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OWNERSHIP, FINANCE AND STRATEGY IN THE SEGMENT OF PRODUCT TANKERS

A Business Historical Analysis

CBS MARITIME

CROSS-DISCIPLINARY AND PROBLEM-FOCUSED RESEARCH AND EDUCATION IN THE MARITIME INDUSTRY CONTEXT

CBS COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

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1. INTRODUCTION

This short report forms part of the ambitious CBS Maritime research initiative entitled "Competitive Challenges and Strategic Development Potential in Global Maritime Industries", which was launched in 2014 with the generous support of the Danish Maritime Fund. The competitiveness initiative targets specific maritime industries (including shipping, offshore energy, ports, and maritime service and equipment suppliers) as well as addresses topics that cut across maritime industries (regulation and competitiveness). The topics and narrower research questions addressed in the initiative were developed in close dialogue between CBS Maritime and the maritime industries in Denmark.

CBS Maritime is a Business in Society (BiS) Platform at Copenhagen Business School committed to the big question of how to achieve economic and social progress in the maritime industries. CBS Maritime aims to strengthen a maritime focus at CBS and create the foundation for CBS as a stronger partner for the maritime industries, as well as for other universities and business school with a devotion to maritime economics research.

The competitiveness initiative comprises a number of PhD projects and five short-term mapping projects, the latter aiming at developing key concepts and building up a basic industry knowledge-base for further development of CBS Maritime research and teaching.

This report attempts to map the fundamental changes in financing methods, ownership structures and strategies within the Danish product tanker segment.

1.1 PURPOSE OF THE REPORT

The report will focus on three chronological phases; the global growth boom, the global financial crisis and the period in the aftermath of the financial crisis including the current situation of the industry.

The product tanker segment is a fragmented and cyclical industry characterized by volatility and a high dependency on the financial sector. It is extremely vulnerable to an unexpected financial crisis, as the investments are long-term but the forecasts only short-term.

By examining the case of five of the biggest Danish product tanker companies with different financing possibilities this project will seek to map the connection between financing, strategy and ownership in the Danish product tanker industry from the years 2004-2014.

The knowledge displayed in this mapping project regarding financing, ownership structure and strategy within the product tanker segment will be processed for teaching material targeted to meet the needs on the newly launched B.Sc. in International Shipping and Trade and specifically for the courses Corporate Finance as well as Shipping Finance and Asset Management. In addition the information will be processed to supplement other teaching material on the new cand. merc. minor course Financial Risk Management in Shipping.

As it is a mapping project the purpose is to describe the observations rather than to analyze the data. This report is focused on the relationship between finance and strategy in the segment of product tankers. The time focus is on the time period from the upswing of the early 2000s via the financial crisis in 2008-09 to the present post-crisis adjustment from 2010 to 2015.

The project is a mapping project and it thus analytical in its nature. It means that the project is based on well-defined key concepts from various academic disciplines including corporate finance, strategic management and business history.

1.2 STRUCTURE OF THE PAPER

The focus of the paper is on five major Danish product tanker companies and the consequences of the financial crisis in terms of changed capital requirements, type of ownership and business strategies. The first section gives an overview of the impact of the financial crisis on the Danish product tanker companies and their financing opportunities. This section is followed by a theoretical perspective on the relevance of the subject and after that the product tanker industry and its characteristics both in Denmark and globally will be presented.

As an introduction to a major part of this report, namely the cases, the methodological approach will be introduced.

The cases are presented in a random order and all consist of a presentation of the company, the historical development, strategic changes, ownership structure and financials. Finally the paper ends up with a short conclusion to the findings.

2. SHIPPING AND FINANCING

It is often argued that the shipping industry is the cornerstone of globalization and that the shipping market is closely linked to the state of the world economy and especially world trade[1]. This close link to the world economy and trade makes the shipping industry one of the most cyclical industries in the world. But even though shipping is very dependent on movements in world trade it is also, as Adam Smith (1776) in his 'wealth of the nations' describes it, *a main facilitator of economic growth*. Adam Smith (1776) argues that the central economic force in a capitalist society is the division of labor, and that the extent to which this can be practiced depends crucially upon the size of the market. A business operating in a town in a country without links to the outside world can never achieve high levels of efficiency due to the small market that will limit the degree of specialization.

He then argued that it is by means of water-carriage that a more extensive market opened to every sort of industry is better and cheaper – it is upon the seacoast that industry of every kind naturally begins to subdivide and improve itself. In addition to be extremely dependent on movements in world economy, the shipping industry is also one of the most capital-intensive industries in the global economy. This combination of global integration, cyclical dependency and an intensive capital-structure makes up one of the most interesting sectors in the world but also the most financial challenging and distressful industry to operate and control.

2.1. THE GLOBAL GROWTH BOOM

More than 30.000 shipping companies operate around the world. - often with substantial sized balance sheets, both on the asset and the liability side, characterized by an ongoing demand for inward capital investment in order to fund operations and expansion. This gives the shipping sector a historically close relationship to the financial sector. The specialized product tanker segment is particularly capital intensive since the tonnage is extremely knowledge and technology intensive and thus requires more extensive investments in vessels and new buildings.

The global growth boom between 2003 and 2008 had a significant impact on an increased need for tonnage capacity in the shipping industry. As a result, the contracting activity rose as well as the need for considerable additional capital. The tremendous need for extra capital changed the relationship between shipping corporations and financing. In the boom period, shipping corporations took advantage of new and alternative financing methods supported by institutional investors - such as capital and pension funds - , as well as the new opportunities to raise capital on a global integrated bonds and stock market.

As the financial crisis hit in 2008 many product tanker companies were in deep crisis as the demand was declining and the supply of tonnage increasing due to large investments in the boom years. Furthermore the banks had to focus on risk management which made them cut down on loans and thereby limiting the financing possibilities of the shipping companies. This has led to a shift in the power balance between creditors and the companies.

2.2 THE FINANCIAL CRISIS

Due to the dependency on the global economy the most apparent danger for shipping corporations is the vulnerability towards macroeconomic change and especially the future development in world trade. Anticipating the macroeconomic future is difficult and contracting on vessels to be delivered 4-6 years in the future is therefore a game that must be acted upon with attention and caution. We have seen how some corporations, during the financial crisis, have wiped out their entire equity due to massive depreciations and impairment losses on their vessels.

[1] Tenold et al. (2012)

Inevitably the 2008 global financial crisis put serious pressure on the product tanker segment. During the financial crisis, the downturn in world trade was even stronger than the slump in production. In 2009 alone, world GDP decreased by 2.3 percent, while trade dropped by more than 10 percent as traders and factories used up inventories and holdings[2]. Not surprisingly, the shipping corporations found themselves in the epicenter of the largest financial meltdown in the postwar period. Naturally the freight rates collapsed and in a matter of months the demand for container transport of consumer goods dwindled and the reduced production and economic activity severely affected the dry cargo and product tanker segment. The financial crisis struck a serious imbalance between stagnant demands for transportation and an increased supply of tonnage. It is this imbalance that is so difficult for shipping corporations to anticipate and the consequences of a misperception of the future can be fatal.

2.3 THE AFTERMATH OF THE FINANCIAL CRISIS

The meltdown in the financial sector led to a frozen money market, asset prices plummeting and large bank failures, which required global government intervention in order to secure higher solvency and liquidity levels. The cost of corporate and interbank borrowing increased to sky high levels and furthermore the credit facilitators were forces to lower their exposure in the lending market by cutting lending activity and reducing their portfolios. This particularly put enormous pressure on the liquidity of the credit dependent and highly leveraged shipping industry and scaled a conflict of interest between the shipping industry and the credit facilitators as well as the investors.

This conflict of interest led to an increased tension and imbalance of power, which in turn had consequences for the financing opportunities, strategies and ownership structures of shipping corporations.

It has often been argue that the issue of what strategy and financing methods should be applied to obtain sustainable growth is only often addressed in times of financial distress or crisis, new industry dynamics, or other general market changes. Therefore it is extremely relevant to describe how the boom and especially the financial crisis has changed the conditions in the shipping market and how this in turn has affected the strategy, financing and ownership structure of the Danish shipping sector.

This report will analyze five Danish product tanker corporations' 10-year development (2005-2015) with focus on changes in ownership, financing and strategy. Specifically the report will analyze the bank-consortium controlled D/S Torm, the daughter company Maersk Tankers A/S, the listed D/S Norden, the private family-owned Uni-Tankers and finally the privately owned Hafnia Tankers A/S.

The purpose of the report is to analyze the dynamic relationship between ownership, finance and strategy in the Danish product tanker segment. The segment has been chosen due to the Danish global competitive strength with five of the most important global product tanker shipping companies being operated from Denmark. The cases have been selected due to their varying ownership types and thus also varying financing possibilities as it will be elaborated on later in the project.

