Greek Marine Money Conference Just Grows and Grows

Event Report: 9th Annual Marine Money Greek Ship Finance Forum, 18 October 2007

Greek shipping's relationship with the global capital markets has never been more in vogue.

Upon arrival in Greece, it was very quickly clear that the dry bulk market was of far more general interest than the credit crunch. George Economou was perhaps the man of the hour, with the $120+ heights reached by DryShips' stock an almost universal object of admiration.

Also universal was the understanding that this market would not last forever. Yet as capesize vessel S&P deals approach the $150 million mark, there still seem to be plenty of buyers – and the companies are rewarded by analysts and investors alike. It is in some ways a study in cognitive dissonance, as Greek owners, famed for their asset trading abilities and steeped in the "buy low, sell high" mantra continue to buy secondhand vessels and order new ones. Speakers at **Thursday's Greek finance forum would suggest a variety of explanations** from this, pointing out that rational individual decisions grouped together could result in an irrational group action, or using economic models forecasting that the market through 2026 would in fact justify investing dry bulk vessels.

Still the logic is frighteningly circular in some ways. **Scott Burk** of Bear Stearns argues that the five-year charters on the two modern capesize vessels acquired by Diana for $275 million will pay the vessels down to a residual ship value of $36 million per ship in 2013, making the average per vessel price of $137.5 million attractive. Others, meanwhile, espouse the logic that a new vessel is always worth more than a used vessel and so order newbuildings. But what will the new vessels really be worth when they are delivered in 2010 or 2011 without the benefit of the current market?

Credit Crunch

It stands to reason that if the S&P market for high value vessels continues to be active then, credit

crisis or not, financing is still available to acquiring owners. And as we talked to Greek banks and bank branches and locally-based owners, we found that the markets for shipping loans are alive and well. Banks are being pickier about terms and deals and margins are feeling some overdue upward pressure, but we didn't talk to many owners who felt that lack of access to debt finance is or would be a serious impediment to their ability to make vessel acquisitions. Most expected pricing to go up, but not to such an extent as to drastically change the economics of their business.

Greek banks, which for the most part had not reaped the fees won by arrangers of major global syndications, are by and large more traditional in their business models and thus not dangerously exposed to the general derivative and credit market liquidity problems that have arisen. In contrast to banks such as Northern Rock that had used the abundantly stocked wholesale markets to fund their growth, many of the Greek banks relied on their traditional funding source of Euro deposits that by and large have not yet been impacted. They have to pay more for funds in the Interbank loan markets, but not to a crippling extent and the majority of which will ultimately be passed on to consumers.

Rather than threatening these institutions, which of course are by no means limited to Greece, the credit crunch has presented them with an opportunity to ultimately do some minor risk repricing. In addition it temporarily removes the major syndicators, with their enormous balance sheets and pre-July ability to undercut competitors, from the market, providing more traditional banks some relief from the tremendous pressure on pricing and terms. Meanwhile buyers of syndicated debt are finally being given a chance to push back and get some say in what terms and pricing they will accept.

We look forward to covering the Greek ship finance market in more detail and sincerely thanks all those who assisted in this research. In the meantime we turn to a review of our ninth annual Greek Ship Finance forum.

9th Annual Greek Ship Finance Forum

All but forsaking a beautiful autumn day outside in Athens, a record-breaking crowd numbering **well over 370 packed the Ledra Marriott** for a riveting day full of shipping and ship finance discussions. Never before have so many attended, and **never before have there been so many reasons to come**. With shipping public equity issuance in 2007 set to top 2005's record and more public Greek shipping companies than ever before, Greek shipping's relationship with the global capital markets has never been more in vogue. And from owners who have polished up their presentation style for countless roadshows to bankers who now have a full universe of shipping equities to compare, the level of professionalism is everincreasing.

It's not just about public companies, either. Bankers discussed the state of the credit markets and private equity options and experts discussed vessel values and industry prospects. The fact of the matter today, though, is that with buoyant equity markets and many banks nursing their credit market wounds, the capital markets provided for a more positive topic of conversation.

Marine Money Greece's **Mia Jensen** and **Kevin Oates** welcomed the vibrant crowd, suggesting delegates consider attending the first annual Irish Ship Finance Forum on October 31, where they don't yet have many ships but do have an awful lot of money, and quickly reviewing the major themes that define the current market – from booming bulk markets and stock prices to the infamous credit crunch.

David Frischkorn of Dahlman Rose opened the first panel by pointing out that while the market capitalization of listed shipping companies has grown impressively to around $50 billion in New York and another $1 billion in London, by general standards it still has a long way to go, with many of the independent oil companies in Houston having market capitalizations in the $25 to $30 billion range. The pioneering public company executive participants then began to present their strategies and outlook. First was **George Saroglou** of TEN who highlighted his company's track record of being profitable every quarter since its first public listing in 1993 – through three shipping cycles. The company's target ROE is

15%, but from 2002-2006 it has exceeded this substantially, coming in at 27%.

