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Shipping finance

Lloyd's List's latest report on shipping finance finds Chinese lessors in a dilemma and banks' lending decisions already being swayed by green tendencies as the race to net zero gathers pace, while private equity continues to reduce sector exposure in a second 'prexit' wave.



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04

Chinese ship lessors look beyond the mainstay

08

Net zero: facing a capital-constrained future?

10

Second 'prexit' wave amid windfall pandemic profits

14

Lunde: outlook increasingly split between segments

16

Rise of the share buyback

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Facing a new dawn: Chinese leasing companies are looking to provide funding for floating production storage and offloading units.

Chinese ship lessors forced to look beyond mainstay

As geopolitics and the economic slowdown bite, leasing houses are facing growth pressures, with alternative vessels such as floating production storage vessels and cruiseships now on their radar, **Cichen Shen** reports

Leasing companies in China are facing a dilemma: old charts cannot guide the way, but venturing into unexplored waters is fraught with risks.

Northcape, a ship finance advisor, has held talks with 23 Chinese leasing companies about providing funding for floating production storage and offloading units and cruiseships, according to managing director James Stove-Lorentzen.

A few years ago, most would have balked at such deals, despite the substantial ticket size of assets ranging from \$500m to \$1bn.

The assets were deemed to be insufficiently liquid — certainly not the bread-and-butter business of the leasing houses.

Back then, lessors were thriving and

did not lack project options. DNB noted that in 2018, Chinese leasing lenders provided 30% of global shipping capital, up from 25% in 2017 and 20% in 2016.

However, times have changed. Now, these alternative vessels could provide opportunities.

For the top lessors, pressure is mounting to maintain asset size. And the up-and-comers, facing a sluggish domestic economy and property crisis, badly need new outlets for their funds.

Stove-Lorentzen said Chinese leasing lenders — especially the larger ones — are very diligent in selecting their credit counterparties. That is important, of course — but he pointed out that understanding the current industry cycle is also key.

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He argued an existing FPSO unit is a very solid asset, because all the initial exploration, development and drilling work has been completed and investment made.

“The last step is just to install the unit to extract the oil, so as long as the oil price is above \$35 [per barrel] and the field continues producing at a low cost, it generates a cash surplus,” he said.

These assets were once highly favoured by Western banks, which are now compelled to exit due to environmental, social and governance considerations.

“Our analysis shows a long-term contract for an FPSO in a promising field has never defaulted from a banking perspective, which is why it was so popular with the big banks,” Stove-Lorentzen said.

“But they have had to withdraw because of ESG, irrespective of the business fundamentals. They wish they could continue, but they can’t.”

Chinese lessors also care about ESG, but there are no regulations barring them from these deals, he added.

The emergence of Chinese lessors coincided with the retreat of Western shipping banks after the 2008 financial crisis.

Today, charting a new course may be more vital than ever, given the mounting market and geopolitical headwinds.



“Our analysis shows a long-term contract for an FPSO in a promising field has never defaulted from a banking perspective... But they have had to withdraw because of ESG, irrespective of the business fundamentals”

James Stove-Lorentzen
Managing director
Northcape

Slowing market and sanctions

At a recent industry conference in Shanghai, Bocomm Financial Leasing chairman Xu Bin said his company’s shipping funding continues to grow.

Drawdown — referring to the utilised portion of credit lines extended to borrowers — is expected to hit a record Yuan30bn (\$4.1bn) in 2023.

However, data from Clarksons tells a different story.

Although Chinese lessors still account for more than 8% of the

global operating fleet and vessels on order, growth in new business has markedly decelerated.

During the first half of 2023, the total value of newbuildings and secondhand vessels leased dropped 44% and 48%, respectively, year on year to \$2.8bn and \$2bn on an annualised basis.

A similar downward trend is seen in vessel numbers and gross tonnage. The decline in new business was even more pronounced for the top 10 players, including Bocomm Leasing.



The 2013 container trough enabled lessors to globalise ship finance; now many owners have ample liquidity and are repaying loans early.

One key reason is softer borrowing demand due to higher interest rates and improved owner finances. This has impacted all debt providers in the sector.

“No shipowners want debt now – and, if they do, they want it very cheap,” said Stove-Lorentzen.

Overall, this amplifies the disadvantages of Chinese lessors versus banks, with higher costs eroding their traditional strength of higher leverage.

It also explains why many owners – especially in the container segment – are rushing to repay loans and redeem assets while flush.

