When to undertake shipping IPOs- timing is everything

The current year had started on a very optimistic note, as freight rates in the drybulk and tanker markets were the strongest they had been in a long while.*

The market's performance was exceptionally commanding when framed in the six month window between the summer of 2013 and first two months of this year. This was a period in which freight rates for Capesize bulkers and VLCCs showed a tenfold expansion.

Such strength in freight rates was duly reflected on the capital markets and was epitomised by the M&A activity of 15 VLCCs from Maersk Tankers to Euronav for just short of one billion dollars and subsequently, the acquisition of seven VLCCs from Scorpio Tankers by interests affiliated by the Peter Georgiopoulos group for about $750 mill.

Product and gas tankers had also been enjoying a period of strength on the back of the game changing US shale oil market that proved beneficial for these vessel segments. This market strength encouraged several IPOs, such as Scorpio Tankers and Ardmore Shipping (product tankers) plus Navigator Gas, BW Gas (LPG) and Dynagas (LNG), but decimated the crude tanker market on the back of weak crude oil imports into the US.

On the back of the market's renewed strength, besides the enthusiasm and preparatory work, there have been several filings for IPOs in the tanker markets, some public and a few private, plus several road shows.

However, two abortive efforts seemed to dampen the enthusiasm for the tanker markets. Diamond S, the WL Ross-sponsored product tanker company failed to obtain public listing as did Stalwart Tankers in the chemical tanker segment.

The disappointment from these two road shows should not be regarded as negative, as their failure was relative and the outcome was transaction specific. To make it clear, Diamond S would have had a successful listing should the price obtained – at discount to NAV – deemed to be acceptable by the seller. The vessels, the asset class and the management were solid, just that the pricing hurdle was set exceptionally high – compared to the historical cost basis.

Not attractive

For the Stalwart Tankers road show, although pioneering the stainless steel tanker market, the package of vessels on offer was not the most attractive in terms of age. Also, size was not sufficient enough to have critical mass (EBITDA of less than $2 mill in 2012), plus just five vessels in the water and several of the proposed acquisitions deliverable too far forward (as late as 2017).

It has also to be noted that the timing of both of the above road shows – especially the latter – coincided with an overall declining financial markets, due to macro, global, or geopolitical events (heightened debate about the end of quantitative easing and the events in Ukraine).

At the time of the road shows, the freight market was not at its best since product tanker rates had dropped to $10,000 per day. In short, the fact that these two road shows didn't result in successful listings should not be discounted across the tanker market overall - it was just that the market had already peaked.

On the secondary offerings market, in early March and about the same time of the above two road shows, Ardmore Shipping was very successful at raising an additional $90 mill in the product tanker market and in April, Tsakos Energy Navigation also raised $80 mill in the crude tanker market.

Both of these secondary offerings were priced at slight discount to NAV, which emphasises two corollaries: if investors have a choice of investing in shipping with established companies at discount to NAV, why should they invest at NAV for IPOs? And, second, that the financial markets were not shut at all to shipping; just that those two IPOs didn't materialise as planned.

Diamond S has made it abundantly clear that it will be returning to the markets in due course in the hope of better pricing. In the interim, another private equity-sponsored tanker company – Principal Maritime sponsored by Apollo, has publicly filed for an IPO and the market is buzzing with hopefuls lining up to subscribe

It is encouraging to see shipping back on the capital markets' radar after such a long hibernation period; however, the impact of the above mentioned failed IPOs notwithstanding, there have been many hopefuls aiming at the capital markets that are not even remotely qualified for such effort, in our opinion.

Probably, going forward, it may be more bizarre to see poorly qualified companies on the road show catwalk than the capital markets for shipping while it exits in its perma-frost phase. And, having overly ambitious companies to put it mildly, on the road show circuit, doesn't serve the shipping industry well.

There are plenty of investment opportunities in shipping still and many qualified management teams. Probably the best legacy of the horrendous down cycle would be a better bunch of shipping IPOs than those seen in the last decade. TO

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