Lloyd's List
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Price it higher?

ITALIAN shipbuilder Fincantieri found a valuable gift under its tree in the run-up to Christmas when it purchased South Korea-based STX Group's entire 50.8% stake in STX OSV, the well-regarded builder of offshore supply vessels.

The deal, worth S$1.5bn ($1.2bn), was snatched up at a 12.9% discount to the pre-acquisition closing price of S$1.40 and will close in the first quarter of this year.

STX OSV is certainly a worthy prize and Fincantieri, which had been named as a possible acquirer for the shipyard for some time, has managed to buy the asset for a sweetheart price.

There is a caveat. Fincantieri plans to make an offering for the outstanding public shares of STX OSV once the STX Group stake sale closes, with the possibility it could delist if it gains 90% acceptance from non-controlling shareholders, according to OCBC Investment Research.

Delisting would make sense for Fincantieri, which says STX OSV fits into its long-term strategy to expand in the oil and gas sector. However, STX Group's sale at a substantial discount smacked of desperation.

The group has suffered cashflow shortages and vowed to sell some assets to shore up its debt position. News that STX Pan Ocean, which owns South Korea's largest dry bulk fleet, was in play broke in early December.

STX Group shed two other assets last year, selling STX Energy unit to Japan's Orix for Won360bn ($339m) and a small shipyard in Norway.

STX Group may have needed to sell STX OSV, which has posted stunning earnings for the past two years, but non-controlling shareholders will not be ecstatic about the low value of the offer. The general offering may run into resistance at such a low price.

The sale of a such a robust business at a low price also begs the question just how tough a spot STX Group is in, and will it be able to walk away with a better price from the sale of STX Pan Ocean?

Unhappy start

JANUARY is naturally peak season for venturing predictions for the year ahead and, while there is normally room in shipping for speculation, the consensus for the 12-month period now upon us is both unusually strong and unusually negative.

Of course there is no unanimity — there never is — and no doubt a wily handful will find ways to make money from operating vessels. But optimists are a rare breed right now and the opinion that recovery cannot be expected until 2014 at the earliest is widespread.

Ravi Mehrotra of Foresight, for instance, is advising investors to steer clear of conventional shipping for the time being, with the possible exception of offshore.

That is all well and good for those happily sitting on a pile of cash and wondering what to do with it, but not much a strategy for the already committed.

The outlook, then, is that many Lloyd's List readers are likely to find themselves at best treading water and at worst joining the corporate casualties that this year will claim.

And, on that note, it only remains to wish you one and all as happy a new year as possible, given the circumstances. ■

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US to report on how Jones Act applies to Puerto Rico

February 28 deadline will be met, says Congressional investigative arm

Rajesh Joshi — New York

THE $350m project for a pair of liquefied natural gas-powered Jones Act containerships for the Puerto Rico trade announced by TOTE Inc last month is being launched on the eve of a highly awaited US Government Accountability Office report on the costs and benefits of the US-built requirement of the law as it pertains to Puerto Rico.

TOTE's order at Nassco comes amid a concerted effort by certain quarters to get the US to rescind the US-built clause for Puerto Rico, and potentially for Alaska and Hawaii, via a so-called "sunset waiver", while upholding the two other Jones Act requirements on US ownership and US crewing.

TOTE chief executive Anthony Chiarello said the timing of the Nassco order was not connected with the impending GAO report, and that TOTE had begun its study of the project before GAO announced its study.

"It is somewhat amusing that people would think we have $350m available just to impact the outcome of a GAO report," Mr Chiarello said.

Still, this has not prevented some commentators from seeing the TOTE order as a robust and cleverly timed defence of the Jones Act by US shipping and shipbuilding interests who oppose abolishing or changing the 1920 cabotage statute.

These experts believe the GAO now would find it impossible to jettison the US-built clause, when shipbuilder Nassco stands to generate new jobs because of the TOTE order.

"When events happen after the scope of any report has already been spelt out, it is GAO practice to go back to the requesters to discuss these events and how it affects the scope. However, at this time, I am unable to say whether we have taken this step [in the Puerto Rico process]."
Lorelei St James


Some parties want to rescind the US-built clause for Puerto Rico, while keeping Jones Act requirements on US ownership and US crewing.

The GAO, the investigative arm of the US Congress, has pledged to issue its report before February 28. The document would address a request last year by Pedro Pierluisi and Gregorio Kilili Camacho Sablan, Puerto Rico's Congressional representatives, who want to establish whether the Jones Act negatively affects the island economy.

GAO has been canvassing stakeholder opinions and studying operating costs of foreign-flag ships versus Jones Act ships trading to Puerto Rico, and specifically whether the US-built clause affects this market.