Additionally, the Chinese-Western power tussle appears to be an exacerbating factor, especially for major Chinese lessors with substantial overseas exposure.

Western owners worry their sale-and-leaseback fleets could be impacted in an extreme scenario if Beijing faces US-led sanctions – particularly after the saga of Russia’s State Transport Leasing Company, GTLK.

The Moscow-based, state-owned lessor was sanctioned post-Ukraine invasion, leaving its clients scrambling as leased ships were detained under Russian ownership. Foreign lessees struggled to regain titles.

GTLC’s creditors have also been ensnared in lengthy claims processes as its European units face liquidation.

“Foreign clients view Chinese lessors through a political prism because of geopolitics,” said a partner from Shanghai-based Tidalwind, which facilitates lessor-owner/charterer deals.

“They don’t treat lessors evenly. In the past, they would engage if one term was favourable; now they demand that all terms beat banks.”



Zhao Yuyang
Ship financing manager
Bocomm Leasing

“*CMB Leasing is owned by China Merchants Bank, an international bank with worldwide branches. We have diverse funding*”

Zhang Tianyi
Shipping finance manager
CMB Leasing



Reportedly, fallout from the government’s anti-graft probes into Chinese ship finance has also fuelled overseas owners’ concerns about transparency and stability.

Owners’ requirements have toughened, such as demanding options to repossess vessels entering their second year – not the traditional fourth or fifth year – of leases, said sources familiar with the matter.

There is heightened attention to sanction clauses, said Stove-Lorentzen.

“For years, Chinese lessors focused on airtight clauses so that ships avoid Iranian/Russian ports, dodging sanctions.

“Now similar attention is on scenarios where Chinese firms get sanctioned, putting owners at risk.”

He said some clients are capping Chinese exposure. “It’s under discussion; they’re asking questions but not rejecting deals.”

Chinese lessors emphasise their

“*Concerns may be valid, but we welcome discussions*”

banking parents are global entities, just like their Western peers.

“CMB Leasing is owned by China Merchants Bank, an international bank with worldwide branches. We have diverse funding,” said Zhang Tianyi, CMB Leasing’s shipping finance manager, at a Marine Money session.

“Concerns may be valid, but we welcome discussions,” added Zhao Yuyang, a ship financing manager from Bocomm Leasing.

A top-tier lessor executive with a banking background said none of its clients had raised sanctions-related funding safety concerns, and its overseas channels remain unaffected.

He believes foreign owners’ concerns surrounding sanctions on China are unnecessary.

Adequate grace periods

Even in extreme cases, owners should get adequate grace periods to transfer ownership, he said.

The view is that China is far more globally integrated than Russia, with inherently strong foreign banking ties – hence sanctions could differ.

Longer grace periods are likely, and owners will act faster than post-GTLK, helping to avoid the impact of sanctions when repossessing vessels from lessors.

“If issues arise, lessor risks could be greater as we may not recoup investments,” the executive said.

However, growth challenges exist now, he acknowledged.

The 2013 container trough enabled lessors to globalise ship finance. Low asset values and high margins prevailed as carriers scrambled for cashflow funding. Bulker and tanker owners followed.

Now, buoyed by past or present booms, many such owners have ample liquidity and are repaying loans early, pressuring lessors to maintain asset size.

Liquefied natural gas carriers brought opportunity during the pandemic, when prices were around \$200m versus current levels, which have been inflated 20%-30% by the Ukraine war-led LNG demand.

Data from Clarksons shows that LNG carriers have consistently accounted for the largest share of new leasing business by asset value since 2021, given their higher ticket prices. This share still exceeded 40% in January-June 2023.

According to Clarksons, Chinese lessors' combined shipping assets were 150m gross tonnes as of end-June, slightly below the level of 2022. Total asset value was flat at \$131.4bn versus end-2022.

In 2022, Chinese mainland owners/charterers first overtook overseas counterparts as the top client group of compatriot lessors by value, at about 10:9; now this is more than 10:4.

More players now chase limited deals. Some are new entrants, some returners, with state-owned local owners the prime targets. Some reportedly offered below SOFR plus 200 basis points to secure deals.

What comes next?

"What's next? We don't know yet," said the leasing executive.

Beyond floating production and cruiseships, Stove-Lorentzen prescribed the wider offshore space, including rigs and support vessels.

He said alternative financiers have profited handsomely as the market recovers.

"We really want Chinese lessors to consider this segment early, before others pile in, because they can deploy substantial capital."

