The end of the liner shipping crisis?

The beginning of the end
or merely the end of the beginning?

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CEO and Co-Founder
SeaIntel Maritime Analysis

November 23rd, 2017
ALMC 2017

SeaIntel

Container Shipping Analysts

- Founded January 6th, 2011
- Fully independent, private company with no interests from brokers, banks or others.
- 12 Analysts, Developers & Consultants in Copenhagen and Hong Kong.
- Management Team with combined 55 years of experience in Container Shipping

Core values:

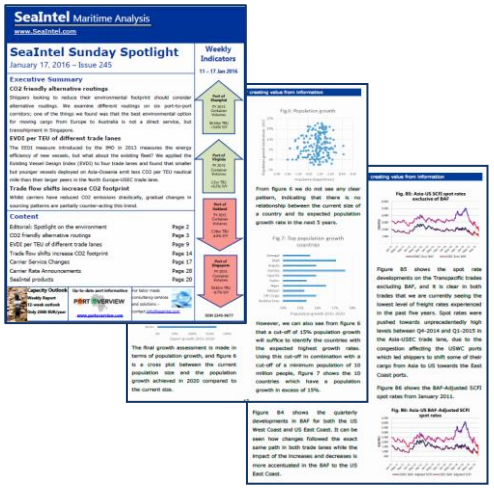
- Integrity
- Methodology
- Assumptions
- Data Quality

Major Milestones:

- 900+ Research & Analysis articles published since March 2011
- 5,000+ citations in Industry Press (Lloyd's List, JoC, etc.)
- Official Knowledge Partner of the Global Institute of Logistics
- World's most comprehensive database on Carrier Reliability
- Curriculum provider at the World Maritime University
- Curriculum provider at the Blue MBA at Copenhagen Business School

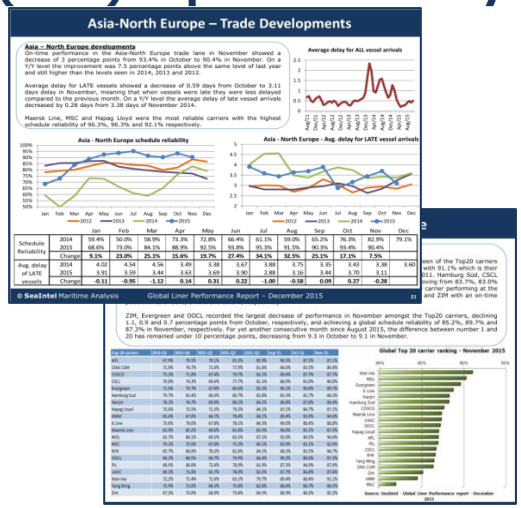
SeaIntel subscription reports

SeaIntel Sunday Spotlight (SSS) - Weekly



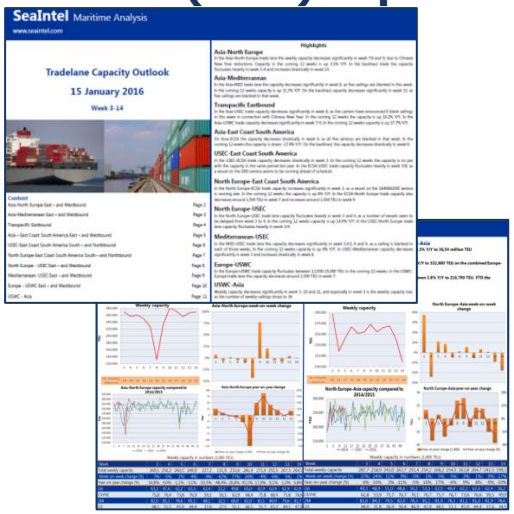
- Weekly report on relevant container market analysis
- Quantitative insights into important market drivers
- Regular topics include: Supply/Demand, deployment patterns, freight rate analysis, environmental issues, reliability, and much more

Global Liner Performance (GLP) report - Monthly



- World's largest study of carrier on-time performance
- Report covering 65+ carriers, 300+ distinct carrier services/loops, 300+ ports, across 34 trade lanes
- 116 pages including global carrier performance Top20

