

SHIPPING SALE & PURCHASE MARKETS

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In 2006, approximately USD 35 billion worth of vessels (all categories of commercial vessels) were transacted. The sales volume is about half of Ukraine's GDP or it roughly corresponds to USD 117 "ship sales" for each American.

Business has not always been so robust; only as far back as in 2002, the total volume was around seven billion (nominal) US dollars.

In the last five years, as shown in Figure 1, there has been a noticeable increase in Sale & Purchase activity. Both the volume of the number of vessels sold and the total purchase price have increased manifold. However, while the number of vessels has increased by a multiple of two in the last five years, sales volume in nominal dollars has increased by a factor of six. An impulsive explanation for such a differential would be either an increase on the size of the vessels sold, the price per vessel or a combination of the two variables.

In Figure 2, total vessel sales - expressed as cumulative deadweight sold on the left axis - has more or less doubled in the last five years from forty to about eighty million deadweight tons. In the same period,

the price paid per deadweight ton (USD / DWT) has increased by roughly a factor of three. Obviously, the increase in asset prices has outpaced deadweight sales, which is not a new concept. Asset prices are at historically high levels as any broker, owner, charterer or banker would tell.

Figure 2: Historical Vessel Sales (Total Deadweight Tons and Price per Deadweight ton paid)

Against this panoramic view of the asset pricing market, certain characteristics of the market stand out. Sales of capesize vessels have been the glaring stars on the dry-sector universe. The Baltic Exchange

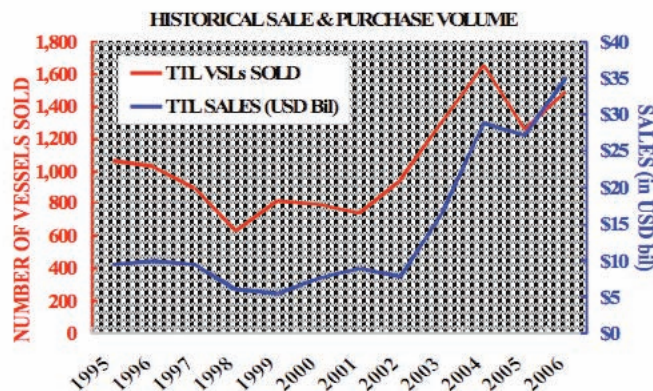


Figure 1: Historical Sale & Purchase Volume

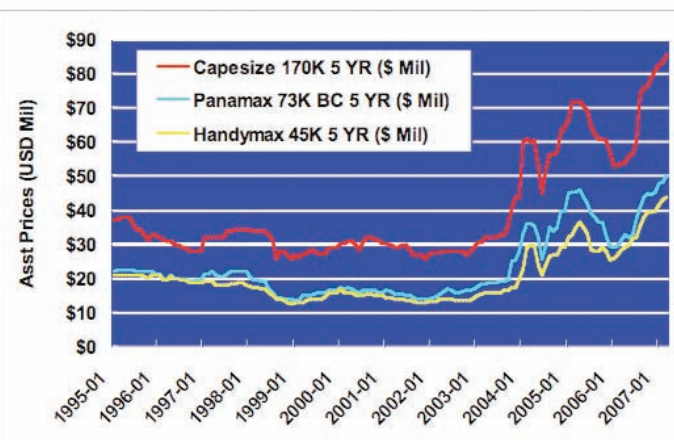
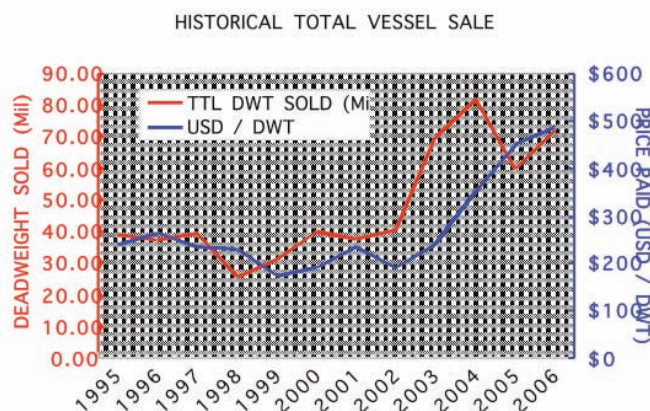


