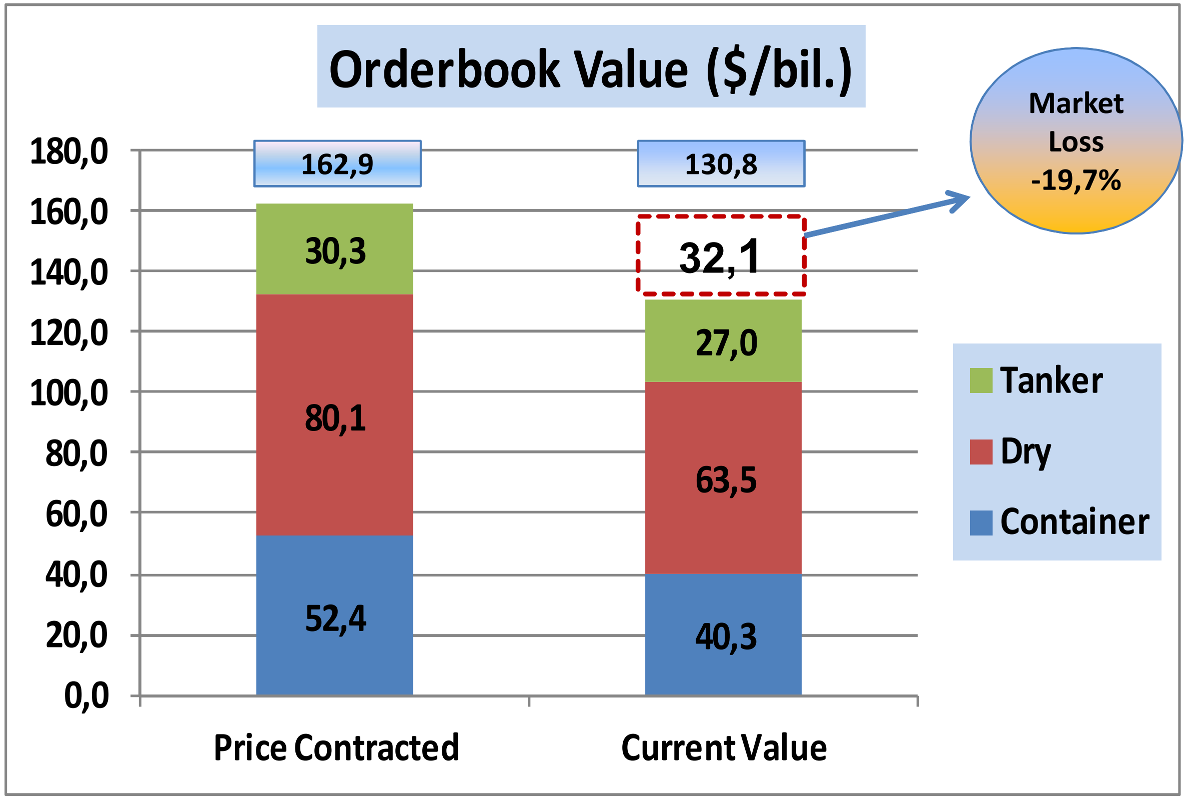
Equity appetite for shipping?