[2] Hoffmann (2010)

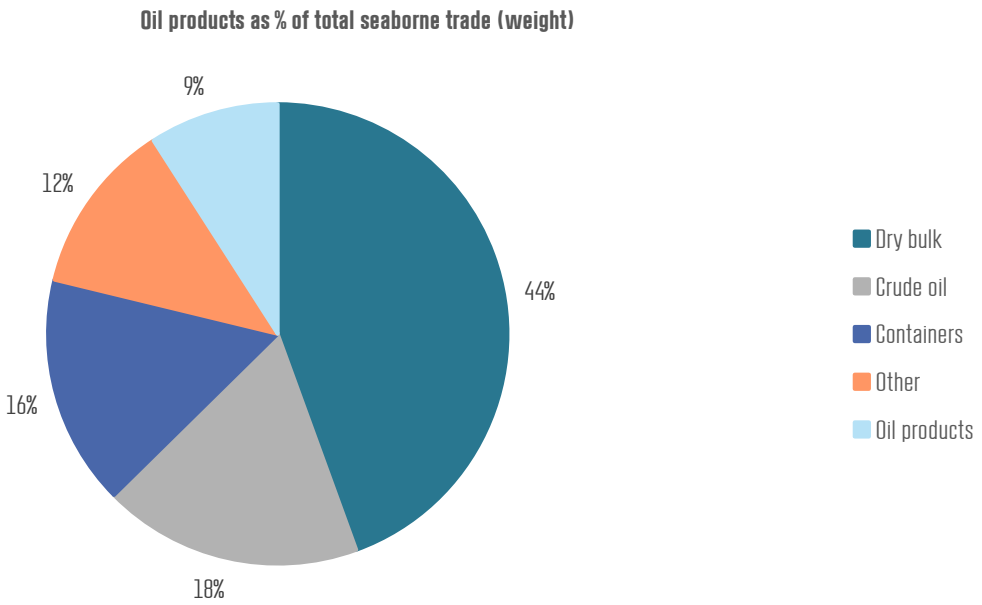
THE PRODUCT TANKER SEGMENT

3. OVERVIEW OF THE PRODUCT TANKER SEGMENT

The tanker industry represents the second largest segment of the global shipping trade accounting for 28 per cent of all seaborne trade on a weight basis and 23 per cent on a weight and distance basis (ton-mile). The industry is divided in two segments: the transportation of crude oil and product tanker which is the transportation of refined crude oil such as diesel and gasoline. . According to a Deutsche Bank report[3] it is currently the crude oil that dominates the segment and represents up to 65% of the seaborne oil trade by weight and 75% on weight and distance basis (ton-mile). The refined oil products such as diesel, gasoline, kerosene and other products represent a smaller part of the seaborne oil trade and account for only 25% of seaborne oil trade and just 9% of all global seaborne shipments on a weight basis as shown in figure 1.

This development is a sharp contrast to the pre 1960's oil trade when the majority of seaborne oil trade consisted of refined oil products. The oil's strategic importance to fast developing economies, the development in refining technology, and economies of scale has moved the production and refining capabilities of crude oil closer to the local demand. This development has facilitated the dominated crude oil market we see today – but yet the mix of refined products does not exactly meet local demands, which in turn sustains the market for seaborne trade with refined oil products.

Today approximately 20 million barrels per day (mmbd) of refined oil products are transported across the oceans. Three-fourths of that are comprised by gasoline and diesel, which require vessels with clean and epoxy-coated tanks. Most refined oil products move in smaller tankers such as LR1 and especially MR (Handysize). Other refined products include Naptha (feedstock for high octane gasoline), jet fuel, fuel oil and condensate.



[3] Deutsche Bank (2014)

Figure 1: Source: Deutsche Bank Report (2014)

3.1 THE EXPORT AND IMPORT MARKET

In 2012 the U.S., Europe and Middle East accounted for the three largest seaborne exporters of refined oil products, measured in (ton-mile), in the world with just over half of total exports. The general rule when accounting for oil exports is that the amount exported will be a function of refining capacity and domestic demand, implying that the exports and imports are a result of the surplus and shortage respectively.

On the import side it is the Far East (Asia) that dominates and account for 40% of total import of Oil products. China is projected to become the largest net importer of oil in 2014 (EIA, 2014) therefore it is natural to believe that China accounts for a large part of the 40% oil product imports. However, this is far from the reality. The solid refining capacity in China actually makes them one of the smallest importers of refined oil products, which essentially means that the majority of Asian importers are made up of smaller, emerging market and developing countries. The European continent is the second highest importer with 20% of global imports with Latin America, U.S., and Africa accounting for a large part of the remaining balance.

The total capacity of product tanker in the world is around 128 million DTW (Death Weight Tonnage) of which the Danish fleet could be measured for approximately 6,50% (based on an assumption on data from Danish Shipowners' Associaton).[4]

The seaborne market has taken a natural shift as a result of the American focus on home production of crude oil. Since the Bush Administration the U.S. have been taking measures towards developing and increasing their production and refining capacity. The increased domestic refining capacity and the findings of Shale deposits in North Dakota and Texas has turned the U.S. into a net exporter of oil products with net exports reaching a total of 1 million barrels per day (mmbd) in 2013 versus the 1.35 mmbd of net imports in 2000. Most of the U.S. supply finds its way to South America. This, together with increased refining capacity in Asia and Middle East as well as a reduction in OECD refining capacity should, according to a Deutsche Bank report[5], have positive demand implication for shippers of oil products and crude oil.

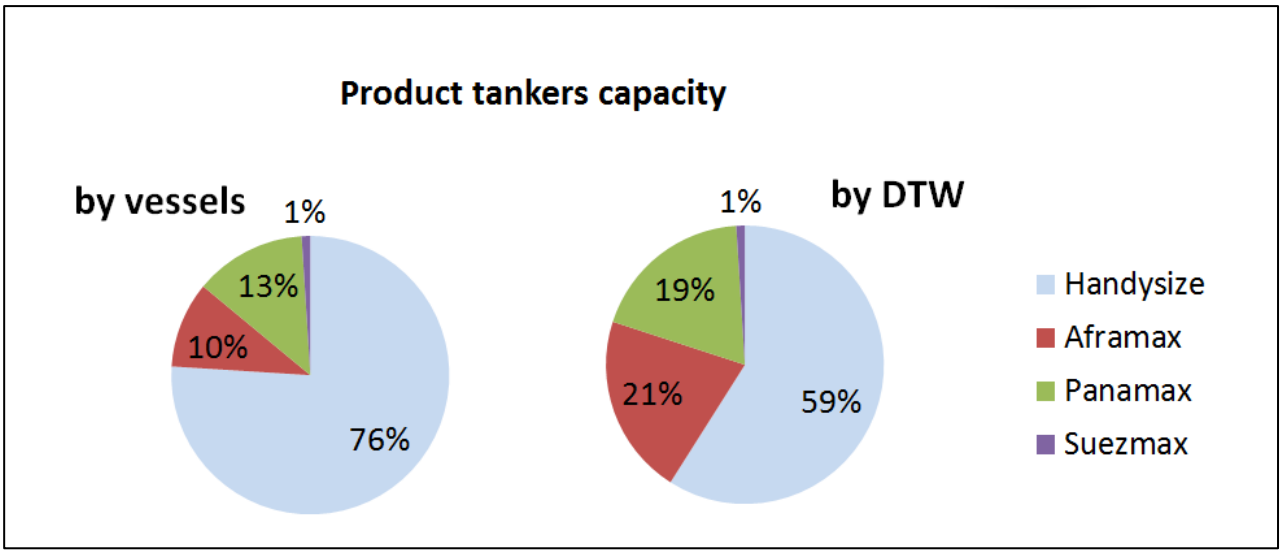
3.2 PRODUCT TANKER SUPPLY

In 2013 the global supply of product tankers on the water were just over 2400 with a total capacity of 128 million DTW (Death-Tonnage-Weight). While there is no standardized system for the classification of oil tankers we typically say that product tankers are divided into 3 major categories; Large Range 2 (LR2: Suezmax); Large Range 1 (LR1: Aframax); and Medium Range (MR: Handysize and Panamax). Additionally we will also find few VLCC (Very Large Crude Container) and ULCC (Ultra Large Crude Container) vessels on the sea. These ships have been built only to ship crude oil and should not be categorized as product tankers.

A Handysize vessel is the smallest but account for 76% of the product fleet by number of vessels and 59% on a DTW capacity.

[4] Danish Shipowners´ Association Webpage (2015)
[5] Deutsche Bank Report (2014)

Figure 2 below shows the product tankers capacity by DTW and vessels respectively.



Source: Deutsche Bank Report (2014)

MR Handysize/Panamax: This type of tankers is primarily used for the transportation of dry bulk, but are both able to function as crude oil and petroleum product tankers as well. Panamax tankers can carry between 50.000 and 80.000 DWT and trade primarily in short haul. The Handysize tankers can carry between 10.000 and 50.000 DWT. Handysize tankers primarily carry petroleum products as their small size make them less economic for the transportation of crude oil. The relatively small size of the MR category allows it to enter a plethora of ports around the world and thus retrieve and deliver more specialized cargo.

LR1 Aframax: Aframax tankers are mid to large-sized vessels that are able to carry between 80.000 and 120.000 DWT. Aframax tankers engage typically in medium to short haul oil trade in all operating markets. The Aframax is what the professionals call the workhorse of the fleet, their size makes them ideally suited to operate in areas of lower crude production or where draft and size restrictions prevent the use of larger vessels.

LR2 Suezmax: Suezmax are large sized tankers and has the ability to carry between 120.000 and 200.000 DWT. Suezmax tankers offer the same economies of scale as a VLCC but has the smaller size offers increased versatility and access to a majority of the world's ports and canals. Suezmax tankers operate primarily in the Atlantic Basin delivering cargoes from West Africa, the North Sea, and the FSU (Former Soviet Union).

4. METHODOLOGY

4.1 DATA

For this project the primary source of data has been open qualitative sources such as articles from relevant scientific literature, newspapers, maritime newsletters, maritime publications and similar.

This data was used to form a basic understanding of the business and the product tanker industry which was useful as some members of the project group only had a limited knowledge of the maritime world and the product tanker industry in specific. Therefore it was necessary to form a general understanding of the research area.

Furthermore an important source of data has been interviews with selected case companies, Torm, Norden, Maersk Tankers, Uni-Tankers and Hafnia Tankers that have provided inside information from the implicated companies.

Apart from the fact that all companies are major actors in the Danish product tanker industry they have been chosen due to their different financing possibilities and historical background which will be elaborated later on in the section relating to the case companies. Therefore the selected key persons from the companies were preferably employees with some years' experience.

The interviews were carried out at the last period of the data collection as it was important to form a certain knowledge of the industry prior to the interviews. Therefore the historical annual reports from the years 2004-2014 were analyzed and mapped both as regards the financial key figures, the organizational changes and the strategic focus. The annual reports varied a lot in terms of both size and the amount of available information for which reason some interviews were easier to prepare than other. This also means that some of the cases below are based primarily on the interviews while others also rely on secondary data. From some of the companies we even got access to internal presentations which were really useful in order to give an overview of the company, e.g. the Hafnia company presentation[6].

