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# SHIPPING + “SHADOW BANKING” = FUNDING COST RE-EVALUATION

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# **CAPITAL SUPPLY AND DEMAND GAP**

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# Capital Invested

- Vessels values in most segments at mid-80s levels
- The Greek ship-owners invested more than **\$9,0bln during 2012** holding the 10% of the total NB orders and the 32% of the total SH transactions
- S&P transactions during the first 2 months of 2013 **increased by 54%** compared to the same period of 2012 reaching \$2,52bln
- \$1 out of every \$5 invested during 2013 came from Greek ship-owners

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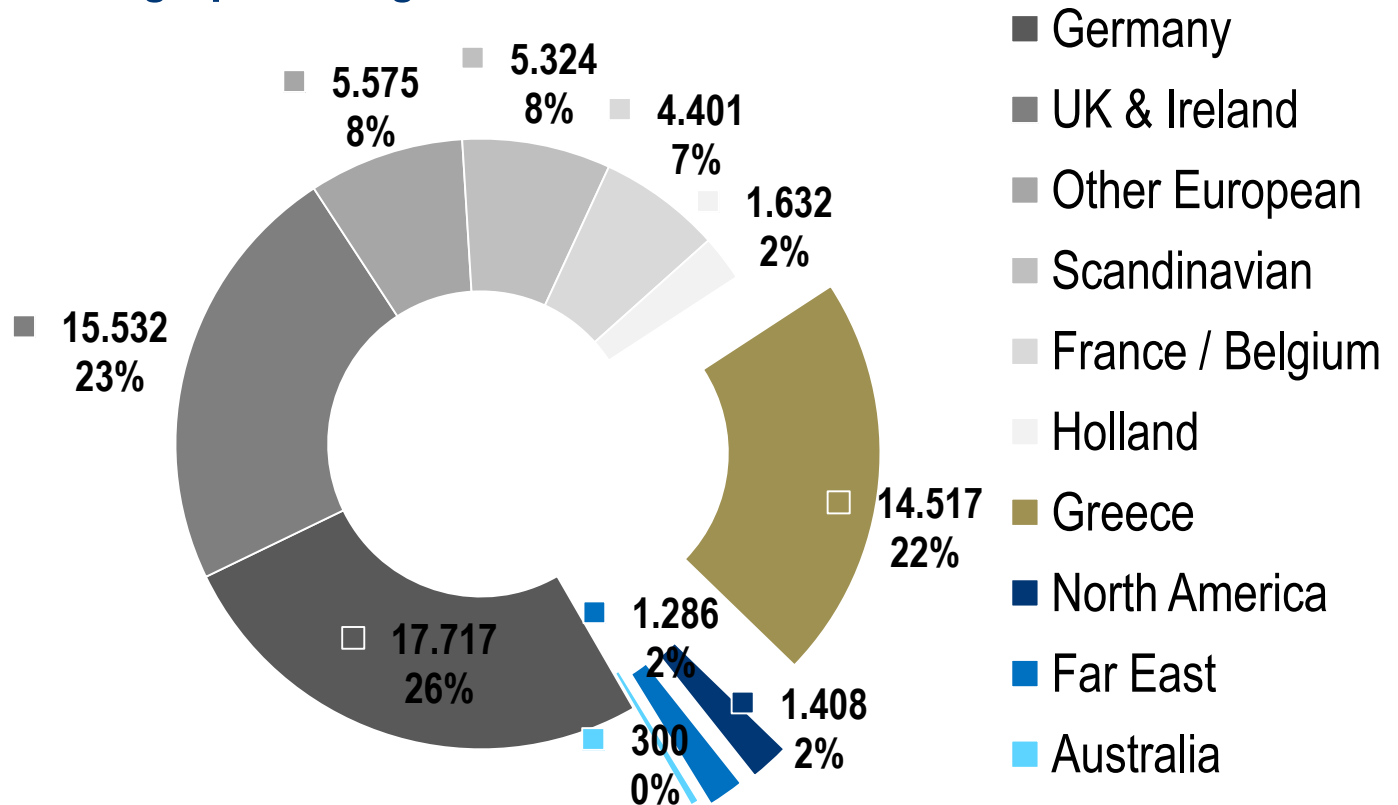
# Supply of Capital

- An increasing number of European banks have entered into a 'shut down' mode mainly due to shipping crisis & capital adequacy problems
- For Greek banks, lending conditions have become even more acute due to the difficult financial conditions of Greek economy
- Large Shipping private and publicly listed companies are struggling to obtain satisfactory bank finance
- For small to medium ship-owners there is **almost zero bank finance available**

