Bloomberg Businessweek

News From Bloomberg

Blackstone Treasure Hunt Under Way for German Tankers: Freight

By Nicholas Brautlecht on July 09, 2013
http://www.businessweek.com/news/2013-07-09/blackstone-treasure-hunt-under-way-for-german-tankers-freight

The decline of German private investor funding for ships and the exit of domestic banks from ship financing are opening a door to U.S. private-equity firms, which have begun to enter a market previously closed to international asset managers.

Blackstone Group LP (BX:US), J.P. Morgan Asset Management, Oaktree Capital Group LLC (OAK:US), Tennenbaum Capital Partners LLC and Delos Shipping are among firms buying new and used German vessels and taking stakes in German shipping companies that need financial backing. They are replacing mostly private investors that for decades participated as limited partners in German ships.

Last year alone, investors lost about 2.3 billion euros ($2.96 billion) of equity as the number of insolvencies by shipping companies surged in the crisis-hit industry, according to estimates by Hamburg researcher Fondsmedia. Decisions by Commerzbank AG (CBK) and HSH Nordbank AG to exit or scale down ship financing as bad loans taint balance sheets makes it worse.

“In the past, shipping companies were reluctant to make deals with foreign lenders, but this is changing significantly,” said Claus Brandt, a shipping analyst at PricewaterhouseCoopers AG in Hamburg. “I expect foreign investors to have the biggest market share in three to five years.”

Before the collapse of Lehman Brothers Holdings Inc. sent the industry into turmoil in 2008, German shipping companies had the support of domestic lenders and private investors when buying new ships and covering cost to maintain existing ones.

Nine Ships

Even now, domestic investors and lenders provide 90 percent of the capital borrowed by Germany’s mostly small- and medium-sized shipping firms, which on average own nine vessels, according to the VDR ship owners association.

“About 3,000 vessels are financed by banks and private investors in Germany, so this is the size of the market we are looking at,” said Brian Ladin, the founder of Delos Shipping. The Dallas-based company in May took over 80 percent of Hamburg-based shipping group Koenig & Cie.

A partner in the transaction was Tennenbaum, a Santa Monica, California-based firm that since its founding in 1999 has invested more than $11 billion in about 250 companies with one focus being the transportation and logistics industries.

Germany’s merchant fleet, which comprises 3,700 ships, is the third-biggest in the world with a 9.4 percent share of the market. That includes the biggest fleet of container ships, with almost one in three vessels German-owned, according to VDR, based in Hamburg.

Return Rate

Private-equity firms typically pool money from pension plans and endowments with a mandate to buy companies within five to six years, then sell them and return the money and a profit after 10 years. The firms usually charge a management fee and keep a portion of the profits from investments.

According to analyst Brandt, foreign investors can expect an annual return rate of about 10 percent if they sell ships at the right time.

For Delos's Ladin, the key to success is not being confined to a schedule. At a previous firm, he was the lead investor in a $21-million investment in shipping group Euroseas Ltd. (ESEA:US) before its initial share sale on the Nasdaq in 2007. Planning on getting in and out in two to three years is a mistake, he said.

"An investment time horizon has to at least be in sync with a shipping cycle from peak to trough, which usually takes eight to 10 years," he said in a phone interview. "Depending on the vessel type, the last peak was between 2006 and 2008, and we are somewhere in the trough right now."

Building Ships

Delos and Tennenbaum recapitalized Koenig to buy new and used vessels on the market, Ladin said. Koenig's managing directors, Tobias Koenig and Jens Mahnke, together still hold the remaining 20 percent stake. They will stay on to manage the assets, which are valued at 4.2 billion euros, according to the company's website.

Oaktree, the world's largest distressed-debt investor, made a different type of investment with Rickmers Group, commissioning the Hamburg-based company to supervise the construction of eight new container ships, with an option for eight more.

The first ships have entered the construction phase, Sebastian Bucher, a spokesman for Rickmers, said on June 26.

Under the agreement, announced in December, the German firm with a 179-year shipping tradition will also technically and commercially manage the vessels with a capacity of 5,000 to 7,000 standard containers, or TEU, Bucher said.

Bond Issue

The carriers, scheduled for delivery from the middle of next year to the middle of 2015, will cost $45 million to $50 million each, according to estimates by Rickmers, which in June also sold 175 million euros in five-year notes to service debt and maintain its vessels.

Michael Behrendt, president of the VDR shipping association, indicated traditional, family-owned firms may be loath to open up their books or give up control over strategic decisions even after financing deals are sealed.

“It is impossible to predict how private equity firms will behave,” Behrendt told reporters in Hamburg on June 14. He is also chief executive officer of Hapag-Lloyd AG, Germany’s biggest shipping company. “Their business is very different from the traditional ship-owners’ model.”

“For private equity firms, it might be a smart move to dive into the market during the crisis, but we don’t need new ships before supply and demand reach a balance, which we expect between 2014 and 2015,” he said.

Retreating Banks

The container shipping industry is suffering from a glut after a boom in ship deliveries coincided with the worst slump in freight demand since the 1970s. Vessel supply exceeds demand by about 30 percent and much of the boxed freight being shipped is unprofitable, according to Bagsvaerd, Denmark-based BIMCO, the world’s biggest international shipping association.

Commerzbank, which had been the world’s second-biggest financier of ships with the 2009 acquisition of Dresdner Bank, decided a year ago to exit ship financing as it suffers from the bad debt it holds from the industry. Norddeutsche Landesbank Girozentrale and Nordbank, the world’s largest shipping lender, are also scaling down portfolios.

To plug the financing gap in Germany some U.S. investors are focusing on the container shipping fleet while others are looking at specialized cargo ships or tankers.

Blackstone, the world’s largest manager of alternative assets, in August took over the controlling stakes in nine refined-product tankers from Hartmann AG with the technical and commercial management staying with the Leer, Germany-based company.

Marriage Simile

“It’s like a marriage -- it’s not easy to find the right partner,” said CEO Niels Hartmann in an e-mailed statement, adding that it took several months of negotiations to seal the partnership.

“Blackstone is an interesting partner, as they have realistic expectations,” said Hartmann. “The time frame of the investment is rather long-term,” he said, referring to yield and a ship’s usual life cycle of about 25 years.

New York-based Blackstone spokeswoman Christine Anderson declined to comment.

Institutional investors advised by J.P. Morgan Asset Management - Global Real Assets operate a joint venture with family-owned Harren & Partner Group, which holds and manages 54 vessels from its base in the city of Bremen, southwest of Hamburg.

Their alliance, called Sumo-Shipping, was founded in February 2012. It invests in a fleet of vessels with cranes that can lift more than 500 tons.

“Both partners remain committed to the project”, Nicholas E. Meer, executive director at JPMorgan Asset Management Maritime Group in London, said in an e-mail on June 26.

To contact the reporter on this story: Nicholas Brautlecht in Hamburg at nbrautlecht@bloomberg.net

To contact the editor responsible for this story: Angela Cullen at acullen8@bloomberg.net