Rome, 8 May 2013

Funding Needs – Ordebook

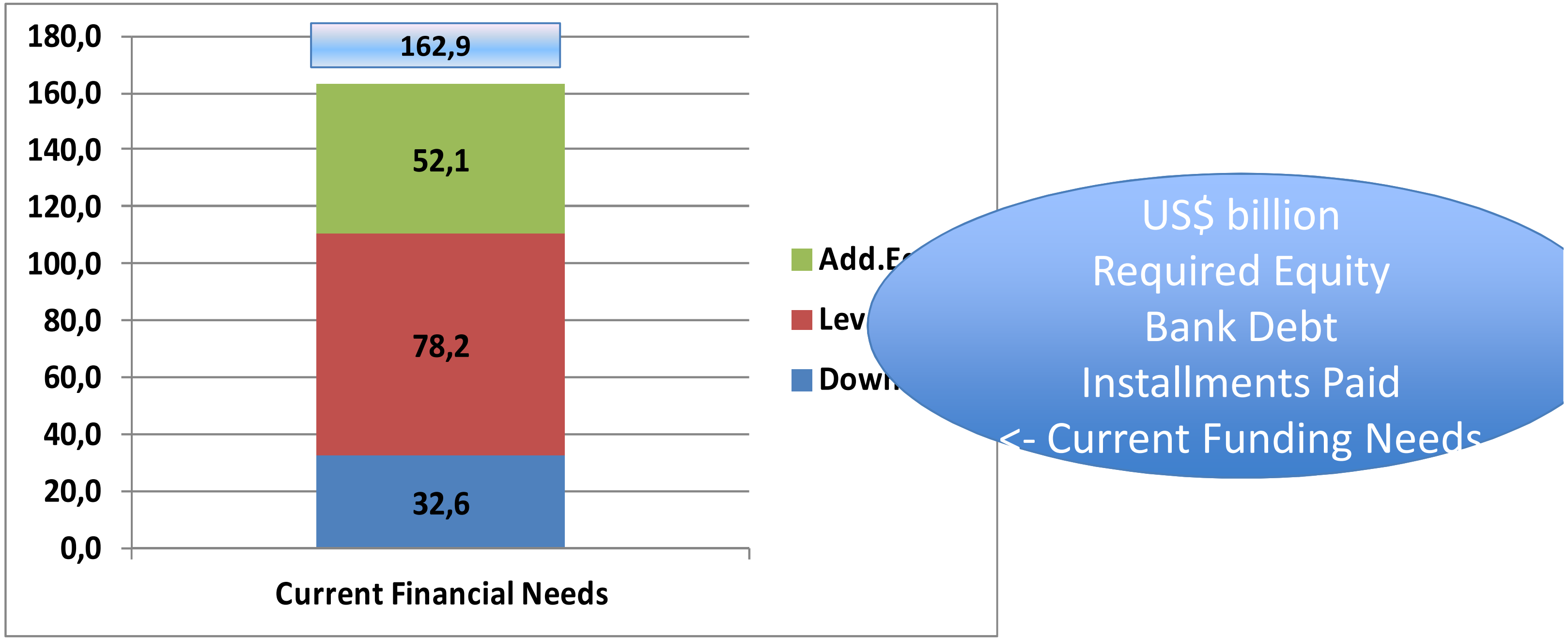


- The large majority of the current orderbook was contracted in 2010 due to the early and short-lived recovery experienced in that year by the Dry and Container sectors.

- The market value of the current orderbook is estimated to amount to around US$131.0 billion, corresponding to a loss of around 20% relative to contract prices.

Source: VSL

Funding Needs – Orderbook

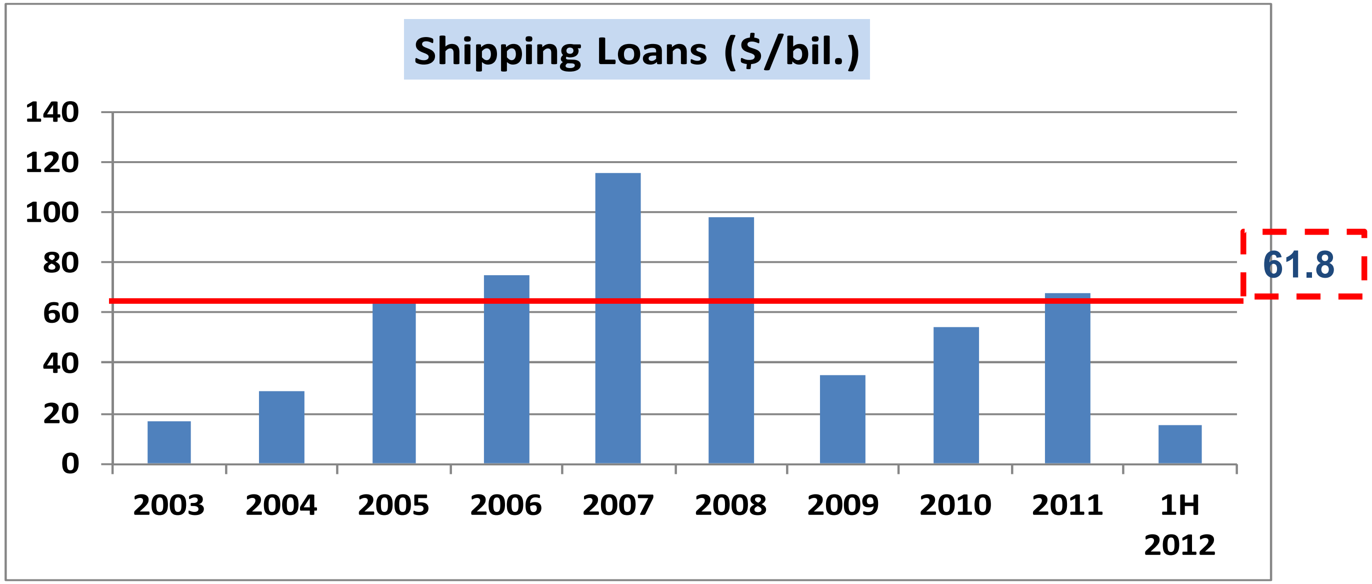


- Assuming an average leverage ratio of around 60% of the current market price, the funding needs for the current orderbook amount to:
  - US$78 billion in bank loans;
  - US$52 billion in shareholders' equity.

- If we assume the installments paid correspond to around US$32 billion, they are worth as much as the estimated loss in value of the existing orderbook.