# Greek Shipping Loans Portfolio Origin

European Banks Hold 95% Of The Total Loan Portfolio Towards Greek Shipping

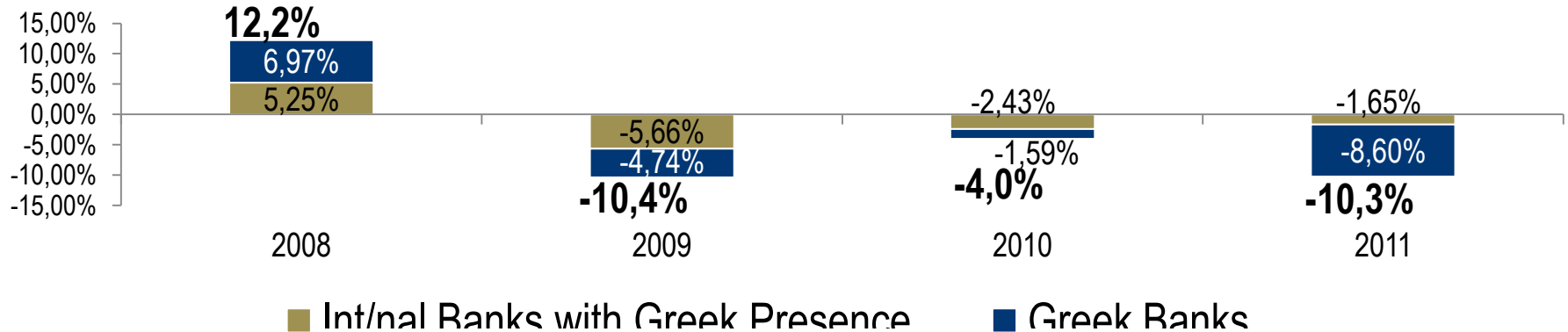
## Total Portfolios per Geographical region as of end 2011



# No “New Money” From Traditional Bank Finance

## Significant Deleverage of Greek Shipping Loan Portfolio

### Greek Shipping Loan Portfolio Evolution (2008-2011)



## No New Loans Available from Traditional Bank Financing

### Loan portfolio decline of the two major Greek banks (2011)



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# **SHADOW BANKING - GAPING CAPITAL SUPPLY & DEMAND**

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# What is Shadow Banking ?

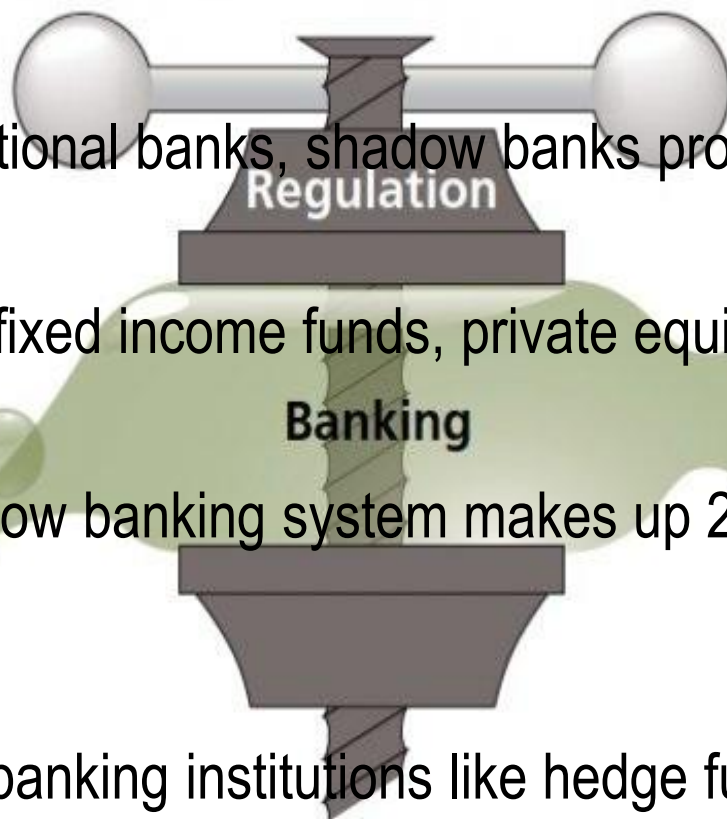
- The shadow banking system is made up of unregulated (in most cases) financial entities which have the same functions as traditional banks

- Like traditional banks, shadow banks provide credit and liquidity

- Includes fixed income funds, private equity funds, hedge funds, etc.

