

## FINANCE

# Massive deal for finance player

HSH Nordbank is catching the market's attention with a billion-dollar deal.

Liz Shuker London

When the world's largest ship lender carries out the biggest ever marine loan securitisation, the industry has to sit up and listen.

HSH Nordbank's \$1.055bn loan securitisation is not the first in the industry — that honour goes to Holland's NIB Capital. But it is by far the largest and by a bank that has been better known to date for its straightforward mortgage lending.

HSH's deal, called Ocean Star 2004, appears likely to be the first of many by the bank.

HSH says it expects to carry out similar transactions on an annual basis, with volumes between EUR 500m (\$665m) and EUR 1.5bn.

The practice of securitisation — grouping assets and selling them on to investors — is common in other industries, notably the house-mortgage sector, but is little known in shipping.

Both HSH and NIB Capital chose to carry out synthetic securitisations, meaning only the risk associated with the asset is transferred to the new investors, in a

form of credit protection. For banks, however, this means there is no longer a need to put aside capital to cover the risk, in turn freeing up balance-sheet capacity to write new loans.

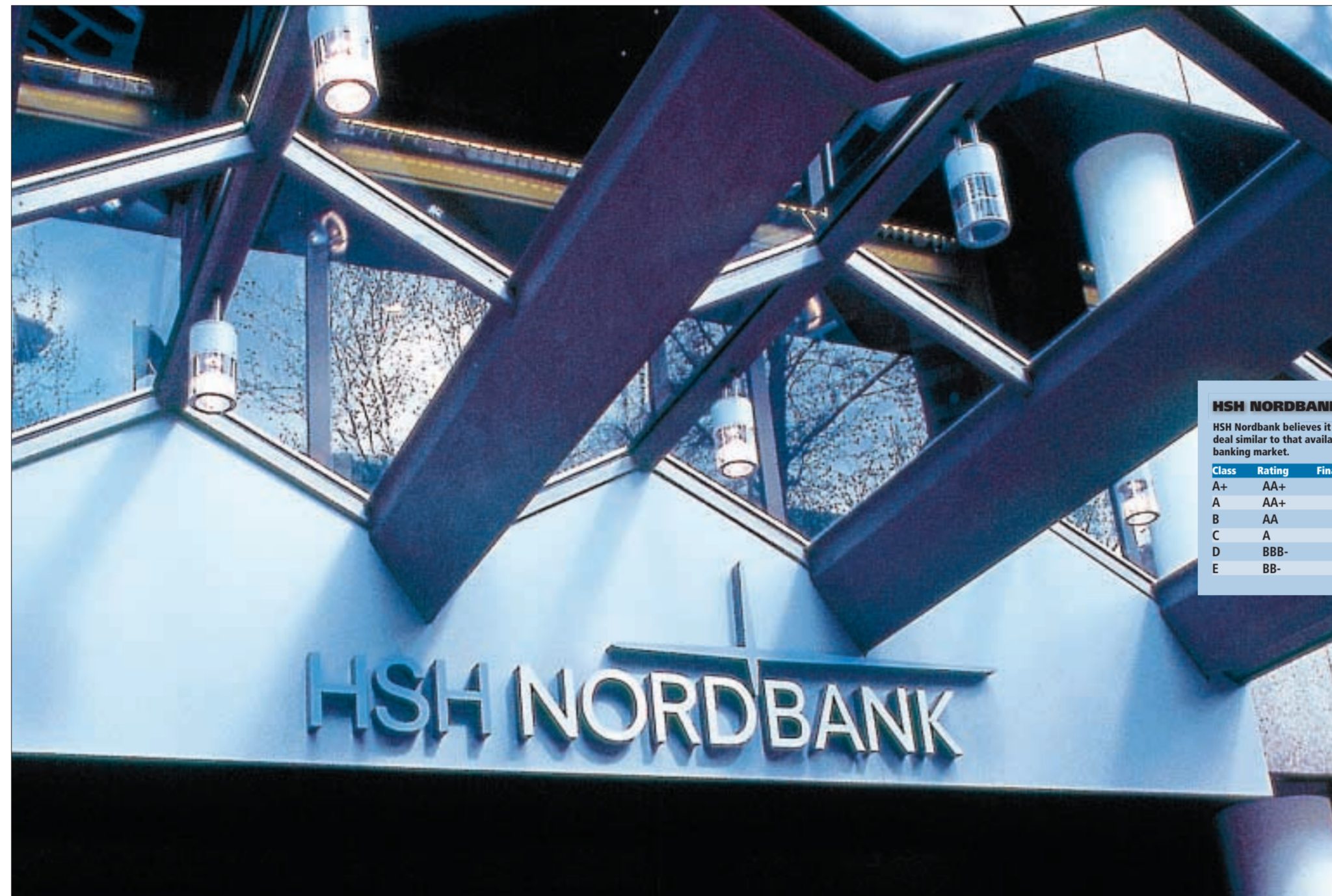
Ratings agency Standard & Poor's remarked earlier this summer that the "ever-decreasing" number of commercial banks dedicated to ship finance would likely force lenders to come up with new ways of generating further capacity in future.