Yet Chinese lessors still seem hesitant. The sector appears obscure and risky. Pain lingers from ICBC Leasing's ill-fated deals on Petrobras rigs and Bourbon OSVs.

"Leasing companies must be very judicious about new areas," the leasing executive said.

Secondhand ships — especially older, inefficient tonnage shunned by Western banks — could offer an easier transition. After all, such ships still need funding before enough low- or zero-carbon newbuilds fill the gap.

However, larger Chinese lessors have green ambitions too.

Bocomm Leasing's Xu said more than half of the \$2.8bn drawdown during the



Data from Clarksons shows LNG carriers have consistently accounted for the largest share of new leasing business by asset value since 2021.

first half of this year financed 'green' projects, consisting mostly of LNG carriers and LNG dual-fuel ships.

In May, the company even garnered its first sustainability-linked loan, amounting to \$200m, from Standard Chartered Bank and the Industrial and Commercial Bank of China to finance an LNG carrier under its lease.

There is a view that lessors could leverage their structural flexibility to share residual value risks with owners ordering

alternative fuel ships — something traditional bank financing will not do — to grow and green their respective asset portfolios.

However, sceptics say such moves are too risky, given the uncertainty over future fuels and lessors' limited analytical resources on technologies.

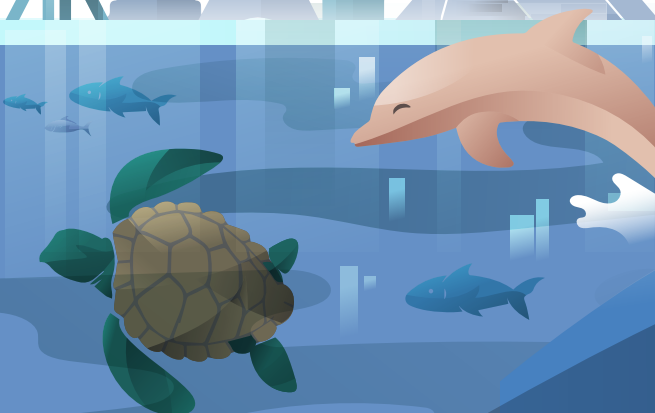
"When they start increasing the risk appetite in order to justify using the funds, I just wish they have good advisors," said Stove-Lorentzen.



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Banks have a limited amount of capital; if shipping cannot align itself with decarbonisation targets, funding will go to other industries.

Does net zero mean facing a capital-constrained future?

The industry’s race to achieve decarbonisation is already weighing heavily on banks’ lending decisions to shipping, **Richard Meade reports**

The prospect of capital steering clear of projects and assets unaligned to the raft of green policies towards which Western financiers have been gravitating over recent years, has been little more than mood music for shipping.

The increasing requirements of transparency have generated an audible background hum of concern, certainly — but the focus has largely been forward-looking.

However, that is about to change — and the volume is being turned up to a level that is going to be much harder to ignore.

By April 24 next year, the lenders representing two-fifths of global banking assets who have signed up to the Net-Zero Banking Alliance will have formally completed their forecasts for 2030.

In this way, they are effectively committing themselves to a climate trajectory that will require hard decisions about what stays in their portfolios.

At the end of September, the signatories to the Poseidon Principles — the climate alignment agreement among financial institutions whose members are committed to measuring and reporting the carbon intensity of their loan portfolios — were due to vote to formally up their trajectory in line with the new International Maritime Organization emissions-reduction targets.

This is no longer simply a question of transparent reporting of environmental, social and governance ratings; shipping’s emissions are already affecting access to capital.

“The industry should be much more concerned than it is right now about where its capital is coming from, because we work with a lot of institutional capital providers and we have definitely seen significant diversions of capital away from shipping,” said Christophe Toepfer, chief executive of the maritime investment firm Borealis Maritime.

Once providers have to include so-called Scope 3 emissions — essentially the emissions for which a company is indirectly responsible up and down its value chain — then shipping immediately becomes a very unattractive asset class in which to invest.

Toepfer recalls a recent lunch with a banker who reported that he would love to lend to shipping, but doing so would have tipped his bank into the red when it came to its decarbonisation targets.

And this was far from being an isolated case of a banker becoming wary of shipping’s ‘difficult’ status in the green transition.

“Capital is already struggling to continue investing into shipping on the debt and equity side,” said Toepfer.

“And, at the same time, we have a mountain to climb ahead of us as we try to rebuild the fleet over the next 10 or 15 years, with new technology and new propulsion systems. There are significant challenges ahead of us.”

