Wilbur Ross looks for LPG opportunities

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Private equity giant eyes export terminals and dry bulk investments

DESPITE sitting on more than $500m in an investment fund dedicated mostly to future shipping opportunities, Wilbur Ross may look inland for his next play.

In an exclusive interview with Lloyd’s List, the private equity giant and shipping investor said his company WL Ross is “intrigued” with opportunities to build out US-based export terminals for processing liquefied petroleum gas.

The move would be a logical progression of an earlier investment in Navigator Gas, a seaborne LPG transportation company.

“In Asia, they are building a lot of terminals so that’s not a big deal,” he said, speaking at his New York office.

“But here in the States we believe there’s a shortage of terminals. It’s an area that we think fits logically with what we’re doing.”

Although WL Ross has not made any investment as yet, it is an area “we’re quite interested in”, Mr Ross said.

As for pure-play shipping investments, any future activity will come through WL Ross’ first industry-specific funds, a $500m joint venture with Astrup Fearnley that will concentrate largely on shipping opportunities.

Although circumspect about potential targets, Mr Ross expected to expand his presence in dry bulk and to move into more LPG segments — all with an eye to keeping leverage as low as possible.

“We haven’t ruled out anything, other than large containerships; we don’t feel that fits our needs,” he said.

Mr Ross’ foray into dry bulk started this summer through a $100m investment with Solus Alternative Asset Management and Fearnley Advisors in Nautical Bulk Holding’s acquisition of eight 64,000 dwt eco-friendly ultramax vessels.

Of the eight, four were firm orders slated to be delivered by the end of 2014 and into 2015 from a private shipyard in China.

Asked why he sought to enter dry bulk now, Mr Ross pointed to the fact that rates have remained very depressed.

Within that sector, he said he liked ultramax tonnage, being the largest bulk carriers with self-contained cranes that enable them to serve ports in developing countries.

"We think it's important to serve a little wider diversity, which you can do with smaller vessels," he said.

Although rates will probably improve, Mr Ross said this "very good niche" of ultramax vessels is less dependent on iron-ore imports from China, which determines how rates will move in other classes.

Although he did not elaborate, he pledged "to do more" in the dry bulk space.

As for his investment in Diamond S Shipping, Mr Ross said the contractual revenues the company receives from its long range and medium range tankers offset suezmax spot-market risk, although any rebound for suezmax rates is "taking a little longer" than anticipated.

WL Ross joined a group that included First Reserve, Morgan Creek Capital Management and China Investment, in August 2011, for a $600m commitment to Diamond's plan to acquire 30 product tanker and charters.

The secondhand vessels were bought from Cido Tanker Holding, including one built in 2007, 16 built in 2008, 11 built in 2009 and two built in 2010.

At the time, the acquisition added to 10 tankers that the company had under construction, delivered in 2012 to a Diamond S fleet that now numbers 40 ships.

Critics have argued that Mr Ross came in too early on the Diamond S purchases and bought too high.

According to one analyst, the secondhand medium range vessels were acquired for around $40m yet newbuilding eco-ships can now be purchased for sums in the mid to high $30m range.

Mr Ross replied that long-term contracts attached to these ships added value to the deal.

“It’s worthwhile to have the contract,” he said. “So what we did is, we paid what we thought was the right price for the ships, plus the discounted present value of the contract, over the market.”

Navigator Gas’ recently filed IPO plans provide some new transparency.

During the first nine months of 2013, the company reported $167m of operating revenue, up from $106m for the same period last year.

Earnings before interest, tax, depreciation and amortisation also rose, from $45.8m in the first nine months last year to $76.7m this year.

If US exports of LPG are to grow, additional terminals are needed, according to Navigator’s initial public offering documents, citing Drewry’s projection that US propane export capacity will more than triple from December 2012 to December 2014, to 540,000 barrels per day.

Ross hunts depressed assets

WILBUR Ross first came into shipping with the Navigator Gas deal — a good example of his preferred investments in businesses “that are temporarily depressed [and] that have a real, long-term future”.

With shipping, the story reflects the globalisation of the world’s economy, which will translate to rising standards of living in emerging countries, Mr Ross said.

“What that really means is more consumption of commodities. And, those commodities are going to get there by ship.”

As for the role of private equity in shipping, Mr Ross would only speak about his own firm and his view.

His timeline is marked in denominations of “multiple years” and, contrary to hedge funds, which buy or sells every day, “here, if in the whole week, we have a transaction, that is a big event”.

WL Ross clients invest with the firm for anywhere between seven and 10 years, so there is little outside pressure to sell out and therefore WL Ross' continued presence in shipping is a question of portfolio consideration where the market is.

"The shipping industry turnaround is going to take more than 10 minutes," he said. "Let's say rates go up some next year.

"The chances are that they will be better in 2015 than they were in 2014, and most of our companies have a lot of deliveries coming in anyway, so for sure our businesses are thinking in longer-term time periods."