered earlier this year. In the more workaday LPG/ ammonia distributive trades, Bergesen is a dominant player, owning and/ or operating 57 vessels. Andreas Sohmen- Pao, at the press briefings announcing the deal, pointed to the burgeoning energy demands of China- which will be increasingly met by LNG sourced from north-west Australia, and from Indonesia.

Frontline

Simultaneous with announcements of "the big deal", Frontline- the other Oslo based behemoths, known for an aggressive approach to growth that has included hostile take-overs, was taking a different tack. At an April 2003 investment conference in New York, Frontline was now positioning itself as a defensive stock purchase- a company that prints cash throughout the market cycle. Since the 2002 earnings performance of this big (16m dwt) and young (average age seven years) fleet failed to live up to 2001, it now can point to its relatively large cash reserve ($16m) built up over the past 2 years, in the face of reduced unfunded capital expense requirements and very low breakeven costs (with operating expenses around US $5000 per day for both suezmaxes and VLCC's).

Thus, Frontline has a great deal of cash to distribute to investors. Indeed, the inability of the market to price the Frontline shares in line with NAV, or book value, diminish its ability to use the currency of shares in acquisitions, as done in previous acquisitions.

In the stormy market of 2002, Frontline renegotiated some of its bank debt and actually stopped paying its dividend (contrasted with the steady payouts at Bergesen). In line with this article's "history repeats" theme, Frontline points to a tried and true theories of stock valuation, and has now determined that dividends do indeed matter. However, in a significant break with the historical theme, the view expressed re the freight market is one of likely softening during the year, albeit to levels where Frontline still must confront the happy problem of allocating $50m of free cash flow.

American Eagle Tankers remains on the radar as the next mega deal, and other tanker merger and acquisition news pales in comparison to the bigger targets. Lately, Rasmussen (flush with cash and looking for re-investment opportunities) has been stalking Torm, which, in turn, has its claws into Norden. For cash buyers, consolidation is alive and well, it seems.