Furthermore, as mentioned previously this study is a mapping project with the purpose of collecting data within the areas of financing, ownership and strategy in Danish product tanker companies in a historical perspective. Thus the approach to this study has been rather descriptive than analytical and the interpretation of data has therefore not been extensive.

Together with a number of similar mapping projects and several Ph.d.-projects this study is part of a bigger conduct of research at CBS Maritime for the maritime fond.

4.1.1 Interviews

The interviews were all conducted face to face which was perceived as very positive as it was easier to create a trustful relationship between the interviewers and the interviewees, especially as some of the desired information was quite sensitive and easier to touch on when talking face to face.

Furthermore, by meeting the interviewees in person at their home ground in the respective companies it is likely to believe that it created a relaxed atmosphere for the interviewees and for the interviewers it was a great opportunity to visit the company and thereby get an idea of the company soul. For all interviews at least two members of the project group were present in order to supplement each other.

Apart from company research an important part of the preparation before the interviews were semi-structured interview guides that were not to be followed carefully but rather functioned as a guideline for the topics and discussions that were.

An example of an interview guide is to be found in appendix A. All interviews were conducted in Danish for which reason both the interview guide and the transcriptions of the interviews are in Danish.

[6] Appendix G

FIVE CASE STUDIES

5. CASE STUDIES

The five case companies of this report are all major players in the product tanker industry both in Denmark and globally. An interesting characteristic is that almost all Danish shipping companies are located in a cluster north of Copenhagen. This is also the case for the companies used for this reports with only one exemption, namely Uni-Tankers that is located in Middelfart.

But apart from their similarities the main reason for choosing these companies is the differences on type of ownership and thereby also different financing opportunities as portrayed in figure 3 below.

Company	Ownership
Hafnia Tankers	Privately Owned
Torm	Consortium of banks
Maersk Tankers	Subsidiary company
Norden	Listed
Uni-Tankers	Family owned

By comparing different kinds of ownership structure the aim is to make a comparison of the strategic freedom and financing opportunities based on the type of ownership.

5.1 HAFNIA TANKERS

Hafnia Tankers was founded in October 2013 on the basis of the former Tankers Inc. Tankers Inc. was an investment company established in 2010 by Michael Skov, former CEO of Torm A/S (2008-2010), and Jan Mechlenburg, former Executive Vice-President of the Sales & Purchases in Torm A/S (2005-2010).

Michael Skov and Jan Mechlenburgs initial ambition in the fall of 2010 was to establish "a great shipping company"[7]. In order to meet this ambition the two former Torm A/S managers founded two companies in 2010: Hafnia Management and Tankers Inc. The idea was that Tankers Inc. should become a ship owning company, acquiring tonnage when the product tanker market was attractive, with capital from large investors who could see an advantage in investing in a shipping company closely connected to the ship management in Hafnia Management.

5.1.1 History

Hafnia Management was thus established in 2010 based on an innovative commission structure model for the management of pools based on commissions of net earnings (gross freight minus brokers' commissions, port expenses, bunker costs etc.) rather than the existing pools based on commission/fee structure on the actual gross freight[8]. The idea by the two founders was that the net commission structure would incentivize the pool manager (their own future company) to minimize voyage related costs. Future partners with an ownership in the pool would thus not have to pay the management fee on the often very high gross freight rather than a fee on the lower net earnings – and because the former Torm A/S managers wanted to be part owners of the pool, they would have a shared incentive to lower the operational costs of the ships. The commercial operations began in the end of 2010 and by the beginning of 2011 Hafnia Management operated 22 product tankers - 13 MR vessels and 9 LR1 vessels - on the behalf of 6 partners. By mid-2011 a new LR1 Pool was established owned by a new company Strait Tankers founded as a 50/50 joint venture with one of the worlds' leading shipping companies – Japanese Mitsui O.S.K. Lines (MOL) the LR1 Pool

In the spring of 2013 Hafnia Management operated 54 vessels – 24 MRs and 30 LR1s – in cooperation with 12 partners. The commercial management of ships under Hafnia Management was thus expanding.

5.1.2 Strategy

Concerning the sister company "Tankers Inc." the ambition was to establish a new ship-owning company, which obviously required access to capital. The initial step in this endeavor was taken in the beginning of 2011 with an agreement with the British financial company Barclays. Barclays did not offer any investment capital but rather a commitment to analyze the proposed project. In the following years Michael Skov and Jan Mecklenburg assessed the market – firstly they thought the market was improving already in the beginning of 2011 – but the two former Torm A/S managers felt the disadvantage of being a very small newly started company. Due to the rising demand for product tankers the prices of tonnage rose and finally in the late spring of 2011 it was decided in cooperation with Barclays not to enter the market. The macro economic conditions were then worsened due to the sovereign debt crisis over the summer of 2011. Another year went by before Michael Skov and Jan Mechlenburg decided that the timing was right.

In the beginning of 2013 Tankers Inc. felt that the timing was improved in terms of relatively low prices on the assets in the product tanker market combined with signs of improvement in the macro economic conditions including the stabilization of the sovereign debt crisis in Europe and signs of improvement in the American economy including increased domestic oil production.

[7] Interview with Mia Klausen and Michael Skov, December 15th, 2014, Appendix B
[8] PP, Hafnia Tankers, Company Presentation, December 2014, slide 10, Appendix G

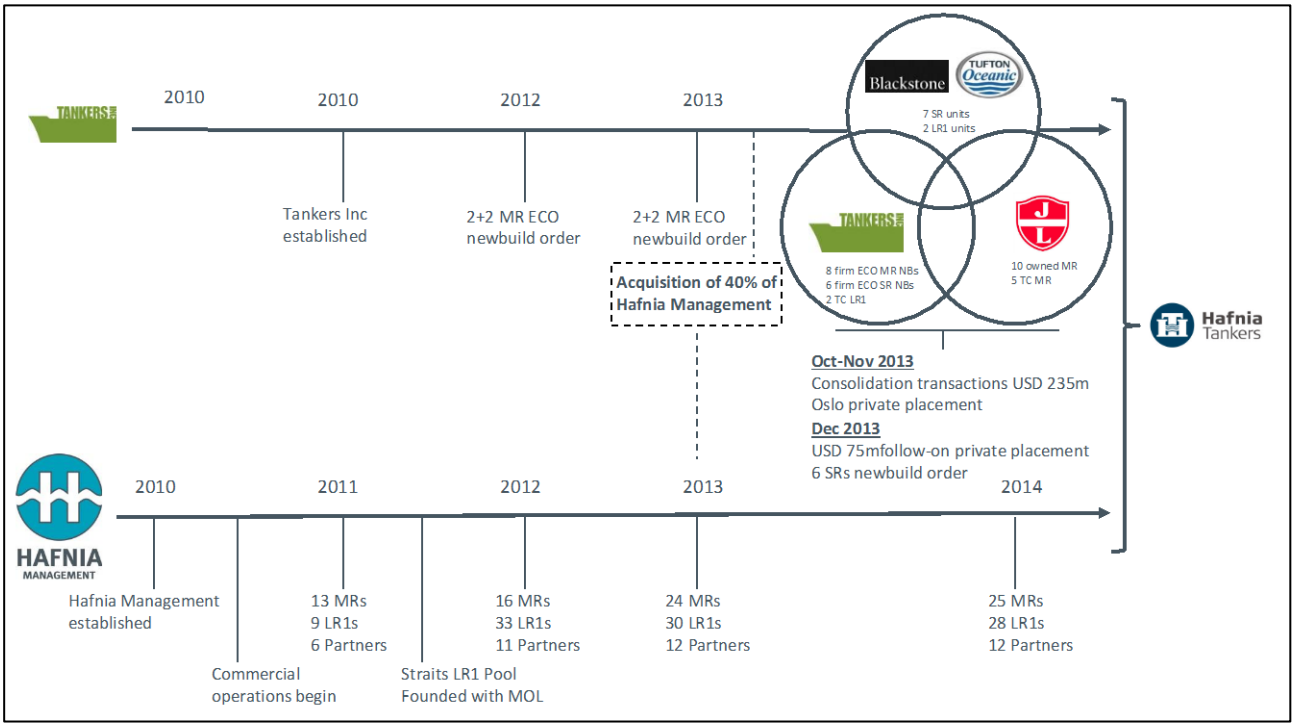


Figure 4: Source: Hafnia Presentation (2014)

During the summer of 2013 the two former Torm A/S managers added one more investor, which together with Barclays agreed that Tankers Inc. could search for more investors in order to raise the required capital.

The first thing Skov and Mechlenburg did was to negotiate new building orders on the relevant product tanker ship. The result became the order of eight MR "eco-design" newbuild product tankers from Guangzhou Shipyard International in China to be delivered 2015-16. The order including a very important clause namely that it was only binding after two months – this gave the two founders time to raise funding for the new investment.

Two additional options for acquisition of a product tanker fleet appeared in the fall of 2013. Firstly the old Danish shipping company J. Lauritzen A/S decided that they would sell their product tanker fleet in order to focus primarily on the dry bulk segment. During the negotiations Skov and Mechlenburg convinced the seller that they were a serious candidate but the new company needed at least five weeks in order to agree on the price, set up the business model and attract the necessary investors. In the following weeks the founders initiated a road show in the US having meetings with institutional investors. The result was commitments from approximately 20 investors, which made it possible to acquire the Lauritzen fleet and to activate the new-building orders. In addition followed an agreement with the private equity fund Blackstone and their partner Tufton Oceanic. These two companies together owned the shipping company BTS with nine products tankers – 7 SR and 2 LR1 vessels. The aim was to go public with an IPO of BTS but they needed an operational platform in order to be able to make a "real" company of the nine vessels.

In October 2013 Hafnia Tankers was founded and on the 23rd the newly established company announced that the newly established company had raised 235 million USD on the NOTC in Oslo - an information system for unlisted shares (see Norges Fondsmeglerforbund, 2014 and Shippingwatch.dk, 23.10.13).