Source: VSL

The Ship Lending Market



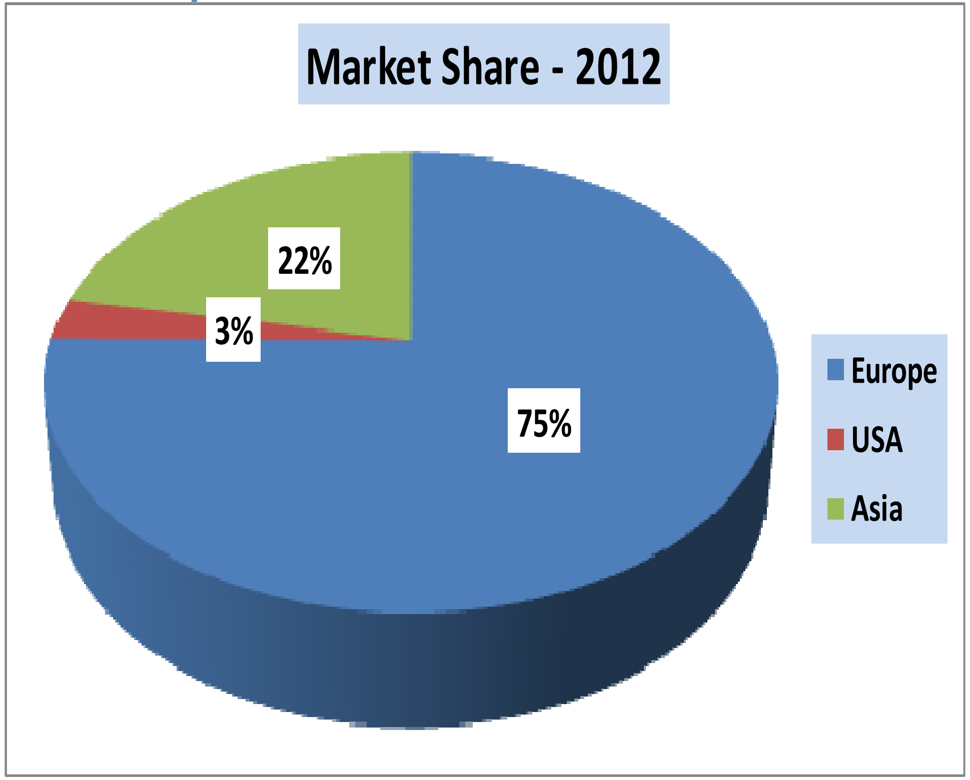
- The ship lending market recovered somewhat from the lows reached in 2009, but is still far below the peaks touched in 2007 and 2008.

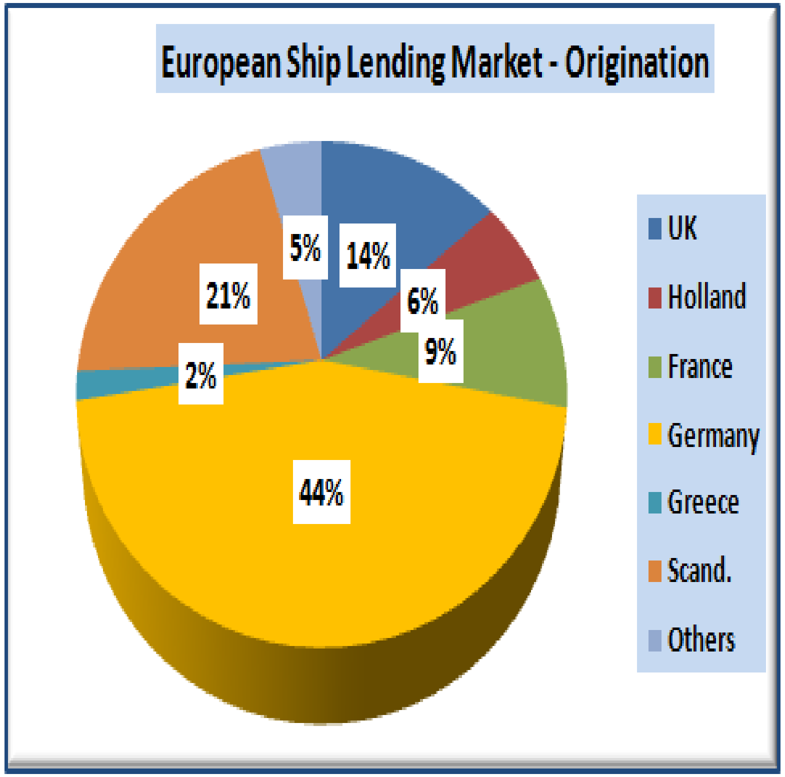
- Lending values dropped again in the first half of 2012 and if we consider refinancings and restructured loans, loan origination for newbuildings has been very limited.

- It follows that most of the orders placed in the second half of 2011 and the first half of 2012, still do not have any bank financing committed.