Lorelei St James, director of the GAO's physical infrastructure team, confirmed that the agency intends to publish the report by February 28, but did not comment on the TOTE order or its timing.

"When events happen after the scope of any report has already been spelt out, it is GAO practice to go back to the requesters to discuss these events and how it affects the scope," Ms St James told Lloyd's List.

"However, at this time, I am unable to say whether we have taken this step [in the Puerto Rico process]."

Some Jones Act opponents are already viewing the TOTE order as a setback.

Robert Kunkel, a veteran executive and former Jones Act mariner with long experience in shipping and shipbuilding, said the TOTE order was "perfectly timed, politically speaking".

Mr Kunkel is affiliated with Per Heidenreich-backed Coastal Connect, which in 2010 abandoned a plan to build dual-fuel ro-ros for the Jones Act trades because no US yard could match the $50m per ship price limit that Mr Heidenreich and his team had set.

Despite the new employment created by the TOTE order, it still amounts to a "wrong" application of the Jones Act, Mr Kunkel said.

Mr Kunkel views the preservation of US-citizen merchant mariner jobs as the only important aim of the Jones Act.

The US is no longer a competitive international shipbuilder in several vessel types, so it is only sensible to discard the US-built requirement for the larger good, he believes.

"Whether ships use LNG or not, only a sunset waiver for Puerto Rico will lead to a true rebirth of US-owned and US-crewed coastal shipping"
Robert Kunkel

"The Jones Act is a 'three-legged stool' [US-built, US-owned and US-crewed]," Mr Kunkel said.

"Highlighting seagoing jobs might seem selfish in today's economy, but the stool now needs to balance on two legs, at least in certain trades.

"Whether ships use LNG or not, only a sunset waiver for Puerto Rico will lead to a true rebirth of US-owned and US-crewed coastal shipping." ■

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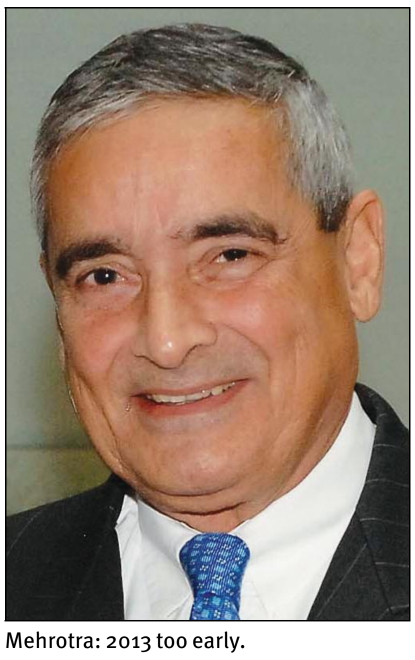
Stay out of shipping for now, says Mehrotra


Mehrotra: 2013 too early.

Tom Leander — Hong Kong

RAVI Mehrotra, chairman of London-based Foresight, has taken a swipe at the world's ship finance banks' financial condition and tight lending, saying 2013 is too early to invest in shipping, leaving offshore assets the best bet for investors seeking maritime profits.

Foresight owns three jack-up rigs and has another on order at Cosco (Dalian) Shipyard for $170m, with an option to build two more. Mr Mehrotra is well known in the tanker world for selling off his fleet before the collapse of the tanker market.

"The only sector which is showing signs of growth is the oil sector. The consumption of hydrocarbon resources is increasing despite the slowdown of the western world," Mr Mehrotra said in a new year message to Foresight stakeholders.

Speaking to Lloyd's List, Mr Mehrotra said: "I know some investors are making their bets now, but I just don't see the green shoots yet. The supply overhang is still too large."

From 2011, there has been an increase in private equity participation in shipping assets, most recently with US-based Oaktree's purchase of the shipping portfolio from Lloyd's Bank for a reported $800m.

In his message to stakeholders, Mr Mehrotra paints a scenario of central banks in developed nations printing money to buy back the "defunct financial instruments held by various banks around the world".

"They are doing this so that the major Western banks can refinance themselves by exchanging these defunct notes," he said.

Preoccupied by problems that began with the 2008 financial crisis, banks are withholding lending, particularly to small and medium-sized companies.

"The only thing you can do in an environment of cash crunch and a continual devaluation of currencies is invest in businesses that offer both reliable cashflow and an increase in asset values," Mr Mehrotra said.

Only the offshore business presented this opportunity in the maritime world now.

"If we can generate enough cash surpluses, then we can confirm the building of two more rigs in China on which the group already has options," Mr Mehrotra said. ■

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