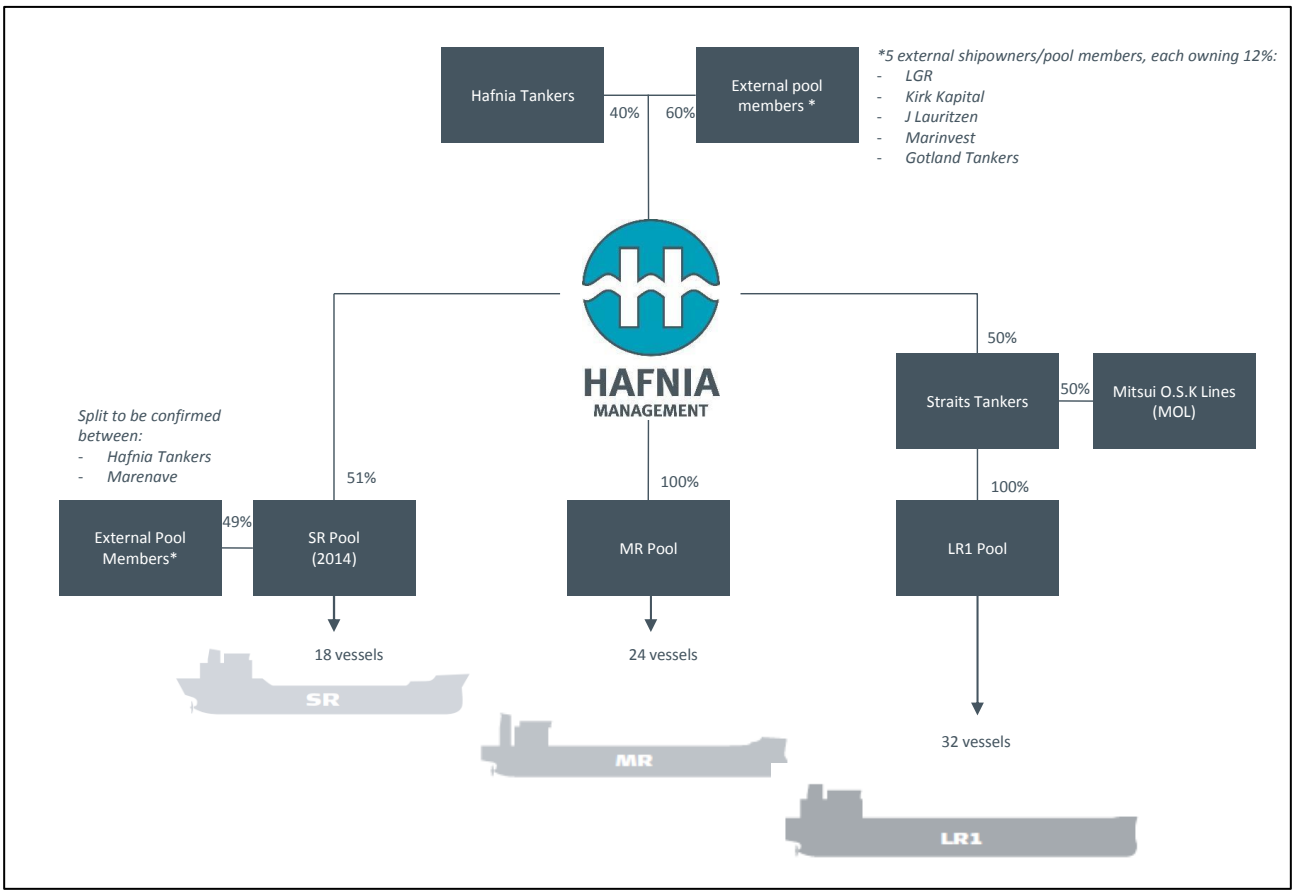
The end result was that Hafnia Tankers had 18 investors of which the largest was a consortium consisting of two Blackstone funds and Tufton Oceanic – this company owned approximately 28 percent. Then followed Barclays, J. Lauritzen, Hartmann Group and leading employees including Skov and Mechlenburg.

The official NOTC registration of Hafnia Tankers followed on November 5th 2013 and the shipping company from outset encompassed the following fleet: Ten modern MR product tankers acquired from J. Lauritzen A/S (to a small degree in exchange to the above mentioned ownership); seven SR and 2 LR1 vessels which BTS had contributed with

(mainly in exchange of the above mentioned ownership) and eight new building MR eco-design product tankers – in total 27 product tankers of which 19 were on the water and eight to be delivered in 2015-16.

5.1.3 Ownership

The board of directors consisted of nine members. The chairman was Erik Partnes a Norwegian specialized in ship-finance, who had participated in the foundation of Tankers Inc. as co-founder of Pareto Bank. The eight other members represented the investors including Blackstone, Tufton, Mercator, Lazard and BNRI. Hafnia Tankers focused on a lean shipowner strategy outsourcing the technical management of their fleet to three suppliers: Wallem, Donelly and Thome. The company was managed by Mikael Skov, CEO, with the Norwegian shipping bank expert, Georg Whist as CFO, and three departments Finance, Technical and S&P – the latter operated by the co-founder of Tankers Inc., Jan Mechlenburg.



Source: Hafnia Presentation (2014)

With the official founding of Hafnia Tankers in November 2013 followed the important relationship to the operational company Hafnia Management which had existed since 2008. Most important Hafnia Tankers acquired 40 per cent of Hafnia Management from the beginning. That left 60 per cent ownership which was divided between five external shipowners/pool members each owing 12 per cent: LGR, Kirk Kapital, J Lauritzen, Marinvest, Gotland Tankers. As a result of the founding of Hafnia Tankers and the following new fleet of produc tankers Hafnia Management expanded substantially.

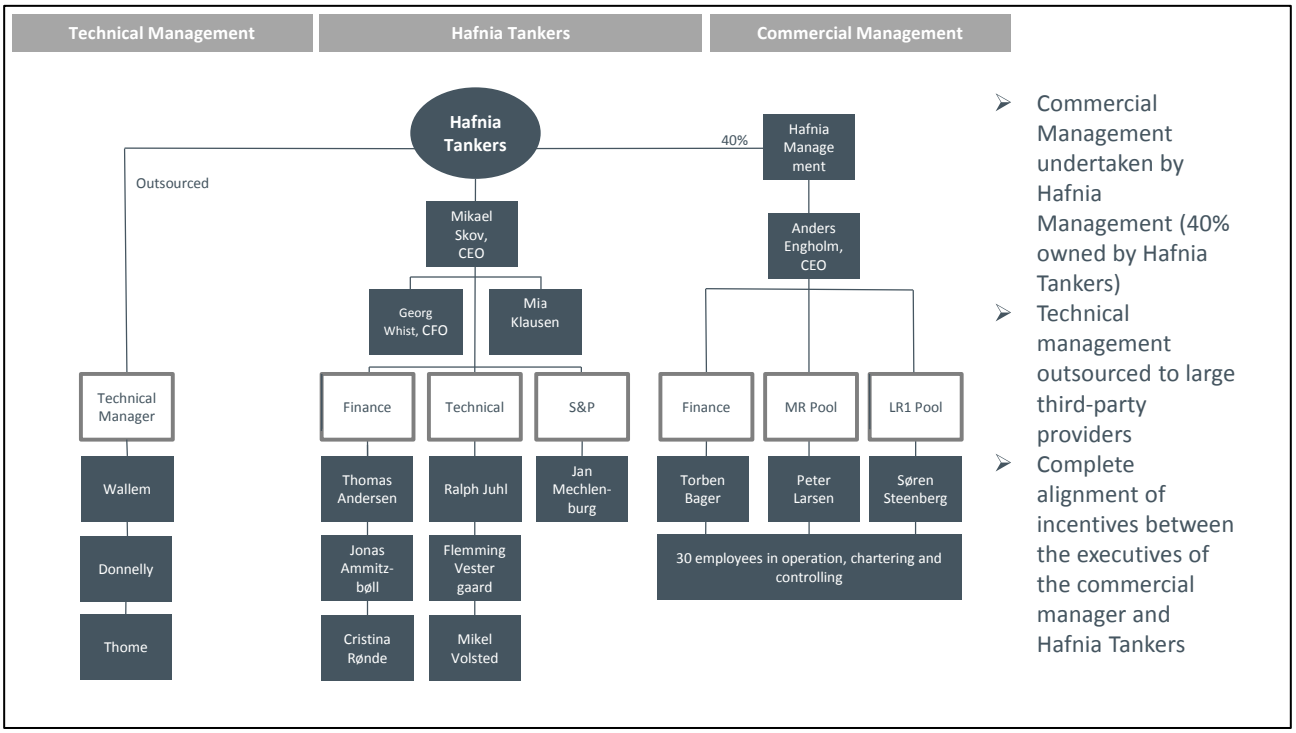
Both companies were headquartered at Strandvejen in Hellerup (planned to move to the new Nordhavn area in Copenhagen in 2015). Hafnia Management had 30 employees under the CEO, Anders Engholm. The company was divided in three departments: Finance, MR Pool and LR 1 Pool – all three departments were managed by former Torm managers. By the beginning of 2015 there were 30 employees in operation, chartering and controlling of Hafnia Management. Hafnia Management in total operated three pools:

The SR pool, owned 51 per cent by Hafnia Management and 49 per cent Marenave with 18 vessels

The MR pool, owned 100 percent by Hafnia Management with 24 vessels

The LR1 pool owned 100 per cent by Straits Tankers which was a joint venture between Hafnia Tankers (50 per cent) and MOL (50 per cent)

In total the 30 employees at the headquarters and the subsidiary offices in Singapore and Houston thus operated 74 production tankers placing as one of 5 largest product tanker operators in the world - only two years after the founding.



