Capital Link Shipping
Weekly Markets Report

Roll-ups, whiskey and SEC filings

Contributed by

Barry Parker

Barry Parker is a financial writer and analyst. His articles appear in a number of prominent maritime periodicals including Lloyds List, Fairplay, Seatrade, and Maritime Executive and Capital Link Shipping.

Springtime is traditionally a time of renewal; around New York, the pollen count is off-the-charts high, and leaves are coming out. It's also a time for budding shipowners in the "loan to own" business to realize their ambitions. Like many readers on here, I've been following Genco, Eagle Bulk and other companies that are in transitional modes. When reading SEC filings concerning forebearances, pre-packs and the like, I start at the back to read which investors are involved. In the case of Eagle, some of them are well known, including various funds run by Oaktree, Merrill Lynch, and Goldman Sachs. Others are less well known; two, Panning and Midtown, were part of the Genco filings of a few weeks ago, while others- such as Brigade, Onex/OCP and Canyon Capital are new names, at least to me.

Reading through Genco and Eagle's SEC filings reminds me of the bet that I made with a good friend who knows far more about shipping company balance sheets than I do, regarding shipping company roll-ups. Spoiler alert- I lost the bet. This embarrassing transaction occurred after hearing a noted investor speaking about "consolidation" at a ship finance conference, and watching how one owner, partly owned by a big PE/distressed debt investor, was managing ships for another owner also owned by that same investor. I could taste my winnings (a certain bottle of a nautically themed whiskey). I bet that there would be a big roll-up among these companies. But it was not meant to be, at least not be the wager's expiry date at the end of 2013. But, the thought persists.

A big topic in the maritime press, and around the crevices of the maritime internet- blogs, discussion boards and the like, has been the role of "alternative capital" (which, for this article is anything other than friends/ family equity, or bank debt) in shipping. There are no correct answers- it's all unfolding. Noted banker Dagfinn Lunde, recently retired from DVB and on the Board of a new specialist shipping bank- Maritime & Merchant, wrote an article expressing the view that "hot" sectors have shorter half-lives, stating that "No sector stands a chance of solid returns of more than two years."

So, in the spirit of looking forward, it's worth contemplating exactly what the shipping landscape might look like with the new breed of financial owners in the helm at a small group of companies, albeit a highly visible cluster. Like any good consultant with an MBA, I did a scenario analysis, looking (simplistically) at two dimensions- which were "degree of involvement" and "time horizon/ appetite for riding the cycles".

The analysis is obviously subjective- for example, how exactly do you define "involvement"? And, timeframes of "Short term" and "Long term" defy precise definitions. But I would say that being involved means participating in managerial decisions including major contracts, choices of vendors and the like- things that shipowners, but not finance guys, would do. On time frames, I suppose that deals of three years and longer start to become Long term holdings. And, of course, one player may exhibit multiple styles. But this analysis is not meant to be overly scientific.

Traders tend to have a short term viewpoint; the traditional trading companies (also in the ascendancy as regulated financial entities exit from commodities) go for high turnover of assets- the opposite of the capital intensive shipping balance sheet. These views are in synch with those of Clay Maitland; at the recent Annual General Meeting of New York Maritime (NYMAR), Maitland, NYMAR's Chairman, talked about money raising in New York by shipowners from abroad- suggesting that service providers of all stripes should get ready to support the new breed of financial owners.

Highly involved - Short term player (The new breed of financial investor)	Highly involved - Long term player (The traditional shipowner)
Hands off- Short term player (The hedge fund investor)	Hands off - Long term player (The private equity investor)

What I sense may be coming, with continued ascendancy of financial trader types running the shipping companies will be more Sale and Purchase activity, and charter arrangements with more financial bells and whistles. It may be no coincidence that turnover and liquidity in the freight swaps market (where trades settle according to daily polling from the Baltic Exchange, in London) has soared. The ability to tie swaps (and option pricing) to freight contracts will enable the new breed of vessel chartering professionals to construct clever deals as they navigate the top left quadrant on the diagram. Whether this will result in more efficiencies, or less efficiencies in assets tracking hires and freight rates, it's difficult to say. At present, though, asset values are out of synch, on the high side, with what's observed in period charter markets- which, in turn, are above spot TCE's in some popular sectors. I am not sure whether extreme trading well lead to corrections. In theory- yes. But shipping does not always follow rationality.

Another area of considerable discussion has been consolidation- yes, back to my failed attempt to collect my prize in my 2013 bet- bourbon or single malt at winner's option. It may be time to double down and try again- though with an emphasis on cost reduction rather than outright mergers of companies. My study of regulatory filings, where distressed debt investors or bottom-fishing type buyers have moved into controlling ownership positions, or might do so shortly, is far from exhaustive. And, there are many private deals that never see the light of day, but a certain parade of familiar names seems to permeate the lists of announced transactions. Financial investors from outside the business spread across multiple companies, presumably lacking the legacy ties or blood relationships to certain service providers, do have an incentive to lower costs. Under this scenario (and that's all it is, it's not an absolute prediction), the "brands" may remain intact- merging companies is expensive and, where markets are highly fragmented- not worth the effort, but the "back ends" may be easily rationalized. Hint- Jefferson's Reserve- "Ocean" (aged aboard a vessel), or Old Pulteney "Navigator" both work for me.