MacroOverviews

ITIC

GLOBAL VIEW

The Suez Canal blockage

On March 23rd, the giant container ship 'Ever Given' got stuck sideways in the Suez Canal. Ever Given is a ship from the Taiwanese transport company Evergreen marine and one of the largest container boats in the world, with 400m longer and a maximum capacity of 20.000 containers.

The Suez Canal

The Suez Canal is a narrow waterway connecting the Red Sea to the Mediterranean, being the shortest seaway between the European continent to Asia with 193km.

Impact in the economy

Around 12% of the global trade crosses the Canal each day, alongside one billion barrels of oil and 8% liquified natural gas. The revenue of Suez Canal is around $5.6B which represents 2% of Egypt GDP and an average of around $300,000 by ship.

According to German insurer Allianz, the cost of the container ship blocked in the canal could represent a loss in the global trade of 6 billion to 10 billion dollars a week and consequently reduce the annual trade growth between 0.2 to 0.4 percentage points. Braemar ACM, shipping broker, said in an interview to Wall Street Journal the cost of renting this type of ship has increased 47% to $2,2m, in the area of Asia and Middle East.

In the blockage days the Canal's revenues were taking a $14M to $15M hit each day, around $5M above the normal, said the Suez Canal Authority Chairman Osama Rabie. Compared with an alternative route between Taiwan and Rotterdam, not crossing the Suez Canal implies to cruise the famous Cape of Good Hope adding around a week to the transport.

Evergreen floats again

On March 29th, the 'Evergreen' began to float again almost a week, and billions of losses after the blockage. The saga reaches its ends after the work of tugboats to make possible the giant ship float again. Finally, the 'Evergreen' resumed its travel, opening the narrow waterway and retake up the global trade affected by the blockage.

Sources: *Reuters, BBC, Business Today, The Wall Street Journal, Daily Mail, SCA*

PORTUGAL IN THE WORLD

Haven't you figured out the situation at Groundforce yet?

The commercial aviation sector has been going through days of big turbulence. One of the largest service providers at Portuguese airports is Groundforce. Right now, the company has overdue salaries and has not yet received a bank loan, nor has the main private shareholder reached an agreement with the Portuguese Minister of infrastructure for urgent financing from TAP. In fact, TAP itself, which is the minority shareholder and main customer, is undergoing a process of change... and what a process of change. In this sense, with so much "noise" around the case it is normal if you have not yet understood the situation at Groundforce, but don't worry, we are here to explain the case.

First, an overview

Groundforce is today a leading national company for ground handling of air transport. Currently, the company is active in the airports of Lisbon, Porto, and Faro, as well as in the islands, Funchal and Porto Santo. Its services consist of passenger assistance, runway aircraft operations, baggage handling, air cargo handling, among a wide range of ground support activities for airline activity. Note that, it is estimated that its market share is around 65%.

In this sense, Groundforce has a long history with TAP area carrier. In the year of birth of Groundforce, 2003, the handling company was wholly owned by TAP. However, for competitive reasons, Groundforce was eventually privatized and sold. Today, its main shareholder is Alfredo Casimiro (who owns 50.1% of the capital) but TAP also has a large percentage of Groundforce's capital, 49.9% to be exact. Therefore, there are already three parties involved in the business: the Portuguese State, TAP, and Alfredo Casimiro. But, currently, TAP and Groundforce are bankrupt. Meanwhile, the Portuguese State intervened in the process.

The impasse: “TAP, where are you?”

With that said, let’s take a look at the main problem. So, Groundforce does not have the money to pay wages to its workers. In fact, the succession of episodes that led to the disruption of Groundforce's treasury began in August 2020, when TAP began paying advances to Groundforce for services already provided. As of November, TAP started to pay advances for services to be provided in the future. In January, TAP's management decided that it would only continue to pay advances through the provision of guarantees. In that sense, TAP then asked that Alfredo Casimiro's participation be given as a guarantee for advances. However, the shares of the majority shareholder of Groundforce would have already been subject to a pledge. It turns out that TAP, which holds almost 50% of Groundforce's capital, was unaware of this situation. It is at this point that the impasse begins. Without the advances from TAP, responsible for 70% of Groundforce's operation, the airport assistance company breaks with treasury and, in February of this new year, they stopped paying the wages of 2400 workers.