Source: Hafnia Presentation (2014)

5.1.4 Financials

Since Hafnia Tankers A/S has a very short history it is difficult to tell anything about their financial performance in the past. However, there is an important element that we must direct our attention towards. Hafnia Tankers has proven to be more than excellent in attracting solid equity fund and capital fund investors to help finance their project. The major British bank Barclays as well as the two equity funds Tufton Oceanic and Blackrock backs Hafnia Tankers. In 2013 they launched a so-called Private Placement at NOTC in Oslo.

A Private Placement is the opposite of a public issue since only a small amount of selected investors are invited to purchase the securities. The Private Placement has become more popular as a means to raise capital for start-up shipping corporations that need an intense amount of capital to build up a new fleet. With the Private Placement form corporations can waive their registration at the local Securities and Exchange Comission (SEC) and they don't need to disclose detailed financial information. Hafnia Tankers wanted to raise 200 million USD in order to finance their new vessel fleet but ended up oversubscribed with new capital around 236 million USD[9]. The raised capital has granted Hafnia Tankers some minimal leverage in the future and the ability to meet their 40 million USD and 261 million USD contractual time charter and new-building obligations respectively falling due within 0-5 years .[10]

But this has also allowed them to fully purchase the fleet without putting them in an overly exposed situation both in terms of the price of steel (depreciations) and liquidity. The investors' capabilities allow Hafnia Tankers to build and develop the right platform that will help them achieve long-term sustainable growth, regardless of the financial losses that are expected in the following years.[11]

[9] NOTC Oslo Statement
[10] Hafnia Tankers Annual Report 2013
[11] Norges Fondsmeglerforbund (2014)

5.2 TORM A/S

The history of Torm goes more than 125 years back to the year 1889 when Torm was founded by Captain Ditlev E. Torm and Christian Schmiegelow. During the first couple of decades Torm increased its fleet and in the 1910s the company also expanded its shipping operations to international voyages. Later motorized vessels were added to the fleet and right after the Second World War also the biggest bulk carrier by that time was added. In the 70s Torm took delivery of its first product tanker which is today the core competence of the company. In the early 1990s Torm makes history by establishing a pool partner collaboration.[12]

5.2.1 History

At the beginning of the '00s Torm was a fairly small shipping company owning around eight vessels and controlling in total around 15 vessels. Torm being an old company with great traditions was based on person-to-person training and traditional business talent with few new people joining the company. Up until the first years of the '00s this was an efficient model for Torm until 2005 where the company took major steps in increasing its fleet. A growing market and an increasing demand for product tankers made Torm grow and invest. Reinforced by the acquisition of OMI in 2007 which has later been referred to as 'the seller's deal of the decade', the fleet suddenly comprised 74 vessels – an exponential growth with high demands to the organization as regards sophistication, professionalization and readiness for change when the organization was in fact only geared for 15 vessels. This had major implications for the company as the financial crisis hit the market for product tankers in 2009. In 2010 the company had in fact 94 vessels which were too many in relation to the current market demand and the decreasing market value of the vessels.[13]

Today Torm is still facing a critical financial situation and is now trying to recover. A strong history and the ability to operate vessels efficiently and with a high quality might be the critical factors that can bring Torm back on the right track.

5.2.2 Strategy

The strategy of Torm before the financial crisis was characterized by a positive belief of the future market. From 2005-2007 the market was exceptionally strong which meant that Torm made huge investments believing that the market would continue being strong. Torm did not believe that the market would be as strong as in the years up until 2007 but that it would still be attractive and give an output of around 20-25.000 USD per day per ship. However the reality in the years after the financial crisis proved to be much worse than expected and the freight rates were between 12-15.000 USD. Just to get accounting profit they should have been around 20.000 USD.[14]

Thus already in 2009 the gearing was relatively high. Gearing is measured as 'loan to value' where the net asset value of the vessels is measured against the debt. By the end of 2011 all the vessels together were only worth 10 million USD more than the debtat a time when the balance was 1.8 billion USD.

According to Torm there are three different ways of earning money in shipping. One is by operating the vessels better than the competitors. Another is by being good at controlling costs. The last one is asset play which is about getting in the market at the right time and just as important about getting out at the right time.[15]

The price curve between 2005 and 2010 has been extremely volatile with relatively high fluctuations on the short term but even higher fluctuations on the longer term. Though Torm unlike other shipping companies do not rely solely on asset play, Torm has actually made money on asset play, however much less than many competitors (13% against around 50%). The main reason behind this is that the mindset of Torm is influenced by an ambition of being a shipping company owning vessels and not a vessel trader. This corporate mentality resulted in a smaller profit on the sale of vessel compared to other competitors.

An important asset play was in 2004 when Torm tried to buy Norden. That made a profit of about 540 Million Dollars. However the amount was all paid out as dividend instead of building up a considerate amount of capital in the company.

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[12] www.torm.com
[13] Torm Annual reports 2000-2013
[14] Torm Interview with Christian Søgaard-Christensen and Nina Lomborg, December 11th 2014, Appendix C
[15] Torm Interview with Christian Søgaard-Christensen and Nina Lomborg, December 11th 2014, Appendix C

As Torm started expanding the fleet the first vessels were bought for around 40 Million but the prices soon rose to much more. It is a risky play as the delivery time of the vessels is 3-5 years though the market forecasts in fact only look a couple of months ahead.

In a cyclic product tanker market with high fluctuations it is necessary for a company to have a strong balance that is able to absorb it. Therefore taking a high financial as well as operational risk like Torm did can be very profitable in a strong market but also fatal in a declining market. The fluctuations during the financial crisis proved to be much more severe than Torm had ever expected and the balance was not strong enough.

The primary risks associated wth Torm's activities are listed in the figure below.

MAIN RISKS ASSOCIATED WITH TORM'S ACTIVITIES

LONG-TERM STRATEGIC RISKS	INDUSTRY AND MARKET-RELATED RISKS	OPERATIONAL AND COMPLIANCE RISKS	FINANCIAL RISKS
• Political risks • Substitution of oil	• Macroeconomic development • Freight rate fluctuations • Bunker price fluctuations • Sales and purchase price fluctuations	• Compliance with relevant maritime regimes • Vessel utilization • Safe operation of vessels • Terrorism and piracy • Availability of experienced seafarers and staff • Compliance with environmental regulations • Stability of IT systems • Fraud • Insurance coverage	• Funding and liquidity risk • Interest rate risk • Currency risk • Counterparty risk

Figure 7: Source: Torm Annual Report 2013

In fact at the beginning of the financial crisis Torm was not at all affected. Torm was observing that other industries were affected by the financial crisis but Torm itself did not feel anything until the first quarter of 2009 where the product tanker industry was also hit.

2012 was a difficult year for Torm, 2013 looked better and 2014 has been okay though not as good as expected.

Additional factors also had an impact on the turbulent years for Torm. , Klaus Kjærulff, the CEO for many years, left the company at the end of 2008 and a new CEO, Jacob Meldgaard, was not appointed until 2010. In the meantime the previous COO, Mikael Skov was temporarily appointed as CEO. This gave rise to organizational turbulence.

At the beginning of 2010, when, Jacob Meldgaard took over, some analysts thought that the market would turn around . With a high debt and high gearing it would have been possible to get high returns. However it did not happen. It would have been possible to get a stronger balance anyway by raising new debt, bonds, issue of shares or similar. But by doing so Torm would only move the money from the shareholders to the TC-owners as the market did not go up again. That would have made Torm a bad investment for shareholders.

Photo: TORM A/S

5.2.3 Ownership

The impact of the financial crisis on Torm has also had major implications for the company's ownership.

Through a number of years the Greek Panayotides family bought more and more shares in the company and owned 52 % before the restructuring of the company. Owning 52 % of the shares in a public listed company of course had an impact on the composition of the board and the decision making.

As 2011 came closer and it became clear that the market would not turn around beneficially for Torm that was facing an increasingly difficult financial situation it was necessary to talk to the banks and make an agreement about what to do. This also had an impact on the ownership.

The issue was that in order for Torm to get financially stronger it was necessary to raise money. However it was not an option to start paying off immediately for which reason Torm would like to postpone the principal amount for a period of time. Torm was allowed to do that by, in turn, raising 100 million USD.[16]

Yet during the summer 2011 came 'the second wave' of the financial crisis and the number was raised to 300 million USD which meant that Torm would have to take money from the shareholders and use them to raise the amount which was an unfortunate solution.

Therefore at the end of 2011 the company decided to do a full restructuring by making agreements with all 14 banks, all creditors leasing vessels to Torm and shareholders. Besides it was necessary to talk to the shipyards and make an agreement about the ships that had already been bought but not yet delivered. That process took almost a year. At the same time the media started to get increased attention on Torm as a company in crisis.

[16] Torm Interview with Christian Søgaard-Christensen and Nina Lomborg, December 11th 2014, Appendix C

The banks were willing to accept the restructuring as they had financial security in the vessels. All loans were set to be paid off by the end of 2016 and in 2012 and 2013 Torm did not have to pay off which was a huge advantage as the earnings from operations did not have to be used for repayments which gave available funds.

The shipyards accepted that the ships bought for around 52 million USD were returned for around 40 million USD which was a good deal made possible through a longterm trustful relationship.

As regards the TC owners, the leasing obligations were reduced from 2 billion USD to 600 million USD.

All parties accepted this deal but they wanted something in return, that is shareholders' equity in the company. The banks got 72 %, the TC owners got 17 % and the rest went to the existing shareholders. A lot of new shares were issued and that of course changed the ownership structure. From having 52 % before the restructuring the existing shareholders suddenly only had 5,2 % of the shares.

A new independent board of directors was sat down trying to make Torm an attractive company for new owners. This implied that bulk was shut down which proved to be a god decision as the market for bulk was declining.

Before the restructuring the banks were only creditors but afterwards loan fees were changes into new shares in the company. However a core competency of a bank is not to run a shipping company. Thus it was obvious that this time of ownership was only supposed to be temporary.

