News release

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PwC Shipping Industry Briefing discusses how fleet size, corporate profile and strategy are deciding factors in selecting an appropriate financing strategy

The challenges that shipping companies are facing when selecting an appropriate financing strategy during the current period of volatile global markets, renewed fears of protectionism and trade wars and the possibility of new technologies disrupting traditional industries, such as shipping, were some of the issues discussed with shipowners and shipping finance experts during the Shipping Industry Briefing organised recently by PwC at the Yacht Club of Greece, entitled 'Navigating through new challenges in the global markets'.

While interest in accessing the US capital markets remains high for a number of private shipping companies, the ability to do so is becoming increasingly difficult for companies with smaller sized fleets. "During 2018, the US capital markets started out strong and have maintained momentum despite the volatility in the market. IPO themes continue to be strong – top line growth, differentiation, dependable cash flow and predictable revenue. More specifically, shipping companies that are interested in accessing the US markets will need to focus on segment, volume and differentiation", says Santos Equitz, Director responsible for Capital Markets at PwC Greece.

To be on US capital markets radar requires the combination of a large market capitalisation and a strong prospect of recovery in the shipping markets, which may be a difficult combination to meet for private shipping companies. The limited access to the US markets and the decline in traditional bank lending, has led to alternative sources of finance to emerge to fill the gap. Leasing finance and Nordic Bonds have proven to be viable alternatives to fill the debt gap left from the traditional shipping banks reducing their exposure to the sector. Additionally, when it comes to raising equity, the Norwegian market has been effective, utilising the unregulated over-the-counter market (N-OTC) and Merkur Market for smaller companies or the regulated stock exchanges Oslo Axess and Oslo Stock Exchange for larger companies.

Socrates Leptos-Bourgi, Global Shipping & Ports Leader at PwC, opened the floor to a panel of experts to discuss these alternative sources of finance, mentioning that to go public in the US capital markets is a significant transformation for any company and more so for smaller, family owned companies. As discussed on the panel, some alternatives are available in the Norwegian markets, which have recently provided companies with the ability to raise finance through either equity issuance or high yield bonds. Andreas Aamodt Kilde, Partner at Pareto Securities, explained: "With the traditional shipping banks continuing to reduce their exposure to the global shipping industry, shipowners have to explore other alternatives to finance their vessels. Fortunately, the options are many and the opportunity in today's market lies in taking advantage of the attractive non-bank financing solutions available. With every fleet, employment profile and capital structure being unique, my best advice to shipowners is to explore the alternatives out there in a structured and competitive process - financing is available, but one needs to know where to look".

Although some interest had been shown by private equity funds in the past, this is not a trend that seems to continue and investors are looking for ways to exit. Nevertheless, this activity has positively influenced the interest in M&As, said Anthony Argyropoulos, Managing Director at Seaborne Capital. Although the scope for further M&As does not seem to be prevalent due to the lack of synergies in shipping, Argyropoulos believes we should expect a few more, possibly with public-private partnerships as the driving force behind them.

Chinese lease finance is also growing. With 12 out of 25 largest and active financing institutions coming from China, there's a large appetite for investment, however the size and reputation of shipping companies are still major contributors to the final decision, explained Nick Daskalakis on the panel, Director at Smarine Advisors Limited. "Leasing finance has matured, providing flexibility on ship age, type, origin of built, employment, tenor, pre-delivery, day to day operational requirements, competitive terms and fast execution and drawdown timeframes. It is ideal for capital intensive projects, boosts liquidity and strategically diversifies lending risk for shipping groups, offering synergy opportunities with Chinese yards and charterers. Large holding structure groups with excellent reputation, transparency and strong cashflow are the prime candidates albeit competition is cascading interest towards mid-size groups nowadays", he continues.

The role of China in global trade and the shipping industry was further analysed by Mr Feng Li, Commercial Counsellor of the Chinese Embassy in Greece. The Commercial Counsellor explained how China's economic growth and shipping are linked and the wellbeing of the shipping sector is dependent on ensuring an open market and competitive free trade. He also added that the Cosco developments at Piraeus port are a commitment to develop the largest container port in Europe for the establishment of new channels to global trade. China and Greece have complementary strengths when it comes to shipbuilding, and the relationship between the two has been growing stronger over the past decade.

When it comes to the overall prospects of the main shipping markets, Henriette Brent-Petersen, Managing Director of Shipping and Offshore Research at DVB Bank SE, commented that "Despite the continuing 'deleveraging' process both in the Chinese and Korean shipbuilding industry, we do not expect the significant idle yard capacity to completely disappear in the short term". "The data show a decrease in the nominal yard capacity, but do they reflect the truth? We are living in a world with new disruptive technologies that change the way we used to do business, and the same applies for the traditional shipbuilding industry. By leveraging on innovative automation technologies such as the use of robots, sensor systems and artificial intelligence, shipbuilders will be able to achieve a higher productivity and low-cost construction, high-quality products and on-time delivery. As a consequence, the conventional ship construction process could be transformed into what we call a 'smart yard system", she explains. The overall impact on shipping will likely be shorter cycles and hire rates to be volatile within a much narrower range.

Digitisation in the shipping sector is one of the most disruptive developments since the industrial revolution, and should not be ignored by any stakeholder – not just ship owners, but also ports and logistics service providers- which will ultimately lead to optimized operations in the whole maritime logistics chain. Referring to digital strategies in the industry, Burkhard D. Sommer, Deputy Head of the Maritime Competence Centre of PwC Germany, comments: "Digitisation is unavoidable; it will cause disruptive changes to the current business models. Digital strategies and implementation of technologies and processes shall be based on a holistic approach to improve the current way of working as well as ensure the success of any company in the future. Digitisation is importantly about using data from various sources to optimise operations. “It is not an option – in a quick changing world it is a necessity to be successful in the future but most of the players in the maritime industry still have a long way to go. It is time to move”, he said.

Shipping has been increasingly operating in a challenging economic environment, posing challenges as well as opportunities to operate and innovate for sustainable business operations. Although tradition has been a driving force in the industry’s success in the past, this is the time for ship owners to move away from traditional operating models and start thinking of alternative ways to grow their businesses.

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