

The State of Ship Finance

Q1 2024



THE QUARTER IN REVIEW

Welcome to 2024! Volatility is rife so far this year. Houthi attacks are frequent, the Panama Canal looks to be back in business and sanctions keep hitting the Tanker dark fleet.

How long-lived these effects are is yet to be seen. Will these trends reverse in 2024? 2025? By April? For this reason, we focus on a topic that will continue to develop over the coming years: the ever-widening range of financing product available to shipowners. More on that on page 2.

Elsewhere and as ever, we are pleased to share the most up-to-date financing terms across sectors as well as an ever-expanding cross-section of recent indications. Enjoy!

RECENT INDICATIONS

VESSELS	FMV	LTV	BORROWER	LENDER / SECURITY	MARGIN
Modern Handy BC Fleet	USD 125 Mio.	45%	E. Eur	Eur. Bank	3.25%
Modern Ultramax	USD 33 Mio.	78%	W. Eur	Ch. Lessor; Recourse	2.65%
Modern Capesize	USD 30 Mio.	62%	M. East	Eur. Bank; Recourse	2.60%
Modern Kamsarmax	USD 36 Mio.	50%	N. Am.	Eur. Bank; Revolving	2.20%
Vintage Dry & Tanker Fleet	USD 115 Mio.	30%	M. East	Eur. Bank; Revolving	2.40%
Newbuild Aframax	USD 80 Mio.	85%	N. Eur	Eur. Debt Fund	5.00%
Modern Aframax	USD 65 Mio.	70%	N. Eur	Eur. Debt Fund	5.25%
Mature LR2	USD 45 Mio.	55%	M. East	Eur. Bank; Recourse	2.40%
Mature LR1; 3Y TC	USD 23 Mio.	80%	M. East	Ch. Lessor	3.80%
Mature MR2	USD 21 Mio.	60%	M. East	Asian Bank; Recourse	4.95%
Newbuild Feeder Fleet	USD 140 Mio.	70%	C. Eur.	Eur. Bank; Recourse	2.65%
Mature PCTC	USD 40 Mio.	60%	C. Eur.	Eur. Bank	3.25%
2x Mature PSVs	USD 20 Mio.	60%	W. African	Eur. Debt Fund	7.00%

Rising rates have resulted in a profit spike for many banks. The reason? High net interest income. As base rates increased, banks have raised the interest rate of their assets (your loans) more than their cost of funding (your deposits).

Shipowners' response has been clear. As bank financing costs have increased and investment opportunities are limited, cash has been used to repay debt. As a result, not all banks have kept shipping portfolios at the same level. Many, needing to stop outflows, have been forced into offering new products.

In this article, we aim to answer three key questions:

What effect is this having on banks' ability to lend?

What are banks doing to react?

Finally, how can shipowners best navigate this changing landscape?

First, banks' outcomes from rising rates have varied widely. One year ago we discussed Silicon Valley Bank and Credit Suisse; these were the downside case, where certain banks experienced a sharp decrease in value of their assets (governmental bonds) and had uninsured depositors withdrawing their money fast.

However, many large banks have profited from increased spreads between rapidly increasing interest income across their portfolios and their slowly rising deposit funding costs. Importantly, for many of the banks shipping only comprises a portion of their overall lending portfolio. While shipping markets have boomed, other markets such as real estate have not been so lucky. Banks aiming to increase the quality of assets supporting their portfolios are moving funds from more stressed asset classes to those with stronger cashflow generation potential. Meaning less real estate and more shipping.

For shipowners, this has been an excellent development. These banks have decreased their pricing dramatically to maintain and grow portfolio size. These lower margins have three main causes. First, shipowners' increased credit quality, as well as strong underlying markets, mean lower risk to the lenders. Second, banks reduce pricing to attract new clients and reverse the trend of loan prepayments. Third, the decreased margins remain profitable for these banks because interest rates paid to depositors have not risen as quickly as the interest rates which apply to the loans these banks provide.

