Marine Money Week wrap-up- Capital markets will continue funding shipping business

Contributed by

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"Shipping and Capital Markets" was the theme of the just concluded intense and exhausting Marine Money Week, in New York, put on by the Marine Money team and conference partner Jefferies and Company. The event, held at New York's very posh Pierre Hotel, drew more than 1,300- many of the sessions, in the hotel's Grand Ballroom, drew standing room only crowds. The tone was far more upbeat than in recent years. Gone were the panels of restructuring and bankruptcy experts (who one year discussed the etiquette of trolling for business around the bar at the posh Four Seasons restaurant).

Consolidation, a perennial topic, was again a major theme. Conference chair Jeff Pribor, the Global Head of Maritime Investment Banking at Jefferies, and others, stressed that , rather than being a talking point, company mergers are actually happening. Mr. Pribor noted that the tie-up of Navig8 Crude with General Maritime (with an IPO offering now on the roadshow circuit) was an example of this trend. Paddy Rodgers, the CEO of Euronav (another consolidator, now basking in the glow of a VLCC market moving from strength to strength) stressed the importance of consolidation, and presented the view that shipping companies need the capital markets for money raising, creating bigger companies with true "pricing power" in a marketplace dominated by powerful oil-moving interests.

Throughout the conference, discussions turned to a Wall-Street tinged view on consolidation- with several speakers stating that capital markets investors prefer bigger companies. In many cases, institutional investors might need to check a "minimum capitalization" box. As a practical matter, though, more "liquidity" (where they are public) translates into the ability for investors to transact bigger share positions more frequently. Not everyone agrees with the maxim of bigger being better; on the drybulk panel, the CEO of TBS (with decades of expertise in Handy-size tonnage) suggested that consolidation was not viable for shipping. Likewise, Aristidis Pittas, the CEO of Euroseas, participating in the containership panel, talked about the value of a smaller specialist company. These are cases of the operational side not being completely aligned with the capital markets viewpoint.

The day after the conference, New York Maritime (NYMAR), an organization promoting maritime activity in New York, held a well attended breakfast- on the day following the conference. This meeting was held at the New York offices of law firm Reed Smith- very ably moderated by ship finance partner Greg Chase. Many topics, including consolidation, were addressed head on by Mr. Pribor, and by his former-colleague "Hal" Malone III, who has very recently moved over to the Navig8 group, as Chief Strategic Officer. Presumably, the Gener8 deal, now "on the road", is the first of numerous combinations, de-couplings and/or flotations that will be coming out of Navig8- with Mr. Malone well suited to transact all these deals from the inside.

Though the various flavors of "Capital" markets provided considerable grist for Marine Money, an over-arching theme, really, is whether commercial banks- which long dominated ship finance, will continue to have a major place in funding the maritime industry. In the views of many bankers and pundits, money from the capital markets has, at least partially filled the large funding void created as banks have pulled back from maritime lending. The big questions center around the dynamics of capital market participation over time. Banks traditionally made "asset based" loans- typically ship mortgages. Capital markets, though not adverse to including vessels in security packages, look beyond simple mortgages, and, ideally, toward the holy grail of bigger corporate credits or equity offerings for "mid-cap" companies. Definitions of "mid-cap" vary, but let's just say that the majority of listed shipping companies tend towards "small-cap".

In response to my question on this subject, there was extensive discussion on this subject at the NYMAR breakfast. Both Mr. Pribor and Mr Malone subscribed to the view that banks' returning in a big way- where it to happen, would be a slow process. Mr. Pribor said: "There is a big void; institutions that used to lend a lot…to shipping are simply not there." He asked the question, rhetorically, "It takes a while- how fast to you see RBS <Royal Bank of Scotland> or Commerzbank getting back "It would take a major policy shift for that to happen." Mr. Malone offered a different view, saying: "I do think that the bank market is back…with the number of institutions extending new credit, or say that they are ready to extend new credit, is expanding." However, he distinguished the present situation from that of 10 – 15 years ago (a time of ample availability of shipping bank financing), suggesting that old ways of doing business at UK and other European banks, which he described as relationship driven, and on a ship by ship basis (including for KG companies), would not be coming back in a big way. Mr. Malone explained that the bank market itself had consolidated (he gave the example of three German banks that are now one) and said "The types of loans they are making will be different."

These two panelists also sought to dispel the notion of "Private Equity" as being monolithic. Mr. Pribor drew an analogy to the automotive industry, where different groups of private investors (with diverse investment objectives and time-lines) came in, at various points in the post - 2008 recovery cycle He noted that the first wave did not do well; later groups, with better timing, did in fact make good returns. In his comments, the Jefferies banker (who came back to investment banking after a lengthy stint as the Chief Financial Officer of General Maritime Corporation) said emphatically, "Private equity is not going away." He and said that while some private equity might not come back (perhaps referring to the investors who made early moves into drybulk, where they are now mired, unable to exit with a profit), "There will be other sources of private capital", ticking off traditional private equity players, hedge funds, and family offices (which might invest directly without the intermediation of a fund). Importantly, he said that shipping "…is recognized as an investible industry."

The NYMAR breakfast also saw a spirited discussion about the dynamics of tanker demand- tied into questions about the potential for U.S oil exports. Jeff Pribor volunteered that "Tankers are doing well because oil prices are cheap. There's a lot of it moving around, and it's got to go on a tanker." Hal Malone stressed the importance of demand, saying that "We think that the public numbers <presumably, IEA which makes monthly estimates of worldwide oil consumption> are well below what's actually being consumed." On U.S. oil export policy, panelist Hal Malone said: "We don't think that you're going to see any dramatic shifts in the near term of a law changed…" Instead, he suggested that: "You will continue to see gradual loosening of some of the regulations…" that allow exports of cargoes such as processed condensate, where charterers gradually became comfortable moving without export permits for specific cargoes…and "…around the margins we would expect to energy leaving the U.S. in greater quantities." Mr. Pribor agreed, saying "I think it's going to be incremental".