Stamatis Tsantanis of Top Tankers discussed the strategy development of his company since its IPO in 2004. Beginning with just a few tankers has bloomed into a company with nine owned tankers, six newbuildings, six dry bulk vessels that have been agreed to acquire and 11 chartered-in vessels, resulting in a total controlled fleet of 32 vessels that is diversified into the suezmax, chemical/product and dry bulk sectors. Mr. Tsantanis also disclosed that it would be re-examining the name Top Tankers in light of the company's heretofore successful foray into the bulk sector.

Next up was **Evangelos Marinakis** of Capital Product Partners, who described the virtuous cycle that could be created for an MLP backed by high quality assets and charterers, noting that his company's visible cash flow with upside potential could be used to attain low-priced capital, which in turn could fund acquisitions, which together with profit share create further upside potential, which together lead to low cost of capital for more acquisitions, and so forth. **George Karageorgiou** of AIM-listed Globus Maritime similarly had a focus on stable earnings with upside potential, stressing that full timecharter coverage provided stability, earnings visibility, maximum utilization, and better terms with banks. He also noted the importance of carefully choosing your investor base during an IPO or follow-on offering as it's your only chance to do so.

Bob Cowen of OceanFreight espoused this strategy as well, also noting that his company had identified an age "sweet spot" of 5 to 12 years old where they believed they could get the best quality ships for the best prices, while noting that OceanFreight's relatively small fleet meant that accretive growth could be achieved with relatively small acquisitions of one or two vessels at a time. Rounding out the panel was **Chris Thomas** of Paragon Shipping who discussed his company's development from a $113 million 144A private placement through a $175 million IPO on the second worst stock market day of 2007 to date.

Time for Enlightenment

All in all the owners were cautiously bullish on the future, confident they were managing their downside risk while maintaining upside potential. This would be tempered somewhat by a presentation from Fortis Bank's Head of Economic Research, **Guy Verberne**. Mr. Verberne opened his presentation by noting that when America sneezes the world no longer needs to catch cold, with the combined Chinese and Indian economies now bigger than that of the US. However he did provide some insight into the US subprime crisis, explaining how it was born when rising interest rates and a cooling housing market, neither of which was unexpected, met with rate rests on ARMs. But now falling prices, rising foreclosures and tightening lending are mutually re-enforcing, with at-risk homeowners quickly running out of options for refinancing. The real concern, however, is that resets do not actually peak until next year – so the worst is likely yet to come. That said, Mr. Verberne predicts the Fed will continue to cut rates down to 3.75% resulting in stronger EUR/USD, among other things.

Furthering the academic enlightenment of the audience begun by Mr. Verberne was a presentation by **Dr. Oral Erdogan** of Istanbulk Bilgi University, who modeled the dry bulk market through to 2026 to determine the answer to a question on everyone's mind: whether or not investing in newbuilding dry bulk carriers is a safe bet. The basis for this determination was to be whether Internal Rate of Return is greater than the Cost of Capital; if it was investment would be feasible. Through an extremely complex study which we are likely to revisit in a later issue, he determined that….dry bulk vessels are a sensible investment, more so than tankers, although Dr. Erdogan does believe $150 million for a capesize is the cap and values will soon begin to fall.

Back to Business

After hearing from ship owners and some rigorous analysis, conference attendees had the opportunity to hear from some financiers. **Marios Koliopoulos** and **Laurent Magloire** told the audience that after 20 years of absence Bank of America was returning to cover Greek Shipping. They discussed their proprietary residual value guarantee product offering with which they have already grown their residual value exposure to marine assets to $250 million.

Dimitris Gialouris of Marfin Egnatia Bank gave his views on the credit crisis, suggesting that it will result in an increased cost of funding and banks being more selective about deals as well as counterparties.

He also discussed the importance of local banks to change their focus from plain vanilla mortgage price competition to service differentiation and encouraged them to lend to expand their geographic base to include the shipping community outside of Greece.

Niklas Nilsson of Nordea Bank London further examined the credit crisis, noting that $20 billion in losses have been suffered so far while analysts expect $100-$200 billion losses in total before the crisis is over. He expects ultimately that banks will charge higher margins to compensate, long tenors will be penalized, and bilateral and club deals will dominate the market with syndicated deals facing the greatest challenges. Mr. Nilsson also anticipates existing clients will be favored, structures and covenants will be tightened, and that deals will be done on a best-efforts basis rather than fully underwritten, with market flex and price flex language. Still, deals will be done and credit will be available, particular to strong credits and good customers.