The new board of directors was also focusing on how to sell the company to new shareholders. Stage one was to create the strongest possible company both technically and commercially by delivering good operational results and cutting down on people. After that stage two could begin at the end of 2013. Nordea has already sold their part to 40 different American hedge funds. It gives a good dynamic as the hedge funds have a different mindset that is rather oriented towards restructuring than regular banking operations.

Oaktree, a big American fund, has also played an important role in relation to the recapitalization of the company. Many of the banks have sold their vessels to Oaktree, in total 22 vessels, who has put the ships back in the pool in order for Torm to operate the vessels technically and commercially. In that way Torm can maintain the necessary pool size. Oaktree is continuing to make deals with the banks which might mean that Oaktree will end up as the main investor. Oaktree knows a lot about the shipping industry and has also added additional vessels to the fleet, which makes them a good investor right at the moment.

The situation for Torm right now is that the operational results look really good but the financial results are still lacking as the market is still weak, the depreciations on the vessels are too high and Torm still has a high debt with high interest costs. On an EBITDA level though Torm is performing really good by having extremely good day-to-day operations and that might be the critical factor that can give Torm the necessary upturn.

Torm believes that the market is going up for which reason the company is willing to take operational risks. At the same time Torm is trying to take smaller financial risks by having a lower gearing than it was the case previously.[17]

5.2.4 Financials

Torm currently find themselves in one of the most difficult financial struggles and corporate turnarounds. The more risks that you are willing to absorb in your company that more you stand to win – if the wind blows in your direction of course. Unfortunately for Torm the tides changed just when they decided to scale up their operations. In the five fiscal years 2004-2008 Torm delivered extraordinary results with profit margins as high as 51% and 102% (2007 – when they sold Norden shares)[18] .

But instead of filling a cushion with cash, they decided to invest everything in the hope of an even brighter future. On average Torm's liquid assets (cash and equivalents) has only made up 4% of total assets while in DS Norden that number is 29%. While the amount of cash in itself is not any real financial indicator it is an indicator of how well a company is

[17] Torm Interview with Christian Søgaard-Christensen and Nina Lomborg, December 11th 2014, Appendix C

[18] Torm Annual Reports 2004-2013

cushioned and it could, at the least, be an indicator that Torm didn't believe that a financial bust was coming. Norden on the other hand has been far better cushioned and have been able to keep the ship afloat by having a larger amount of liquid asset to deteriorate and far less gearing. The debt ratio tell us how much of a corporations assets are financed with debt - the higher percentage the more risk you carry but the more potential for growth as well. Between 2004 and 2013 Torm's assets has been financed between 39% and 94% with debt which is far above the industry average according to a 2012 PwC report on the shipping industry[19] . The simple debt to equity ratio has been somewhat stable, but when the bad results appeared the ratio increased from 1.59 in 2008 to 3.32 in 2011 and further to 7.81 in 2012. Debt financing is not a bad thing per se, but in a cyclical market where you will never know which direction the wind blows, it can be devastating to be overloaded with debt.

Over the course of 10 years Torm has only financed their growth by borrowing capital at their partnering banks. This is an easy way to raise capital but is also the most expensive one. Unlike Hafnia, Torm haven't used large private equity funds to raise new capital nor have they issued any new shares. Raising equity is a cheaper way to raise capital and should harder times arrive, only the investors stand to take a hit. Naturally it is also more difficult to finance this way as investors are reluctant to agree on a dilution of their earnings – but using bank debt as the only means to raise capital for high growth periods is potentially very harmful for the future earnings and ownership control of the assets. When the financial crisis hit Torm, the amount of debt had them loose control of their own corporation and being unable to reign in your own castle is not a good thing for future growth.

Working an overview of Torm's financials the past 10 years leaves you the impression that they have been financially geared on a high level through the period. They have built up a balance sheet far larger than their revenues and a balance that they could not control. They purchased vessels when the vessel price was high and had to sell it off when the vessel price was low. They have made both financial and strategic decisions that have now thrown them overboard. But let us not forget how far the management has been able to keep the company afloat in the wake of the crisis. The restructuring in 2012 is some of the best financial management the Danish shipping sector has seen and should better times arrive they will be able to live up to their restructuring settlements with banks and other investors. The next 2-3 years will tell whether Torm can pull through or whether they will have to throw the towel in the ring.[20]

5.3 MAERSK TANKERS A/S

5.3.1 History

Maersk Tankers was founded in 1928 as part of the A.P. Møller shipping company.

In the postwar years Maersk Tankers operated a combination of crude oil vessels and product tankers.

This dual ownership strategy was from the 1990s combined with a dual operational strategy under which Maersk Tankers combined the time chartering of their own fleet with the operations of pools. In year 2000 the Handy Tankers pool (27-38.000 DWT) operated 27 vessels of which 7 were Maersk Tankers vessels. For the large product tanker vessels above 70.000 DWT a new agreement was made in 2000 including 13 ships of which seven were Maersk vessels. By 2013 Maersk Tankers owned and chartered a product tanker fleet consisting of the 69 vessels with the following contribution:

- 18 LR2 (Aframax) - 13 owned, 5 chartered
- 24 MR – 11 owned, 13 chartered
- 27 Intermediate – 20 owned, 7 chartered

In total 160 vessels are operated by Maersk Tankers that is part of three pools, namely Handy Tankers, Broström and MR.[21]

Until recently Maersk Tankers also had big crude oil tankers which have now been sold of due to financial and strategic decisions.

[19] www.pwc.se
[20] www.pwc.se
[21] www.maersktankers.com

Maersk Tankers believes that it is necessary to have a fleet with a certain size but above that there are no economies of scale and therefore it does not make sense to keep increasing the fleet and be market leaders measured on the size of the fleet.

5.3.2 Strategy

For the Maersk Group it is important that the tanker division is performing well and is in the top quarter of the peergroup – which has almost been realized. The return and cost of capital are the most important financial key figures for the group and the goal in future is to have a return on invested capital which is higher than today. The absolute return is not as important as where Maersk Tankers is currently on the curve.

Risk aversion in Maersk Tankers is handled in the way that further investments are made when the market forecasts are positive and in turn investments are scaled down when the market forecasts are rather negative. The financial crisis has not had a big impact on the willingness to take risks. And it is important for Maersk Tankers not to be too risk averse as it is also important to take the chance when it is there.

As regards competitive advantages Maersk Tankers perceives the Maersk brand as a particular benefit compared with competitors with a rather less significant brand. Furthermore it is important for Maersk Tankers to continuously renew the fleet and be in top 3 within their segment. Being able to attract qualified employees, being within top 3 of the segment and having a professional sales approach are also important factors.

To keep up with competitors the ability to keep running costs low are important, that is the efficiency of the workforce and similar but not expenses for bunkers and ports, which are considered constant over time. Maersk Tankers focuses on keeping the total costs low.

As regards demand and supply the demand is perceived constant, that is big oil companies with equal demands. The supply is on the other hand much more fragmented and characterized by almost no entry barriers.

The strategic freedom of the Maersk Group is considered relatively high as there is only one private equity owner, namely the parent company and Maersk Tankers is not dependent on their ability to generate a good cash flow. On the other hand all decision made also need to be in line with the strategy of the parent company.[22]

5.3.3 Ownership

Maersk Tankers is and has always been a 100 % owned subsidiary of A.P. Møller – Maersk A/S.

5.3.4 Financials

Since Maersk Tankers is a wholly owned subsidiary specific information on this division is very limited. Like other firms they have delivered negative results over the past years as a result of a declining tankers market. In terms of finance they acquire most of their capital through debt. They borrow from banks but a ‘related’ company i.e. the Maersk Group also supplies parts of the needed capital to sustain losses and future growth.[23]

5.4 NORDEN A/S

Dampskibsselskabet NORDEN A/S is an independent shipping company incorporated in Denmark and listed on Nasdaq Copenhagen as a part of the OMX Nordic Mid Cap index.

NORDEN was founded in 1871, making it one of Denmark’s oldest internationally operating shipping companies.

NORDEN operates in dry cargo and product tankers worldwide.

The management focus is long term and is based on NORDEN's vision, mission and values. The goal is for NORDEN to continuously develop for the benefit of its stakeholders and to achieve high, stable earnings.

[22] Interview with Claus Grønborg, Head of Business Development, January 14th 2014, Appendix D
[23] Maersk Tankers Annual Reports

In dry cargo, NORDEN is active in all major vessel types. NORDEN is one of the world's largest operators of Supramax and Panamax dry cargo vessels and has considerable activities in the Handysize and Post-Panamax vessel types as well as activities in Capesize. The Company's Handysize and Post-Panamax activities are operated commercially by NmORDEN Handysize Pool and NORDEN Post-Panamax Pool, respectively, which also operate vessels from Interorient Navigation Company Ltd. (INC), Cyprus. In total 168 dry cargo vessels (excluding INC vessels and single trip chartered vessels).

In tankers, NORDEN is active in the Handysize and MR product tanker vessel types, in total 48 tanker vessels.

The product tanker activities are operated through the Norient Product Pool. Norient Product Pool is the second largest product tanker pool in the world.

NORDEN's fleet is among the most modern and competitive in the industry and NORDEN operates a mix of owned and chartered tonnage in total 216 dry cargo- (excluding single trip chartered vessels) and tanker vessels. In addition NORDEN has a newbuilding program with 28 vessels on order (dry cargo 24, tanker 4).

Employment and rates, Tankers, 2013

Vessel type		Q1	Q2	Q3	Q4	2013	1-year T/C (USD per day)*	NORDEN vs. 1-year T/C
MR	Ship days	2,115	2,182	2,414	2,471	9,182	14,351	+8%
	T/C (USD per day)	15,900	14,519	15,291	16,146	15,478		
Handysize	Ship days	1,530	1,486	1,516	1,656	6,188	13,063	+5%
	T/C (USD per day)	15,508	13,358	14,023	12,052	13,703		
Total**	Ship days	3,645	3,668	3,930	4,127	15,370	13,833	+7%
	T/C (USD per day)	15,736	14,048	14,802	14,503	14,763		

* Source: Clarksons
** Weighted average

NORDEN T/C is gross amount to make the amount comparable to market T/C. A standard broker commission of 2.5% is used in the Tanker segment. In addition, the pool management fee is added.