Amongst the banks, a significant driver of portfolio development is their vessel age policy.

Several banks focus on newbuild vessels, often for environmental reasons. This results in lending to vessels which are less able to repay a large portion of their value quickly even in strong markets.

The shipowners, when flushed with cash, will typically choose to first repay the debt secured by the oldest vessels, as this debt is normally the most expensive and it is prudent with regards to the vessels' cash break evens. The fact that debt is currently expensive makes this easy to justify.

How can a bank make sure that its portfolio grows or keeps its size in this competitive market, outside of lowering margins and cutting into profitability? One method is offering new products, more suitable for the current interest rate environment. Some, such as senior-secured revolvers (revolving capital facilities), are tried-and-tested. Others, such as non-recourse construction finance, revisit an earlier time!

Today's single-vessel revolvers function on a simple set of principles. First, they are available for ships with no outstanding debt. Second, they are additionally supported by a corporate guarantor. They are designed to help the shipowner raise cash quickly, while avoiding paying interest on a fully drawn (but unused) amount. Helpful to support vessel acquisitions or build up easy-to-draw liquidity for a new building program, while avoiding sitting with the full proceeds on accounts unutilized. The structure is in some ways similar to a 'normal' loan; the maximum amount available decreases over time just like a normal repayment profile. Consequently, a fully-drawn facility needs to be repaid in monthly or quarterly installments. For the revolving credit facilities, on drawn amounts, pricing is the typical SOFR + Margin of a senior loan while undrawn amounts are only charged a 'commitment fee' of around 1.0%.

Construction financing is slowly returning, with several lenders now in the market. The most attractive of these offer financing of up to 60% of pre-delivery yard installments, excluding newbuild supervision and other ancillary costs. The cost is an all-in interest rate of around 8.0%. Equity payments need to be completed ahead of the debt being paid out. This seems highly attractive for those newbuildings supported by banks unable to offer construction financing. For any shipowner investing in a newbuild expected to yield a 10% return, the appeal is undeniable.

So, how can shipowners make the most of this situation? Maintain connections with a wide range of banks to find out what products are available. Container box financing, Ampelmann crane financing, bridge financing... it all exists for the right shipowner from the right bank. Otherwise, take note of the projected downturn in SOFR rates. Markets show a decrease in SOFR from Spring 2024, falling to the low 3% region over 1 year. Right now, it is possible to lock in low margins while expecting the total interest rate to decrease quickly. Obtaining an interest rate swap can also decrease near-term interest costs, reducing the effective SOFR rate paid in Q2 2024 from around 5.25% to around 3.5%.

Historically low margins remain available for shipowners taking on debt. It is an owner's market; in the future, it may not be.

In summary, the money is out there – no matter the niche it needs to fill. The shipowner's main task is to find out who will provide it!

PROJECT FINANCING TERMS

The core of this report is an overview of projected financing terms across each of the major segments, showing the best terms available for vessels in the market today.

We have assumed that each vessel is financed on a non-recourse basis with a 1 year Time Charter to a counterparty accepted by the lender. Further definitions for each case are below.

Age

We assume 5 year old vessels as 'Young Eco' and 13 year old vessels as 'Mature'.

Leverage Aim

Low leverage refers to Bank financing, while High leverage refers to Alternative debt.

LTV

Loan-To-Value, the ratio of loan amount to Fair Market Value. We show the highest LTV possible; lower leverage reduces quarterly repayments and the interest margin.

Amortisation

Quarterly repayments which reduce the outstanding finance amount. This is shown as a structure and profile. The structure shows whether a financier will require accelerated payments during the first year or time charter period, while the profile shows the overall trajectory of the loan from the initial amount towards zero dollars outstanding at a set age.

As each individual vessel has a different market position and ability to earn, the exact dollar repayment during any period of front-loading will vary too much for a single report to cover. However, the overall repayment profiles are relatively standard across vessels so these can be shared in detail.