Figure 3: Dry Bulk Vessel Asset Prices

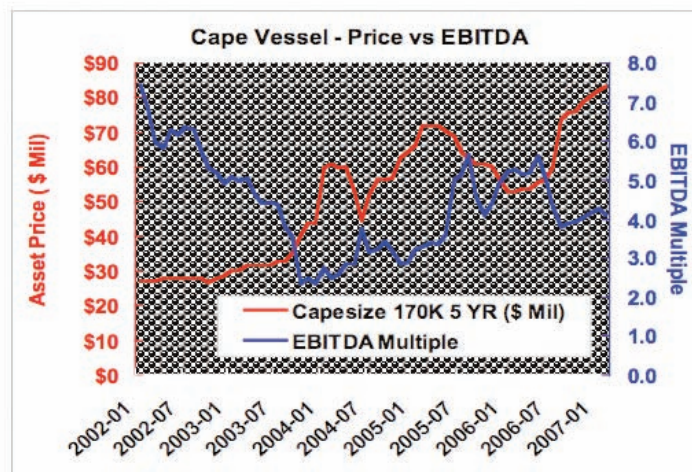


Figure 4: Capesize Vessels - Asset Price vs EBITDA Multiple

Index (BSPA), whose panel membership includes Compass Maritime, places the value of a standard 5-yr old Capesize vessel at USD 88.65

MM on March 5, 2007 (See Figure 3). Recent prompt sales of two-year old vessels have been confirmed at USD 110 million. While such price tags might seem expensive in absolute terms, they represent investment opportunities at about 7x EBITDA multiple for brand-new vessels with prompt-ish delivery given the very strong freight market. For 5-year old Capesize vessels, the EBITDA multiple hovers around 4x (See Figure 4). Also noteworthy, even high asset prices such these can still be accretive for certain type of buyers.

In terms of EBITDA multiples, Capesize and Panamax vessels offer the best investment opportunities, while the attractiveness of investment, on this metric alone, is diminishing with the size of the vessel.

Asset prices in the tanker sector, crude oil price gyrations notwithstanding, have been relatively less volatile than in the dry sector. With a weak hurricane season last year that has affected trading patterns and timing, and compounded with an unusually mild winter and high crude oil inventories, it has led to lower levels of enthusiasm in the sale and purchase market (See Figure 5). Still, tanker asset prices remain robust (with the Baltic Exchange Sale and Purchase Index at USD 117, USD 65 and USD 47 million for 5-year old VLCC, Aframax and 45K DWT Product Tankers, respectively on March 5, 2007).

Investments in projects in the tanker sector have, as a rule of thumb, a higher EBITDA multiple than projects in the dry sector and thus are less appealing, with the product tanker sector the least compelling. In Figure 6, the EBITDA multiple for a five-year old VLCC, basis 12-month TC rate of USD 41,000 pd, is slightly below ten; on average, publicly traded tanker companies trade at PE single-digit multiples.

The disparity in the dry and wet sectors can be seen clearly on the Baltic Indices (See Figure 7). The Baltic Dry Index (BDI) has been on an

uptrend since early 2006 and currently it is slightly below 5,000; of this increase, about 1,000 points, or 25% percentage increase, has occurred since October 2006. The all time high for BDI of 6,208 was registered in early December 2004. On the other hand, the tanker indices (Baltic Dirty Tanker Index -BDTI- and Baltic Clean Tanker Index -BCTI) have been hovering around the 1,000 mark since early last year and far below the 3,000 highest mark for the crude oil tankers in late 2004.

There is no question that asset prices are high in absolute terms. On the other hand, we are fortunate to live in peaceful times, with the world economies in a growth phase, increased trade patterns, an enormous middle-class emerging in developing countries, and companies are sourcing the best combinations of inexpensive resources and manufacturing and a worldwide distribution system. After all, it might not be the best of times, yet!

