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Wednesday 08 February 2012, 13:01

FINANCE

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Bugbee: banks' penchant for 'kicking the can down the road' means the market bottom can never be called with certainty.

The Hellenic-American and Norwegian-American Chambers of Commerce took the theme Boom, Bust, the Aftermath of Bankruptcy and the Future for their annual conference

ATTENDEES at one of New York's most recognised annual shipping conferences may have been surprised this week, when the organisers regaled them with a refreshingly blunt dose of reality instead of the usual sugarc coated hogwash.

The joint event, held by the Hellenic-American and Norwegian-American Chambers of Commerce, had the theme Boom, Bust, the Aftermath of Bankruptcy

and the Future. A parade of star speakers repeatedly delivered the

message that far from things getting better, today's gloom and pain will only deepen in the foreseeable future.

The gamut ran from the lack of suitable ship acquisition opportunities, to banks' continued reluctance to splash money at the industry, to the near impossibility of attracting private equity to invest in shipping.

Scorpio Tankers president Robert Bugbee gave voice to the first frustration. Despite the industry supposedly being in distress, there are very few suitable secondhand ships to buy, he declared. Why? Because banks have refused to write down their portfolios, and refused to push delinquent lenders into bankruptcy.

This penchant for "kicking the can down the road" means the market bottom can never be called with certainty, and the resulting paralysis has in turn affected the flow of new money into the industry, Bugbee said.

Private investigations

SEAN Durkin, partner of alternative shipping investment vehicle Northern Shipping Funds, offered an offbeat take on why private equity has so far been a non-factor in filling the huge money gap left by the near disappearance of bank lending.

Several people from around the world with shipping projects have come to New York in the past few years and pitched private equity groups. Many have left with a feeling that their Powerpoint shows went really well, that the questioning was substantive, and that they made a "connection" with prospective investors. Yet the actual investment never materialised. Why?

"Because after your pitch, all the shipping knowledge in the room left with you," Durkin told the flummoxed promoters. "The private equity guys thought, 'Wow, what a great investment possibility. Let us call someone who knows shipping to run it by them'.

"But whom to call? We know no one in shipping."

And so the brilliant shipping investment idea was soon forgotten, while other viable propositions immediately diverted the private equity supremos' attention.

Too much of a good thing

AMID the gloom, there were some bright notes. Noted shipping researcher Jeffrey Landsberg tried his best to assure punters that today's surfeit of dry bulk ship deliveries will eventually thin out. Many other speakers trotted out the mandatory paeans to China.

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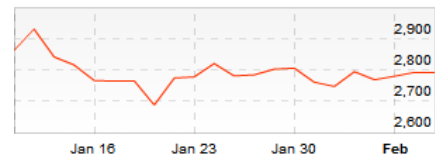
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However, the most intriguing bright spot came from DnB Markets managing director Jae Kwon. While equity investors are extremely jittery about shipping right now, Kwon said they are prone to "over-equitise" projects that they believe have a significant upside.

In other words, if you are a standard-issue deadbeat, abandon all hope of finding equity partners. But if you are so far beyond the pale and your company is priced so desperately low that even a slight improvement in the market could see a disproportionate increase in the value of your company, then you have every chance of finding even 100% equity.

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