Figure 8: Source: Norden Annual Report (2013)

NORDEN has its head office in Hellerup, north of Copenhagen (Denmark) (229 employee's incl. site-offices) and offices in Singapore (31), Shanghai (China) (12), Annapolis (USA) (18), Rio de Janeiro (Brazil) (5), Mumbai (India) (6), and Melbourne (Australia) (2). At its offices NORDEN has in total 303 employees and about 805 are employed on the Company's owned vessels.[24]

5.4.1 History

Dampskibsselskabet NORDEN A/S is one of the oldest shipping companies in the world engaged in tramp operation. The company was founded by Mr Mads Christian Holm on 11 February 1871 and the first ship was built in 1872. He was manager of the company until his death in 1892.

Norden has always been an internationally oriented shipping company but has expanded its global activities by establishing regional offices all around the world, though still with the headquarter in Denmark. The number of ships and employees has grown rapidly and so have the ship segments and services.

Today NORDEN has 303 employees at its offices and about 880 employed on the company's owned vessels, offices in six countries, owns and operates 216 dry cargo- and tanker vessels (excluding single trip chartered vessels) and has and an extensive new building program with 28 vessels on order.

In 2008 NORDEN inaugurated its headquarters in 'Bryghuset' in Hellerup enabling the company to offer modern facilities to employees and visiting customers.[25]

[24] www.ds-norden.com
[25] www.ds-norden.com

5.4.2 Strategy

As described above Norden focuses both on the tanker division as well as on the bulk division. Traditionally Norden has been a shipping company within bulk but today as bulk is facing a hard time the company is benefiting from the activities within tankers.

Measured on the invested capital the tank and bulk division are today almost equal but measured on the daily activities bulk is the biggest division.

Together with the cypriotic company Interorient Norden has the Norient pool which has existed for 10 years and is running really well. The pool is essential for Norden is order to build the necessary scale to be competitive. The downside of having a pool is that it takes time to divide the profit but as long as there is only one pool partner with the same share it is not considered difficult for Norden.[26]

The corporate mentality in Norden characterized by traditions and traditional norms for shipping also means that Norden is a company which encompasses all parts of the process within shipping, the logistics, contact with the end customers and so forth, instead of just buying vessels and using them for time charter agreements.

Norden has always considered itself a risk-averse company as it will be elaborated on further down in relation to the ownership structure but the risk aversion has definitely increased after the financial crisis.

As the former CEO Carsten Mortensen started in the company back in the late 90s Norden had a clear ambition to grow which proved to be a really good idea. As the company reached year 2004 the money were flowing in which lasted until 2008. The profit was around 1 billion USD. Some of them were paid out as dividend while others were used for investments. There was a certain understanding of risk aversion but the gearing was much higher than it would have been today and the amount of investments was much higher too. This also has to do with the fact that it is much easier to double the number of vessels when there are only four than when the fleet consists of 200 as today.

As the crisis hit from 2008 until 2011 it became clear that the strategy in the booming years with a higher degree of risk aversion than many of the competitors had been good and the company survived. Being a risk-averse company is difficult in boom periods as it is very tempting to increase the gearing and the investments but the company is and will always be risk averse.

Severe attempts to be prepared for a new crisis have been made such as a new overdraft facility, 25 ships without debt and more precautions if it becomes necessary. The forecasts are pretty long-term with the aim of keeping the company alive over a longer period of time.

[26] Interview with Morten Aarup, Head of Investor Relations and Market Analysis, January 16th, 2015, Appendix E

5.4.3 Ownership

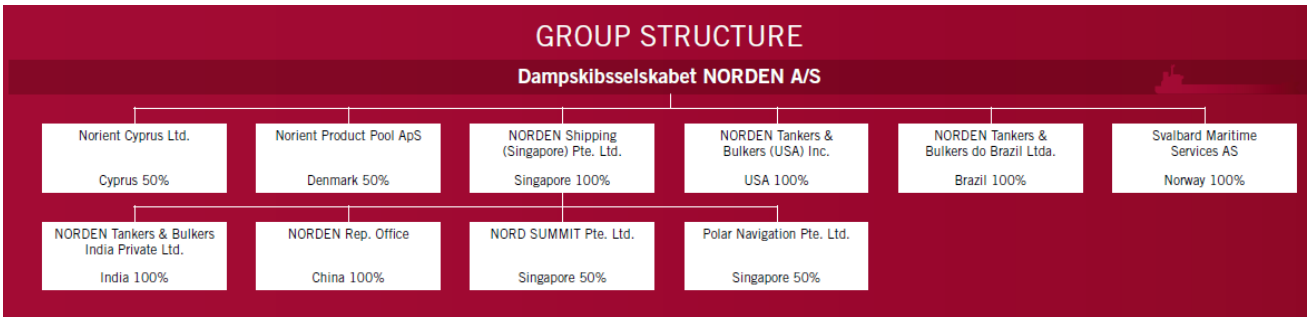
Norden is first of all owned by the Motortramp fund which is an old family that has owned a big part of Norden for 50 years. Today they own around 28 % of the shares. Together with 'Rasmussen Gruppen', a Norwegian investment group which owns around 11,5% of the shares, Motortramp has a shareholder agreement which means that the one part has to tell the other if they decide to sell some of the shares. This structure is important for Norden after being besieged by Torm around five years earlier. The bound between the two shareholders means that Norden's primary investors are tied closely together.

The other shareholders consist of among other Schröder, a Swiss and German stock mutual fund which has around 5 % of the shares, and other similar funds from Continental Europe which has the primary interest in the company. Norden has 4 % themselves and the rest of the shares are owned by private investors.

Both the large and smaller shareholders are traditional in the sense that the most important thing for Norden is to continue to exist. A common saying is 'You can risk the deal but not the company' which permeates the whole company, how many ships to buy, the financial balance and further more. In this sense the risk averson is much higher than for other shipping companies as is it crucial to avoid a liquidation. Some investors like this strategy, some others do not. Some investors are more aggressive and want the company to take much higher risks and many also require a "pure play", that is they do not want both bulk and tank as it seems too complex. But especially the investors from continental Europe like this strategy with a good track record and a solid board of directors. Right now it seems unlikely that Norden will split the two parts and sell the tanker division to an equity fund but on the other hand there is a chance that it could happen on the longer term.

Furthermore Norden aspires to be as transparent as possible which means that there are very few subsidiaries and all annual reports are available online.

The figure below shows the current group structure of NORDEN A/S.



Source: www.norden.dk

5.4.4 Financials

Norden is currently facing the same difficult and non-profitable market as Torm, although they are not suffering as much as Torm they are still facing losses as a result of a declining market. Norden managed to keep their results profitable up until 2011 and has only delivered negative results in 2012 and 2013 compared to the five year streak of negative results in Torm in the period 2009-2013. Norden's tanker division, however, has actually delivered negative results in the period 2009-2013 but their Dry Cargo division has managed to keep the overall company profit positive for an extended period.

While Norden has also been taking some serious hits on the steel in terms of depreciation it hasn't had the same severe impact on their results as it did in Torm. The prices of steel can change overnight and if you buy on the wrong day you can lose 20% of the value the next day. Norden has over the course of 10 years delivered strong profit margins although they are far from stable. In the boom years from 2004 to 2008 they delivered profit margins between 14% and 24%. Rather than investing all of their earnings they have cushioned the company and increasingly piled up cash in the boom years. In 2008 they held almost 800 million USD in cash up from 135 million USD in 2004. Naturally this pile of cash has been absorbed during the downturn but is not at all near being empty. The strong balance sheet that Norden has kept

over the years has offered them some comfort in the recession and the ability to pull through the crisis without sacrificing the company's assets and in the end, their shareholders.

Over the 10 years we analyze Norden they have only raised new capital through debt in order to finance their growth. They have increased their long and short-term bank debt over the period but in a slowly and steady manner that has kept their debt exposure low. They have kept their debt ratio to a bare minimum of between 0.11 and 0.35 throughout the entire period. And while they have not raised any new equity (other than retained earnings) their capital structure is made up of far more than 50% equity throughout the entire period compared to Torm who on average has more debt than equity in the same period.

There is however an important element in Norden's annual reports that cannot be left out. The contractual lease obligations they have on time charters are due to accounting regulations not accounted for directly in the balance sheet. In the notes to the financial statements on their 2013 annual report it is stated that Norden has more than 2billion USD dollars in contractual lease obligations for the future. Since this liability does not carry any interest it is not seen as a debt liability but it's important to realize that these amounts has to be paid in order to comply with the contracts. It makes no sense to add the contractual lease obligations to the balance sheet but it does change the picture in terms of short and long term liabilities.

Key figures for the quarters

USD million	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total 2013
EBITDA	44.3	9.6	3.9	18.5	-7.7	24.3
Profits from the sale of vessels, etc.	-22.4	2.2	0.0	0.3	0.0	2.5
Depreciation and write-downs	-20.3	-18.6	-19.3	-20.5	-20.6	-79.0
EBIT	0.5	-6.9	-15.7	-0.7	-28.0	-51.3
Profit for the period	-7.2	-11.2	-22.4	0.6	-14.7	-47.7
Cash flows from operating activities	20.8	-20.2	55.3	3.9	-47.9	-8.9

Table with segment information for the fourth quarter is available on NORDEN's website.

Figure 10: Source: www.ds-norden.com

5.5 UNI-TANKERS A/S

Uni-Tankers is part of A/S United Shipping and Trading Company (referred to as USTC), a global group of companies with a total of more than 1200 employees worldwide and a turnover of 11.2 billion USD.USTC is fully owned by ship owner Torben Østergaard-Nielsen.[27]

As opposed to many other Danish shipping companies that are all located in a cluster north of Copenhagen, Uni-Tankers is located in Middelfart.