- The shadow banking system makes up 25% to 30% of the total financial system

- Shadow banking institutions like hedge funds often take on risks that mainstream banks are either unwilling or not allowed to take.



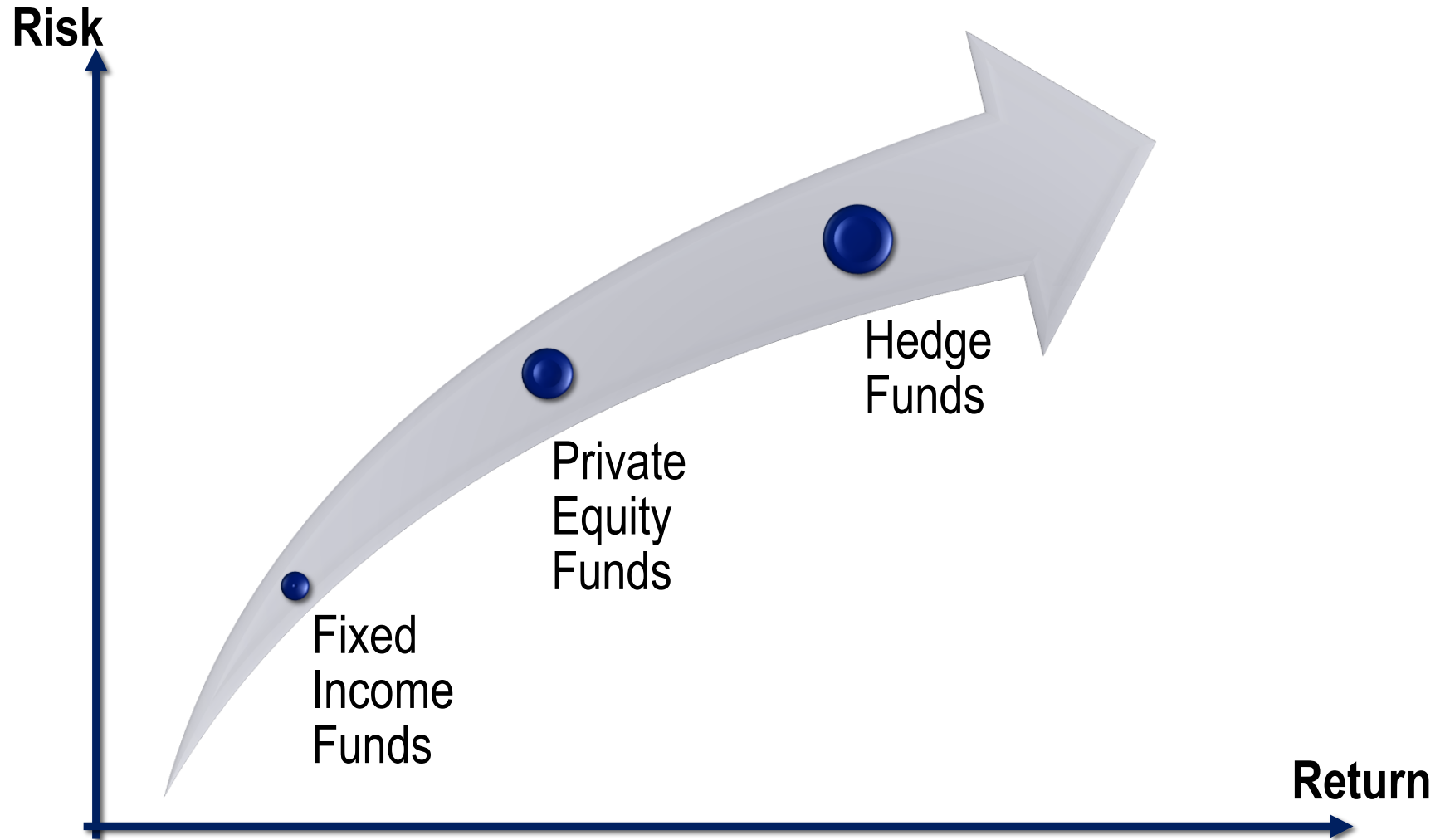


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# Why Funds Entered Into Shipping ?