"We're securitising these loans not to exit shipping but to attract more new business. This promotes our shipping activities," said Jun Huan, HSH's London-based head of special asset securitisation and conduits.

Ocean Star 2004 will securitise a sizeable portion of HSH's shipping book. As of 31 December 2003, HSH had some EUR 21bn (\$27bn) of marine loans. Some 5% of these by value were put into Ocean Star.

Huan says in total 80 loans were placed into Ocean Star, covering 103 ships.

Shipping experts freely admit that ratings agencies are key to se-



**BIGGEST SHIP LENDER: HSH Nordbank headquarters in Hamburg, Germany**

HSH NORDBANK PRICING			
HSH Nordbank believes it achieved pricing for the deal similar to that available in the commercial banking market.			
Class	Rating	Final maturity	Pricing
A+	AA+	2018	
A	AA+	2018	+47 bps
B	AA	2018	+70 bps
C	A	2018	+125 bps
D	BBB-	2018	+230 bps
E	BB-	2018	+650 bps

curitisation deals, as pricing is based on the rating assigned to the assets. Unfortunately for shipping, ratings agencies have traditionally viewed the industry as a highly volatile asset class, placing a barrier to securitisation deals in the past.

Despite this, some 95% of the Ocean Star loans achieved investment-grade rating.

Huan says the bank also went to

great lengths to educate investors about the industry. A seven-week roadshow was undertaken in Europe and North America. The bank also issued a research paper on the deal and the industry.

Ultimately, some 30% of the deal was snapped up in the US, a smaller portion in Asia, and the large majority in Europe. Huan believes that in future, US investors will be the biggest market

for such deals, although at the moment they remain harder to convince. Many US institutions are prevented from participating in synthetic securitisations and pricing is also generally lower in North America than Europe.

Regardless, HSH is likely to be happy with the prices secured for Ocean Star. Ranging from 47 to 650 basis points over Libor, the prices are arguably comparable

with that offered in the commercial banking market.

The bank was surely helped by excellent conditions in nearly all sectors of the shipping market.

The apparent success of the deal begs the question whether securitisation might be a better way in future for shipping banks to pass on loan risk than, say, loan syndication.

Speaking recently at the

Lloyd's Shipping Economist conference, Huan said he did not see securitisation as a replacement for loan syndication.

However he stressed it did offer an important source of new capital in a tight market. "Syndication is still the best way to reduce credit exposure. But that [syndication] is a limited market. Securitisation transfers risk to new investors," he said.

The highest exposure to any

## ISE ups public offering expectations

Bob Rust Oslo

Lively investor demand for dry-bulk equity has led stockmarket debutante International Shipping Enterprises (ISE) to up the ante on its Wall Street initial public offering (IPO) say bankers.

New York-based underwriter Sunrise Securities is now scouting investors for nearly \$200m in a blank-check filing.

In revised documents filed this week with US financial regulators, ISE says it wants to raise \$171m through the sale of 28.5 million shares. Taking all over-allocations into account, the amount could rise to \$196.65m. As in the initial filing, some 7% of the take is budgeted for fees and commissions.

Outside financiers say the swollen numbers in the Frangos family equity play are unlikely to

be driven by any change in the unannounced acquisition plan. "Most likely they have simply assessed that the market is there," said a banker.

The previously announced goal was \$102m.

The "blind pool" bulker play is still giving away nothing about what it plans to do with the public cash, other than "to acquire one or more vessels or an operating business in the shipping industry".

However, filings with the US Securities and Exchange Commission (SEC) suggest that the company is more likely to swoop in on a single-target fleet than to take its equity cash on a serial sale-and-purchase campaign.

"While we may seek to effect business combinations with more than one target business, our initial business combination must



**ISE CHAIRPERSON: Angeliki Frangou**  
Photo: Gillian Whittaker

maritime lawyer Vasiliki Papaefthymiou of Frangos-related Maritime Enterprises Management and Franser Shipping plus Dragan Topalovich of New York-based Franser Brokerage Ltd.

Other directors include New York maritime lawyer John Stratakis and two dry-bulk brokers, Braemar Seascope's Julian David Brynteson and Doric Shipbrokers co-founder Spyridon Magoulas.

## Owners given warning to protect against interest-rate increases

Liz Shuker London

Former Clarkson researcher Fred Doll sounded a new bell last week when he warned that owners might want to start taking measures to protect against rising interest rates.

Although US rates remain at historically low levels, Doll warned that there are now signs the Federal Reserve is pursuing a more "neutral" policy, a strategy that is expected to push Libor rates up to between 3% and 4%.