Source: Dealogic

The Ship Lending Market

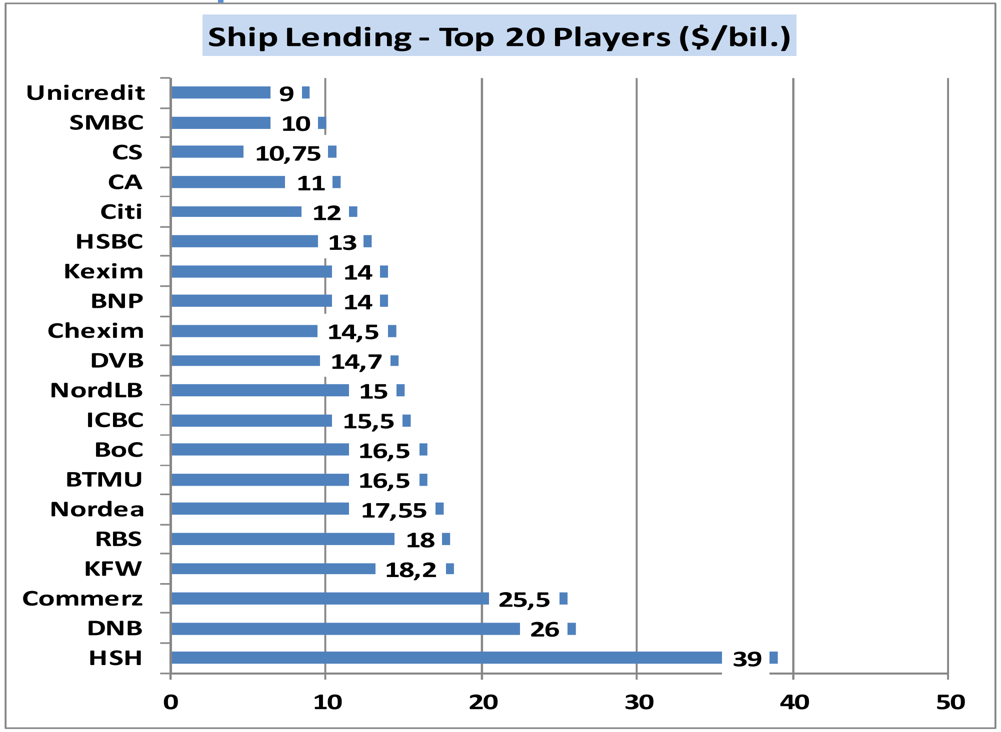


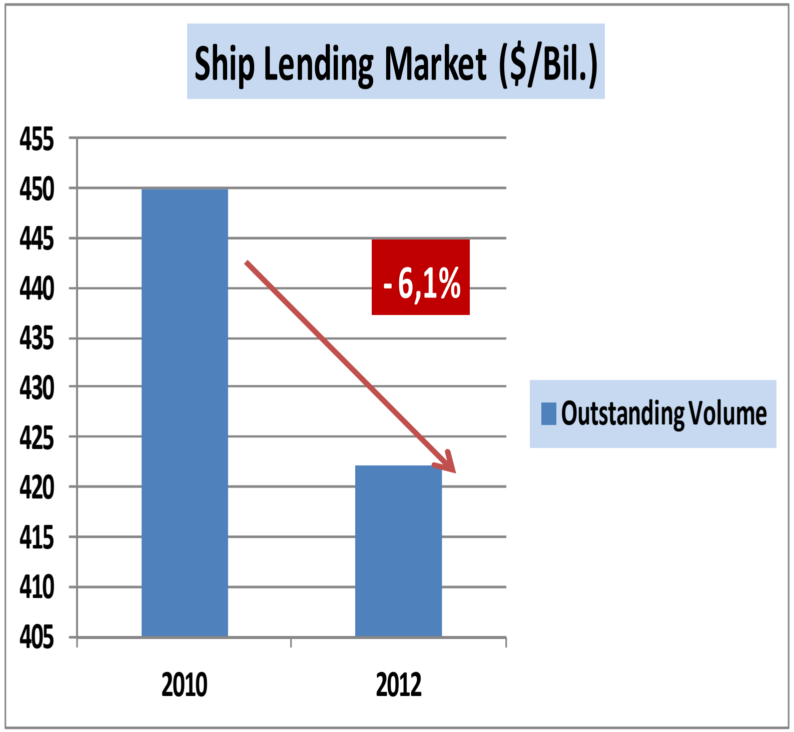


- The current loans outstanding amount to US$422 billion.
- German banks have been the largest lenders with loans outstanding amounting to US$140 billion.
- German companies have been also the largest borrowers, receiving loans worth US$100 billion.

Source: Petrofin Reserch

The Ship Lending Market





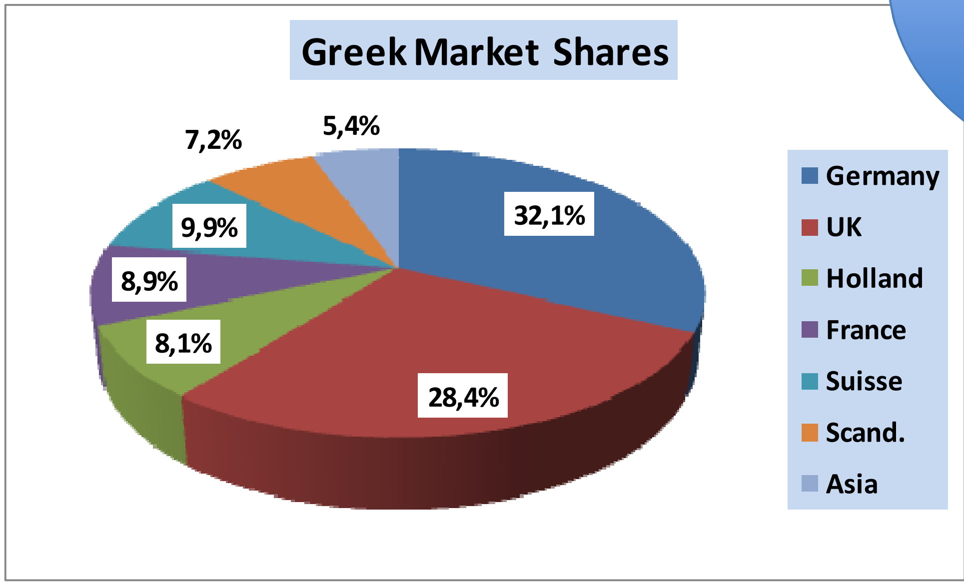
- There was a marked contraction in the amount of loans outstanding in the last two years.
- There was also a consolidation in the origination of new bank loans, with the 20 largest banks accounting for 78% of the market as at year end 2012.
- Among these leading institutions, there are 5 German banks which have recently expressed their desire to reduce their shipping exposure.

