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Shipping Services

Piloting through calm waters and heavy seas

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“The good seaman weathers the storm he cannot avoid, and avoids the storm he cannot weather.”

Introduction

The economic value of the EU shipping industry

The shipping industry represents an important contributor to the GDP of the European Union, with a total economic impact of around €147 billion and 2.2 million jobs. By operating 60 percent of the world's container ships, 52 percent of the word's multi-purpose vessels, 43 percent of the world's oil tankers, and 37 percent of the world's offshore vessels, the shipping industry creates another €1.6 million elsewhere in the EU for every €1 million of GDP it creates. The EU shipping industry alone directly employs over 600,000 people in sea and land-based jobs, and the average GDP at €85,000 per worker largely exceeds the EU average of €53,000 per worker.[1]

Supply overcapacity

The widespread oversupply of capacity across fleets has shown no immediate sign of reducing. Charter and freight rates remain low by historical standards because of this excessive vessel supply, which in conjunction with excess leverage has caused a collapse in the secondary market for vessels. The economic viability of ultra-large container vessels has also been called into question. A recent study by the OECD together with the International Transport Forum (ITF) has found that economies of scale from today's mega-ships are four to six times smaller than those in previous periods of upsizing.[2] Furthermore, most of the cost savings of the largest container ships are not related to size, but to the design and changing modus operandi of the liner shipping industry. Modern 19,000 TEU vessels offer significant cost savings compared to the first 15,000 TEU ships, but between 55-63 percent of those cost savings can be attributed to slow steaming,[3] which has become an inherent feature of their new generation of ships.

The finance/refinance challenge

There has also been a contraction of available financing and refinancing from traditional shipping banks exacerbated by existing owners' inability to raise funds through vessel disposals. Lenders remain concerned about the ability of shipping companies to service their loans and have been looking to exit underperforming exposures. Private equity firms have partially replaced traditional shipping banks. To manage the asset, private equity firms and hedge funds approach ship managers and hire them to run acquired fleets as well as team up through partnerships and joint ventures.

Regulatory changes

The Asset Quality Reviews (AQRs) and Stress Tests undertaken by the European Central Bank have accelerated the deleveraging process of European banks. In addition, half of the banks surveyed in Deloitte's Sixth Global IFRS Banking Survey believe that loan loss provisions will increase by up to 25 percent across asset classes upon transitioning to the new International Financial Reporting Standard 9 (IFRS 9) forward-looking "expected loss" impairment model, issued by the International Accounting Standards Board (IASB) on 24 July 2014 and taking effect on 1 January 2018. This will force banks to put aside more capital or further contract their balance sheets and accelerate the restructuring, disposal, or securitization of distressed shipping exposures (loans).

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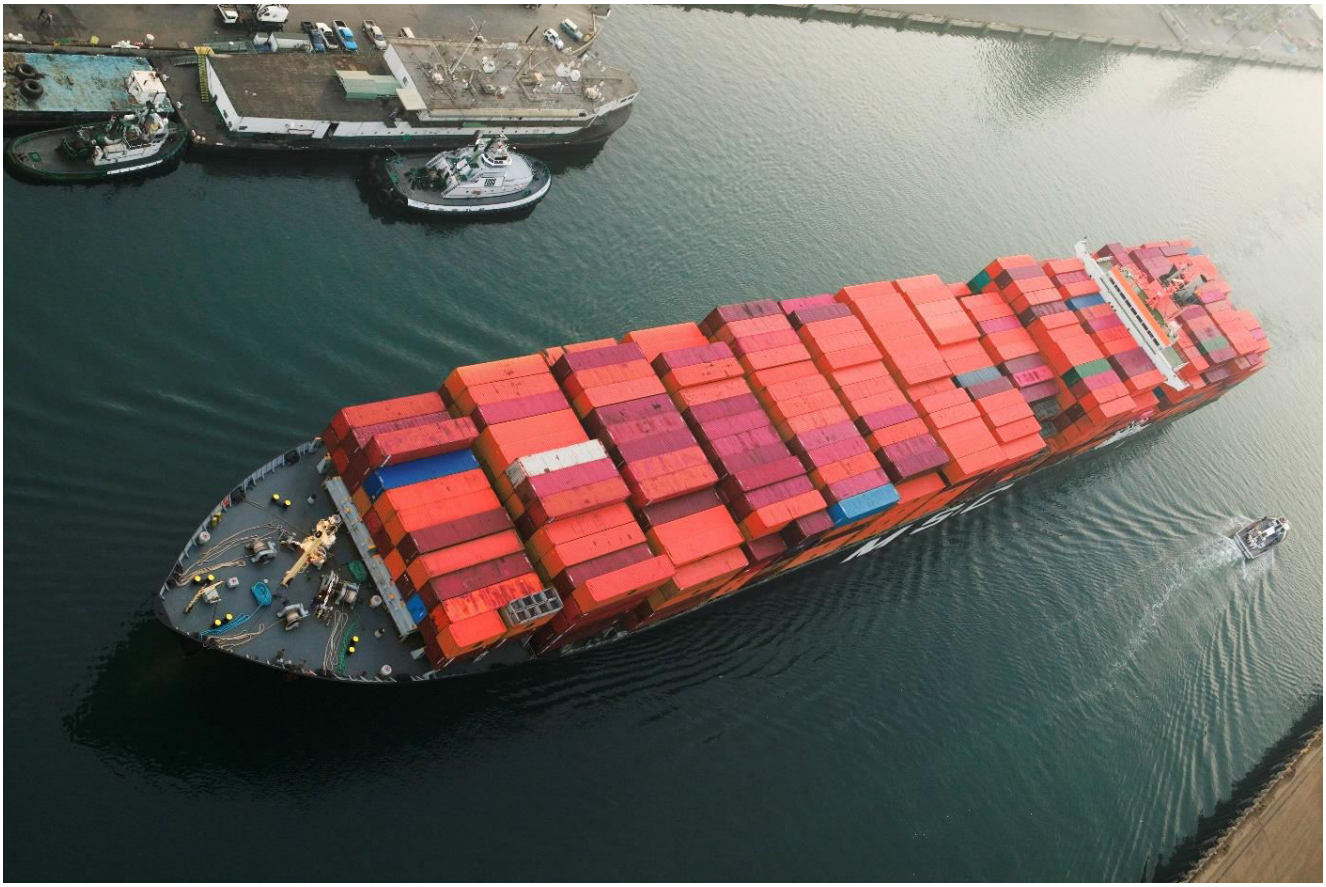
[1] *The economic value of the EU shipping industry – update*, Oxford Economics, February 2015.
[2] *The impact of Mega-Ships*, Organization for Economic Co-operation and Development & International Transport Forum, 2015
[3] Slow steaming refers to the practice of deliberately slowing down the speed of a ship to save costs and to avoid laying up ships in a context of severe supply overcapacity.