When the 30 signatory banks to the Poseidon Principles have voted to align their targets with the IMO’s recently increased ambition to reduce greenhouse gas emissions in the industry to between 20% and 30% by 2030 — and 70% to 80% by 2040 — that will have a tangible impact on lending decisions and strategy.

The Poseidon members collectively represent about 65% of global ship

“*Capital is already struggling to continue investing into shipping on the debt and equity side. At the same time, we have a mountain to climb ahead of us as we try to rebuild the fleet*”

Christophe Toepfer
Chief executive
Borealis Maritime



Marine Money

finance, but lending decisions to shipping are not being taken in isolation.

Banks have to balance shipping’s decarbonisation trajectory against other asset classes, while also considering their wider commitments to climate frameworks.

So if shipping cannot align with these upped goals, that capital that will go to another industry.

“There is finite capital that the bank has — and it will be given to those businesses that can align themselves with the wider targets that the parent bank is giving,” said Paul Taylor, global head of maritime industries at Société Générale and vice-chair of the Poseidon Principles.

“If they can’t do that, it will be invested in other industries, not the shipping industry.”

Ultimately, that will result in a cutback in shipping finance.

“It is going to drive capital towards the green projects — and not just the green

assets, but those shipowners who commit, those who actually have a strategy towards 2050,” said Taylor.

Here, the details are another concern for shipping.

One problem for financial institutions is that so few of the companies to which they provide services have credible decarbonisation plans, making it difficult for them to cut their financed emissions — particularly those that fall under Scope 3 emissions.

According to a recent report from EY, only 5% of FTSE 100 companies have disclosed detailed, actionable net-zero plans, though 80% have committed to becoming net zero by 2050.

While such considerations have been quietly tying European bankers up in knots as they consider the implications of their green commitments, rivals in Asia have proved to be less concerned.

Western banks ceased being the dominant providers of shipping finance several years ago. Last year, the European share of bank lending to shipping fell below 50%.

“The banks might be restrained by regulation, but actually, there will always be some form of alternative finance available; it just comes at a price,” noted Kavita Shah, a partner in the asset finance group at Watson Farley & Williams.

While efforts like the Net-Zero Banking Alliance and the Poseidon Principles promise to align portfolios to net-zero emissions by 2050, they can only tackle part of the equation.

As long as demand exists and institutions can make a profit from investing in shipping, someone, somewhere will provide funding — with or without a credible ESG rating.

“*There is finite capital that the bank has — and it will be given to those businesses that can align themselves with the wider targets that the parent bank is giving*”

Paul Taylor
Global head of maritime industries
Société Générale



Marine Money



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Private equity encompasses a number of investor types with different strategies; many are taking a more ‘industrialised’ approach.

Second ‘prexit’ wave amid windfall pandemic profits

Times have changed since many private equity investors, who ‘discovered’ shipping during the prolonged market downturn more than a decade ago, left the sector much poorer for the experience, **Michelle Wiese Bockmann** reports

Scorpio Tankers chief executive Robert Bugbee takes credit for inventing the word ‘prexit’ to describe the departure of private equity firms from shipping investments.

There have been two ‘prexits’ over the past decade, since the 2008 financial crisis saw private equity pick over the carcasses of distressed debt and assets held by some of the world’s biggest marine banks.

The first occurred when those private equity firms that had placed newbuilding orders then had trouble getting out after calling the market wrong.

The second is under way now. Cashed-up shipowners pocketing

windfall pandemic profits amid booming shipping markets of the past two to three years provided an opportunity for many funds to gracefully take the money and run.

Higher interest rates now make it harder to fund speculative projects, while new entrants have a different mindset from previous funds.

Recent high-profile ‘prexits’ include Oaktree Capital Market’s departure from New York-listed Star Bulk Carriers in the past month; and BW Group’s tanker company Hafnia in late 2022.

Oaktree aborted a planned sale of its 63% stake in Danish shipowner Torm earlier in 2023.

Robert Burke, chief executive of private equity-backed Ridgebury Tankers, sold the company’s last tanker in August. He is now assessing where the funds that back him should invest next.

