Paul Slater

Wall Street bearish about shipping

Companies planning a share offering will be pinning their hopes on a dramatic and lasting market recovery

THE season of corporate reporting is upon us with final results for 2010 and the first quarter of 2011.

The misery continues in the wet and dry bulk markets as rates contribute little if anything to profits, and for first quarter in tankers even caused significant losses across the board in the public companies.

Some analysts at Citi and Wells Fargo are beginning to look more closely at companies and their debt structures and raising concerns that if the current rates prevail through 2011 raising any new equity will be very difficult and restructuring debt very expensive.

The debt issue is of particular concern to companies such as OSG, Genco and DryShips, which all need to reschedule their debt in the next 12 months to reduce their repayments and attempt to back-end a large portion of them. DryShips' shares will remain where they are until the effects of a hopeful float of its rig subsidiary become clearer. Will it get done and will it have any real benefit for DryShips?

The equity markets are very sceptical of shipping and we have seen some serious selling of shipping stocks in the last couple of weeks. Crude Carriers and Baltic Trading, floated respectively by Evangelos Marinakis and Peter Georgiopoulos, have seen their market values fall 40% from their issue prices at the beginning of 2010 and have been unable to do the promised follow-on issues.

This has left both companies heavily in debt with the bridge finance they took on to acquire the new ships. The original initial public offerings were done on the basis that they were 'no-debt companies' and shareholders may be concerned that it is not the case today. Without a secondary offering, which would be heavily dilutionary, they will face expensive debt restructuring which would completely stunt any growth.

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Georgiopoulos: Baltic Trading problems.

Riding on a share offer: DryShips subsidiary OceanRig's semi-submersible Eirik Raude.

Mr Marinakis has now turned to containerships and is rumoured to be looking at floating another company to take over the orders he has signed. Given the performance of Crude Carriers and his lack of apparent experience in container shipping, it will be difficult to sell shares in an increasingly sceptical New York market.

OSG's first quarter figures are due out on May 3 and its share price is near its all-time low. Euronav's results contain some serious warning signs as it trades its tankers with OSG's in the Tankers International pool, which is a spot market grouping. Average very large crude carrier rates for the first quarter were around $24,000 per day and with true operating costs at $10,000 per day this leaves very little to cover overheads and interest payments.

OSG has several ships chartered in from Double Hull Tankers, which was a sale-and-leaseback creation of OSG. These ships are costing OSG $37,000 per day and produce no profit sharing for DHT. If spot rates continue at this level and vessel utilisation is below 90% then OSG could lose $100m-plus in 2011 on top of nine consecutive losing quarters. Refinancing its debt will be very expensive, with fees and margins way up from the 2007 levels. Frontline has already stated that it is very bearish about the tanker markets through 2012 and has sold its OSG shares.

All the other tanker companies with ships trading in the spot markets will face similar problems. Nordic American, another 'no-debt' company, has all its suezmaxes on the spot market. Its shares are down 35% for the year and its revenues and cashflow are also sharply down, along with its minimal cash reserves.

Crude Carriers' Marinakis: falling value.

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TK has spent most of the past year restructuring its debt but its earnings continue to decline and further equity issues are not realistic, even though its share price is up nearly 70% from its low for the year. Maintaining its dividend will be a challenge.

Finally we have the penny stocks. Top Ships, Seanergy, Omega and Ocean Freight are all trading well below $1 per share and, with little hope of any improvement, barring some sort of reverse share split, they will be delisted within six months. Shareholder unhappiness may well produce legal actions and the original sponsors show no signs of further support for the companies.

At least 20 shipping IPOs are rumoured to be on the shelf at the moment but without any sharp and lasting recovery in the markets few, if any, will emerge this year. ■