

Ship finance is percolating in Italy- known traditionally for mainly family shipping businesses, few listed companies and analysts, and a very traditional approach to financing. One long time banker serving the Italian market told JTF: “Typically, a shipowning family had a relationship with a particular local Italian bank-and they got very cheap finance that way, but these were not shipping banks in that sense of the word.”

In May, a series of events bringing the shipping community together with international bankers will put a contemporary spin on financing issues. Rome based Norton Rose lawyer Antonello Lupo told JTF: “There is a great deal of discussion about how to finance the shipping industry. At its AGM last July, the Italian Shipowners Association (“Confitarma”) spent time talking about new structures such as funds and tax leasing.”



At the upcoming conferences, attendees will be talking about a freshly completed listing. In late April, an underwriting round had finished pricing a new placement for the tanker business of D’Amico International Shipping SA, recently rolled into a Luxembourg based holding company with roots back to the 1930’s. While the IPO shares will be listed on the Borsa Italiano in Milan, the family’s dry cargo and service businesses remain outside the realm of the mainly institutional offering.

D’Amico’s IPO required a re-organization from a family structure to the more corporate holding company arrangement in 2007, where the selling shareholder, D’Amico International S.A., Luxembourg, moved its shareholdings in four wholly or partially owned companies into subsidiaries of a new entity further down the chain- d’Amico Tankers Limited- based in Ireland. Norton Rose Partner Paolo Daviddi, a corporate lawyer based in Milan, describes says that that the Luxembourg Societe Anonyme (SA) generally “...softens the impact of taxation on selling shareholders.”

39 Million shares, from a total of nearly 60 Million, are being offered by the Selling shareholders- D’Amico International S.A.(ultimately owned by the D’Amico family) and 21 Million will go into the company’s coffers, resulting in a net raise for the company (rather than the individual share sellers) of approximately €73.5 Million, based on the €3.50/ share price achieved.in the oversubscribed IPO.

Post offering, existing shareholders (mainly family interests) will still control the company. Approximately 6 Million shares, or 10 percent of the offering, will be reserved for a public offering to Italian retail holders. Norton Rose’s Daviddi says, “The regulators want there to be a free float; the Borsa does not have a precise percentage, but if the free float is a low percentage, then it’s considered to be a private placement.”



In conjunction with the IPO, the debt side of the balance sheet has been streamlined. A complicated set of debt agreements intertwined among D'Amico companies, has been refinanced with a new \$350 Million ten year "secured" Credit facility entered into by D'Amico Tankers, spearheaded by Calyon S.A. and Intesa Sanpaolo S.p.A., in a syndicate consisting of four other banks. The security provisions include a parent guarantee (ie the IPO company, high up in the corporate hierarchy, guarantees the new tanker owning subsidiary lower down); thirteen owned ships are mortgaged, and their timecharter contracts are assigned to the lenders. In early April 2007, \$250.0 Million was outstanding under the new credit, priced at Libor plus 0.65% (but Libor plus 0.95% if the ratio of outstanding loan / vessel value exceeds 50%).

Mr. Hugo Moddeman, of DVB, based in Monaco and covering Italy, describes an ongoing price battle among banks in Italy, saying "We are active, having done five vessels recently; we'd like to do more, but it's difficult for us to compete. In Italy, there is a lot of liquidity- the local banks need to do something, so they lend it out." He described a situation where banks are offering 80%- 85% advance rates on newbuilding drybulk carriers, without employment and slender arrangement fees of 15 – 20 basis points.

Another public company (listed in the 1930's, with approximately 20 percent in public hands), Navigazione Montanari S.p.A., has its roots in a businesses started in the 1880's, with wooden sailing vessels. In contrast to its old history, Montanari is in the midst of a modernization program with 14 vessels (ranging from 38,000 ton product tankers to 110,000 ton crude oil tankers) on order from Far Eastern yards. The internal funding for this expansion will be greatly bolstered by an eight year senior secured \$450 Million credit from a group led by BNP Paribas- "the largest shipping transaction ever arranged in the Italian market by and international bank."



JTF discussed the facility, and the Italian shipping marketplace, with Christele Gauthier, Vice President at BNP Paribas and its Head of Shipping Finance for Europe and South America. When asked about the role that a public listing plays in assessing a particular credit, Gauthier told JTF: "Being listed for a shipping company does not necessarily mean that it's a more attractive credit, but it gives access to very good diversification and flexibility in terms of funds sourcing." On the subject of market vagaries, JTF asked how the facility handled the risk of declining vessel values, with Gauthier noting: "As usual in shipping, the facility includes a Security Maintenance Ratio to cover market downturns."