Measured by turnover the biggest part of Uni-Tankers consists of Bunker Holding and USCT is also active in Global Risk Management, Shipping Holding and IT. The foundation of USTC is the bunker division from which the other part of the business have developed.

Uni-Tankers was founded in 1989 and operates today a fleet of 37 oil and chemical tankers with a capacity of up to 25,000 dwt. 17 of the vessels are owned by the company.

Being part of USTC is a competitive advantage for Uni-Tankers as the joint economic strength of the total group is a critical factor for the big oil companies that demand a good capital base and economic security to make an agreement.

Being part of USTC also means that it is possible to cover a profit loss in Uni-Tankers with profit from one of the other subsidiaries. This means that an expanding and investing strategy is still possible even in a bad market.

5.5.1 History

Uni-Tankers is an almost 20 year old company owned by Torben Østergaard-Nielsen and managed by Torben Andersen which has been the CEO ever since the beginning.

Until 2012 Uni-Tankers was a fairly small company. During the financial crisis from 2008/09 Uni-Tankers only had around 9 ships and 10 employees and it was therefore difficult to cut down on costs. The most important thing was to remain a small company and try to get through the crisis as good as possible.

Uni-Tankers had in fact ordered four newbuilding's as the crisis hit but were lucky to get out of the deals at low costs due to a good relationship between Torben Anders and the owner of the shipyard in Turkey from where the ships had been ordered.

After the financial crisis Uni-Tankers' bank (Dansk Bank red.) had been in contact with other banks that were facing a hard time after the crisis and contacted Uni-Tankers to know if the company could be interested in some of the companies in crisis. The outcome of that process was that at the beginning of 2012 Uni-Tankers bought Errias fleet and their activities which consisted of nine ships and in addition three newbuilding's on the way from China. Furthermore Uni-Tankers bought an additional vessel from the Turkish shipyard and thereby suddenly had a fleet of 35 vessels. Errria's fleet was bought at the market price and thereby not particularly cheap but the increase in fleet size meant for Uni-Tankers that they were able to become "a real shipping company" (Torben Andersen, 2015) and it was a signal to the market that Uni-Tankers had a clear ambition of expanding. The company opened offices in Houston, Nice and Istanbul and today operates 40 ships of which Uni-Tankers owns 17 and has 23 on time charter.[28]

Last year was the first year since the crisis where Uni-Tankers' accounts actually showed a profit.[29] That was a very good achievement in a market that is still recovering and many of the competitors have not been able to do the same.

[27] www.unitankers.com
[28] Interview with Torben Andersen, CEO of Uni-Tankers, February 15th, 2015, Appendix F
[29] Annual Reports Uni-Tankers

5.5.2 Strategy

Since the beginning, the ambition of Uni-Tankers has been to own and operate ships and not to be or to become an equity business. The ambition was to be a good supplier of steel for the oil industry and that has been the foundation of the company.

Until the financial crisis the company was slowly expanding the fleet by taking loans in the bank (the gearing was around 70-80 %) and the owner Torben Østergaard-Nielsen added the last part of the amount for buying the vessels. Uni-Tankers has and has always had only one bank which makes it a very streamlined company and there have never been any ambitions to seek other more alternative ways of getting capital.

The ambition is to grow to 50 vessels within the next few years, either by investing in own vessels or taking in time charter vessels. The company is however not excluding that they are willing to make some kind of consolidation in the future if the right match comes up.

As regards the fleet Uni-Tankers only operates within the smallest segment from smalltank to intermediate size that is ships from 4500 to 20.000 DTW. And they are intending to keep doing so and become experts within that specific segment instead of expanding to other bigger segments.

After 2008 there were only very few newbuilding's within the smaller segment, and the belief was therefore that the balance between supply and demand would be faster evened out than for other segments. Moreover, there is a big demand for smaller product tankers due to the limitations in many harbors.

The fleet is with an average age of 6 years relatively new compared to many competitors which is an important competitive factor for Uni-Tankers in order to live up to the standards of their customers and environmental requirements.

As described above Uni-Tankers has offices in Houston, Nice and Istanbul but is not active in Asia. That is a conscious choice of the company which has to do with the responsible culture of the company. There has been a lot of cases of piracy around the Gulf of Aden and Uni-Tankers' ships would be a relatively easy prey due to their small size. Therefore as long as the market in the Western part of the world is big enough there is no need to expand to Asia. However the company does acknowledge that the Asian market is big and that they probably need to expand to growth economies such as India in the future.

This responsible company culture with a flat hierarchical structure is also put into place in the sense that Torben Andersen is participating in a Shell Chemicals global project where he as CEO is obliged to visit minimum one ship per month. That is very valuable both for him and for the employees as the business has to run as smooth as possible. This is particularly important as the organization has grown from only 10 employees in 2012 to over 70 in 2014 in the Danish head office. As the number of employees grew also people from significant other Danish shipping companies were hired in order to make a strong management team.[30]

5.5.3 Ownership

Being a family-owned private company is an essential value of the company. First of all the corporate culture is very strong and both the top line as well as the costs are important. That is important in a weak market. But unlike other companies controlled by equity funds and similar Uni-Tankers considers itself a long-term investment without a determined date for exit of the market. Many other companies have been forced by investors to make huge investments in the booming period before the financial crisis and they are now suffering from that.

Another advantage is that it has been possible to get the necessary capital from the parent company in order to make investments such as buying Erria.

[30] Interview with Torben Andersen, CEO of Uni-Tankers, February 15th, 2015, Appendix F

On the other hand there also some limitations when insisting on being 'master in one's own house', that is among others less willingness to take risks. There is no doubt that Uni-Tankers' strategy is pretty risk averse and the company does not have an ambitions about being the biggest.[31]

5.5.4 Financials

Uni-tankers differ from the rest of the field by being a privately held company in the sense that their one shareholder, USTC, is wholly owned by Torben-Østergaard Nielsen. This naturally has some benefits but also implications for the financing of growth. As discussed in the interview with CEO Torben Andersen it allows the management to build the corporation slowly and steady. They do not have to take extensive risk in order to satisfy equity investors' desire for higher returns and asset plays, rather they have just one shareholder who cares only about building up a shipping company in its purest sense. The capital required for building a shipping company from the bottom up is a large amount. Uni-Tankers have financed their fleet and growth mostly through debt, but Torben Østergaard Andersen has not been reluctant to put his money on the line when it comes to investing. We saw that in the case of the Erria takeover. However, having just one shareholder may in the future have its limitations to raising equity capital, which in turn leaves the company more and more to debt financing.

So far it has worked for Uni-Tankers because the ownership structure matches their strategy and future goals, but further expansion in the future will require more heavy capital. Chances are that additional capital will have to come from other sources than the bank in order to avoid burdening the company with too much debt. A strategy CEO Torben Andersen did not ultimately disregard.

Uni-Tankers has, like most other shipping companies, delivered negative results since 2008 mostly because of their exposure to fluctuating prices in steel. But in 2014 they will come out with positive results and a balance sheet that has not been completely deteriorated by the financial crisis.[32]

Uni-Tankers has an interesting as well as challenging future ahead of them. If they wish to expand even further it os going to require capital and how they will acquire is an interesting topic to follow.

[31] Interview with Torben Andersen, CEO of Uni-Tankers, February 15th, 2015, Appendix F
[32] Uni-Tankers Annual Reports

CONCLUSIONS ON A BUSINESS HISTORICAL ANALYSIS

6. CONCLUSIONS

This mapping project has given an overview of the product tanker industry, the impact of the financial crisis and focused on five selected Danish case companies.

The companies represent different ownership structures and thereby also different financing possibilities and strategic freedom. The mapping of data has given an indication of a clear connection between these three variables.

Hafnia Tankers being the youngest company that was founded after the financial crisis is hard to compare with the others but yet gives a good indication of the chances for a company to enter a market that has just been hit by a crisis. On the one hand the financial crisis made it more difficult for the company to find enough capital domestically for which reason the company found the majority of the investors in the US. But on the other hand the financial crisis also offered a number of opportunities such as a big supply of available tonnage and the experience of the management team of which almost everyone came from Torm was a big advantage too. As Hafnia Tankers is still a very young company it is hard to say how the ownership structure will develop but as it has been important to find investors with shipping experience there does not seem to be any strategic conflicts between investors and management team yet.

Torm is facing a very different situation compared to Hafnia Tankers. Torm is a very old company that has been growing for many years but was severely hit by the financial crisis due to a high gearing both financially and operationally. Before the crisis one big investor mad the majority of the shares and therefore also a great influence on the strategic development. However as the financial crisis hit Torm was forced to make an agreement with the banks that thereby also took over the major part of the shares and the control of the company. This was a necessary arrangement in order to survive but as the most banks do not have much knowledge of shipping this was only a temporarily solution. Very recently the banks have started to sell their shares and vessels to an American fund named Oaktree which is now getting more and more influence in the company.

Maersk Tankers is unique in the sense that it is a subsidiary to a very strong parent company and financially as well as strategically dependent on its directions. This gives a high degree of security but also slightly less strategic freedom than for companies that are controlled capital funds and thereby more willing to take risks.

Norden is a regular listed company with a number of investors of which two funds own a big part of the shares, though not a majority. As it is necessary for Norden to take care of the interest of many different investors the company has not been able to take big risks, neither financially nor operationally, which has proved to be a major reason for the company's ability to get through the crisis but it has also limited the possibilities of expanding in boom periods.

Uni-Tankers is medium old company that as mentioned earlier is the only company not located in the "shipping cluster" north of Copenhagen. In a way this is a good indicator of the company's independence in the sense that it does not try to imitate other product tankers companies and their financing methods but believes in the existing structure. The company is part of the USTC group that is owned by one man that thereby also has the overall power and control of the company. As he has invested his own money in the company he is responsible for all risks and therefore also less willing to take a lot risks which has proven to be healthy in a financial crisis. The company has been growing in a slow until 2012 but has been growing faster since then and still has expansion plans. In a family-owned company the ownership structure is of course very dependent on the owner.

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