A solution has been found, but it is temporary

After months of stalemate, no definitive solution has yet been found. However, TAP appears to have given Groundforce a € 6.97 million “oxygen balloon” with an agreement for the purchase and rental of equipment, which will enable Groundforce to pay overdue wages and comply with tax obligations. In other words, Groundforce's assets were transferred to TAP. It should be noted that this is only a short-term solution. Currently, on the table, there is the possibility of a capital increase for Groundforce. But for now, there are no definitive agreements, it remains to find an effective solution and TAP is evaluating a possible sale of its minority position.

Will the state nationalize?

Right now, the main question is: is Groundforce an important company for Portugal? As Portugal is a country focused on tourism, the current 2400 workers are responsible for welcoming more than 60% of the tourists who enter Portugal. Now, if Portugal thinks that tourism is “strategic”, then can this be a “strategic” company?

The solution could be nationalization. However, I’ll leave two questions: why do we have to nationalize Groundforce? Or, in other words, why do we have to save Groundforce and we don't save other companies?

Sources: *Jornal de Negócios, ECO, Groundforce*

WILD CARD

Digital Boom: ING's Fintech Case Study

It all started in 1987 when the stock market entered the wave of digitization when stockbrokers started to take orders from their clients over the phone.

Nowadays, with regulatory battles, traditional banks being impacted by the financial crisis and new technologies changing consumer behaviors, the growth of financial technology ("fintech") has championed its path. In fact, the global fintech market was worth $127,66B in 2018 with a predicted annual growth rate of 25% until 2022 to $309,98B.

This article covers an example of the financial technology drive considering the ING Bank case study. ING is a Dutch bank, a market leader in the Benelux Union, with over 39 million customers all over the world. Despite COVID-19 headwinds and a negative interest rate environment, their fourth-quarter 2020 showed robust results in view of higher fee income and lower risk costs with a net result of €727M and an FY2020 of €2,485M.

Let's look at the main ways ING has nurtured its profitable and sustainable position.

A few years ago, ING brought the AI power to bond trading with the Katana platform, its latest graduate from the bank's fintech incubation labs. Katana's machine learning algorithm uses the pattern of predictive analysis to help traders optimize the bond valuation process, basing its decision on both historical and real-time data.

Furthermore, and together with UNICEF's strategic partnerships with programs such as "Fintech for Impact", innovation at ING goes from in-house innovations – such as the PACE approach that combines design thinking, lean startup, and agile – to the launch of ING Ventures, a €300M fintech fund that focuses on startups and companies that already developed market traction.

These curveballs aim to achieve the preferred scale in the market within a reasonable time frame. Nevertheless, this sector also faces fragility, and keeping in mind that banking and finance have always been in an inextricable relationship with governments, fintech has recently entered a new era with politics to avoid being strong-armed by the opposite force. ING has sorted this matter by joining parties to establish The European Cloud User Coalition (ECUC), a well-thought-out card that assembles a bridge between fintech and security standards for the use of cloud technology.

All in all, revolutionary platforms, transparency data, and a great user experience mark today's main challenges that banks face. Just like ING, these ones will inevitably turn their tactics towards AI and machine learning to gain leverage and guarantee a commitment of their customers into the lifting of the financial opportunities available in the tech ecosystem.

Sources: *Statista, ING*

MacroOverviews Team

Project Manager: José Duarte, Samuel Capucho
Project Supervisor: Tânia Caria
Design: Simionela Calestru
Analysts: José Duarte, Samuel Capucho, Tânia Caria

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