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Greek shipping chief says firm immune from local woes

By [Polya Lesova](#), MarketWatch

ATHENS (MarketWatch) -- The chairman and chief executive of Paragon Shipping, Michael Bodouroglou, spends his days working about a dozen miles from the center of the Greek capital.

But he says his company's fate is barely intertwined with the debt crisis preoccupying the politicians of Athens.

"There has been no impact on shipping generally," he said. "What we do here is an international business. We do not relate financially at all with what's going on in Greece."

Like tourism, shipping has traditionally been a leading industry in Greece. The outlook for shipping, however, doesn't depend on the Greek economy, but on the economies of China, India and other countries hungry for commodities. Paragon's fleet of eleven dry bulk carriers transports coal, iron ore and other commodities to far-flung destinations where they are used for infrastructure projects.

When the global financial crisis hit, Paragon had secured employment for its fleet through long-term contracts for a substantial period of time. The firm mainly employs vessels under fixed-rate charters for periods ranging from one to five years.

Bodouroglou is bullish on the Greek shipping sector and on demand for commodities because of expectations of strong global growth this year. He says his company boasts good earnings visibility, a modern fleet and low operating expenses. Besides, Paragon, unlike Greece, has cash to spend.

"Our major challenge today is where and when to invest our current liquidity. We have \$150 million of cash that we would like to invest," he said, explaining that the firm may diversify into other ship sectors, such as containers or tankers. "We now have the resources to eventually double the size of our fleet."

It's not all smooth sailing, however, for Paragon or the industry.

Paragon, like many in the shipping industry, reported a decline in fourth-quarter time charter equivalent, a key industry measure. In Paragon's case, it fell to \$32.3 million from \$39.1 million, though analysts cheered the firm's ability to hold its dividend at 5 cents a share.

Shares of Paragon (NASDAQ:PRGN) , which is registered in the Marshall Islands, have gained about 48% over the past 12 months on the Nasdaq, though momentum has stalled of late as it's dropped 8% over three months.

Among its competitors, shares of Navios Maritime Holdings Inc. (NYSE:NM) have surged 244% over 12 months but climbed just 4% in the last three months. DryShips Inc. (NASDAQ:DRYS) has climbed nearly 80% over 12 months but fallen roughly 15% in the last three months.

China is key for shipping

Global shipping boomed from 2003 until 2008, driven by demand from China. In the second half of 2008, however, world trade declined dramatically, causing sharp drops in freight rates and vessel values.

"Never before have the volatility and the fluctuations in the shipping industry been as significant as they have been in 2008," PricewaterhouseCoopers said in a recent report.

In the dry bulk subsector, a capesize vessel could be fixed for \$304,000 a day in June 2008 and for only \$2,000 a day by November that year, according to the report. Besides the sharp decline in hire rates, shipping firms also confront a shortage of trade finance and potential breaches of loan covenants, the report said.

At a recent shipping forum in Athens, Casper Burgering, an economist at ABN Amro, projected growth in dry bulk commodities this year, with the fastest growth seen in iron ore trade. China, of course, is the dominant consumer when it comes to iron ore and numerous other commodities.

"Developments in China will shape dry bulk markets," Burgering said. Speculation in the real estate sector and the stock market is a major risk facing China, according to Burgering.

"We think the Chinese economy is solid enough to resist these economic shocks," he said. "The outlook for the dry bulk market is positive for the next two years."

Greek realities

While Paragon isn't directly affected by the Greek debt crisis, its chief executive certainly has to live with the realities of it. A nationwide strike called by the country's biggest unions to protest the government's austerity measures threatened to close down the airport in Athens, potentially conflicting with his travel plans.

For Bodouroglou, it is important to differentiate between the private and the public sectors in Greece.

"The problem with the Greek economy lies with the public sector. The private sector does not have a problem with its efficiency and its profitability," he said. "What the government intends

to do and says it will do are steps in the right direction. Whether they are able to implement them 100% remains to be seen, but I'm optimistic."

Under intense pressure from the European Union and the markets, the Greek government has pledged to reduce its budget deficit by 4 percentage points to 8.7% of GDP this year. It plans to do that by reducing the size of the unusually large public sector and reforming the tax system. In the meantime, Greek stocks and bonds have sold off, the country's credit rating has been downgraded several times, and Greece is facing higher and higher borrowing costs in the bond markets.

"There is no doubt that the reputation of the country is being tarnished," Bodouroglou said. "However, big international corporations have known of the inefficiencies that exist in Greece for a long time and that's why we haven't had any major direct foreign investment in Greece for years."

Bodouroglou believes that Greek shipping has been successful mainly because the government doesn't interfere with the industry.

"We have never had any handouts from the government, we've never asked for any help from the government and we never will," he said. "All we want them to do is to leave us alone so we can go on about our business."

Link: <http://www.marketwatch.com/story/greek-shipper-ceo-says-immune-from-local-woes-2010-03-02?siteid=yhoof>