

# BUNKERSPOT

INDEPENDENT INTELLIGENCE FOR THE GLOBAL BUNKER INDUSTRY

[www.bunkerspot.com](http://www.bunkerspot.com)

Volume 7 Number 1 February / March 2010



**CHANGING TACK:  
The race to  
zero emissions**

## Inside:

- Mergers and Acquisitions
- Spotting Opportunities
- Bunker Books
- Pricing Strategies
- People and Places
- News and Events

# Purchasing power

*Lesley Bankes-Hughes looks at recent deals in the bunker sector – and asks what is driving M&A activity in these straitened times*

**W**hile the much vaunted ‘green shoots’ of recovery are beginning to emerge in some industrial sectors (and, with an irony of almost breathtaking proportions, seem to be positively thriving in some areas of the banking world), other sectors are still languishing in a state of unremitting economic gloom.

The pulse of the global shipping sector remains perceptible, but it is very weak. Shipping companies continue to suffer swingeing losses and, for some, the ignominy of bankruptcy. A large percentage of the global fleet has been mothballed (with some operators deciding that scrapping is the only option) and credit lines are remaining very tight. Adding to the general malaise is the prospect of a wave of newbuilds flooding into an already saturated market over the next five years or so, and, just to exacerbate shipping’s woes, there are many predictions that oil prices are set to remain relatively high for the foreseeable future.

In this volatile and fragile climate, bunker companies continue to find themselves between the proverbial rock and a hard place. Oil supply is still out of kilter with even the current much reduced levels of demand, marine fuel prices are comparatively high, and chasing payment from cash-strapped customers is a daily problem for suppliers.

In such straitened economic circumstances, most sectors would batten down the hatches, pare down their operational expenditure as far as possible, and wait for the storm to subside. Against such a backdrop, it would be a brave commentator who would predict that the mergers and acquisitions (M&A) sector would remain buoyant. However, acquisitions, joint ventures and alliances are being struck in the bunker sector – even in the doldrums of late 2009/early 2010. The obvious questions are: how – in financial terms – are these deals being struck, and what is the rationale or impetus behind them?

A look at recent purchases and link-ups in the marine fuels sector would seem to indicate that geographical business expansion is still the driver in many cases, with the acquisition of local suppliers, or alliances with them, providing a ‘ready to go’ solution to the difficulty of building up a business profile in a new area. In addition, individual national regulations often demand a partnership with an indigenous operator as a condition of market entry.

Companies may also be looking for deals to increase their existing market share and fleet size, or more cynically, they could be bolstering their operations against the ‘threat’

posed by larger players in a diminishing market. Furthermore, it is also important to step back and take a wider view when trying to spot the drivers influencing M&A activity in the bunker sector. More often than not, marine fuel companies are not isolated, independent entities in today’s commercial world. They are part of larger organisations which have interests in many different areas of maritime transportation and logistics, or, indeed, in other industrial and finance sectors. Some deals may be part of this larger process of vertical integration as companies create more complex and interdependent operational structures – sometimes in an attempt to reduce their exposure in specific business areas which may be highly vulnerable in times of economic freefall.

Currently, the problem of under-capitalisation is a persistent issue in the shipping sector as escalating operating costs erode working capital reserves, leaving little left over for corporate shopping sprees. Many banks have emphatically closed their doors to clients seeking loans for business expansion, so tracking down funds for potential acquisitions can, in today’s paralysed financial climate, be a rather thankless occupation.

One of the headline deals of late 2009 was **Glencore’s** offer to purchase the 51% stake in **Chemoil** held by the family of its late founder, Robert Chandran. The reason for the deal – the family’s wish to divest its interest in the company – makes it a one-off in terms of M&A in the sector, but the bidding interest it generated says a lot about the appetite for deal-making in the marine fuels industry.

The \$233 million cash offer for the holding would effectively value the whole company at around \$449 million – and, at the time of writing, it still remains to be seen how successful Glencore will be in securing the balance of the shares in the business. However, the timing of the deal is quite interesting, coming after the posting of Chemoil’s third quarter (Q3) results in September, revealing a net loss of \$12.6 million and a fall in revenue of some 40% from the year before – precipitated, obviously, by the trading meltdown in the shipping sector.