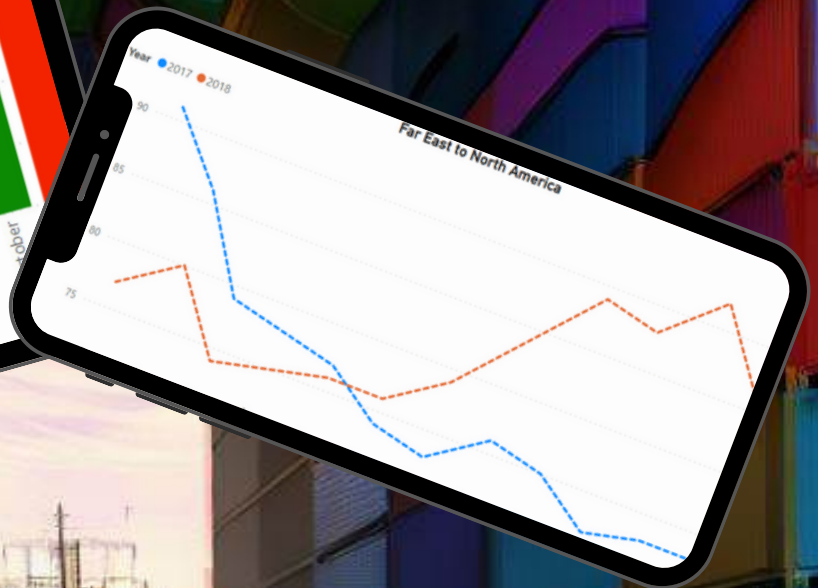
“I probably talked to 200 equity investors before I found somebody to put some money out,” Burke said of a three-year period between 2010 and 2013 as he looked to start Ridgebury Tankers.

“The problem I found was that most of the private equity groups wanted to buy newbuildings, which never seemed to make a lot of sense to me, [as] they wanted to really control the purchase of every single ship.”

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Riverstone offered to fund \$225m of equity and the relationship evolved to “buying two or three ships at a time, like a real shipowner, not just turning up at the yard and buying a bunch of newbuilds”, he said.

The management team also contributed and, after buying a product tanker, eventually settled on focusing on the crude tanker segment.

Over the past 10 years, as many as seven or eight private equity groups have been involved in Ridgebury, said Burke.

“With the market as it is, they all wanted to get out; we wanted to get out — and with a profit share that’s worked quite well,” he said of his own ‘prexit’.

Most of the funds that invested in tankers during 2020 and 2021 have sold out, with investments purely a cyclical asset play and the market recovery arriving sooner than expected.

Private equity encompasses a number of investor types with different strategies. Finding reliable figures that reflect the size of funds’ investment in global shipping is difficult to establish. At one point, the figure was estimated to be as high as \$12bn.

\$17bn portfolio

Even so, that collective figure is substantially less than the size of the \$17bn portfolio of just one Chinese leasing house, Bocomm Financial Leasing.

Funds interviewed by Lloyd’s List discussed an evolution in private equity in shipping and a more ‘industrialised’ approach to investment.

These deals typically partner up with larger end-users of vessels alongside some form of abatement or



Recent high-profile ‘prexits’ include Oaktree Capital Market’s departure from New York-listed Star Bulk Carriers.

‘green’ emission-lowering technology or propulsion.

Those with a shipping-specific interest felt that there were advantages for them to focus on a sector where traditional private equity firms had been burned.

Those loss-making investments were often linked to the biggest promises rather than focusing on trust, reliability and market reputation, said one manager.

Besides investing in assets, private equity has focused on technical management, with two of the world’s biggest shipmanagers, Synergy and V-Ships, seeing new investors over the past two years.

Many are also taking small positions in manufacturers of new abatement technologies reaching the market, and

related information technology companies that can be used alongside regulatory demands to lower carbon emissions.

Infrastructure funds have also seen related opportunities in liquefied natural gas and offshore wind, while high-net-worth investors are going directly to limited partnership companies and bypassing funds.

Many of the funds have a generic focus, such as ‘energy’ or ‘consumer durables’ or ‘health care’, according to Burke.

“A lot of money has been lost to PE over the past 10 years and those folks either got fired or moved along,” he said.

“But the folks who took their place don’t have any interest in stepping up to the plate, because they saw what happened last time.”

Opportunities come quickly

Another fund noted that shipping opportunities tended to come very quickly, which meant the company had to be up and running with capital ready for deployment. There is often little time to fundraise.

“Private equity does what it’s meant to do, as it does in many other industries,” said one executive,

“It comes in as a last resort of capital and sells at the top, putting some sort of lid on values and buys at the bottom, putting a floor in the values.

“That’s typically the role of private equity, as they do in most industries... that’s actually worked pretty well for shipping.”

