

The secrets of shipping magnates

How they profit in owning trading ships at low risk

by Nicholas Wirth, Doris Maritime Services

The fortunes of the likes of Onassis, Naess, Frederiksen, Goulandris, Aponte are legendary, and there are hundreds of others like them. They manage to profit through good markets and, often, bad and they are not alone: many knowledgeable investors have made very good money investing alongside shipping entrepreneurs. Some examples:

In April 2003, one of our clients made a \$500,000 investment to net lease a small container ship. The lease included a continuing purchase option and a purchase obligation at the end of the four years lease for an amount equivalent to the vessel's steel scrap value. The client entrusted the crewing, technical and commercial management of the ship to Doris Maritime Services S.A. (Doris) who arranged a series of profitable short term operating leases. In April 2005 Doris advised the client to take advantage of the increase in second hand values and the ship was sold for \$5m; a net profit (operating lease less costs, initial investment and purchase option plus sale proceeds) of \$5m over two years on an investment of \$500,000. Of course, in the meantime the manager had to enrol a capable crew, repair and maintain the ship in spick and span seaworthy condition, insure her and find suitable employment covering all the running costs and the rent to her owner. Still, an interesting and profitable partnership.

Clearly, not all shipping investments are as rewarding. What makes the difference? Well the state of the charter and second hand markets are certainly the most important factors, but the insight into how and when to invest, and how to keep the investment perking along until maturity, lies with the investor's principal partner: the ship manager. A competent ship manager understands the market, ships and their crews. The ship manager understands how and where to locate viable opportunities, what must be done to insure that profits during the investment are maximised and when they should be liquidated.

Perhaps the most useful service a ship manager can provide is advice as to when to invest and when to disinvest, and investors not familiar with the industry disregard this advice at their peril. In January 2000, a client group invested \$1m as the equity in a second hand container ship, appointing Doris ship manager. Doris refurbished the ship, arranged a profitable operating lease and operated profitably until the lease expired. At lease expiry the second hand market was depressed and Doris recommended a series of short term operating leases that would have provided cash flow while waiting for an opportunity to dispose of the vessel at a profit. The clients, however, having experienced significant stock market losses in the 'dot.com bust', decided to sell resulting in a loss of 10 percent of their investment. In the fullness of time the manager's advice proved sound; over the 12 months following the sale of the vessel the second hand market recovered to the point where the vessel, had it been retained, could have been sold for a profit equivalent to 500 percent of the initial investment.

Success or failure aside, it is not always possible to take advantage of every opportunity. In April 2003 Doris arranged the purchase of six container ships at the total price of \$27m. The transaction required \$9m in equity, but investors were at the time undecided and the transaction was ultimately concluded by a Greek ship-owner. By April of 2004 those same vessels had a value in the second hand market of \$72m!

Independent ship managers such as Doris tend to focus on small, niche transactions where good returns can be generated with relatively small investments. For well capitalised institutional investors there are similar opportunities in very large transactions involving numbers of new vessels leased to major operators. For example, the large German KG or tax investor market raises about €3bn in equity per annum, equivalent to investments worth \$9bn per annum, mostly into new container ships. Another example is the recent



Doris also develop and participate in shipping investments

popularity of IPO's and "Blank Check" companies receiving support in New York and other international financial markets.

With both large and small investments, however, the ship manager's role remains unchanged: to insure the safe, cost effective operation of the investor's assets and to assist him to maximise the return on his investment at minimum risk.

Doris Maritime Services S.A. is a Geneva-based ship manager established in 1983. Doris, both in Geneva and in affiliate/joint venture offices in Netherlands, India, the Philippines and the US, has broad experience in crewing and managing virtually all types of vessels. In addition to crewing and technical management, Doris also develops and participates in shipping investments, co-investing with individual and institutional investors, raising equity, arranging bank financing and commercial employment to insure the success of the venture.

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