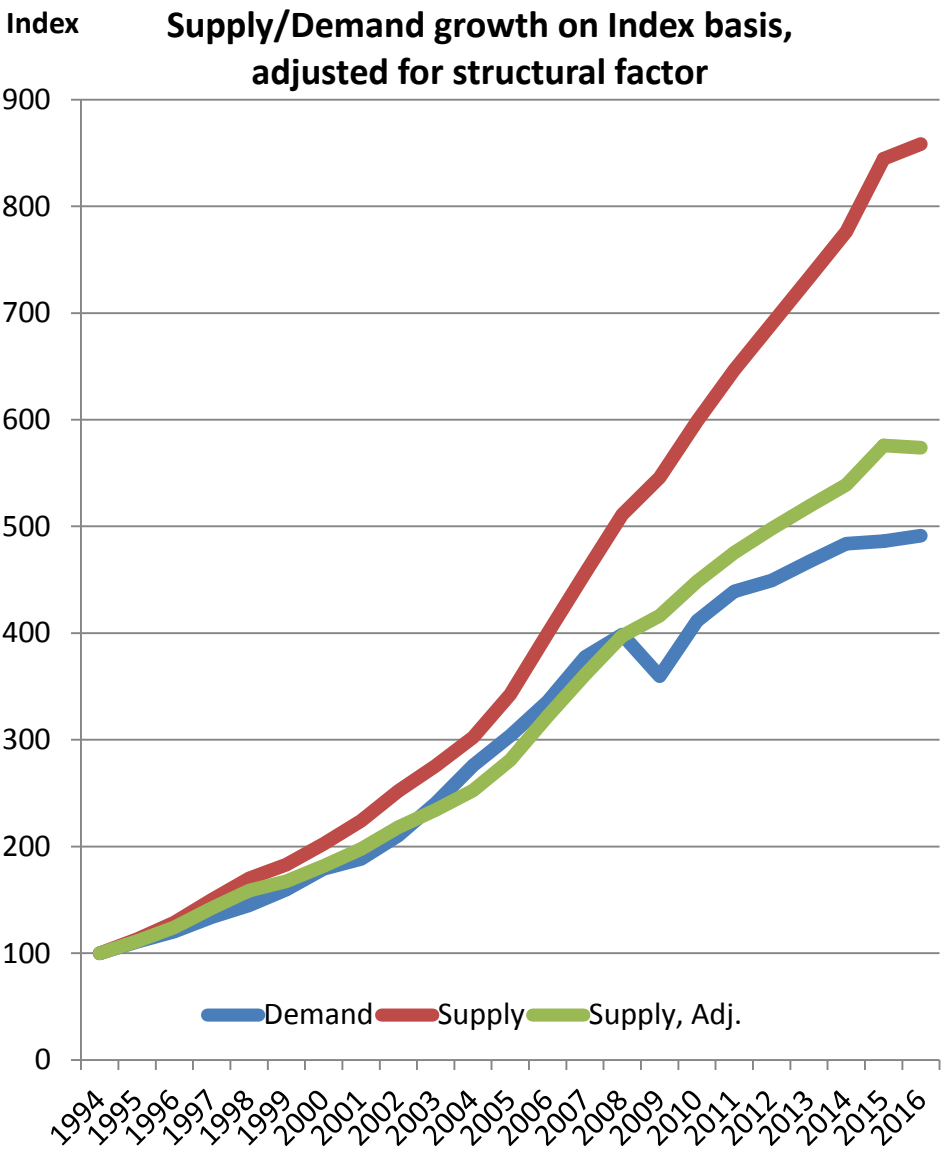
Tradelane Capacity Outlook (TCO) report -

