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Private equity funds move into maritime industry

But analysts do not believe this signals long-term shift in sector's financing

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Private equity (PE) funds have entered the maritime industry quite rapidly in recent years with the slowdown in bank lending - PHOTO: SPH

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> - *Dimitris Belbas, managing director and head of shipping finance at Seafin in Singapore*

[SINGAPORE] Private equity (PE) funds have entered the maritime industry quite rapidly in recent years with the slowdown in bank lending.

However, industry players at the Asia Pacific Maritime 2014 Conference here said that although this trend may continue in the near term, it does not signal a permanent or long- term shift in the sector's financing landscape.

Dimitris Belbas, managing director and head of shipping finance at Seafin in Singapore, said: "We had a record year in 2013 in terms of joint ventures between private equity funds and shipping companies. At the same time, private equity funds are buying into distressed (assets) so you may have the same private equity funds also investing in shipping for asset appreciation."

He said that this situation could possibly increase in the near term as private equity funds are very liquid, with about US$800 billion at their disposal, and he believes that at least a substantial portion of this may be poured into shipping.

Others point out that the PE portion of the overall financing equation is still low, so while there may be room for more growth in future, this also means that PE firms are taking a more calculated approach towards the sector.

Domenik Nizet, senior vice-president of the tanker group at DVB Bank in Singapore, elaborated: "The sector has about US$250 billion to be covered by debt financing every year and from that amount, we see about US$5 billion coming from private equity. So we are talking about a 3-5 per cent PE share range of the overall financing (in the sector)."

Mr Nizet suggested that this volume also means that PE firms are not just throwing money into shipping projects but they are closely scrutinising which projects they invest in.

It is this focus on numbers that underpins the strong believe that PE capital may not make the maritime sector their home.

Mr Belbas explained that private equity funds are mainly "asset agnostic" and therefore when the market improves, they may exit and move on as he does not believe that too many of them would want to become shipowners for the long term.

Moreover, with shipping offering more longer-term returns than shorter-term gains, industry players doubt that PE firms will wait that long and so this in itself may deter large volumes of private equity capital from coming into the industry to replace institutional debt financing.