Source: Petrofin Reserch

Focus on Germany

15 bn/$

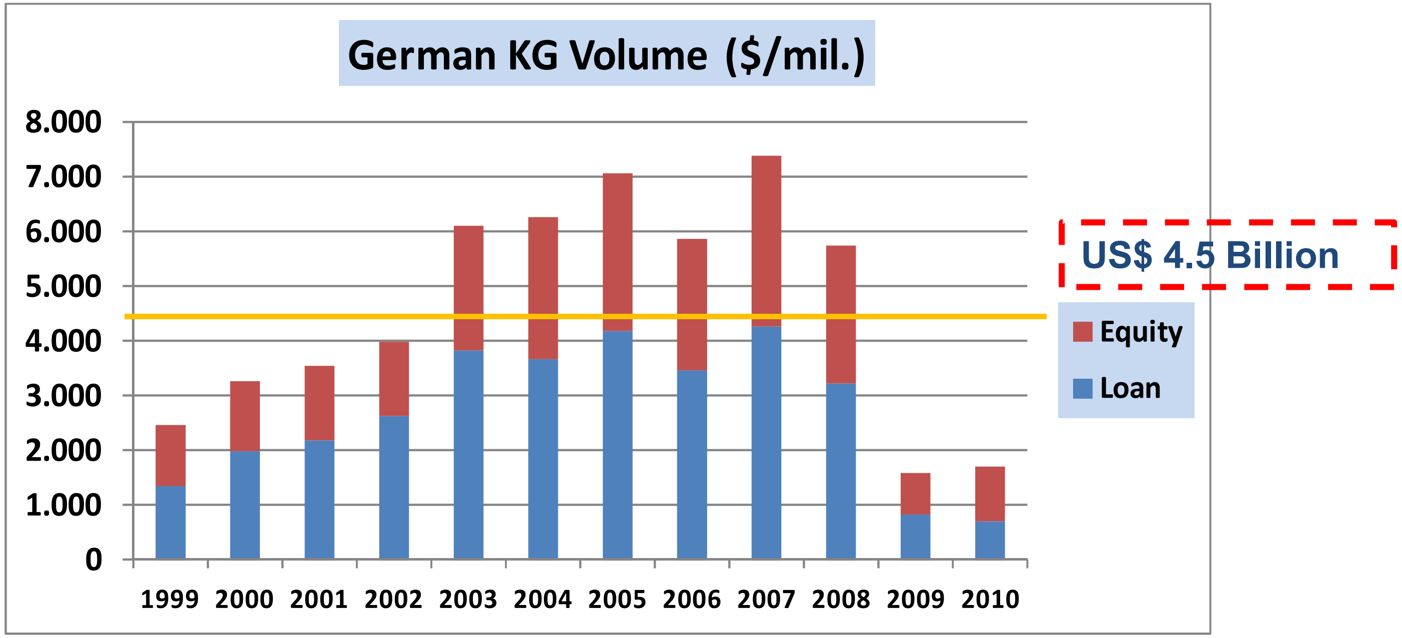
Lending to Greek Shipowners by Nationality of Lending Bank (%)



- German Banks are credit exporters. They provide loans to foreign shipowners amounting to US$ 40 billion.
- The Greek market, which has loans outstanding amounting to US$70 billion and is the second largest in Europe, is dominated by the German banks.