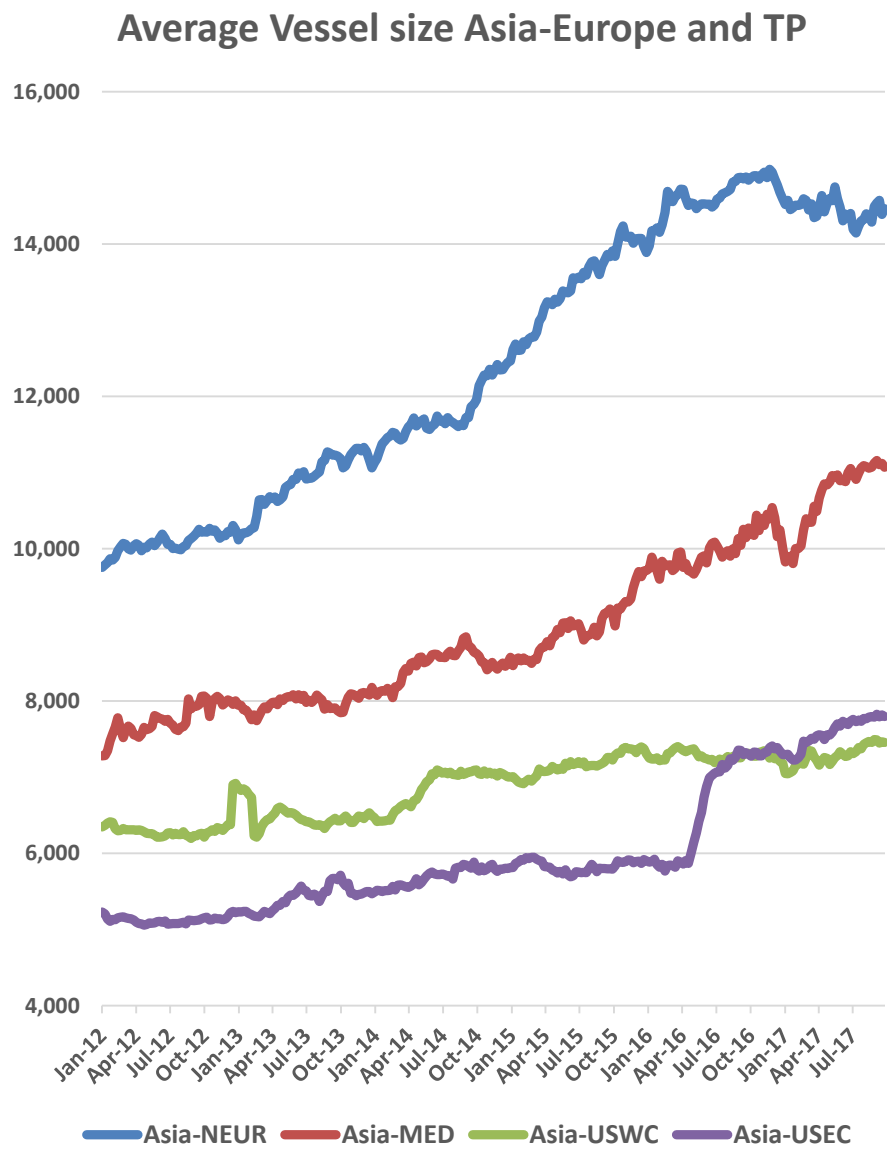


- 12-week future outlook on container space supply
- Most accurate and updated capacity deployment figures for 23 trade lanes between Asia, Europe, North and South America
- Based on actual vessel schedules of individual