Glencore’s offer was at a discount of around 21% to Chemoil’s closing share price at the time of the bid. So, perhaps this was a good time to buy from Glencore’s point of view, but what does Chemoil bring to this vast global conglomerate with interests in a plethora of commodities and raw materials?

Perhaps a look at the other rumoured contenders for the Chemoil prize brings us closer to an answer. **Vitol** and **Morgan**

**Stanley** are believed to have been in the bidding race, both organisations with extensive interests in oil trading and other commodities, and what Chemoil could have brought them, apart from its overall marine fuel business, was in a sense, prime real estate in key ports. Sometimes, the niche player has unrivalled access to business opportunities that that even the corporate Goliath can only achieve through the acquisition of a third party 'minnow'.

Chemoil's presence in the United States, Fujairah, Mundra in India, and at the **Helios Terminal** on Jurong Island in Singapore are valuable prizes, particularly given the price tag of \$233 million for the shareholding. There seems to be a voracious appetite at the moment for terminal acquisitions, notably from financial/trading institutions. Not only does terminal storage give the purchaser a valuable physical asset, but it also brings with it the strategically important control of downstream supply – particularly within a crowded competitive market in a major port such as Singapore.

For Glencore, the deal also catapults it up the list of bunker suppliers in Singapore. In 2008, Glencore was ranked as 22<sup>nd</sup> and Chemoil, 19<sup>th</sup>. However, newly released statistics from the **Maritime and Port Authority of Singapore (MPA)** show that Chemoil had climbed to ninth position in 2009, thus giving Glencore an enviable new profile as a supplier in this region.

Building critical mass and extending geographical coverage continues to drive the pace of deal-making in the marine fuel sector, witness **Bominflot's** recent takeover of **SBI**. This gives the German supplier a valuable position in the Amsterdam-Rotterdam-Antwerp (ARA) region, and also extends its overall European operations which, prior to the deal, centred on Germany, Estonia, Greece, Spain and Gibraltar.

Similarly, the **Wrist Group's** recent acquisition history indicates a strengthening of core businesses while pushing into new markets to achieve greater vertical integration and pursue the 'holy grail' of globalisation. One of the group's subsidiaries, **OW Bunker**, has, since 2008, opened a trading office in Geneva in support of its ARA presence, has ventured into Australia, and has also opened a North Atlantic bunker supply station in Fugleford, the Faroe Islands – all independently initiated strategies for growth rather than expansion by corporate accretion. However, the group has also grown its ship supply operations over recent years, and evidence of this strategy surfaced most recently with the purchase of **One Source America**. This, the largest deal in the group's corporate history, will give the business major access to the United States and Canada. In reality, it is often only by taking the acquisition route that entry into such large (and sometimes protectionist) markets can be successfully achieved.

Of course, not all deals have to be cross-border (although the nature of the bunker industry often dictates that alliances will be trans-national). Gaining critical mass in a national market through a step-by-step approach is sometimes a way forward for corporate expansion. In the UK, for example, **OceanConnect** moved beyond London to establish an office in Hull in 2007, and has

just recently announced that it is to become a **ConocoPhillips** marine agent to extend its outreach – a business model that the company says it intends to replicate so as to further extend its UK business.

Over the past two decades it would be fair to say that **World Fuel Services** did much to set the pace in M&A with its acquisition of **Trans-Tec Services, Bunkerfuels, Marine Energy (Arabia), Norse Bunkers A/S, Oil Shipping, Tramp Oil**, and, in 2008, **Henty Oil**. Similarly, no review of current M&A activity in the bunker sector would be complete without a reference to **Aegean Marine Petroleum Network Inc. (AMPNI)**. One industry analyst commented to *Bunkerspot* about its seemingly 'effortless growth when everyone else is suffering'. Many column inches have been devoted to its ambitious newbuild purchase programme, but corporate acquisitions have also figured strongly in its recent strategy for growth. In 2007, it purchased (from cash flow) **Bunkers at Sea** which gave it access to north west Europe, as well as control of a marine terminal. This was followed in 2008 by a foray into the Canadian market with the purchase of **ICS Petroleum**, a Vancouver and Montreal-based marketing and physical supplier.

