MANAGING COUNTERPARTY RISK

BUNKER ASIA 2011
Adam Dupré, Chairman, Petromedia Group

Boring but Necessary

- A trader wants to make deals. The credit manager is often seen as a hindrance to doing business.
- Managing counterparty risk is more subtle and more essential than a crude prevention of trading.
- It’s about maximising profit as well as minimising loss, and its essential principles are the same whatever the markets are doing.
- But now is particularly critical.

A coin with two sides

Counterparty risk management is:

Minimising loss

And

Maximising profit

Where are they at today?

- Take both the short and the long view, but get a direct handle – second-hand interpretation is not good enough.
- You have to know for yourself (somebody else knows is not enough).
- You must know when to pull the plug
- "Keep your friends close, but keep your enemies closer"
- You can't predict by 'doing the Math'! The future is different from the past.

Ways to know

- Read all you can
- Talk to people
- Buy credit reports
- Know the ships, what they are earning and what they are costing to run and to finance
- Are they supported?
- Where do they operate?
- Keep up to date

No more annual credit review

- Things are changing too fast for long term credit lines to be set.
- The credit manager has to be always alert
- Little is predictable and flexibility is paramount
- Credit management must adjust to circumstances. A blue chip yesterday might be load over load today and cash only tomorrow. Get the timings right and you will squeeze the maximum revenue from the account and minimise any loss.

Containers

The box shipping industry is heading toward a "prolonged slump" that could last longer than the 2009 downturn, according to **Alphaliner**. Fuel prices also averaged 35% higher than a year earlier, also contributing to losses**.**

- State-owned **China Shipping Container Lines (CSCL)** said Thursday it expected to record a net loss for the first half (H1) of 2011
- **Evergreen Marine Corp.**, part of Asia's second-biggest container line, suffered a 98% decline in second quarter (Q2) profit after cargo rates fell.
- **COSCO** lost $423 million) in H1 2011.

Containers (2)

French shipping company **CMA CGM** Group reported net profit of $237 million for the first half (H1) of 2011, a drop of 72% from $849 million profits reported in the same period a year ago.

High bunker costs and declining freight rates have put Singapore-listed **Neptune Orient Lines (NOL)** into the red for the first half (H1) of 2011, reporting net loss of $57 million for the second quarter (Q2) of 2011, bringing half year losses to $67 million.

HAPAG-LLOYD Germany-based container line **Hapag-Lloyd** has blamed high bunker prices and weak freight rates for a slump in second quarter (Q2) profits.

Tankers

Oslo-listed **Frontline Ltd. (Frontline)** posted net loss of $35.32 million during the second quarter (Q2) of the year (worse than anticpated).

(Tankers, Dry bulk and container owner) **Ship Finance International Limited (SFL)** has reported a drop in net profit and operating revenues for the second quarter (Q2) of 2011.

New York-listed tanker specialist **General Maritime Corporation (Genmar)** reported net loss of $24.0 million for the second quarter (Q2) of this year.

Tankers (2)

Tanker owner **Independent Tankers Corporation Limited (ITCL)** posted a net loss of $0.05 million during the second quarter (Q2) of this year, compared to net profit of $8.2 million in the preceding quarter.

Teekay Corporation (Teekay) has posted adjusted net losses of $36.3 million or $0.51 per share for the quarter ended June 30 (Q2) 2011.

TOP Ships posted a net loss of US$103.5 million for the second quarter (Q2) of this year, compared to net loss of US$1.774 million in the same period a year ago.

Danish clean product carrier **Torm** has raised its loss forecast for the full year 2011.

The **Royal Bank of Scotland** is seeking to arrest a chemical tanker in a bid to recoup $329 million following **Ocean Tankers Holdings**'s defaults on a loan and swap agreements.

Tankers (3)

Nasdaq-listed **Omega Navigation**, Netherlands-based **Marco Polo Seatrade** and several other small operators have already been forced into bankruptcy protection.

Cyprus-based **Ocean Tankers**, which made a €19.6m net loss for the first half on €9.77m income, has had several of its ships arrested – held under court orders by creditors – during port calls this year.

Now executives predict that far larger names are likely to follow. Moody's last week downgraded one operator facing acute challenges – New York-listed **General Maritime** – to Caa3, only just above default.

Financial Times 5th September 2011

Dry Bulk

TBS International (TBS) reported a net loss of US$14.4 million in Q2 2011 compared to a net loss of $9.7 million in the corresponding period a year ago.

(Mostly Dry) Copenhagen-based shipowner **Norden A/S** has reported a drop in operating profit for Q2.

SEABOARD MARINE has posted an $11.1 million operating loss for Q2 2011.

DryShips Inc posted a net loss of $114.1 million in Q2 2011 compared to net income of $19.5 million in the corresponding period a year ago.

Taiwan-listed **Yang Ming Marine Transport Corp** reported net losses of TWD 2.61 billion ($89.91 million) for H1 2011.

Dry Bulk (2)
Crisis? What Crisis?

Oslo-listed dry bulk shipper **Golden Ocean** has posted better than forecast first-half (H1) earnings.

"In dry bulk we do not share the view that shipping is in crisis - there is no crisis," (Chief Executive Herman Billung).

"We hope to see the market warm up as the world economy bounces back in the second half of the year." (COSCO Group chairman Wei Jiafu)

Globus Maritime Limited (Globus) posted "profitable results" for Q2) despite a "more adverse" business climate - net revenue of $6.9 million in Q2 of 2011, up 28% from the same period last year.

Greek **Goldenport Holdings** reported H1 net income of US$3.4 million (net loss of US$1.2 in the same period last year).

Other sectors too …

Greek ferry operator **Attica Holdings SA** H1 2011 consolidated revenues were US$160.9 million and after tax losses of US$49 million – (better than the US $181.64 million loss recorded in H1 2010.

AND SUPPLIERS SUFFERED TOO

Andatee China Marine Fuel Services Chinese domestic bunker supplier has reported a 48% drop year-on-year in net profit during the second quarter (Q2) of 2011.

Aegean Marine Petroleum Network Inc. posted net profit of $3.2 million in the second quarter (Q2) against $12.0 million net profit in the same period in 2010.

The Vultures are circling

Distressed-asset investors **WL Ross** said it is seeking to take advantage of a slump in the shipping industry by investing "significantly more capital" in distressed assets.

"Anybody who's made a big bet on the spot market has to be getting hurt right now," WL Ross's Chairman and CEO Wilbur Ross told Financial Times.

"Anybody who's highly leveraged, has high operating expenses or doesn't have long-term charters is clearly going to have difficulties."

Thank You

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