Why work with us?

Forming part of our Global Energy & Resources group, our growing shipping team has in-depth expertise enhanced through regular networking and global knowledge sharing platforms. This ensures clients have up-to-the-minute advice and detail on market developments. Deloitte member firms have an established track record within the shipping sector and, as a consequence, have the specialist skills and market knowledge to help clients at all stages of their business' development.

The decision to work out sub-performing or non-performing loans requires an assessment of the cost effectiveness of a repossession and a potential sales process compared to a comprehensive restructuring. Deloitte Luxembourg offers support to vessel owners and operators, banks, and private equity investors during the review, workout, and restructuring, as well as professional advice on restructuring options.



What do we offer?

Securitization and Restructuring Services

- Independent business reviews
- Performing, sub-performing, and non-performing loan analysis
- Advising and assisting with business closure, downsizing, and asset dispositions
- Crises management and stabilization
- Formulation and execution of a comprehensive and sustainable debt restructuring plan
- Operational and financial restructuring plan development and option analysis
- Securitization advisory for performing and non-performing loans
- Advising and assisting in insolvency and restructuring proceedings to protect investors, shareholders, and vessel owners
- Assisting with evaluation and monitoring of collateral maintenance covenants in loan agreements
- Assisting with standstill negotiations with lenders
- Assisting with asset lending terms negotiation
- Share pledge enforcement and vessel repossession options analysis
- Formulating schemes of arrangement with lenders and creditors based on the current financial position and future earnings prospects
- Negotiation of terms and conditions of scheme of arrangement and finalizing documentation with lenders and creditors and their legal counsel

M&A and Transaction Advisory

- Deal advisory and structuring, specifically focusing on sales and divestures, acquisitions, spin-offs, mergers, and joint ventures
- Designing an appropriate funding structure
- Finance sourcing, assessment of investment opportunities, and Sales and Purchase Agreement (SPA) negotiations
- Preparing and reviewing business plans
- Financial forecasts and financial modeling including stress testing and scenario modeling, asset cash flow roll-outs, portfolio level aggregations, debt and payment waterfalls (Senior, Mezzanine, Junior), covenant monitoring
- Financial due diligence (buy-side assistance):
  - Profile of ships by age, ship type, size, flag (including any parallel flagging agreements) and registered owner
  - Reviewing and summarizing Classification Society Records
  - Reviewing and summarizing charter and freight agreements, encumbrances, mortgages, maritime liens, and other debts
  - Reviewing and summarizing charter and freight rates, remaining charter and freight terms, termination clauses, notice periods and termination fees, quality of charter parties and related receivables, liability of the charterers for defects at the end of the charter term, and vessel purchase options
  - Identifying major upcoming capital expenditure including dry dockings, special surveys, and modifications as a result of regulatory changes (e.g., modification of exhaust gas treatment systems [EGTS] and fitting of ballast water tanks)

- Reviewing and quantifying of forward freight (e.g., Baltic Dry Index [BDI] futures over the International Maritime Exchange [Imarex] and Over-the-Counter [OTC] futures) and bunker fuel agreements
- Identifying exposure to crew social security payments and severance pay, notice periods, and termination fees
- Debt structure of the target company and analysis of the existing financing terms and conditions
- Financial review of operations, including both historical financials and financial projections
- Review of accounting policies including capitalization, useful life, depreciation and residual value, past revaluations
- Quality of earnings, normalization of income and expenses and key financial performance indicators
- Arranging for vessel inspections by qualified inspectors, diving survey of the vessels' underwater hull by an underwater diving survey company, and liaison between the ship owner, the vessel, the inspector, and the client

Asset and Collateral Valuations

- Valuation assistance (vessels and loans) at acquisition or disposal
- Impairment reviews
- Fair valuation under multiple GAAP

Tax

- Tax-efficient planning and structuring, selection of appropriate investment vehicles, VAT optimization
- Cross-border tax compilation and reporting
- VAT analysis and reporting
- Transfer pricing

Assurance and Accounting

- Statutory, contractual audits, IFRS, agreed upon procedures
- Accounting services for entities in multiple locations
- Multi-GAAP (local, IFRS, US GAAP, etc.) accounting, financial statement compilation and consolidation

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