Investment Themes and Shipping Memes

Contributed by

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Asset management companies are an interesting bunch; from some of my client meetings, I've met top portfolio managers at name-brand institutions, and tried to impart my expertise, such as it is, on spurts, spikes, sputtering and splatter where the shipping and financial markets intersect. In recent weeks, it's been interesting to read the comments of Martin Gilbert, of Aberdeen Asset Management, a UK outfit, suggesting that "Analysts have been a bit too bullish on the sector…." I also enjoyed reading an interview with Brad Hintz (my B-School classmate from back in the day), now retiring from Sanford Bernstein to pursue a teaching career (back to B-School, albeit two hours north of our alma mater). Hintz, a star banking analyst by any measure, explained the success of the sector, in terms of cyclicality, like where we are in the cycle. With growth phases not yet happening (a Q2 rebound to make up for a dismal Q1 does not count), some parts of the investment business are simply not viable in a big way, yet, in spite of marquee headlines of soaring stock markets or great demand for attractively priced debt.

So it goes with shipping asset managers. Some of the pros, Tufton Oceanic and Northern Shipping Funds come easily to mind, fine tune their portfolios according to where we are in the shipping cycle. At low points, asset appreciation and gambits that will pay off when values go up are very sensible. When there is more chance of upside than of a major downdraft, why not get some upside exposure? At high points, grab as much as yield as possible, pull out cash flow- as much as opex and capex can tolerate, while the going is good. Maybe even sell assets, possibly with charters back, to capture cyclical gains. It's all good…investors in such funds, in the hands of seasoned shipping professionals, have done, and should continue to do pretty well.

The ranks of shipping asset managers are growing. For a while, Teekay Corp has declared itself to be pursuing an asset light strategy and pursuing its re-invention as a holding company. Recently, it announced its intention to invest alongside Cargill in a dry cargo business. For those who enjoy fine print, here is more color, from a recent Teekay filing: "Teekay Parent has recently signed a letter of intent with CarVal Investors (CarVal), a leading global alternative investment manager, to participate in the development of a dry bulk shipping company. The new company currently owns a fleet of 16 modern dry bulk vessels (including six newbuildings on order) and plans to opportunistically acquire additional modern dry bulk vessels. As part of the proposed transaction, Teekay Parent…. plans to invest up to $25 million in the entity. Each of the vessels is, or is expected to be upon delivery, chartered to Cargill Ocean Transportation. …and will receive a guaranteed minimum floor rate for a period of two years from delivery." So, much for the maritime mid-streamers (love that tag-line evoking all manner of oil transportation); markets change and different investments are more attractive at different parts of their cycle. Teekay has been ahead of many waves, and this attractively priced call option will likely get them out in front of a trend that it may indeed help shape.

And then there is Scorpio Bulk ("SALT"), which, though hard to put a precise label on, seems to behave a bit like its older brother, Scorpio Tankers ("STNG"), in pursuing multifarious sectors around a core business. Again, those who enjoy parsing the fine print will enjoy the definition of "vessel" found within a Scorpio Bulk's registration statement issued in connection with the company's issuance of $57.5 million of Senior notes. For those who were still awake to page 98, vessel is defined as: "Vessels" means one or more shipping vessels primarily designed and utilized for the transport of cargo, including, without limitation, bulk carriers, freighters, general cargo carriers, ***containerships*** and tankers, but excluding passenger vessels….," There were no TEU's capacities mentioned in the 8.7 million deadweight tons of Capesizes, Kamsarmaxes and Ultramaxes in the F-1 document's list of vessels under construction (complemented by just above 1.4 million deadweight presently chartered in), but eyestrain (a common malady for shipping analysts) may have caused me to miss a few vessels. Just kidding, there are no containerships in the SALT fleet yet.

A philosophical question related to all these things concerns shipping companies with portfolios in varied sectors of the business. Around 2007 and 2008, we saw some great flaps as one drybulk company put much of its tonnage on charter, near the sector's top, and began investing in oil drilling equipment- a business poised, at that time, for a cyclical upturn. Tankers were to come later. Then, subsequently, we saw listed entities with a stated intention to pursue drybulk opportunities then creating separate companies that would own container vessels, chartering them out to the major liner companies- Diana Container and Boxships were seeded by their parents and still have links to them (Diana Shipping and Paragon Shipping), but are independent companies for all intents and purposes. Along the way, we see that Euroseas has been successful straddling the dual worlds of drybulk and smaller container ships, while other companies handling multiple sectors fell by the wayside, or were subsumed into larger ongoing businesses.

In almost any conversation of shipping "portfolios" and "asset management", a question that frequently comes up is whether an individual investor can replicate the performance of a "manager" in putting together a package with diverse holdings. In my view, no- they can't. My vote goes solidly to the managers; in the shipping context, folks like Teekay or Scorpio do not sit idly by, simply "investing" from offices in Vancouver, Minneapolis, New York or Monaco. Rather, they will have access to opportunities that others will simply not have, even if only by virtual of their scale. If deals do advance, these players can provide technical teams for design and, if there's further progress, for supervisory work on actual construction, usually in S. Korea or China. At least some aspect of the managers first-mover advantage, perhaps better characterized as an inside track on some slot(s) or another, will accrue to investors in the "manager". It should be pointed out that investors will prefer the "pure play", once a manager/ sponsor has "seeded" the deal, handling finance, construction, chartering and maybe the initial phases of operation.