Thursday November 2, 2017

Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

HSH did a U-turn on Rickmers rescue, document reveals

BANKERS FROM HSH Nordbank went as far as to sign a term sheet to restructure Rickmers Holding debt in April this year, only to pull the plug the following month after the deal did not get the thumbs-up at board level, it has now emerged.

But the decision — effectively forcing Europe's biggest shipping bankruptcy in many years — only came at the end of a long struggle throughout 2016 and the first part of 2017 to save the German boxship giant, according to a document prepared for creditors.

Founder Bertram Rickmers was at one stage prepared to inject $30m of his own money into the tottering concern, and even hand over 75.1% of his 100% to banks and other creditors, in exchange for debt forgiveness, the report confirms.

Much of what happened in the countdown to collapse, including the liquidation of Singapore arm Rickmers Maritime Trust and the sale of multipurpose unit Rickmers-Linie, has already been highly publicised.

But less well-known developments include Maersk's agreement to a three-boxship sale and leaseback deal between Rickmers and China's Bank of Communications, and the sale of Rickmers' stake in its joint venture with US investor Apollo Global Manager for negative consideration.

Meanwhile, Hamburg shipping sources are increasingly asking questions about Bremen construction group Zech's offer to take over the wreckage of once mighty Rickmers, suggesting that there are few obvious synergies on offer.

Nor is the outlook for the struggling MPP sector particularly propitious right now, although there may be potential asset play upside, they added.

In too deep

A restructuring plan presented to creditors at a meeting in Hamburg

last month detailed the circumstances that led to Rickmers going under, unsurprisingly locating the genesis of its problems in the shipping downturn that followed the global financial crisis.

The company was able to cancel some newbuilding orders, but in too deep to prevent delivery of some vessels at prices that, in retrospect, looked too high. As traditional sources of capital — such as bank mortgages and KG funds — dried up, from about 2010 onwards, Rickmers embarked on a quest to find new means of funding.

In 2013, it issued its now infamous €275m junk bond issue, with a coupon pushing an eye-watering 9%.

Around half the proceeds were used to pay down bank debt, while the other half was pumped into the Apollo joint venture, which purchased 12 ships in September 2013, and another joint venture with an unnamed private investor for a further three ships in March 2015.

Also in 2015, Rickmers became a joint stock company, albeit one with a sole shareholder, namely Mr Rickmers. As senior managers hinted at the time, the move was seen as prelude to a listing by the first quarter of 2016 at the latest.

But the weakness of capital markets and the continuing shipping crisis meant that that plan never materialised. Indeed, by March 2016, it was clear that Rickmers would need to major surgery to stay alive.

It put forward a package that entailed the sale of ships and stakes in other companies, refinancing bank borrowing, and internal cost-cutting measures.

And crucially for the later story, chief creditor HSH Nordbank granted Rickmers a standstill agreement, built around a moratorium on interest and amortisation payments until May 2017.

Rapid-fire disposals

The disposals began to follow in rapid fire, starting with the sale of a stake in KG house Atlantic, to remove the risk of claims from investors hit by the KG crisis.

In August 2016, Rickmers concluded a sale and leaseback deal on three ships with BoComm, premised on Danish boxship major offering a helping hand, in the form of “less for longer” charterparties.

Again, the money went on bank debt, and full settlements were reached with a number of banks.

In October 2016, Rickmers Maritime Trust in Singapore went into liquidation, but only after Mr Rickmers had taken the company private. Many bondholders were left with a 12% payout.

In January 2017, Rickmers pulled out of its joint venture with Apollo, handing over its stake and a $2.5m cash top-up. This averted the risk of guarantees being called in.

The following month, Rickmers-Linie was given to Zeaborn, the project shipping arm of construction outfit Zech Group, for negative consideration of $6.5m. Zech has since emerged as the almost certain buyer for what is left of Rickmers Holding interests.

By now, the May 2017 deadline on the moratorium agreed with HSH was fast approaching, but with no indications of sustained improvements in the market anywhere in sight.

Massive debt writeoff

Rickmers thus proposed a second restructuring plan, centred on a transformation of its business model to concentrate on third party shipmanagement.

In line with this, the owned fleet would be reduced from 35 to just 20, mainly in the larger containership and multipurpose segments. All non-core activities were also to go.

But the nub of the matter was the need for a massive debt writeoff, thanks to liabilities that now comfortably topped $1bn. Mr Rickmers was prepared to hand over just over 75% of the shares to keep the company alive.

HSH, itself publicly owned after taking a bailout necessitated by its overexposure to shipping, has long taken a lenient stance towards struggling companies.

On April 19, its representatives even signed a term sheet, agreeing the key points of the survival plan. But term sheets are not legally binding agreements, and in this case, caveats included sign-off from the top brass.

It was also necessary to square off the bondholders, a task complicated by the intervention of a French fund manager that assembled a blocking minority in the hope of forcing a better payout.

Thus the scene was prepared for the last act in the tragedy. On May 30, Rickmers was informed that the HSH board had nixed the term sheet.

It was all over. Rickmers filed for insolvency the following day.

