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Germany

Global ship operators face refinancing and default risks

Global ship operators face significant refinancing and default risks as a result of tight bank funding, industry overcapacity and depressed global trading conditions, says Standard & Poor's Ratings Services (S&P).

In its report, "Global ship operators scramble for liquidity to stay afloat", the organisation states that in an industry that is highly sensitive to economic conditions, ship charter rates have fallen to between 30% and 80% below their 10-year historical average in parallel with declining economic activity. High operating costs, particularly fuel, are also depressing earnings.

In addition, a lack of supply discipline means operators accelerated ordering new vessels when shipping markets flourished; these vessels are now being introduced at a time when trade demand is subdued. Over the past 10 years, the global container ship and dry bulk fleets have more than doubled, while the tanker fleet has grown by more than 50%.

The report goes on to say that operators are finding it increasingly difficult to raise capital for new ships and to refinance existing loans. "Banks, faced with their own financial difficulties and a riskier shipping industry, are imposing tougher conditions for lending and charging higher premiums," states S&P.

It cites that last year, Germany's Commerzbank AG, one of the largest lenders to shipping industry holding a US$20bn loan portfolio, exited ship finance, raising concerns from industry experts that other banks with shipping portfolios might follow.

"We expect asset values and the performance and credit quality of shipping companies to remain weak in the coming quarters, which will further exacerbate banks' reluctance to lend," said S&P's credit analyst, Izabela Listowska. "As a result, we think further shipping company defaults and financial restructurings are likely over the next few quarters."

This would follow defaults by previously rated US-based tanker operators Overseas Shipholding Group Inc., General Maritime Corp., and Indonesia-based PT Berlian Laju Tanker Tbk. High-profile ship operators, such as Denmark-based Torm A/S and US-based Eagle Bulk Shipping Inc., both not rated, have also fallen victim to the protracted industry downturn. Both companies were forced to restructure their debts last year to carry on operations.

"We believe a shipping company's ability to gain access to funding at an affordable cost will be key to their success over the coming quarters," she added.

"Distressed shipping companies may find it difficult to obtain financing to roll over maturities or to meet their on-going operating needs. For those that can access financing, we believe pricing will likely be substantially higher than in the past few years, which will put further pressure on already reduced cash flows. Yet, a company's ability to maintain adequate liquidity will be critical to withstanding difficult industry challenges."

Listowska continued, "Nonetheless, we believe most shipping companies that we rate are relatively well placed in a global context to navigate the tightening funding conditions this year".

S&P calculate that most shipping companies have liquidity sources (operating cash flows, unrestricted cash balances, and committed bank financing) that will exceed liquidity uses (mainly capital spending and mandatory debt repayments) by more than 1.2x in 2013. ■

Singapore

Portek acquires RUT

Singapore-based Portek International has expanded its international portfolio of container and multi-purpose terminals, with an 80% acquisition of Rigas Universalais Terminals SIA ("RUT") located in Riga Free Port, Latvia.

Both parties will benefit, with RUT gaining from Portek's port equipment engineering experience and its close links with shipping lines and cargo owners, while through the new business, Portek will be able to develop its reach into the container, wood and frozen food handling markets in and around the Baltic Sea.

The existing RUT management team will remain and be joined by new managers from Portek for the next phase of the terminal's business development.

RUT is currently the fifth largest port operator by cargo volume in Riga Free Port, handling more than 2.5m tonnes annually, serving both transit and export of general and bulk cargoes. It is also a leading player in the handling of wood products and frozen food, while container volumes have grown with annual throughput of 77,000 teu in 2012.

RUT will expand Portek's international portfolio

Commenting on this latest transaction, Takao Omori, CEO of Portek, said, "RUT holds tremendous potential for expansion in the Baltic and we are confident that it will add significant strategic value to Portek's long term growth".

RUT also owns BFT SIA, the only transit cold storage in Riga Free Port; UT Komunalserviss SIA, which develops and maintains the terminal infrastructure operated by its parent company; and Alpha Express SIA, the railway marshalling company in the terminal area, handling more than 2m tonnes of cargo annually. ■