Interest Margin

Due to increasing levels of regulation in the banking sector, providing loans has become very expensive and time-consuming over the past decade. KYC and AML checks as well as other imposed costs are relatively consistent whether the loan amount is \$7m or \$70m, so banks are forced to charge higher interest rates for smaller loans to keep the same level of profitability.

A loan request of \$15m or more will generally fit into the 'sweet spot' of the larger commercial lenders which are considerably cheaper than those offering loans of \$5-10m, while a loan request of \$50m or more is suitable for the largest and most competitive lenders in the market.

DRY BULK

The past three months have seen small but notable changes; while the overall picture is 'more of the same', some key trends have emerged which will continue to develop over the coming quarters.

Earnings are now 'ok-to-good' from Handysize to Capesize, though Capesizes are the largest positive outlier of the bunch. These vessels are seeing renewed interest from Chinese steelmakers, whose reserves of iron ore have reached lows not seen in several years. For smaller tonnage, Houthi attacks in the red sea have had a small impact with the main driver here being a resurgence in demand across the Pacific.

Higher leverage options for newer vessels, and particularly for newbuilds, continue to improve in their attractiveness. Chinese lessors are continuing to improve their offering, and make clear the differences between themselves and European lenders. Not only are the commercial terms offered generally superior in margins, loan-to-value and other commercial items but their response times and willingness to do business make them a pleasant counterparty to deal with.

At the other end of the spectrum, older vessels seeking lower leverage are also enjoying a slow decrease in interest costs. European banks are becoming more confident in vessels' ongoing ability to repay financing quickly and this is making the sector much more attractive for relationship managers and credit committees alike. This is a vast improvement from the late summer of 2023 when bankers were advising that financing Dry Bulk would be difficult in almost any situation.

PROJECT FINANCING TERMS

LARGER DRY
(ULTRAMAX +)

VESSEL	LEVERAGE		AMORTISATION		INTEREST MARGIN		
	AIM	LTV	STRUCTURE	PROFILE	10\$M LOAN	30\$M LOAN	60\$M LOAN
Young Eco Vessels	High	65%	Linear	16 Year Profile	N/A	3.00%	3.00%
	Low	50%	Linear	18 Year Profile	N/A	2.60%	2.50%
Mature Vessels	High	65%	Front- Loaded	20 Year Profile	7.25%	5.50%	5.00%
	Low	45%	Linear	20 Year Profile	3.35%	2.75%	2.65%

SMALLER DRY
(HANDY TO SUPRA)

VESSEL	LEVERAGE		AMORTISATION		INTEREST MARGIN		
	AIM	LTV	STRUCTURE	PROFILE	10\$M LOAN	30\$M LOAN	60\$M LOAN
Young Eco Vessels	High	60%	Front- Loaded	16 Year Profile	N/A	3.00%	3.00%
	Low	50%	Linear	18 Year Profile	N/A	2.60%	2.50%
Mature Vessels	High	65%	Front- Loaded	20 Year Profile	7.25%	5.50%	5.00%
	Low	40%	Linear	20 Year Profile	3.35%	2.75%	2.40%

TANKERS

Movements in Tanker financing have also been minimal over the past three months as financiers have taken a pause from the previous race to see who can offer the lowest pricing.

Continuing high earnings, especially for Aframax and LR2 vessels, have continued to provide financiers with confidence that today's high fair market values are well compensated for by the cash generation capacity of these vessels. However, the longest-term charters of 3 years or more struggle to provide rates sufficient for high leverage on younger vessels; for shipowners and financiers alike, it is clear that the most money is to be made in the spot market in the near future.

Similar to the container financing markets of mid-2022, almost all refinancings have now been completed in the sector with new loans only being requested for acquisitions and newbuilds. As acquisitions are now more commonly made by middle eastern buyers which often invest only with equity, the number of debt transactions in the sector has fallen.