Source: VSL

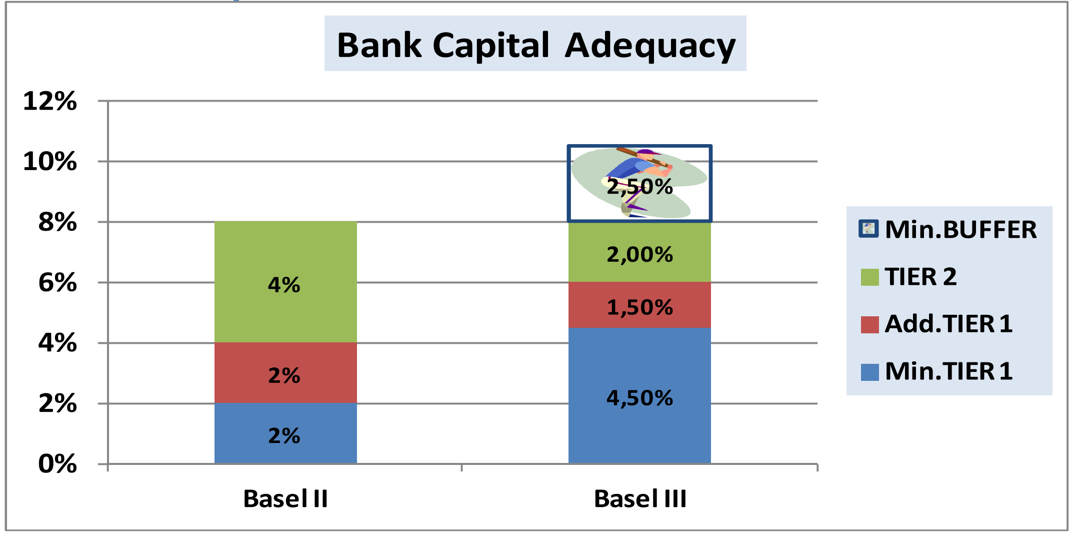
Focus on Germany

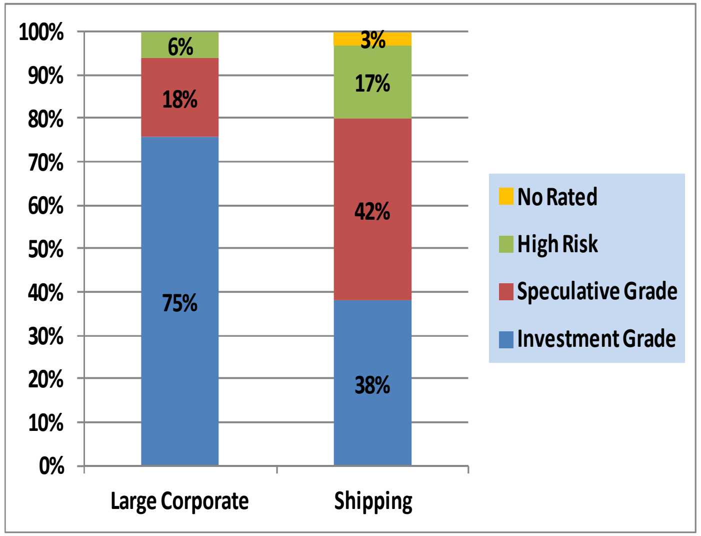


- During the 10 years starting in 1999, US$55 billion in capital, of which US$32 billion in loans and US$23 billion in equity, was raised through the KG market.
- The KG market collapsed in 2009 and has not recovered since.
- In 2009 and 2010 the capital raised was of only around US$1.7 billion, far below the annual average for the last twelve years, which was of US$4.5 billion.
- The average leverage in KG projects has gradually fallen from around 60% to 40% currently.

Source: VSL on data KPMG

Bank Capital Adequacy





- **The new Basel regulatory regime is strongly penalising for shipping.**
- **The 2.5% minimum capital buffer requirement will increase the funding cost for shipping companies by between 150 and 450bps, with peaks reached in moments of crisis and high volatility.**
- **The situation is worsened by the non-recognition of the bank's first mortgage as a risk mitigant.**
- **Over the last few years, the average credit rating of shipping companies has worsened more than that of companies operating in other sectors.**

Source: VSL & DNB

IRR Performances

PANAMAX CONTAINER	
IRR 10Y	57,27%
IRR 3Y	-24,01%

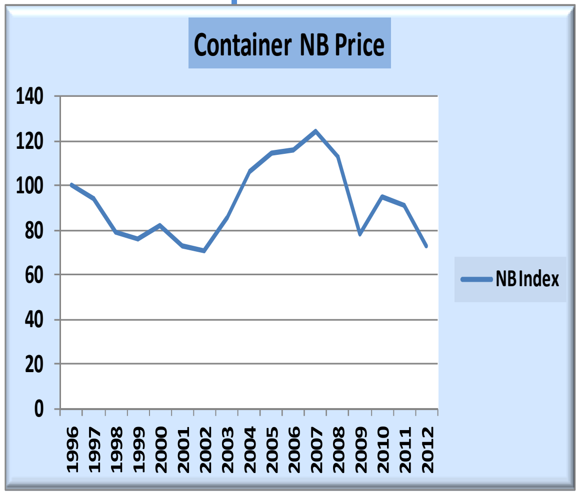
PANAMAX BULK NB	
IRR 10Y	66,84%
IRR 4Y	-8,58%

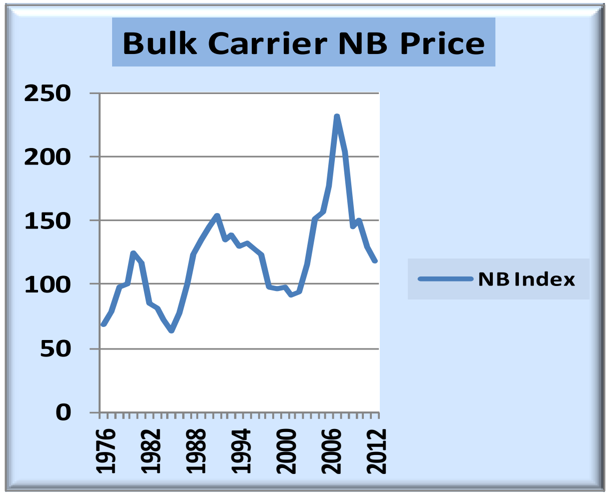
AFRAMAX NB	
IRR 10Y	38,71%
IRR 3Y	-28,99%

