New York welcomes Baltic's plan for $230m flotation

Shaerf: New York will lead the way when the global ship finance recovery begins.

Shipping is making a return to capital markets although junk bond issues are expected to dominate

Rajesh Joshi
New York

BALTIC Trading's proposed initial public offering of $230m in New York is expected to be well received by investors, but the deal is not seen as a sign of the shipping IPO market having sprung to life.

Market observers, however, expect a heavy influx of shipping companies to issue junk bonds, or high-yield notes, in the final quarter, mainly via the US markets.

This would represent a major return of shipping to the public capital markets after last year's devastation. Against this backdrop, an 'I told you so' air pervaded New York City as news of Baltic's surprise announcement spread around finance circles.

> **"With the doors of shipping banks closed in any case, and when high-yield offerings in New York are skyrocketing, who would want to miss the opportunity to get rid of the bank debts altogether?"**
>
> **Peter Shaerf, chairman of New York Maritime**

Peter Shaerf, chairman of New York Maritime, the non-profit organisation dedicated to promoting New York as a shipping centre, said Nymar had all along predicted that New York would "lead the way" when the global ship finance recovery began.

"Certainly at Nymar, as champions of the capital markets, we are thrilled to see a new IPO on the horizon," Mr Shaerf told Lloyd's List.

"Peter Georgiopoulos, perhaps more than any individual, embraces the vision and the ideal of New York as the leading capital market for shipping. It is hardly surprising that he is leading the charge. Given his excellent track record, we would imagine that the offering will be very well received."

However, Mr Shaerf agreed that IPOs in today's environment would remain "difficult to implement", Baltic's expected success notwithstanding.

Mr Shaerf described the Baltic prospectus as "opportunistic and selective, [which] reads almost like a textbook spin-off". Such a unique example was not a sign of an IPO revival, he said.

Baltic is an offshoot of Genco Shipping & Trading, but the flotation entails no dilution for Genco in that no Genco ships are changing hands.

Both companies share the same office address and phone number, as well as central management. Baltic boss John Wobensmith, who is Genco's chief financial officer, is to retain the latter position too.

Baltic is being positioned as a vehicle that will acquire ships to trade in the spot market, against Genco's enshrined purpose of occupying the timecharter space.

Baltic will have a war chest of $300m assuming a successful IPO, and plans to buy up to seven ships by the end of 2010.

Genco, even after contributing $75m to Baltic to become a minority shareholder, has ample resources to grow its own 35-strong fleet, with a remaining cash balance alone of some $150m.

Experts are curious as to how Genco and Baltic will resolve conflicts of interest, especially when ships that would be attractive additions to either company are available for purchase.

Would Mr Georgiopoulos, who chairs both companies, and Mr Wobensmith let Genco buy the ship and attach a timecharter to it, or would Baltic have free rein? Likewise, if an attractive Genco ship rolls off a timecharter, would Baltic get to, or have to, buy it?

Entertaining as they are, experts do not see these scenarios as problems. Both companies are publicly listed, are well managed, and have what it takes to keep their ducks in a row.

Baltic's prospectus was understood to have taken even a few insiders by surprise when unveiled on Wednesday. News of the IPO became public in the absence from New York of both Mr Georgiopoulos and Mr Wobensmith.

Meanwhile, several shipping issuers are understood to be lining up to raise cash through the high-yield bond market in the final quarter of the year. Mr Shaerf said junk bonds, across all industrial sectors, raised $19bn in September, one of the biggest monthly totals in the history of the high-yield market.

It is estimated that in 2009, $150bn would be raised via junk bonds in all industry segments.

Around 71% of the $19bn raised in September was to refinance bank debt — in other words, 71% of the $19bn was "replacement capital" and not fresh cash.

If one excludes offshore companies from traditional shipping, the industry's participation in the high-yield market has been negligible so far this year.

However, Mr Shaerf said the 71% statistic points to a heavy influx of shipping companies into the high-yield market in the coming weeks.

"The fact is that most shipping companies, despite waivers, are likely to be in breach of loan to value covenants again next year," Mr Shaerf said.

"With the doors of shipping banks closed in any case, and when high-yield offerings in New York are skyrocketing, who would want to miss the opportunity to get rid of the bank debts altogether?"