The BNP Paribas credit, secured by fifteen existing double hull tankers, "refinanced all bilateral loans and syndicated loans with their existing banking pool in a single facility, and will provide financing of newbuilding vessels. They can also buy second hand vessels if they wish," says Gauthier. When it was announced in December 2006, the Paribas loan brought about suggestions that Montanari might use its newfound war-chest for acquiring another Italian company- Premuda S.p.A., with



Montanari vehemently and very publicly denying these suggestions, citing its massive newbuilding orderbook- which it valued at \$703 Million. BNP Paribas had enhanced its overall position in Italy earlier in 2006, with its acquisition of Banca Nazionale del Lavoro S.p.A (BNL) and Gauthier says: “We are creating a dedicated Shipping Desk in Roma following the acquisition of BNL.”

The borrower was still ordering vessels at the time the ink was drying on the BNP Paribas documents; Gauthier commented: “New vessels should belong to the type of vessels consistent with the client strategy, ie crude or products carriers.” Looking to the future, she added: “This gives a lot of flexibility to the client”.

The balance sheet of listed company Premuda S.p.A., based in Genoa and operating a mixture of bulk carriers and tankers, provides a good insight into the workings of the Italian market. Founded in 1907, a predecessor was listed in 1917 on the Trieste Exchange; in the late 1980's, it was briefly controlled by the Montanari Group. In the mid 1990's, it restructured as an international company, also under a holding type structure. Its €347 Million balance sheet (mid 2006) included €149 Million of bank debt (within its €177 Million of overall liabilities), spread among BNL (€10 Million), Efibanca (€30 Million), Unicredit (€30 Million), Commerzbank/ Banco Mediocredito (€31 Million), Intessa (€5 Million) and two syndicates managed by Fortis (€43 Million).



The multiple facilities are installment type loans of varied lengths, priced either at fixed rates, or tied to EURIBOR or LIBOR. Noteworthy on the Commerzbank facilities, originally booked in US \$, are cross currency swaps which convert the \$ loans into €based liabilities and effectively tie them to

EURIBOR. A detailed look at the BNL credits (put in place in 2000, six years prior to its acquisition by BNP Paribas) reveals a bullet loan of €12 Million, due in 2010, secured by a pledge on a similar amount of BNL zero coupon bonds held by the borrower. The liability shown in the accounts (€2.5 Million) reflects a netting of the bonds' present value against the outstanding loan.

Non tax driven shipping funds have provided a means of intermediation for bank debt- investors equity is then topped up by bank finance provided by the fund sponsor. JTF spoke with Fabrizio Vittosi- who heads up M & A Advisory for Efibanca, and his colleague Aldo Savi, regarding Efibanca's initiatives in the funds area. Vittosi, based in Milan, told JTF: “We've been putting in a lot of work in terms of both authorization procedures to gain all the approvals from the authorities (Bank of Italy) to start a financial/ speculative activity, and also in terms of raising funds from potential investors.” He described a two-fold process; approval to set up the management company “Efibanca Gestioni Sgr” is in hand, and “we believe that we will receive the green light on the second part, to start our activity, within four months.” Investors are predominantly



institutional (although “qualified investors” can come in under the “Riservato” setup), and are typically looking at “cash on cash” returns.

DVB’s Bote de Vries, who runs its NFC Shipping Funds, DVB’s joint venture with shipowners Northern Navigation International, told JTF that several years ago, the Italian owners were looking in an offshore direction, but several years ago, with the growth of tonnage tax schemes, their thinking shifted towards ‘bringing vessels back to Italy.’ Since the late 1990’s, Italy has had an International Register for vessels in foreign trade, with Norton Rose’s Antonello Lupo reminding JTF: “Yes, Italy does have a tonnage tax system.”

de Vries tells JTF: “NFC has four projects with Italian owners spread over different funds, involving Panamax bulkers and LPG.” He also pointed out that other investment funds, notably First Ship Lease (originally sponsored by a handful of German banks prior to the recent launch of its listed Trust in Singapore) have funded vessels for Italian owners. Efibanca’s Vittosi told JTF: “Our structure will not be a holding company; it will be similar to that used in the European private equity firms- with a management company and individual funds.” He added described the current private equity environment as “in a bit of a bubble now,” and was quick to add; “That’s why we’ve gone with what we know

When asked about the willingness of Italian owners to consider funds as a finance source, DVB’s de Vries said, “This appetite has been noticed by local banks and they want to enter this market.” DVB’s Hugo Modderman chimed in: “We have been active with Advisory, M & A, and sale/ leasebacks- the NFC funds have been active and successful. We have a great deal of liquidity in the NFC system.”

Efibanca’s Vittosi also provided JTF with color regarding tax lease structures, saying: “The Confitarma is speaking with appropriate government people regarding Civil and Fiscal rules to allow for an easier introduction of tax leasing. If it comes about, it will be based on the model of the UK tax leases, and will require vessels to be in the Italian flag for at least five years.” When asked about likely capital allowances, he commented: “There won’t be a direct grant- but there will be a fast amortization of the vessels with a shielding against the 33% corporate tax- delaying the payment of tax installments.”