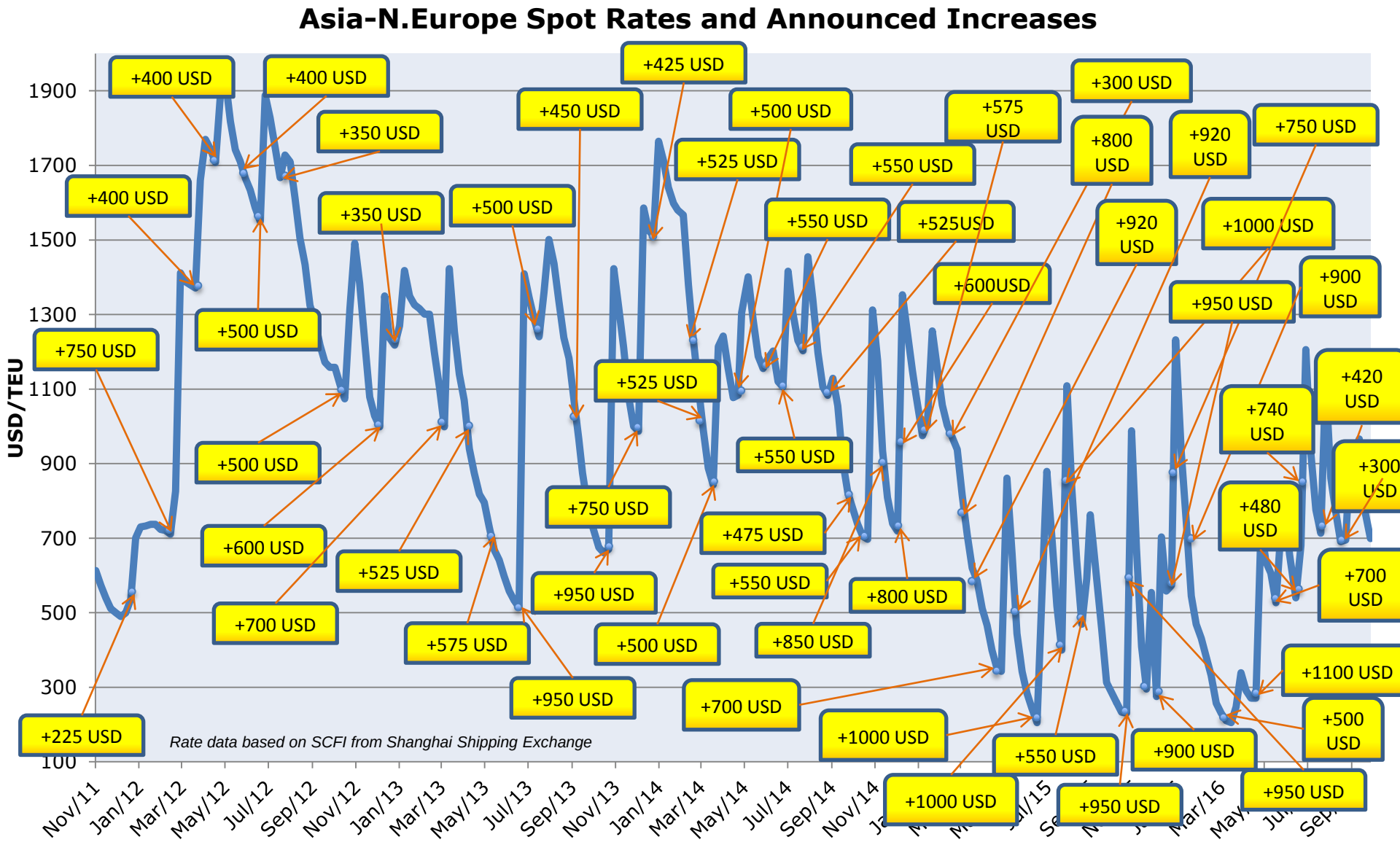
8 Years of over-supply

Gap in Supply/Demand opened in 2009





Freight rate volatility is through the roof

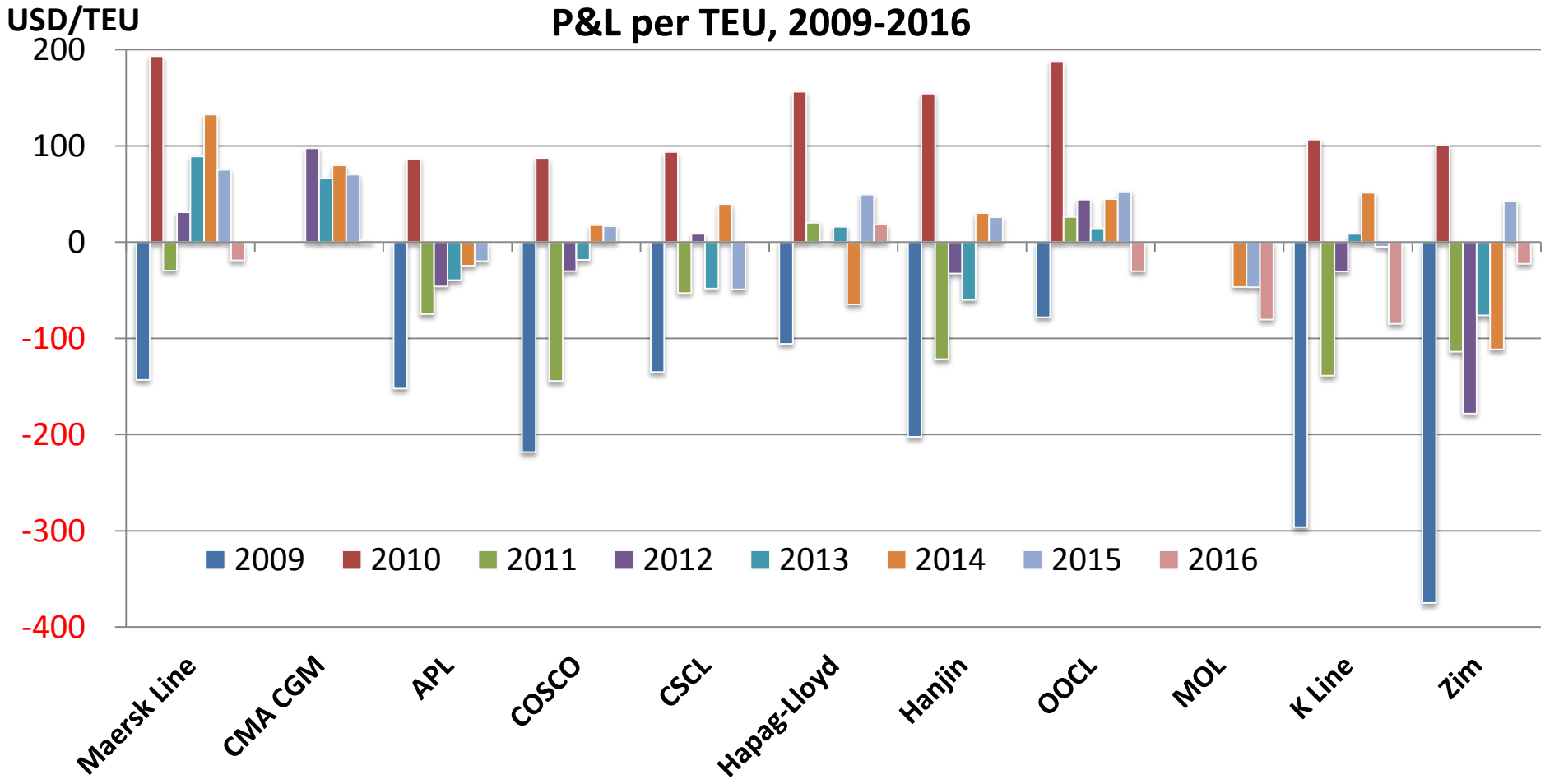


Shipping Lines' P&L 2009-2016

Financial Results 2009-2015 in Thousands of USD								
	2009	2010	2011	2012	2013	2014	2015	2016
Maersk Line*	-1.977.000	2.820.000	-482.000	525.000	1.571.000	2.504.000	1.431.000	-396.000
CMA CGM**	-	-	-	1.034.000	756.000	973.200	910.600	29.000
APL**	-698.000	490.000	-446.000	-279.000	-234.000	-139.000	-98.000	N/A
COSCO***	-1.143.063	543.148	-997.074	-241.986	-161.461	165.126	162.305	N/A
CSCL****	-911.740	675.304	-393.363	69.033	-395.112	318.971	-384.706	N/A
Hapag-Lloyd*	-490.291	772.591	104.392	3.964	87.680	-383.000	366.000	140.000
Hanjin****	-652.000	571.770	-507.330	-146.430	-285.210	137.000	119.000	N/A
OOCL*	-325.500	896.700	131.800	229.546	75.100	249.400	294.000	-185.000
MOL*****	-704.000	344.400	-217.600	-185.600	-115.200	-205.840	-191.350	-332.860
NYK*****	-718.773	431.115	-389.248	-148.166	-12.768	40.487	41.171	-83.660
K Line*****	-875.600	330.870	-435.200	-100.746	26.306	160.412	-14.718	-259.488
ZIM*	-675.000	223.000	-276.000	-428.000	-190.610	-263.378	98.026	-54.300