MARKETS

LNG shipping's bull cycle formally begins as earnings hit three-year high

SPOT earnings of liquefied natural gas carriers have risen to their highest in around three years amid winter demand from Asia and rising exports from Australia and the US, underscoring the sector's resumption of the up cycle.

Charter rates for 160,000 cu m vessels were at $58,000 per day at the end of last week, up by more than a third from the month-ago level, Clarksons data showed. Stifel said rates in some markets were already above $60,000 per day.

Having endured weak market conditions in 2015-2016, owners with significant exposure to spot markets are expected to start enjoying profits if earnings can stay above the $60,000 per day mark.

LNG demand from northeast Asian importers has picked up earlier than usual, prying open the arbitrage window and suggesting that further rate gains in the coming weeks are likely, analysts said.

With East Asia spot LNG prices at $8.70 per million British Thermal Units versus $5.80 in Europe's National Balancing Point, theoretically rates would rise to $120,000 per day before the arbitrage window is closed, Clarksons Platou said in a note. "The few remaining open vessels globally is likely to further fuel sharp increases in headline rates in the coming weeks."

Another 45 VLCCs are needed to meet China's crude demand

THE crude oil shipping industry will require about 45 more very large crude carriers to meet growing demand for China's oil imports, according to BIMCO.

It says tanker growth for the year is forecast to mainly come from the greater Asia region with China leading the pack.

The world's second-largest economy has met expectations after it boosted imports of seaborne crude oil by 13% year on year for the first nine months of 2017.

With China importing crude from more distant regions through the year, compared with 2016, tonne-miles generated have increased 18%.

This translates to 33m tonnes of extra crude oil demand, which equates to around 900,000 barrels per day on average over the first three quarters of the year.

Thus, this increased demand from China will need at least 45 additional VLCCs to support demand growth so far in the year, according to BIMCO chief shipping analyst Peter Sand.

ANALYSIS

Room for a lessor role

FEWER players in container shipping is not ideal if that is what comprises your core customer base. And if the powerful few that are left also represent the competition, the issue becomes even more problematic.

This is the situation confronted by container lessors, who both serve and compete with the liner operators at the same time. Yet for two of the biggest players in the box borrowing business, Seaco and Seacube, the consensus is that no matter what the future holds for the carriers, leasing will continue to play a pivotal role.

While it might appear that carrier consolidation is bad for business, the lessor pair's respective chief executives are adamant that there are also positives that can be drawn from the unprecedented wave of merger and acquisition demonstrated by the liner operators.

NEWS IN BRIEF

International banks remain positive on financing Korea's maritime sector

INTERNATIONAL banks remain positive on financing South Korea's maritime sector, according to panellists at the 11th Annual Korea Ship Finance Forum.

Panellists said that appetite for ship financing in South Korea among international financial institutions had been positive over the last 12 months despite hiccups caused by the collapse of Hanjin Shipping. The remarks are welcome dose of optimism for South Korean shipping and shipbuilding firms, especially after Chinese leasing houses were asked in October by China's Ministry of Industry and Information Technology not to finance shipowners' newbuilding projects at foreign shipyards.

Ardmore has resumed vessel acquisitions despite its third-quarter loss

ARDMORE Shipping, the medium range product tanker specialist, has posted third-quarter results that beat market forecast while unveiling its first vessel acquisition this year.

In its quarterly report, the New York-listed company recorded a net loss of $4.6m, or $0.14 per share during July-September against the year-ago loss of $4.8m. The street forecast on Nasdaq.com was a net loss of $0.25 per share.

While Ardmore's revenues increased to $48.7m from $38m in the third quarter of 2016, the bottom line was plagued by continued weak spot earnings amid oversupply.

However, Ardmore has anticipated a recovery in product tanker markets following the US hurricane season in September, with winter demand upturn and improving supply demand fundamentals.

The short-term market dynamic "is shifting to the positive with the impact of Hurricane Harvey abating and global oil inventories heading toward normal levels after an extended period of destocking," chief executive Anthony Gurnee said.

"We believe the product tanker market is poised for a seasonal rebound this winter."

More shipping companies are tapping the bond market as available funds decline

SCARCITY of funds from the banking sector and low interest rates are prompting a growing number of shipping companies to tap the debt capital markets, analysts at Drewry say.

Over $4bn in new issues was recorded by Drewry. This is supported by data from the Oslo stock exchange that suggests new bonds worth NKr45bn ($5.5bn) coming from the shipping and offshore sectors since the start of the year after low volumes in 2016.

Container shipping contributed most of the new notes, with two bonds each from CMA CGM and Hapag-Lloyd and one from Global Ship Lease, with the aggregate amount raised totalling the equivalent of $2.8bn since the start of the year.

Reflecting strong investor appetite amid the uptick in the container shipping market, the new bonds were oversubscribed. In October alone, CMA CGM and GSL raised €500m ($582m) and $360m respectively.

Seaspan turns a solid quarter but the focus is on its new chief executive

BOXSHIPS giant Seaspan Corporation turned its focus on housekeeping items during the third quarter of 2017, tying up loose ends on its operating performance and tidying up its balance sheet.