With so many vessels financed on floating rates pegged to Libor, owners have substantial exposure to rate increases, suggested the consultant.

"It may be a good thing for owners to think about getting an umbrella before it rains," Doll told the Lloyd's Shipping Economist conference in London.

## Younger ships, longer charters

Liz Shuker London

In putting together a portfolio to be securitised, HSH Nordbank not surprisingly went for younger vessels, with the majority on long-term time charters.

Of the 103 ships involved, around 70% were on time charters of over three years and over 80% were built since 1998.

Just under 50% of the ships were container vessels, followed by tankers at 21% and bulkers at 13%. A little over half the ships are managed in Germany.

The highest exposure to any

one loan was \$20m, or 1.9% of the total amount securitised.

The deal is covered by a "replenishment period" of 4.5 years. This means if any new loans in the deal are paid off by owners in the period, the bank will have the ability to replace them with new loans, providing they meet certain criteria and are similarly rated.

Huan says the bank will make its "best efforts" to replenish and maintain the portfolio at \$1.055bn.

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He would not comment, however, upon speculation surrounding the departure of his predecessor, Michael Encke, except to say there will not be any radical change in policy on his watch.

"The emphasis is still on continuity," he said.

HSH was formed in June 2001

following the merger of Hamburgische Landesbank and LB Kiel. That merger went very well, says Kuznik, although he concedes there were many technical issues to sort out.

HSH estimates its shipping portfolio amounts to around EUR 21bn, with 2,700 ship mortgages, or more than 10% of the total portfolio of HSH Nordbank.

Much of that business comes from new overseas markets like Italy, where the German bank has opened an office with Italian partners in Rome called Norship Italia.

Much of the lead in helping the bank win business in Italy is being taken by shipbroker Aldo Frulio, a partner in Norship.

"The Italian market is very interesting for us, not only volume-wise but also from the quality of the shipowning community," Kuznik said.

To date, its focus in Southern Europe has been on the Greek and Turkish shipping markets. That has had mixed results, considering that the bank is involved in a legal action with the Karahasan group's five ships, claiming the company stopped payment in 2001.

HSH announced operating profit before risk provisions for the first nine months of this year of EUR 877m.

## HSH shipping boss plays down high vessel prices

Ian Lewis Rome

HSH Nordbank head of shipping Harald Kuznik has played down the negative impact of high ship prices on the bank's lending business.

Kuznik, who took over as president of the bank's shipping arm in July, says it did about EUR 9bn (\$11.9m) in new shipping business last year.

This year it will probably do about EUR 7.5bn, showing that the bank is "a formidable fighting machine", says Kuznik.

Kuznik adds that the volume of business demonstrates that the high asset prices had not stopped deals from being

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Asian markets were very quiet with only Japan's Kuribayashi Steamships and Thai-listed Regional Container Lines (RCL) registering double-digit climbs. Kuribayashi climbed 12.4% and RCL was up 10.6%.

Indian shipping stocks bore the brunt of negative investor sentiment in India and all of the country's major shipping companies featured in the list of top losers. Shreyas was down 14.2%, Chowgule down 8.3% and Es-sar Shipping down 7.3%.

Varun Shipping brought in the rear with a 6.7% fall.

"Locking in a fixed-interest rate or fixed vessel coverage requires taking a market view and a market position," he said. "But doing nothing, ie with a floating rate and 100% spot coverage, is every bit as extreme a position."

Shipowners could face a double-whammy if rates climb too much. Higher rates worldwide could also act as a brake on growth in China and consumption from the US, warned Doll.

## SCORECARD

## Grindrod rise of 229% slips under radar

Jonathan Boonzaier Singapore

Scorecard usually looks at the week's top gainers and losers. But sometimes there are companies that record massive gains over an extended period of time that manage to slip under the radar.

Take for example South Africa's Grindrod Group. The company appears quite unremarkable until the full picture emerges. Through steady but small gains throughout the year, Grindrod's shares on the Johannesburg Stock Exchange (JSE) have climbed a whopping 229% since the beginning of the year.

When TradeWinds went to press this week, they were trading at ZAR 39.5 (\$6.87), a far cry from the ZAR 12.00 they were trading at on 2 January.

Grindrod has benefited from the booming shipping markets of the past year, especially in the tanker and bulker fields.

The company's shares are so far the best performer on the JSE for the year, and investors are lapping it up. This week the company recorded a total trading volume of 1.6 million shares. Analysts continue to rate Grindrod as a strong buy, and its performance is expected only to get better. The company thinks its basic headline earnings per share for the year ending on 31 December, 2004 will increase between 130% and 140% on the ZAR 2.50 per share reported last year.

In general it was a good week for US-listed shipping stocks. Excel Maritime Carriers was the top gainer, rising 35.3%. D/S Torn came in a distant second with its share price climbing 16.6%, while B&H Ocean Carriers followed closely behind, up 14.6%.

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