TEN's Birthday Celebration

Tsakos Energy Navigation celebrated its 14th birthday during the conference, and invited all the delegates in to celebrate. Chairman **John Stavropoulos** expressed pride in the company's successful passage through puberty and its many accomplishments. Putting forward a list of stringent standards for a publicly listed company, he happily noted that Fidelity could not find another company besides TEN that fit the bill. **Nick Tsakos** thanked Marine Money for hosting their event on TEN's birthday before taking a look at how things had changed over the last 14 years. He touted the company's impeccable record for profitability through three shipping cycles and suggested that perhaps the company's stock price ought to be a multiple of its age and its name (14 x TEN).

Safety, Capital & Liquidity

Three more panels closed out the day. **Adam Inselbuch** of Credit Suisse moderated a discussion on safety measures in the shipping industry. Contrary to the sales roles many shipping executives assume at shipping investor forums in New York, it was heartening that both executives on the panel, **Stamatis Molaris** of Quintana and **Michael Bodouroglou** of Paragon Shipping, thought

immediately of their crews and vessels at sea. Mr. Molaris noted that safety is a matter of culture while Mr. Bodouroglou similarly emphasized the importance of "training, training, training". Without the urgency of shipowners, other participants on the panel including **Anthony Argyropoulos** of Cantor Fitzgerald, **Ron Dal Bello** of First Ship Lease, **Manos Pelidis** of Deloitte and **Theo Xenakoudis** of International Registries looked at safety in terms of strategy, financing, balance sheet, and rule of law.

Loli Wu of Citi opened a capital markets panel with the comment that 2007 shipping equity issuance has to the astonishment of many passed the benchmark of 2005. **Andrew Wilson** of Bank of Securities discussed the substantial expansion of the shipping investor universe and highlighted the value of convertible issuance. This is something with which **Ismini Panayotides** of Excel Maritime agreed, as she displayed how the times, costs and benefits of a con-vertible offering compare with other capital markets and bank debt financing alternatives, giving insight into the thinking behind Excel's recent convertible offering. **Mark Friedman** of Merrill Lynch explained how US investors have been looking overseas for investments, their interest in a China/India play manifested in dry bulk.

Michael Tartsinis, who came into Global Oceanic Carriers as CEO sometime after its listing, noted that it wasn't his decision to have the company listed on the AIM, but that the London market is changing and becoming much more receptive to shipping. **Peter Wallace** of Pareto discussed how the Norwegian KS market can be and is used to bring private equity into Greek shipping. **Larry Rutkowski** of Seward & Kissel and **Tony Backos** of Orrick discussed some of the hang ups that various capital markets options do or don't tend to run into with the SEC.

Robert Lustrin of Seward & Kissel moderated the final panel of a highly informative day, asking panelists the hard questions: whether there is too much cash to spend, if there is artificial inflation in the secondhand market, and what can kill the current market. **Cees Kamphof** of Fortis Bank gave some background on Maas Capital, Fortis' maritime equity investment firm, and took a look at the returns available in shipping. He noted that they currently have three investments in the Greek dry market, that they believe the party will last for some time, and that they have no intention of leaving the party early. **Didier Salomon** of BNP Paribas gave the commercial bankers viewpoint, noting that at present banks are reassessing their strategies and structures and encouraging owners to be aware of what kind of liquidity their relationship banks currently have. **Hal Malone** of Jefferies noted that the question is not whether there's liquidity, but more who has access and what the cost is. **James Christodoulou** of OceanFreight pointed out that, despite perception, in order to realize liquidity shipping companies still have to be able to answer to a lot of smart bankers and investors and that they win that liquidity when the cost of investment is justified by the expected returns. He also noted that equity is resilient – near term losses can give way to long-term growth. Debt is less at risk but also less resilient. **Paul Durham** of TEN noted that "too much liquidity" suggested irresponsibility on the part of either bankers or investors. The main risks to look out for in his mind are oil prices hitting a truly unsustainable level, China taking a breather, or worsening conflict in the Middle East.

After imbibing an almost overwhelming amount of information from experts covering all aspects of the shipping and finance markets, conference delegates were greeted with a cocktail reception co-hosted by International Registries. They would then retire briefly from conference activities before ending the night in style at the posh **Villa Mercedes**, in a party graciously co-hosted by Capital Maritime to celebrate **Marine Money's 20th Anniversary**. Thanks to all!

by Nora Huvane, Managing Editor, text first printed in "Freshly Minted", 18 October 2007, available at www.marinemoney.com

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Final List of Participants is available at:
http://www.marine-marketing.gr/marinemoney/pdf/GSF07_participants_FINAL.pdf

Other conferences arranged and organised by Marine Money Greece includes:
Dublin – 31 October 2007 >>>> **Dubai – 5 March 2008** >>>> **Istanbul – 17 April 2008**

For full list of Marine Money Ship Finance Forums worldwide, please visit:
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See you at the 10th Annual Marine Money Greek Ship Finance Forum in Athens, Thursday, 9th October 2008