

Ship finance to remain tight in 2009

January 19, 2009

Shipping firms will increasingly find it difficult to secure financing this year as the reluctance of lenders to finance the industry grows, said a senior executive in the ship finance industry.

About half of all planned expansion and acquisition programmes could be postponed or cancelled altogether as the effects of the credit crunch and declining ship revenues continue to rage.

While the regional shipping industry was not severely affected by the worldwide financial crisis last year compared to other regions, the effects are likely to be more visible in the first quarter of this year.

"Banks that have traditionally financed the shipping industry are closing their doors to any new financing requests," Jonathan Hill, Managing Director of Tufton Oceanic Middle East, told Emirates Business.

"While banks will want to do business, they will not lend as much as they used to. They will maintain existing commitments and only focus on their current customers," Hill said.

Larger and well established companies with good relations with banks will be able to secure a certain level of financing, but new players in the industry seeking to expand their businesses will be the worst affected due to lack of any previous relations with lenders, he said.

With ship asset values continuing to decline, banks will be reluctant to actively finance more assets as they try to restore their capital and also for fear of making losses. "Banks still have their balance sheets to repair and restore their capital ratios. The process of building a balance sheet might take longer because no one can tell how many further write downs will be made, so investing in any new assets will not be appealing to them," said Hill.

"I don't see the first quarter of this year being so different from the last quarter of last year."

He said that although there were signs that bank-funding costs have come down, they are still considered above the available rate and that this will increasingly make it difficult for loans to be advanced.

Shipping revenues, especially in the dry bulk sector have dropped by 90 per cent in the past five months, with almost a third of operators running below the break-even point.

Although tanker rates have firmed up in the past few weeks, they are still below the rates witnessed in the second quarter of 2008 when oil prices reached their peak. Hill said shipping companies would continue to suffer a cash drain this year, as they are neither able to secure loans nor generate equity from retained earnings due to depressed returns.

"Lenders are likely to work out solutions with clients regarding rescheduling of pending repayments to avoid driving them into insolvency," said Hill.

Shipping companies are also likely to forego expansion plans to concentrate on consolidating their businesses to maximise their cash flow. Although shipping companies from the Middle East will too be affected by the current financial crisis, they will be the first to recover from the recession due to their easy access to equity compared to operators from other regions and also because of the niche they have in the shipping industry.

Following the effects of the current financial meltdown, Hill said banks in the long run will shift their attention from structured products based on derivatives to more straight forward lending, as asset values continue to fall and straight forward money lending becomes more profitable.

He however noted that regional banks would not be affected by the slowdown in the shipping industry since a majority of the banks in the Middle East do not provide ship finance.

{Emirates Business 24/7}