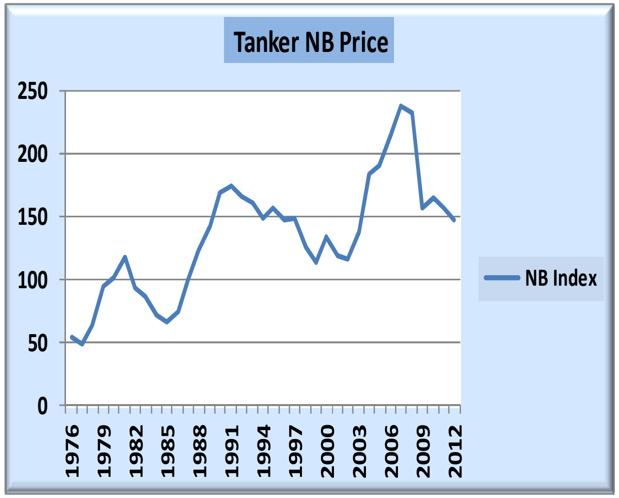
- **Shipping provides attractive returns for patient investors.**
- **Having the strength and desire to wait is rewarding since it allows you to overcome the downturns.**
- **This opens interesting prospects for Private Equity investors.**
- **It also encourages banks to evaluate debt to equity swaps in restructuring processes.**

Source: VSL

Price Trends – are we at the bottom ?







Change	1Y	2Y	5Y
	-4,2%	-23,2%	-41,1%

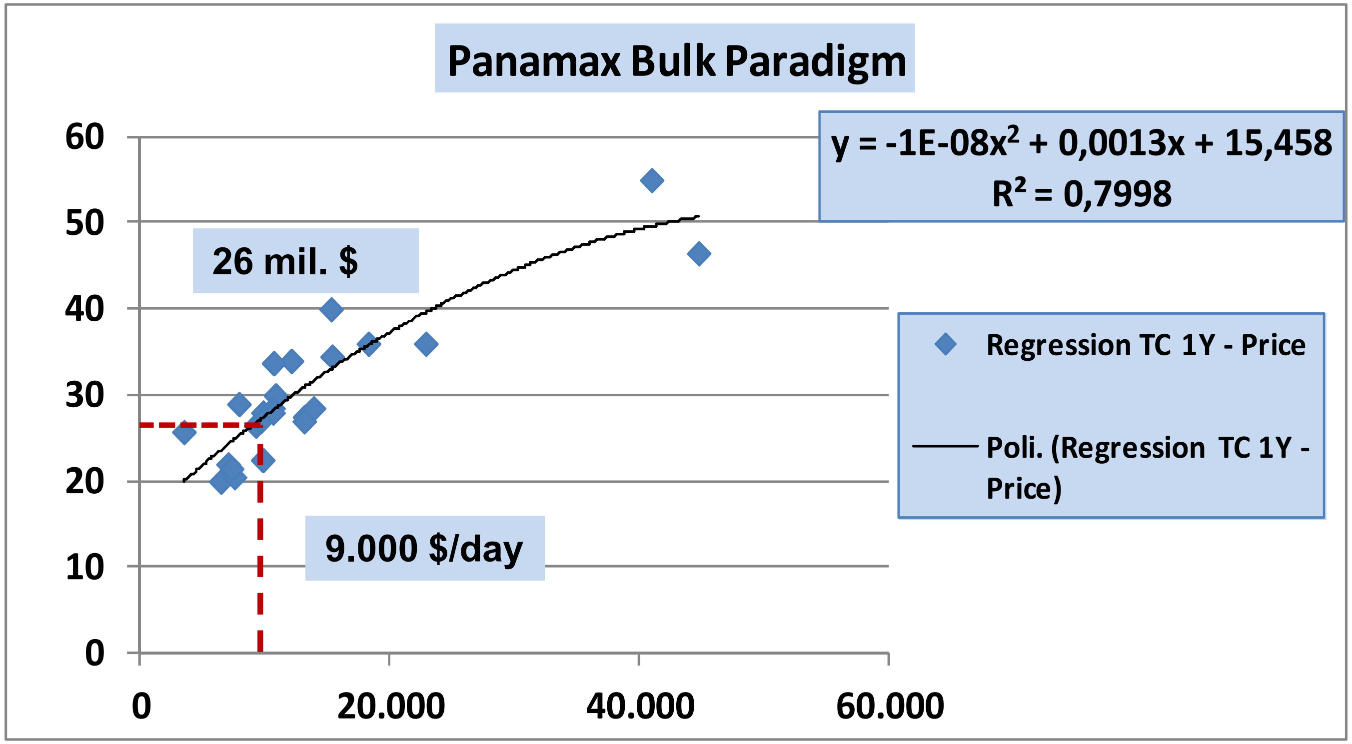
Change	1Y	2Y	5Y
	-13,3%	-20,7%	-48,7%

Change	1Y	2Y	5Y
	-5,5%	-10,9%	-38,2%

- **Prices have moved sharply downwards since the peak reached in the last boom cycle.**
- **Although many players claimed we had reached the bottom already two years ago, since then prices have declined by around 20% in the dry and container segments and 10% in the tanker segment.**
- **Nevertheless, the negative momentum has slowed recently, which could indicate we are no too distant from the trough.**

Source: VSL on data Calrksons

Price Trends – are we at the bottom ?