The \$185.2 million raised through an initial public offering (IPO) in 2006 has, of course, supported the company's ambitions for growth, and it would seem that, even in these harsh economic times, financial institutions are amenable to releasing funds to Aegean – at the time of writing, the company had some \$420 million in working capital credit facilities.

The proposed purchase of the ARA player, **Verbeke Bunkering**, significantly lifts Aegean's market share and will substantially increase its bunker fuel sales volumes. Interestingly, Aegean has chosen to go to the capital market to raise money for what it calls 'certain corporate acquisitions and for general corporate purposes'.

The cost of Verbeke has not been disclosed but most analysts put it at around \$50 million, and many believe that this may be just the start of a fairly assiduous corporate shopping spree.

So how will M&A activity pan out for the bunker industry in 2010, given that few will be able to fund purchases from cash flows which already are under pressure to maintain a company's day-to-day survival and which are functioning as a front line defence against payment defaults. There is little likelihood that banks are going to relax their position on lending to the shipping sector in the foreseeable future, and those bunker companies who are not listed on global stock exchanges (i.e. the majority) will, of course, not be able to go to the market to raise funds.

For those that are listed, perhaps raising money through share issues will solve the liquidity problem, at least for smaller scale acquisitions, as in the case of Verbeke. One industry observer told *Bunkerspot* that while 'funding is very difficult to get hold of for any project', there are signs that raising money through equity issues might be a way forward, and that an increased demand for this funding option has recently been seen in the United States and Norway.

### Blood on the carpet

Companies that are locked in to newbuild contracts are in an unenviable situation, with a 'collapse in loan to asset values', says Mike Vernell, of **Watson, Farley and Williams**. He is more optimistic about the state of the shipping sector in the first weeks of 2010 than in the weeks running up to the end of the year, but, he says, 'overall, sentiment is very subdued' and, as far as the newbuild sector is concerned, 'There is blood on the carpet – if you don't have funds in place to finance a new order, you can kiss it goodbye'.

How many bunker companies will find this a problem will probably begin to emerge in 2010. Newbuild programmes will be subject to delays as companies try to shunt delivery dates from 2011/2012 to 2014/2015. Earlier predictions of major order cancellations look to have been a little off the mark. An analyst at **Drewry Shipping** noted that while there would continue to be some cancellations, 'it will not be the headline figure – not the 50% which has been spoken about'.

Furthermore, while some of the shipyards who embraced the newbuild business so wholeheartedly are now struggling for financial survival, analysts say that it is mainly the second and third tier yards which are really feeling the pressure. Mike Vernell also points out that the Chinese shipyards are better protected than those in Korea and Japan, 'because they demanded bank guarantees on instalment payments – this is a commitment that the banks won't walk away from'.

### Locked into newbuild contracts

Those bunker companies locked into such newbuild contracts, may have little appetite for acquisitions, but they may be more receptive to bid approaches than maybe five years ago. Similarly, even those companies with an enviable geographical reach may well be suffering from client defaults on supply payments. Realistically, this is what it has come down to: if a well-established bunker company is not getting paid for its fuel, it will very quickly have to face up to its vulnerabilities. It may well look either to buy (if it has the funds) a less cash-troubled company to bolster its position or seek a saviour in a competitor who is willing to buy.

The chances are that the ambition of global expansion for bunker players will be put on hold in 2010/2011 – companies are more focussed on implementing survival strategies. As an analyst at **Poten & Partners** told *Bunkerspot*: 'Companies are getting together to survive – the bigger the better right now.' Whatever happens in M&A in the bunker sector in 2010, and whatever gloss companies choose to put on it, the reality is that survival will be the root cause of many deals that will be struck. Come 2011, it's a reasonable assumption to make that there will be fewer bunker players in the market and life for the independents is going to be particularly hard.

*Bunkerspot's* prediction is that marine fuel companies will increasingly find that life will be going forwards as part of a much larger corporation which has multiple business interests – the business culture of the smaller bunker supplier may well be set for a radical change.