- Funds initially entered into distressed shipping loans
- Although funds have invested in many industries shipping was not one of them until recently mainly due to the low interest bank finance available.
- The low interest rates are no longer available, the capital is now expensive
- Form the \$298,0bln Private Equity investments in 2011 the \$4,2bln went into shipping and about the same number invested in 2012
- The low values applicable today and the lack of financing in the market created opportunities for the funds to achieve attractive returns

# Types of Funds Investing in Shipping



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# RE-EVALUATING THE FUNDING COST

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# Funding Cost Vs. Capital Structure

## MORE EQUITY

	Equity	Debt
Capital Structure	70%	30%
Cost of Shipowner's Equity	20%	
Interest Rate	5%	
<b>WACC</b>	<b>15.5%</b>	

## MORE DEBT

	Equity	Debt
Capital Structure	30%	70%
Cost of Shipowner's Equity	20%	
Interest Rate	10%	
<b>WACC</b>		<b>13.0%</b>

**VS.**

Event with a 5% increase on interest rate the overall cost of capital reduced by 2.5%

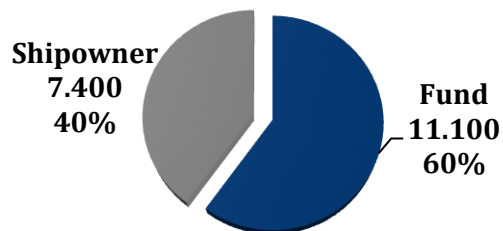
# Funding Cost Theory of Relativity

BC Supramax, 2008 MOA: \$18,5m – Sale Price: +20% (\$22,2m)

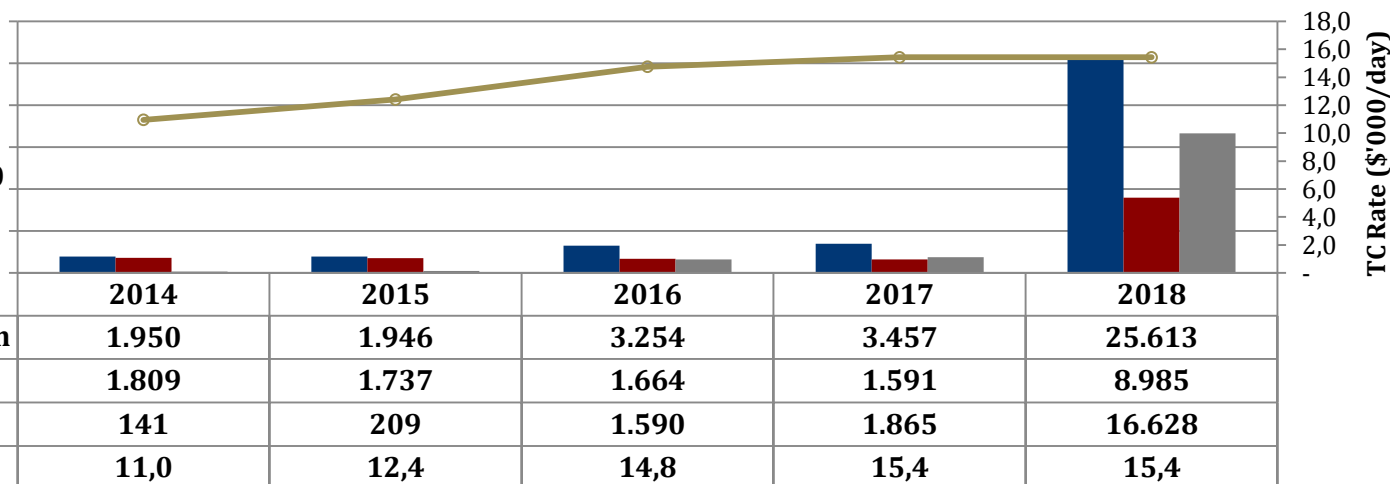
## ▪ Funding Cost 10%

- Equity Providers IRR: 25%
- Debt Providers IRR: 10%

### Capital Structure (MOA \$18,5m)



### Cash Flow Distribution (\$mIn)



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# Conclusion

- Despite the lack of traditional bank finance the Greek ship-owner continue to invest
- Funds started invest into shipping due the opportunity for attractive returns
- These type of capital providers are more expensive than bank finance
- Nevertheless with the right capital structure and provided that the vessel's cash flows are positive, the returns can be very attractive
- **So the right questions is not how high is the funding cost but what is the potential return**



**THANK YOU**