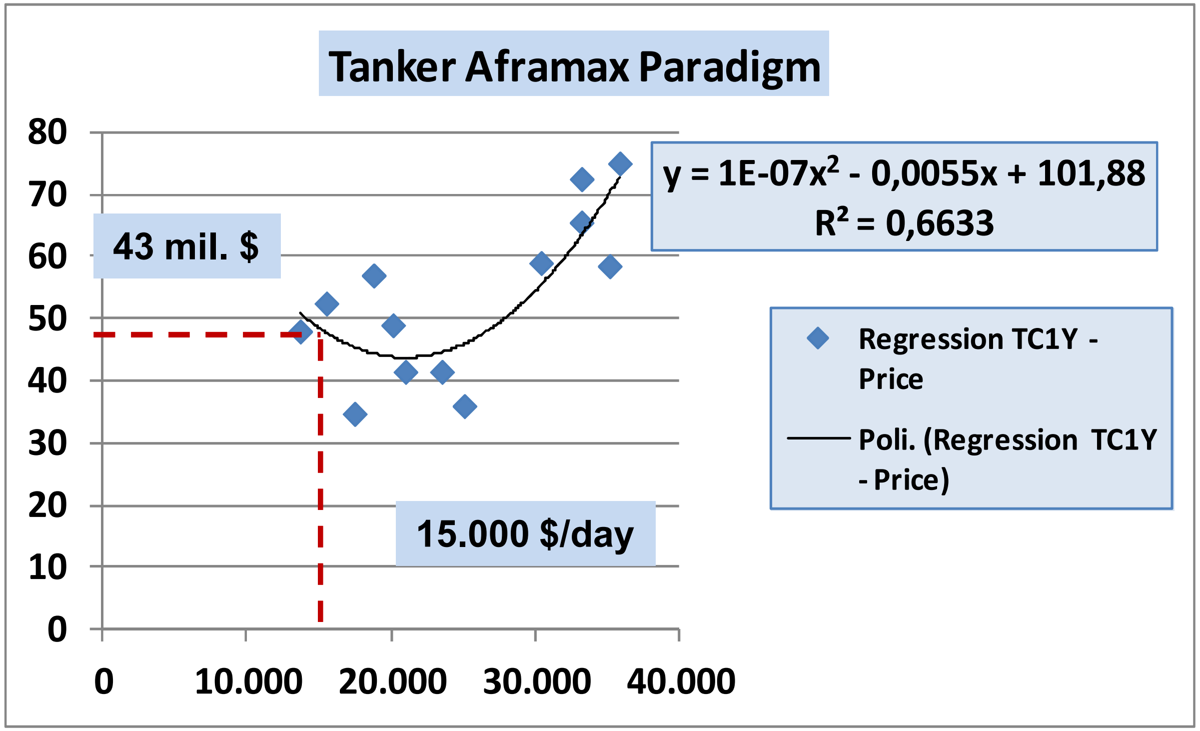


- **The paradigm of the regression between vessel values and charter rates seem to indicate a rational alignment at current levels.**

- **Experience tells us therefore that we should be close to the market bottom.**

Source: VSL

Price Trends – are we at the bottom ?



- Our paradigm seems to function also for Aframax tankers.
- The current market levels seem to provide an attractive entry point.

Source: VSL

Public Market – Total Return

Tanker

Total Return (average)	
3 year	5 year
-32.0%	-32.3%

Bulk

Total Return (average)	
3 year	5 year
-29.2%	-34.1%

Container

Total Return (average)	
3 year	5 year
-0.8%	-6.8%

Source: VSL on data Bloomberg

Why Private rather than Public?

Public Market	
CURRENT MULTIPLE (Average)	
	EV/Ebitda
Bulk	20,9x
Tanker	16,2x
Container	12,6x

Private Equity	
MULTIPLE IMPLIED IN CURRENT PRICE	
	EV/Ebitda
Panamax Bulk	11,0x
Aframax Tanker	12,4x
Panamax Container	11,4x

- **The public market is not trading at a discount.**
- **The price of the assets seem to favor a direct private investment.**
- **The expectations of a not too distant upturn seem to encourage banks to engage in debt for equity Swaps instead of executing mortgages.**

Source: VSL on data Bloomberg

How has the Bank's Role Changed ?

- The Bank changes: we saw that new financing is currently scarce.

SinOceanic in debt deal

Norway's SinOceanic Shipping is close to resolving its finance issues by converting loans to equity.

HSH loss provisions jump

German lender HSH Nordbank's loan loss provisions jumped to EUR 656m ($857.83m) in 2012 as its shipping book suffered further.

Lloyds seeks loan sale

Lloyds Banking Group is looking to shed a further £400m ($610m) from its shipping catalogue, it is claimed.

- The Bank evaluates with interest the selective conversion of debt for equity.

Source: Trade Winds

How Private Equity is Investing


Hanssen sinks $17m into Ross fund pact

A veteran Fearnley man has both a personal investment and shipping expertise to offer the new venture, which is targeting distressed assets


Oaktree/Oceanbulk ready for $500m boxships order

Private-equity player Oaktree heads for another big investment in containership newbuildings

- Private Equity has woken up and is showing great interest for shipping.
- Private Equity understood that the best way to invest is through vehicles, in JV with shipowners, which are focused on specific assets. Such partnerships can tap into the know-how of the industrial partner and financial investor.
- They are also the most flexible way for Private Equity to invest in shipping, and often less risky than direct investment into shipowning companies.

Source: Trade Winds

Conclusion

It is impossible to forecast exactly when the bottom will occur, but we can be quite confident we are not too far from it:

"The first rule is not to lose, the second rule is not to forget the first rule"