“The problem I found was that most of the private equity groups wanted to buy newbuildings, which never seemed to make a lot of sense to me, [as] they wanted to control the purchase of every ship”

Robert Burke
Chief executive
Ridgebury Tankers





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Outlook increasingly split between segments, Lunde warns

The ship finance market has changed over the past 12 months, with some borrowers looking to buy companies rather than vessels, **David Osler** reports

Owners in segments that have raked it in lately are borrowing less and paying down debt, while counterparts in underperforming sectors have no alternative but to stump up high interest rates, a ship finance veteran has warned.

In particular, beneficiaries of the pandemic-driven boxship boom and the more recent product tanker spike in the wake of Russia's invasion of Ukraine are best placed, with bulk carriers the obvious Cinderellas, according to Dagfinn Lunde.

Indicative lending rates range from 2.5% over the Secured Overnight Financing Rate benchmark to double-digit territory for high payback schemes, he added.

Lunde, a high-profile industry figure after stints at DVB, Det Norske Bank and Intertanko, is now one of the principals at financial technology — or 'fintech' — company eShipfinance.com.

Founded in 2018, the platform seeks to match those needing to finance shipping deals with potential lenders, ranging from banks to private equity and family offices.

Bespoke opportunities

From the investor's point of view, the attractions of fintech platforms include potential bespoke opportunities to invest in low-risk, secured maritime loans with attractive yields, served up in an easy, fast and secure manner.

On a risk/reward basis, lending to shipping can compare favourably to other debt products, such as mortgage-backed securities, investment grade corporate bonds, municipal bonds and direct investments.

Fintech platforms will suit some shipowners more than others. The



eShipfinance.com

Lunde: 'Look at the market, it's very volatile. Sometimes you just get a very good deal and you take what you can.'

household names are still fought over by the banks and larger tickets will usually find cheaper money through listing or the over-the-counter market.

However, smaller players are faced with the reality that bank exposure to shipping is now at just 63% of where it stood in 2008 — even though the world fleet is some 40% larger.

For these companies — making up most of the industry — fintechs can offer speed and cost efficiency, and the ability to reach a wider lender base than they otherwise might. Term sheets can sometimes be ready in as little as three days.

However, Lunde and his business and life partner Marina Tzoutzouraki — also a former ship finance professional with Credit Lyonnais and EFG Eurobank — are selective on which transactions they will take forward.

During the past year, requests have come in at around the \$1bn mark, but only around one in 10 were deemed of sufficient quality to take to investors.

The active pipeline was around \$77m at the time of interview, and there were new discussions over a further \$80m of lending. Deals in the \$3m to \$20m bracket are seen as the sweet spot.

Yet Lunde has detected a change in demand over the past 12 months, both in terms of ambition and range of finance required.

"In the beginning, we had one-ship deals — and now we're getting up to five ships in a deal," he said.

"The requests have changed a bit from the pure debt financing we started with.

"We started purely with mortgages, but now we have had several discussions with people who want to buy other companies, and some people who need equity for their projects."

However, with central banks in many countries jacking up interest rates to combat inflation, borrowing is inevitably becoming more expensive. Rising interest rates have wrecked cashflow projections on many proposals.

“Many projects were rejected because we couldn’t see that the owners would make money on it. If the owners don’t make money, we don’t want to give them a loan,” said Lunde.

“If there’s a bank willing to take it, you can go down to under 3% or 2.5% over SOFR.”

SOFR — which has taken over many of the functions of the old London Interbank Offered Rate in the wake of a rate-rigging scandal — stood at 5.3% at the time of writing.

However, since its inception, SOFR has averaged at 26 basis points below Libor, which means that margins need to go up just to get the same net for the lender.

At the other end of the scale, some borrowers are facing coupons of 15% above SOFR — well in excess of the returns typical in the junk bond market of the 1990s.

“Look at the market, it’s very volatile. Sometimes you just get a very good deal and you take what you can,” said Lunde.

“Some projects are short-term and very

profitable and people just need the money quickly. If you have a 60%-80% yield in one year, you can pay it.”

The volatility has led to shipowners paying increasing attention to interest rate swaps, which are arranged by banks and counterparties rather than eShipfinance.com.

Last year, interest rate swaps looked like a smart move.

With the expectation that rates will come down in the coming period, they may be less advisable.

Owners ‘want to lock into fixed interest rates’

Industry borrowers prefer the certainty of finance costs rather than betting on rates falling in the coming period, Oceanis executive insists

Many shipowners prefer the certainty of borrowing at fixed interest rates, hedged against further rises, to deals giving them the potential benefit of falls over the next period, according to the head of online ship finance platform Oceanis, writes David Osler.

