



By the end of 2007, 100 Aframax vessels are due to be delivered: DVB claims that the tanker sector is oversupplied and there is not enough demand to accommodate this increase

DVB Bank takes a cautious approach

Transport finance bank DVB has voiced concerns that the high growth rates in the newbuilding sector could eventually lead to supply outstripping demand

DAGFINN Lunde, head of shipping and board member at DVB Bank, cannot stress strongly enough that there is too much capacity coming into the market, and therefore a need for caution.

"Everybody is optimistic about continued global growth, but even with a high growth rate, the market is worrying as supply is set to outstrip demand," he says at the bank's shipping headquarters in Rotterdam. "It is our view that there will be lower growth for a while, which will, in turn, exert further pressure on the shipping markets."

There is little the bank can do, he adds, but it believes the market will come down and DVB is being very careful about the level of its finances. Even though, for instance, containerships have had another very good year, margins are starting to come under pressure. "With higher asset prices a bank has got to have the right risk structures," states Mr Lunde.

"Banks are asset hungry at the moment with a particular appetite in many cases for ship assets.

This is good news for our syndication team, which has experienced great success in the current environment." He stresses that DVB is willing to walk away from deals. "A lot of deals are not being done. The problem is that buying a ship may cost double than what it did two and a half years ago. The risk for a bank in financing a vessel for 70% is much greater in a high market, unless it is covered by a significant charter."

The bank does not want to take these risks on. "Customers sometimes go elsewhere, but there are no hard feelings," he reveals. Mr Lunde says he expected values to come down since November last year. "Charter rates have fallen considerably, but until recently asset values have continued to climb, or at least remain steady." The fall is apparent for the rates, but not yet in the values, he adds. "We believe in some sectors, it is just a question of time."

After the summer lull, the rates will come up again, he says, but in his opinion not to the high levels of last year.

On the question of capacity, Mr Lunde is adamant: "The tanker sector is clearly oversupplied. By the end of 2007, 100 Aframax vessels are due to be delivered. There is no way there can be enough demand to accommodate this increase. There are definitely too many ships." Most owners, he says, are cash rich and have a better

balance sheet, so the big question is will they lay them up or push the rates down? "They can afford to push the rates down for a long time," he quips.

DVB is continuing its asset-focused approach. "We are the only bank doing single-skin financing, which many people think strange given the fact that I come from Intertanko, but the sector continues to be all right," says Mr Lunde. "There are not enough double-hulled vessels to be traded in certain sectors of the tanker market and so we do not believe the single hulls can be phased out in the time frames suggested."

DVB looks very carefully at the vessel itself and does not get involved in the single-skin vessels trading heavy fuel to the US. "But are single-hulls really less safe?" he asks.

There are no sectors that DVB does not have a presence in. Of the bank's €9.7bn (\$11.6bn) portfolio, shipping alone accounts for €5.7bn. "We like moveable assets – anything that can float or fly," quips Mr Lunde. Eventually, the bank wants to see shipping account for about 40% of its portfolio, down from the 53% it holds now. Aviation is expected to grow from its current 30% share, so that within the next three to four years both sectors will account for 40% of the portfolio.

In shipping, containerships, bulk carriers and tankers each account for around 14%-15% of the portfolio. But other markets such as offshore and the container box sectors are growing. DVB only started in the container box sector a few years ago and already it accounts for around 5% of its shipping portfolio.

Within the last six months the bank has started a special unit for the cruise sector and, although

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– Dagfinn Lunde,
DVB board member



Mr Lunde believes easyCruise needs larger vessels to make money, he is optimistic about the sector as a whole. "It is much more versatile than it used to be. It was all about the three big cruise companies once, but now there are so many ideas – it really has diversified."

In the tanker sector, DVB is being cautious as it believes it has reached its peak. In the container-ship market, the bank has not been really aggressive in the 8,000 teu sector, preferring to focus on smaller, more versatile vessels, says Mr Lunde.

Offshore is still expanding, he adds: "We are not keen on rigs, but on everything else." With terrific oil prices, money is being thrown into the sector.

DVB has expanded rapidly in the container box sector. "Boxes have been growing very fast since the end of 2003," says Mr Lunde. "There was more competition in shipping so we decided to get into boxes more heavily. It is very much a growing market."

When considering that a new 8,000 teu ship is entering the market each week and that it needs, on average, 2.5 times its capacity in container boxes, that amounts to a requirement for 20,000 containers per week, he stresses. "Each container costs more than \$2,000..."

Charter rates will probably increase again after the summer, depending on the sector, but there will be more weakening in 2006, says Mr Lunde. "I think from mid-2006 a lot of people will be looking around and start to be worried." Many tourist banks had been expanding when the market was peaking, and many have boards that are not so close to the industry, he stresses. "In two years they will have some issues to deal with," he says.

For the rest of this year, Mr Lunde is keeping an eye on the rates to see if they bounce back. However, he stresses that DVB is preparing for the downfall in 2006. "Rates will go down, be very careful!" he warns. ■

Mr Lunde believes Stelios Haji-Ioannou's easyCruise needs larger vessels to make money, although he is optimistic about the cruise sector as a whole