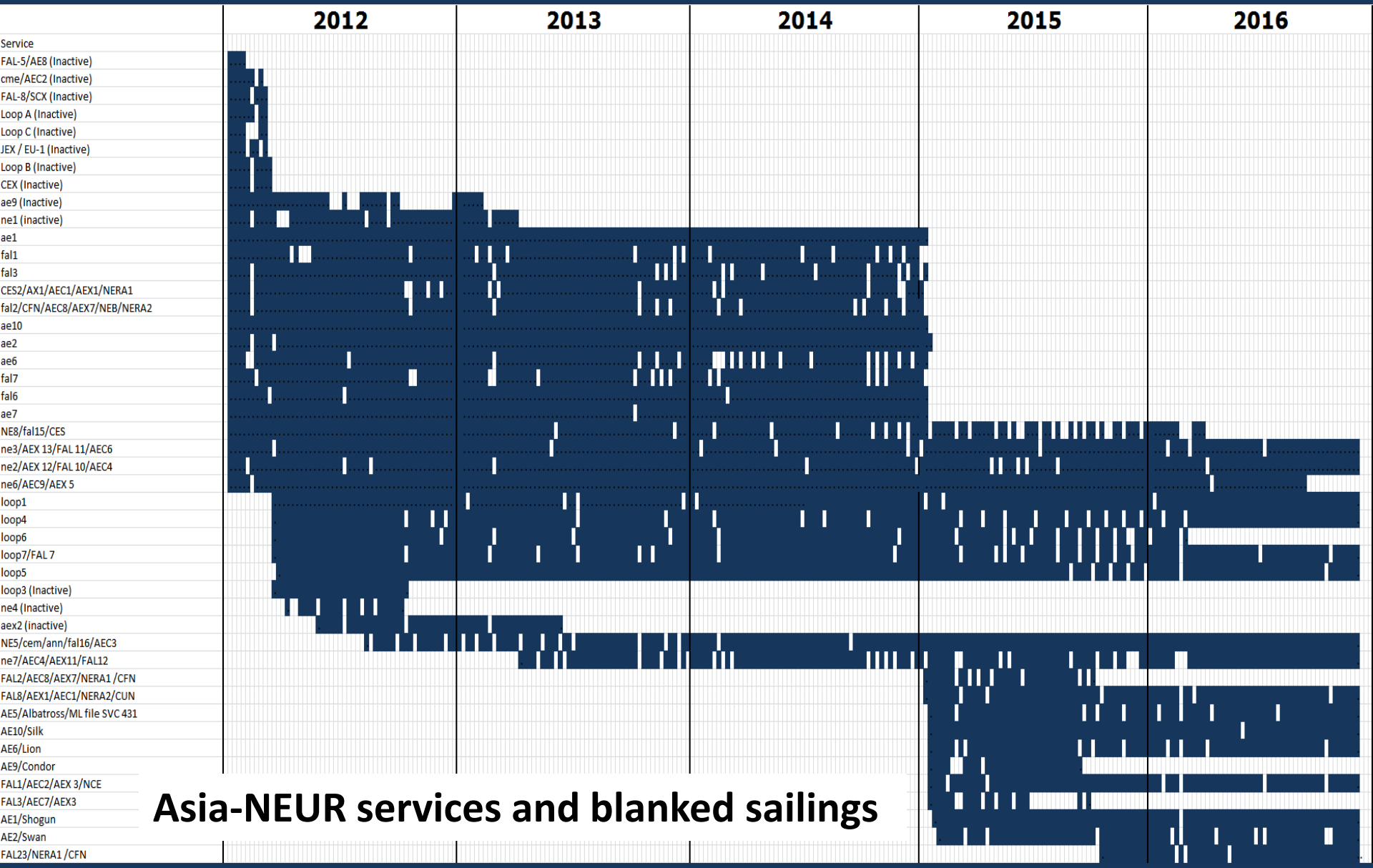
*EBIT, **Core EBIT, *** Segment Profit/Loss, ****Operating Profit/Loss,*****Segment Income/Loss