The comments from joint managing director Erlend Sommerfelt Hauge (pictured) come at a time when central banks in many economies have jacked up rates in response to double-digit inflation.

Most commentators regard the phenomenon as temporary, with rates likely to fall from later this year and into 2024, as inflation generated by the post-Ukraine invasion, energy and food supply crises is squeezed out of the annual numbers.

The Secured Overnight Financing Rate, which acts as the reference rate for many dollar-denominated loan products worldwide, stood at 5.3% at the time of writing.

However, the forward curve shows that the market expects it to peak some time around October and decline to 4% or less thereafter, which should make variable SOFR-plus margin deals the obvious choice.

Spread on SOFR depends on the deal, but 1.5% to 1.7% is available for top-drawer shipping companies, while



Oceanis

2%-2.5% is common for good projects with moderate leverage, at about 50% loan to value.

Riskier deals with higher leverage and no corporate guarantees are looking at 6%. Factor in SOFR, and it gets into what was once called junk bond coupon territory.

“You could, of course, argue that an owner can take the risk and they don’t want to fix now they are close to the peak. That is one intuitive speculation to make,” Hauge said.

“But as a shipowner, is it really your business to speculate on rates — or is your business to run vessels and hedge that risk and to keep it flat, or eliminate that risk so you don’t have to think about it?”

Hauge, a Norwegian, is now based permanently in the Aker Brygge district of Oslo. The other managing director, Maximilian Otto, and the rest of the team work out of German shipping capital Hamburg.

The firm was established in 2019 and is now working with around 55 financial institutions, including shipping banks,

leasing houses and alt lenders, up from 45 a year ago.

In particular, the platform is working more closely with Asia — and, at the time of interview, hoped to close its first deal with a Chinese leasing house shortly, with other deals in the pipeline.

Hauge feels that the firm’s edge comes in packaging the applications, and using knowledge of its clients to guide banks on structuring terms.

Transactions totalled \$200m last year, with the volume of closed deals said to have steadily increased. Indicated volumes more than doubled from \$2bn to \$4.5bn, he claims.

The new breed of fintech companies work on the basis of would-be borrowers entering their requirements online, with potential lenders able to “swipe right” if the profile looks enticing.

Their arrival was made possible by the huge reduction in bank appetite for plain vanilla mortgages and straightforward loans since the shipping downturn that followed the global financial crisis in 2009.

The problems have been especially acute for the smaller entities that still constitute the majority of shipping companies by headcount. In particular, those with 12 vessels or fewer are far less likely to have bankers return their calls than they did two decades ago.

“I’ve heard it said that few owners would want fixed rates in today’s environment. We’ve seen quite the opposite,” Hauge said.

“Even though we’re at high interest rates at the moment, we’re still seeing owners preferring to get some kind of security, so they’re not at risk of it increasing further. Now that owners have seen what the variation can be, there is more awareness about interest rate hedging and interest rate risk.”

Rise of the share buyback



Klaus Ohlenschlaeger/Alamy Stock Photo

Some shipowners have focused on shareholder returns, fattening dividends, paying down debt, and buying back their own shares.

Share repurchases have become increasingly popular with cash-rich listed owners over the past two years, amid rising asset prices and a lack of yard slots, **Tomer Raanan** reports

What should public shipping companies do with their excess cash when business is booming?

Traditionally, shipowners would invest any profits in fleet renewal and expansion, upgrading existing ships, or acquiring new ones.

However, with yard slots occupied by boxships and liquefied natural gas carriers — and amid regulatory uncertainty over future propulsion systems, rising interest rates, labour costs and asset prices — investing in fleet expansion became illogical or unfeasible for many owners.

According to shipping investor Edward Finley-Richardson, these inflationary pressures mean that for many owners, the maths for ordering new vessels “doesn’t really work any more”.

“There is a much bigger element of speculation, and we tend to see billionaires who already have huge fleets and cashflows taking the plunge, versus smaller players,” he told Lloyd’s List.

Flush with cash but faced with barriers to fleet expansion, shipping companies have been allocating their capital elsewhere. Some have focused on shareholder returns, fattening dividends, paying down debt, and buying back their own shares.


Perhaps the best example of this is US-listed Scorpio Tankers. The Emmanuele Lauro-led company went on a deleveraging spree, starting last year, and has cut down net debt by nearly half to \$1.2bn as of the end of the second quarter of 2023.

