

Increasingly, Sale and Purchase activity is driven by corporate strategies and corporate financial objectives. Sale and purchase is following finance- not the other way around.



For many cargo interests, shipping is important but ancillary; quite simply, better to charter than to own, because shipping drains capital. A Press Release announcing Chiquita's agreement to sell the **Great White Fleet** to an alliance between Eastwind and the NYK/Cool/Lauritzen AB, with leases back on the entire fleet, explains the bases for asset sales. The pricetag for the enbloc deal on eight reefers and four container vessels was \$227 Million, representing an accounting gain around \$100 Million- to be recognized over the next few years. After a difficult year in 2006, the sale of shipping assets offered a way to provide a big score.

Chiquita Corporation- in the fruit business, said that "the new long term arrangement will increase Chiquita's financial flexibility, simplify its business model, allow Chiquita to focus on its core competency, reduce debt, and create greater flexibility allowing its leased shipping services to better adapt to changing business needs over time." Most of the vessels will be time-chartered back for a seven year period with further options. Reminiscent of oil company fleet sales in the 1990's, the new owners become a preferred logistics provider in sourcing other tonnage.

Chiquita's core fleet includes eight reefers of 628,000 cu ft built at Danyard in the early 1990's, two similarly aged slightly smaller ships of 572,000 cuft built at Seebeckwerft in Germany, and three "Feedermax" containerships of between 836 and 915 TEU, with a good complement of plugs for refrigerated boxes. The limited resale market, and lack of asset price visibility in listed companies, particularly for the reefers, caused difficulties in arriving at comparable transactions. In assessing the deal, the sellers achieve a financial gain while keeping control of the fleet, while the new owners gain longterm contract cover with a solid signature. For Eastwind, a perennial subject of IPO rumours, contract cover with a good signature is the stuff that "earnings visibility" is made of. Look for Eastwind to redouble its IPO efforts, sans tankers.

Capesize bulk carriers, a huge beneficiary of industrial activity in China, are far more fungible, and activities of listed companies are also playing an important role in their pricing. Quintana Maritime, a company setting new paradigms for industrial shipping, has ordered additional tonnage, through a joint venture with a raw materials producer, on four vessels delivering in 2010 from Korea Shipyard, at an attractive price of roughly \$77 Million per vessel. Quintana has also gone solo on an 180,000 tonner due out of Japan's Imabari yard in late 2008 at a price of \$93 Million. Recent comparables reported in late April, showed resales by Geden and Seacrest Shipping, on similar sizes due out of a Chinese yard in 2009, booked at \$87.5 Million and \$90 Million.

Quintana's already stretched balance sheet has pushed them through a back door into a structure due for a resurgence- the joint venture. For Quintana during the three year pre-revenue earning phase, its ability to stretch existing resources will be enhanced through its joint ventures, which will allow a portion of major capital commitments off its balance sheet. Quintana's coal partners, executives from American Metals & Coal International (AMCI), gain an upside hedge on raw material transport costs, but without the capital intensity that comes with owning an entire fleet.. Quintana, noting that Money men earn higher market multiples than shipowners- is looking increasingly like an asset manager.

On the tanker front, one view of the pending \$2.2 Billion OMI acquisition, by Teekay and Torm has the deal driven by another strategic consideration for a big corporation. OMI regulatory filings reveal that its board was counseled that "the market might drop", and, indeed, a number of analysts have questioned the wisdom of the 15% premium price paid for OMI shares. Unlike General Maritime's refrain in late 2005, when it unloaded its single hulled fleet to private buyers at levels above those implied by their stock price, this was a case where the stock price was bid up above that of vessels. Far from coincidentally, Teekay- attempting to unlock "value" by breaking itself into separate companies, made reference to a "conventional tanker" spinoff.

Pundits have suggested that OMI's modern Suezmaxes were seen as fitting nicely into Teekay's putative spin-off, and, the idea had already been broached prior to a private equity fund's \$25/ share gambit for OMI. The missing piece in the jigsaw puzzle suddenly emerged when a major pool participant, Torm was clearly coveting OMI's nearly three dozen MR tankers that Teekay would need to hive off, were it to go alone on the acquisition. Had Torm gone solo, it would have then been a seller of Suezmaxes.

In simplest terms, the huge re-allocation of a big block of Suezmax and refined products tonnage was set in motion by the financial wizards (not the shipping people) who suggested that erstwhile consolidator Teekay is worth more when de-constructed. As General Maritime seemingly reached the same conclusion two years ago, the sale and purchase shops might troll publicly available regulatory filings and look closely at "sum of the parts" analytics to aid their clients in "unlocking value".

Finance folks, not mariners, are up on the navigation bridge now. In another "Stock or Ships?" consolidation situation only now emerging, Genco Shipping & Trading (now quoted on the New York bourse) announced that it acquired a 10% stake in Jinhui (share-listed in Oslo), with its orderbook of a more than a dozen Supramaxes- slightly exceeding the size of its existing fleet. Dahlman Rose's Omar Notka estimated that Genco shelled out \$58 Million. Put another way, assuming 50% leverage, and 26 vessels, a back of the envelope calculation suggests that Genco is buying modern Supramaxes for around \$45 Million each, which may be a good deal, or not.