The company's fleet continued to operate on full employment and its two previously uncommitted newbuilding vessels have now been fixed on three-year charters with CMA CGM.

But the earnings results were overshadowed by the simultaneous announcement that Bing Chen, until recently a banker running BNP Paribas in China, was appointed as the company's new chief executive, effective January 2018.

Mr Chen's career spans 25 years, with executive roles held in China, Europe and the US.

Prior to his position at BNP Paribas, where he headed up growth strategy in China, he was general manager for Trafigura's business operations in China, where he was responsible for domestic and international commodities trading in the country from 2011 to 2014.

Gerry Wang, the current chief executive who had previously announced his retirement, will officially step down on November 3, with Peter Curtis, executive vice-president and chief operating officer, taking over as an interim chief executive.

Canada's government has unveiled its bill to prohibit vessel abandonment

CANADA's transport ministry has unveiled a new regulation that would make the abandonment of vessels or wrecks illegal in its oceans and waterways.

Known as Bill C-64, or the Wrecked, Abandoned or Hazardous Vessels Act, the proposed legislation will give the federal government more power to take action against owners who are involved in such activity, reduce the financial burden on taxpayers who bear the costs of such vessel removals and protect the environment as well as shoreline communities, said Canada's minister of transport Marc Garneau in a statement.

The proposed bill essentially means Canada intends to give the International Maritime Organization's Nairobi International Convention on the Removal of Wrecks 2007 the force of law and hold owners fully accountable for expenses incurred when removing wrecked vessels through the imposition of substantial fines and penalties.

Diana Containerships is plotting another reverse split

DIANA Containerships is going to try another reverse stock split — at a ratio of one for seven — on or around November 2.

Its share price fell by about 29% in trading on the news, closing on Nasdaq at $0.32 per share on Tuesday.

The Greece-based owner of 11 containerships has conducted several reverse splits in the last few months as its shares struggled.

At a special meeting held last week in Limassol, Cyprus, shareholders approved authorisation for the board to conduct reverse stock splits at its discretion up to the company's 2020 annual shareholders' meeting as long as the aggregate ratio does not exceed one-for-10,000.

Each reverse split may be at a ratio of up to one-for-100 at maximum.

Safe Bulkers has returned to profit in the third quarter as freight rates improve

SAFE Bulkers, the Polys Hajioannou-led dry bulk carrier owner, has posted its first quarterly profit for three years thanks to an improved freight market and a recent $8.2m debt writeoff.

The US-listed owner of 38 bulkers on the water, plus one kamsarmax under construction, posted third-quarter net income of $6.7m, a sharp rebound from the net loss of $24.5m chalked up in the equivalent quarter last year.

The positive bottom line was the first since the third quarter of 2014 as Safe Bulkers (news, data) battled the dire dry bulk market.

Loukas Barmparis, the company's president, said that the fleet's average earnings were "very close" to the all-in breakeven level.

"We have been trying to achieve an improvement in our capital structure towards reducing cash outflows and financing costs," he said.

Crew negligence could be a likely cause of sea robbery incidents in Singapore Strait

THE purported rise in sea robberies in the Singapore Strait so far this year may be attributed to crew negligence, according to research fellow at the S Rajaratnam School of International Studies' Maritime Security Programme Collin Koh.

Dr Koh was responding to a report from Singapore-based piracy reporting agency ReCAAP that thenumber of sea robbery incidents in the Singapore Strait over the first 10 months of 2017 had risen to seven as of Monday compared with two in the same period in 2016.

He noted that the numbers needed to be put in perspective given that a majority of the cases so far seem to more to do with petty theft of vessel parts and miscellaneous items with the crews unharmed.

The perpetrators were likely trying to eke out a living and were not involved with large scale, well co-ordinated syndicates that systematically targeted vessels over the period.

For classified notices please view the next page.

Book your table today

Lloyd's List
Middle East & Indian Subcontinent Awards | 2017
Maritime intelligence | informa

Will you be in the room when we announce the best of the region's maritime achievements?

When: 28th November
Time: 6.30pm
Where: Palazzo Versace Hotel, Dubai

Join the most influential people in maritime including our finalists; judges; sponsors in Dubai for this glittering, annual event. Whether you are a finalist, entertaining clients or rewarding your hardworking staff enjoy an exclusive evening of entertainment, networking and catching up with industry peers.

Join us to celebrate

Find out more about our networking and hospitality packages, simply contact us today:

Table bookings:
Robbi Tamne:
E: robbi.tamne@informa.com
T: +44 (0)20 7017 4954

Join us to celebrate **lloydslist.com/samea_awards_book_your_table**

Sponsors

ACT Container Terminal – Your Preferred Gateway To Iraq
Abu Dhabi Ship Building
Bahri البحري
موانئ دبي العالمية DP World
Drydocks World
سلطة مدينة دبي الملاحية – Dubai Maritime City Authority
Gulftainer
HUTCHISONPORTS
LUKOIL OIL COMPANY
TOC MIDDLE EAST
TOPAZ ENERGY AND MARINE