Shipping Lines' P&L per Transported TEU



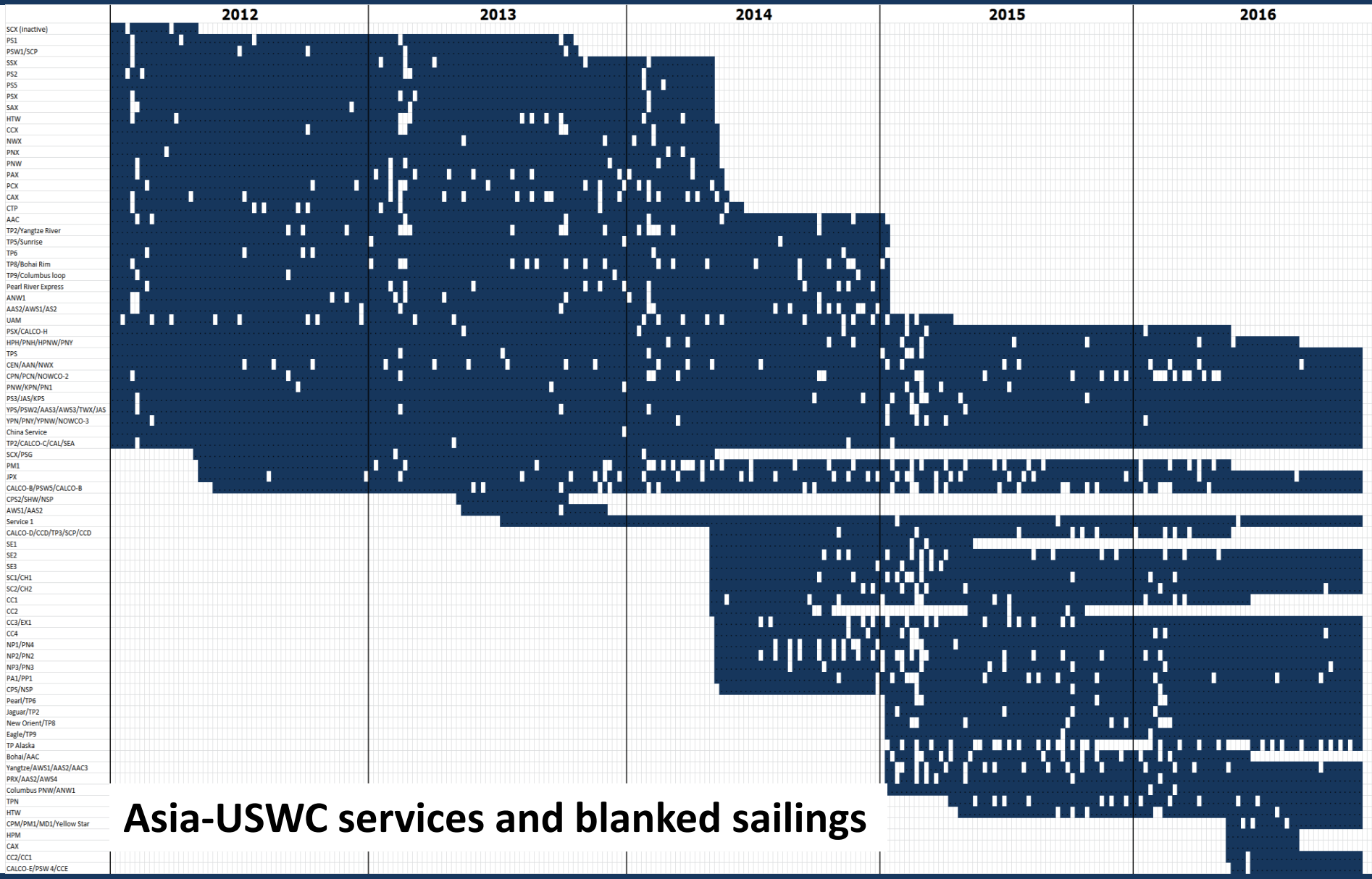
Impact on service levels

Lines blank sailings to manage excess capacity



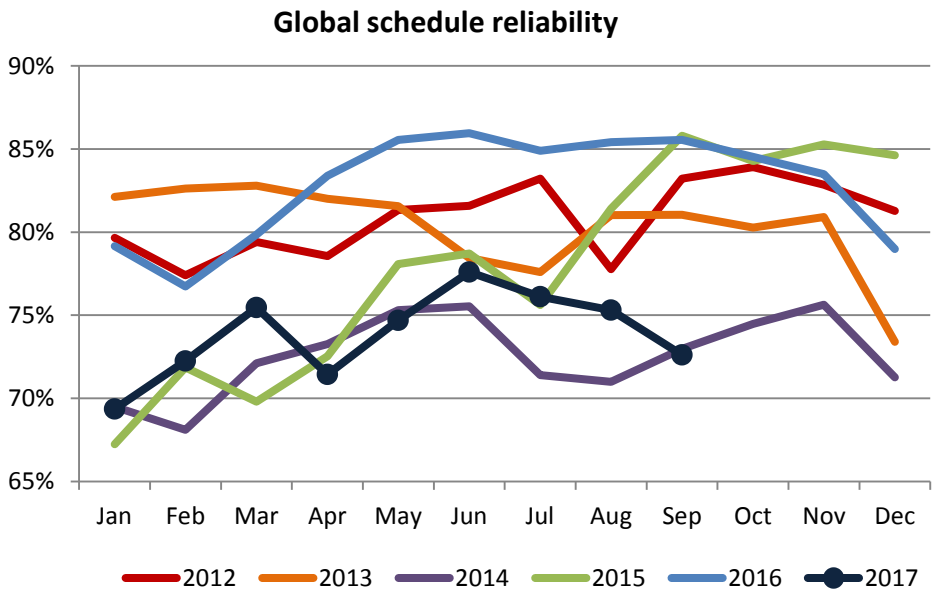
Asia-NEUR services and blanked sailings

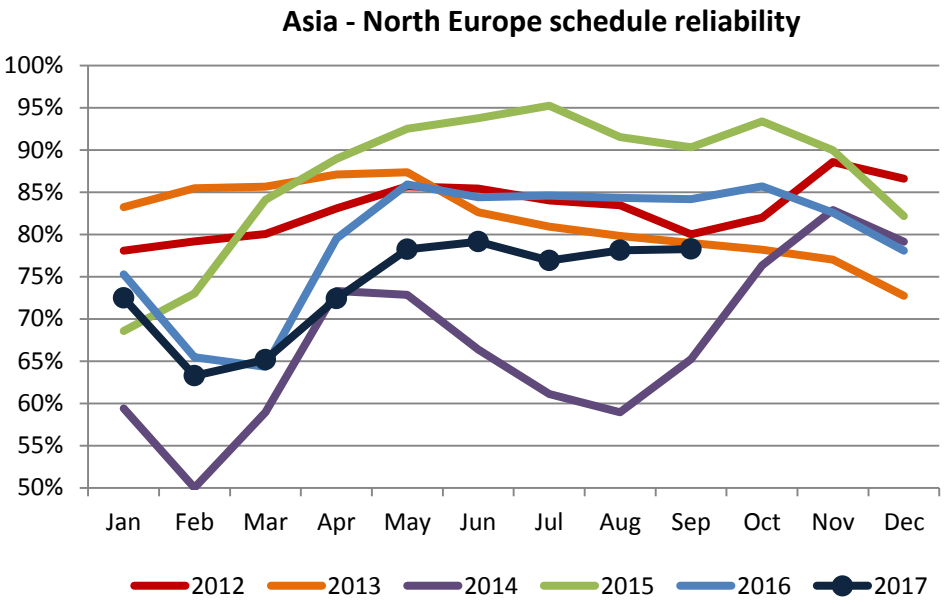
Lines blank sailings to manage excess capacity

