

E-Interview with Tobias König about Ship Financing



Titel of Interviews: Ship Financing
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Investment Opportunities and Strategies for New Market Segments

In the context of the Conference on Ship Financing at SMM 2008, Hamburg

While international financial crisis still increases in size and reach some major national economies face severe recession risks. The international ship financing community – being the pacemaker of international trade and growth – now has to deal with those issues as well.

Hence, the ship finance industry has to give some answers to how maritime markets and players are affected by the credit crisis. Which challenges do shipowners face in the near or even distant future, is bank money for new ships getting to expensive to obtain? Do we have to invent new and innovative financing schemes? Will there even be new opportunities for ship financing arising from the crisis?

The DMKN-roundtable wants to shed some light on these issues related to ship financing. We invite experts from companies, banks and institutions to present their views on current and future market perspectives.

Dear Mr. König,

Question 1:

Which of the players in the ship financing sector are affected most by the credit crisis? Why is this so, are there substantial differences by country / on the global level?

Answer:



The Crisis started in the west and has become a global crisis. Initially, most of the Scandinavian and Asian Banks have not been participating in the typical sub prime products. Until a certain point, those banks seemed to be less affected. But this is history and now all major banks are affected – world wide. The ship financing has been traditionally dominated by western banks, which are now suffering from an increased cost of liquidity and severe erosion of trust. Obviously, the larger lenders tend to have bigger problems. But on the other hand, the smaller ones are facing similar restrictions and often cannot cope with the deal size of a typical transaction.

Apart from the banks, there are leasing firms, Private Equity firms, German KG Houses and US publicly listed companies, which are all suffering because of the reduced availability and increased cost of debt financing. Over all, the lending policies are more restrictive, covenants are stronger. In some cases, banks are trying to get out of deals, which have been arranged before or simply refuse to provide additional debt facilities.

This crisis will show, which of the shipping banks are really committed to shipping and will hold on to their customers in difficult times. So far, the booming shipping markets helped a lot to soften the effects. But now with the downturn of the container trades, it will be time for many banks to revisit their engagements. The old rule is: “Cash is King”.

Question 2:

Is bank money for new ships getting expensive to obtain? Will the business model stay as attractive as in the last years, especially with the German investors playing a leading role in the sector?

Answer:

Yes, the credit crisis has pushed up the cost of borrowing money across all industries and shipping is not immune. It is simply a function of supply and demand. The lack of trust between banks is a major issue. There is almost no syndication of deals, even Club-deals are difficult to arrange. Of course, this presents a challenge to KG financing, but the same goes for all other financing models. It will be more difficult to arrange new deals. The return requirements will increase to reflect the additional costs. But once a KG Deal is structured and the equity has been syndicated, there should not be a problem, as the leverage is comparatively low. The standard KG Deal has approx. 40% equity and 60% debt. The KG Model has been reported "dead" a few times. But the truth of the fact is that it has re-invented itself a few times. The typical KG investor is an entrepreneur and has a long term strategy. For shipping, long term money is the perfect match as shipping is a long term investment, too. That said, there is no such thing as a permanent crisis and the credit markets will recover eventually.

Question 3:

Is there a need to invent completely new and innovative financing schemes? Will there even be new opportunities for ship financing arising from the crisis?

Answer:

There are certainly many sources of capital around the world that the shipping industry and ship financiers have yet to tap into. It is inevitable and desirable that new financing schemes emerge. Shipping is an industry that will continue to grow and locating additional sources of finance will help to facilitate that. There will undoubtedly be new opportunities for ship financing as a result of the credit crisis. Such as all equity funds or even vulture funds picking up stranded deals. John F. Kennedy once said "The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger, but recognize the opportunity."

Question 4:

Please name – from your personal expertise – the most significant challenges ship owners will have to face in the near future?

Answer:

There will be four major challenges: The scarce availability of qualified Officers and Crew, the lack of financing and the increasing costs of financing, the shortage of dry-dock and repair facilities and last not least the protection of the environment and the reduction of pollution of air and water. Apart from the financing problems, all other problems are “home-made” and have been neglected over the past decades. Now, owners have to tackle all problems at the same time, just when the markets seem to be in a downturn.

Mr. König, thank you very much for this interview!