



Ripples, waves and turbochargers

Between the boom years prior to the financial crash in 2008, and the lingering days of the Great Recession (mixed in with Isis, Ebola, and taper tantrums), a funny thing happened. Prior to 2008, port finance got very sexy- a spate of deals done circa 2006- 2007 saw numerous “privatizations” where port operators sold their crown jewels to investment funds for vast sums (equating to off the chart multiples like 20x EBITDA), and leased them back. For insurance companies (like AIG, for example), seeking to lock in returns over decades-long tenors, it was never better, with ports being seen as long-term cash generators. The port investments booked by the big funds continued to chug along- much like the vessels- which, as we’ve seen, have grown in size. But, even as more 18,000 TEU vessels are delivered, the course of maritime infrastructure investments may be changing. Recent ripples from across the pond were wave-like at my perch in New York, upon noticing that Goldman Sachs, a 2006 investor in Associated British Ports, is cashing in ships...whoops, I meant cashing in its chips- seeking to sell its minority stake in Associated British Ports. This is what PE investors do, I suppose- they take profits and turn over investments after getting the seven year itch. My toes got wet from this trans-oceanic wave, however, because Goldman Sachs’ infrastructure fund had sold out its stake in SSA Marine, an operator of terminals in the Americas, earlier in the year.

Turning back to New York, another good data point was the announcement that the crackerjack deal making team at HighStar Capital (a part of insurance behemoth AIG in the pre 2008 days) had now been de-accessioned over to Oaktree Capital. Oaktree, known to get its hands dirty, has been very active in shipping circles, as one of largest investors in the sector. HighStar was on my radar because of its ownership of another large terminal operator/stevedore- Ports America, and through other investments on the tangents of shipping and freight. In early October, as the HighStar guys were still shifting their chairs, Oaktree named a new CEO, a gentleman who had recently departed AIG after nearly 20 years there. With the old team back together, I took all these developments to be a very bullish sign for infrastructure investing, with important potential ripples for shipping.

To the point, I am now watching for subtle changes in tone and strategy where PE players have platforms in both shipping and infrastructure. Financial investors claim to be hands off- with ports, that’s likely true- investors don’t actually direct the stackers and gantries which move containers around the yards. With shipping, I think that the jury may still be out- with shipping investments often commodity-like, in fragmented sectors, there is ample room for high powered strategic thinking. Sorry for repeating, but “consolidation” is not a viable strategy for effecting meaningful changes in such sectors. These days, ports and trade growth are less appealing than sectors such as energy infrastructure, Panama Canal expansion notwithstanding. PE investors- who have avoided post-crisis financial regulation, cannot get enough of energy and related infrastructure projects. Regulated entities, like the white-gloved Goldman Sachs (which never seems to get its hands dirty), have

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been distancing themselves from physical commodity businesses as regulators cast their gaze (I could say “steely” gaze, but I think GS has had issues with aluminum). One theory on SSA, where the portfolio included coal export terminals, was that such regulatory scrutiny was responsible for GS’s exit from the investment. To me, there’s too much paranoia wrapped into that theory. More simply, it was time to move on and free up the portfolio for the next big infrastructure thing- which is not ports and terminals. So what to make of all this? And why bother writing about it?

In my wilder flights of business structuring fantasies, I try to imagine a situation where vertical integration actually mattered, and brought advantages- much like the ports business which, for whatever reason, seems to be in dis-favor now for the PE crowd. On one side of the room, I see privately owned commercial shipping entities investing in LNG propelled vessels, or in vessels that are readily convertible to LNG propulsion- “LNG ready” in the language of the shipyards that build them. Crowley Maritime and Saltchuk Resources come to mind. On the other side of the house, I see Wespac, an entity owned by Oaktree / HighStar- where un-spent capital in the form of dry-powder is piled high, looking at an LNG fuelling and, later on, export project in Alaska’s Cook Inlet- near Anchorage. LNG powered containerhips in the fleet of TOTE, a Saltchuk company, call in Alaska, which got me curious to see what else these guys were up to. Wespac’s LNG projects, which will support LNG marine bunkering, near the top of the maritime corporate social responsibility matrix, but where the shipowners need to see fuel sources prior to making an investment in gas fuelled engines. Most interesting was their involvement in Jacksonville, where TOTE will be entering the Puerto Rico trades (through charters to sister company SeaStar, one of a handful of masochists in the over-tonnaged Jones Act Puerto Rico trades) Jacksonville is also a hub for Crowley Maritime, a competitor of SeaStar, which has a stated intention to distribute LNG throughout the Caribbean- and is building LNG powered vessels for Caribbean trades. Wespac is gearing up for activity up in the Great Lakes, where there has been talk of LNG fuelled Lakers- again owned privately.

In parsing all of LNG fueling’s chickens and eggs, where you never know what comes first, Wespac characterizes the shipping customers on the Lakes as “Inherent complimentary (sic) high horsepower users”. Wow! Industrial shipping was never so turbocharged. Industrial business history is full of case studies where vertical integration provides an initial boost at the start-up phase. Since a possible supplier of fuels needing exactly such a boost is in the hands of an acquisitive investor (at least for things that float), maybe we will see some ripples in our pond.