It also paid \$49m in dividends since last July — and repurchased \$582m worth of shares since the middle of 2022, according to Jefferies, totalling 27% of its starting market capitalisation.

Scorpio is not alone in charging ahead with share buybacks.

Jones Act player Overseas Shipholding Group repurchased nearly 16.8m shares between March 2022 and August 2023; and tonnage provider Danaos allocated \$100m for share repurchases last summer, while also acquiring a double-digit stake in US-listed Eagle Bulk and purchasing five bulkers. It also has 10 new boxships on order.

In the dry bulk sector, Nasdaq-listed Star Bulk launched a \$50m share repurchase programme in March 2023, and recently announced it will repurchase 10m shares from Oaktree Capital Management at \$18.50 per share, accounting for about 10% of outstanding shares, according to Jefferies.



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Share buybacks reward shareholders by reducing the total number of outstanding shares and increasing their relative stake, so long as the repurchased stocks are cancelled.

They complement dividends as a form of shareholder return, while some argue they also help companies avoid the negative publicity associated with altering their dividend policies when earnings fall.

Part of their appeal is rooted in the fact that shipping companies tend to trade perpetually below their net asset value, according to Value Investor's Edge founder J Mintzmyer.

"Shipyards are full, ship prices are high, the delivery window is three years away and your shares are trading at a discount anyway," he told Lloyd's List.

"So it makes more sense to invest into your own fleet — because that's what you do when you repurchase shares: you're doubling down on your own fleet."

More tax-efficient

Another reason for the popularity of share buybacks is that they are more tax-efficient than dividends and are immediately accretive, Finley-Richardson said.

"Many large stakes in shipping companies are owned by shipping families and family offices," he said.

"Depending on your tax jurisdiction, dividends can be taxed as income, which makes them unattractive — especially if the companies are also domiciled in jurisdictions that withhold tax.

"So there are a lot of people involved in shipping who prefer the stock price to be supported and avoid the headache of taxation."

Moreover, if a company is generating substantial cash but its stock price is falling, daily traded volumes tend to fall, which makes it

“*I think there are very few companies in the shipping space that really would benefit from the stock buyback — and it's only the larger cap ones*”

Peter Shaerf
Partner
AMA Capital Partners



easier for companies to support their stock price through buybacks.

Yet not all buybacks are created equal, and companies can use them as a publicity stunt, Finley-Richardson argued.

"Sometimes, if you read the fine print, a company publicly makes a big deal about buying back stock, but simultaneously issues incentive stock options, which effectively cancel out the effect of the buyback," he said.

"This makes the whole exercise seem disingenuous — more public relations than accretive capital allocation."

Similarly, Finley-Richardson said, investors should keep an eye out for when companies buy back stocks but then immediately undertake a dilution and gift the new shares to management.

Meanwhile, some argue that share buybacks can hurt a company's liquidity. This is especially true for smaller companies with lower liquidity.

"There are very much two levels of public companies," Peter Shaerf, partner at AMA Capital Partners, told Lloyd's List.

"There are the smaller, less liquid

ones that do trade at a significant discount to NAV — and, if those owners start buying back shares, then there's almost no liquidity.

"I think there are very few companies in the shipping space that really would benefit from the stock buyback — and it's only the larger cap ones."

He added that any positive impact buybacks may have on a share price tend to be short-lived, but that they could help "put a floor" under it.

Larger companies can see their liquidity improved from buybacks despite the decrease in the float, argued Mintzmyer.

"Liquidity in shares is promoted by trader activity and trader interest in the stock," he said.

Updates catalyse interest

Repurchase announcements and updates catalyse interest in a stock, Mintzmyer said, demonstrating to investors that a company is taking shareholder-friendly, value-accretive actions.

The combination of more interest from retail investors and traders can offset the decrease in the float.

"We're not talking about 50% float decreases; we're talking about 10% or 20%," Mintzmyer said.

"So as long as the interest, and the trust, and the motivations of these people are more than the 10% or 20% reduction in float, net share liquidity goes up."

Moreover, the more important definition of share liquidity is the dollar amount traded and not the total number of shares traded, Mintzmyer argued.

An accretive repurchase, he said, can result in net liquidity improving if the increase in the value of shares traded exceeds the decrease in the float.

“*As long as the interest, and the trust, and the motivations of these people are more than the 10% or 20% reduction in float, net share liquidity goes up*”

J Mintzmyer
Founder
Value Investor's Edge





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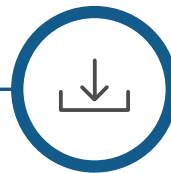
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