

# Past is prologue

## We told you so...

One year ago Paul Slater warned in the pages of *Fairplay* that “a return to realism is essential before this gets so ugly that everybody runs and shipping is once again the dirty dark horse of the industrial world.”

No one listened.



Ship finance veteran Paul Slater says the crisis was built over all-too-familiar foundations, reports *our Finance Correspondent*

FIRST International Corp chairman Paul Slater has warned that “continuing to trade in this environment could become hazardous for executives at some listed shipping companies in the weeks ahead,” adding that “there are bound to be some very robust discussions when the auditors arrive for their annual reviews.”

Valuing public (or indeed private) companies on the basis of net asset values has never made much sense, he told *Fairplay*, particularly at a time when freight markets and second hand values are collapsing “after a period of extraordinary highs.”

Plunging ship values and disappearing revenue streams will be looked at closely by auditors, and many shipping company accounts may need to be corrected or qualified with repercussions on security and loan standing.

Slater has never been one to mince his words. As an accountant who served his time at P&O Bulk Shipping when markets were down, and then set up Oceanic Finance to take tonnage off the books of beleaguered banks three decades ago, (and again at First International in the 1980s), he has seen most of the basic elements of this crisis more



than once already. "The collapse has certainly been faster this time," he admitted, "but the industry fundamentals haven't changed that much. Most public shipping companies have been overvalued by investors in recent years and, given today's markets, management will be faced with some very difficult decisions when signing off year-end accounts."

A few days ago, US Shipping was forced to take an impairment charge on its balance sheet relating to the book values of its articulated tug-barge fleet.

On the surface, this may appear one step removed from the deep sea dry bulk crisis, but with plunging ship values across the board, it could be the first in a flood of similar requirements as auditors examine listed companies' balance sheets in the weeks ahead.

"Billions have been wiped off the values of listed companies recently," Slater said. "This will force auditors to examine the effects of new ships delivering in the months ahead and their likely revenue generating capability. More impairment charges are inevitable."

This will have serious repercussions for ship finance institutions, whose loan-to-value ratios will be affected.

Commitments to finance newbuildings will inevitably be reassessed, he predicted. "Many financing facilities are already technically in breach or default, and the banks' own internal risk review procedures will only aggravate the situation."

Accurate information on cancelled or deferred orders is not readily available, he pointed out, and therefore assessing the future of all markets will be highly subjective. Given the present chaotic state of the credit markets, banks will avoid any doubtful risks and are

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highly unlikely to believe in any short-term market recovery.

Those banks remaining committed to shipping will require more security or will be forced to call default and then reserve against the deals, or try to sell them. "Either way, this will further impact the value of listed companies, whose sharehold-

ers have invested on the basis of shipping's recent super-profits continuing into the future.

"Instead, in a large number of cases, their equity will get wiped out and management actions will come under close scrutiny from both regulators and disgruntled investors." ■



Photo: Diemar Hasenpach