Despite this decrease in transaction rates, several points are clear: first, pricing is at around the same levels as at the end of 2023 with no large changes seen for the most vanilla of transactions.

There has been a split in the opinions of higher-cost financiers on whether the tanker bull market is here to stay. Some lenders, convinced by arguments that inflation-adjusted values remain reasonable in a historic context, are becoming very confident in future asset values and can offer high leverage at competitive pricing. Others, whose backers see the tanker market as being at a peak and potentially declining from here, are finding it more difficult to lend at these levels. These more cautious lenders are maintaining pricing levels while slowly reducing the leverage available and requiring multiple vessels per facility to diversify earnings sources.

PROJECT FINANCING TERMS

PRODUCT TANKER

VESSEL	LEVERAGE		AMORTISATION		INTEREST MARGIN		
	AIM	LTV	STRUCTURE	PROFILE	10\$M LOAN	30\$M LOAN	60\$M LOAN
Young Eco Vessels	High	65%	Front-Loaded	18 Year Profile	N/A	3.00%	3.00%
	Low	55%	Front-Loaded	18 Year Profile	N/A	2.55%	2.40%
Mature Vessels	High	65%	Front-Loaded	22 Year Profile	6.75%	5.75%	5.00%
	Low	50%	Front-Loaded	22 Year Profile	3.35%	2.70%	2.55%

CRUDE TANKER

VESSEL	LEVERAGE		AMORTISATION		INTEREST MARGIN		
	AIM	LTV	STRUCTURE	PROFILE	10\$M LOAN	30\$M LOAN	60\$M LOAN
Young Eco Vessels	High	65%	Front-Loaded	18 Year Profile	N/A	N/A	3.00%
	Low	55%	Front-Loaded	18 Year Profile	N/A	2.65%	2.50%
Mature Vessels	High	65%	Front-Loaded	22 Year Profile	N/A	5.75%	5.25%
	Low	50%	Front-Loaded	22 Year Profile	N/A	2.80%	2.65%

OVERALL

As we sail through the first quarter of 2024, the maritime finance landscape continues to evolve, presenting both challenges and opportunities for shipowners and financiers alike.

The financing world is rapidly shifting and innovating. Shipowners now find themselves navigating a sea of niche financing products—revolving capital facilities, non-recourse construction financing, and more. The result? A surge in tailored solutions that cater to specific vessel needs. As the competition between financiers intensifies, shipowners can expect a broader array of financial instruments at their disposal.

For owners of Dry Bulk and Tanker vessels, interest margins remain steady, generally mirroring those seen at the close of 2023. However, a range of developments have still occurred despite the ‘sleepy’ headline. Chinese Lessors extend improved pricing to newer Dry Bulk vessels, while European Banks have improved terms for their seasoned counterparts. The winds of change also affect the Tanker segment. Phenomenal spot earnings make moderate leverage easily accessible, though long-term rates are not quite at the same levels and struggle to support extremely high leverage.

The Offshore and Container sectors remain harder to pin down. These vessels’ financing options can only be seriously considered on a case-by-case basis. Continuing the trend from 2023 which saw several newcomers to the Offshore financing market, we remain expectant for more joiners in the year ahead as earnings continue to rise. Container financing is also seeing bright spots; the loans available for newbuild feeders, as seen in this quarter’s recent indications, show lenders’ continued confidence. We have seen similar terms from a large number of lenders for similar projects over the past 12 months.

PCTC financing has also woken up from its slumber recently, with a host of financiers eagerly bidding on several recent financings in the sector. European Banks, Chinese Lessors and many more are increasing exposure to the sector in the face of stunningly high earnings which promise a rapid payback.

As we lower our anchor on this report, we bid adieu to Q1 2024. To our esteemed readers, thank you for navigating these financial markets with us; we look forward to sharing more updates when we have them. Until then, fair winds and following seas.

Bon voyage!

**Best regards,
The oceanis team**

The State of Ship Finance

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