Eight Months. $350 Million of Capital Raised. 41 Vessels Acquired. Still at It.

Dealmaker of the Year

Transaction: $100 million Equity Private Placement (April 2017)
Winner: Fearnley Securities

Transaction: $75 million Follow-on Equity Private Placement (June 2017)
Winner: Fearnley Securities

Transaction: $100 million (Borrowing Limit $200 million) Senior Secured Bond (September 2017)
Winner: Fearnley Securities, DNB Markets

Transaction: $175 million Equity Private Placement (November 2017)
Winner: Fearnley Securities, DNB Markets

For us the title is sufficient, but in fairness the story of this accomplishment needs to be told. Founded back in April 2017 as a pure play container shipping company, MPC Container Ships AS is the poster child for raising capital. At the outset, the sponsor, MPC Group structured an attractive seed portfolio subject to a successful financial close and contributed $50 million. Subsequently, it raised $350 million, including an initial $100 million in an equity private placement and two follow-on private placements totaling $250 million. Each equity raise was conducted at improved pricing: NOK 42.60, NOK 43.00 and NOK 47.50 per share. The company also issued a five-year $100 million senior secured bond in Oslo, with a borrowing limit of $200 million and a coupon of LIBOR + 4.75%. With proven access to deals and a clean, focused, and well-timed equity story with strong sponsor support, investors willingly piled in. The company executed flawlessly on its strategy of acquiring feeder container vessels at all-time low, distressed levels in both off-market and public S&P deals. And, the company made good use of the funds, fully deploying the funds, with exquisite timing, in the acquisition of a fleet of 41 secondhand containerships at attractive terms (40-50% discount to newbuilding parity) for $346 million.

Despite its short history, the company’s accomplishments are substantial and seemingly without bounds. With the multiple fund raisings, the market cap nearly doubled to in excess of $400 million, and the shares moved from the N-OTC to the Merkur and then on to the Oslo Stock Exchange in January of this year. In this short period, the company moved from an initial growth
phase to a container shipping company with critical mass, creating a more liquid feeder container vehicle, with significant leverage on a market recovery.

The market fundamentals offer an attractive value proposition. For investors, it remains an attractive entry point with asset prices at near all-time lows and charter markets showing further signs of recovery. In terms of specifics, the asset values show significant upside. For perspective, the existing 41 vessel fleet was acquired for $346 million or at a discount of ~44% to newbuilding parity. A reversion to the twenty-year historical average suggests upside of 74%. And dare we mention that approximately 45% of the purchase price is secured by scrap value. The cash flow sensitivity tells a similar story. At MPC’s pro forma time charter rate of $9,000, the cash equity return is 10%, with a return to the 20- year average increasing the rate to 33%.

Expectations of the market recovery have been met. The historic industry downturn has bottomed out as the supply demand balance has improved due to strong intra-regional trade growth and low fleet growth in the feeder container segment. This sector has also benefited from protection from cascading due to physical and commercial barriers.

The market is uncontrollable making the shipowner responsible for his own fate. In an asset play dependent on a market recovery, nothing matters more than a low breakeven time charter equivalent rate to minimize cash burn. At current levels, charter rates are above cash breakeven offering further downside protection. For perspective, time charter rates for 2,750 TEU vessels have only pierced the breakeven level once since 1993 and that was for a period of approximately one-year in 2009 to 2010 following the financial crisis. With significant upside to historical average earnings, the cash flow cushion should continue to improve alongside a rising market. Nevertheless, to err on the side of caution, the company has locked-in charter coverage of 65% of its available days for the next 12 months.

In targeting this market, the company carefully assessed the opportunity and developed a focused conservative strategy to exploit it. To avoid the risk of cascading and to take advantage of a low order book, the company acquired feeder containerships of 1,000 to 3,000 TEU with a focus on time charter employment. For perspective, the historic industry downturn has bottomed out as the supply demand balance has improved due to strong intra-regional trade growth and low fleet growth in the feeder container segment. This sector has also benefited from protection from cascading due to physical and commercial barriers.

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What’s not to like? We summarize:

- Historically low asset prices and record high discount to newbuilding parity
- Favorable market dynamics in the feeder container segment
- Highly experienced sponsor with proven access to deals
- Conservative leverage profile and downside protection through scrap coverage
- Vessels generating positive cash flow even in today’s market
- Growth company with compelling asset pipeline

Without a doubt, MPC stood out as the most successful shipping capital markets story of the year. This is affirmed by the market, where the share price rose from NOK 42.60, at inception, to NOK 51.00, at year-end, reflecting a 20% increase during that period.