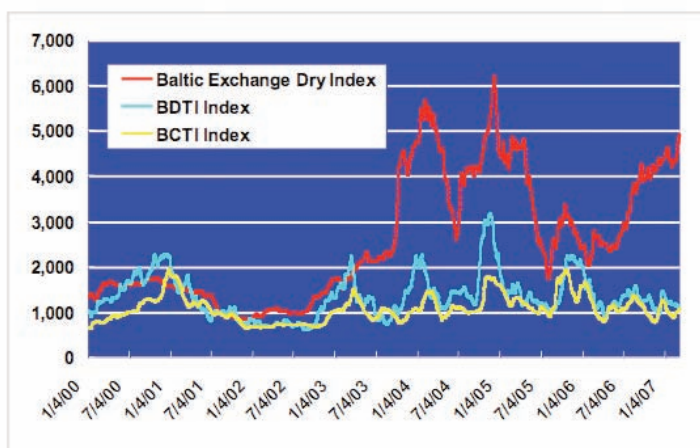


Figure 7: Baltic Indices

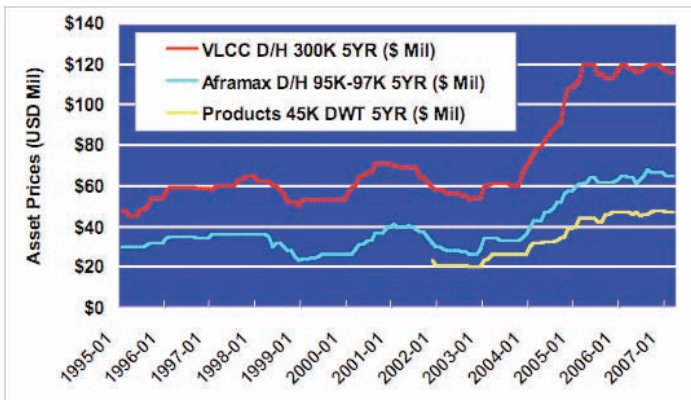


Figure 5: Tanker Asset Prices

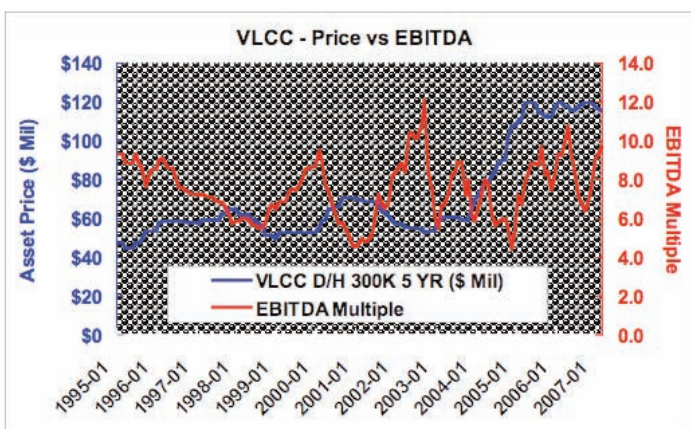


Figure 6: VLCC - Asset Prices vs EBITDA Multiple

Basil Karatzas is Vice President for Projects & Finance with Compass Maritime. Basil has been involved in several vessel sale and leaseback transactions, leases, vessel sales, valuations, market research and business development. Basil holds an MBA in Finance and International Business from Rice University. Compass Maritime (www.compassmar.com), based in Fort Lee, NJ, is a well-established Sale & Purchase brokerage office with an extensive list of clients worldwide. Compass is active in the sale and purchase in the dry and wet market segments (crude oil, products and chemical tankers), containership markets, Jones Act and U.S. Flag markets, and vessel recycling. Compass is member of ASBA (Association of Ship Brokers and Agents) and a panel member of the Baltic Exchange for Sale & Purchase and Demolitions.

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