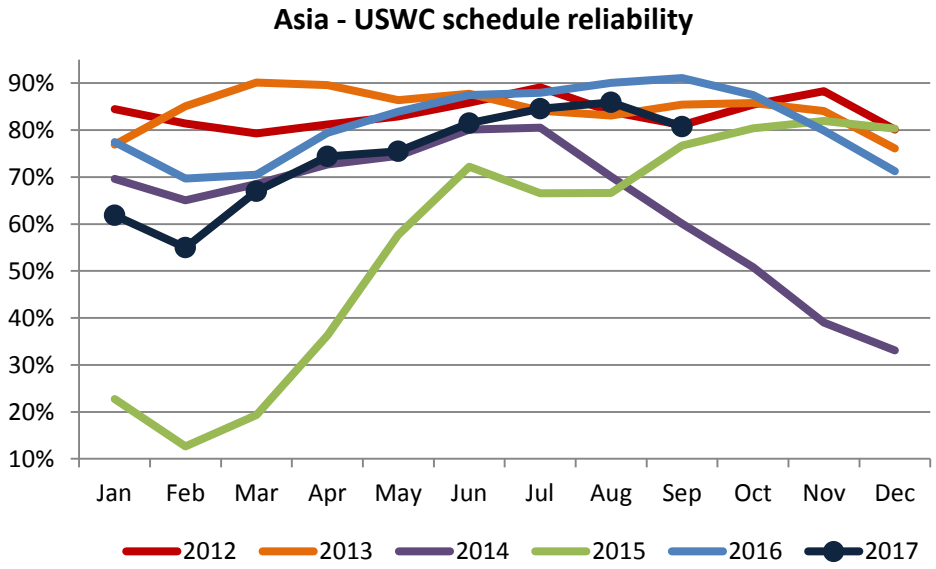


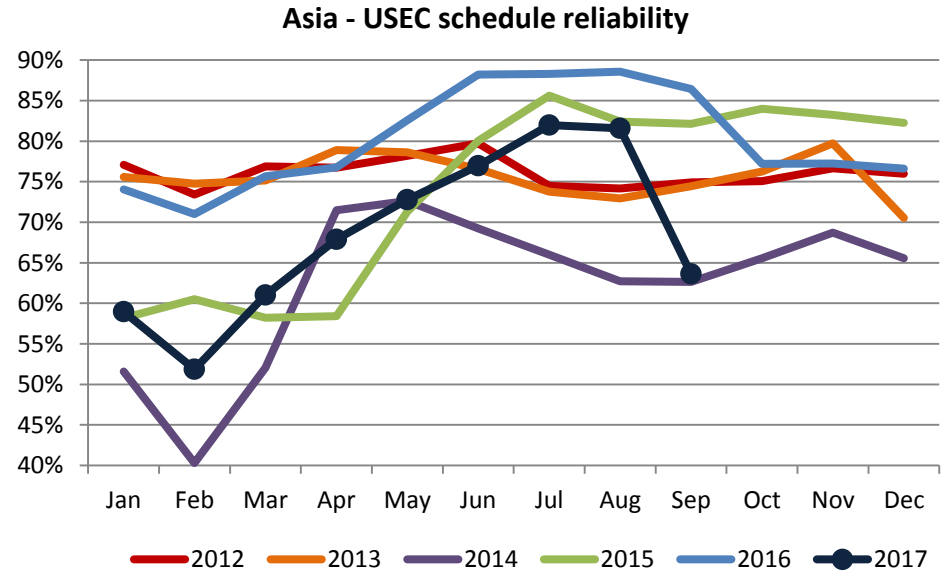
Asia-USWC services and blanked sailings

2017 Reliability is poor, and is now declining



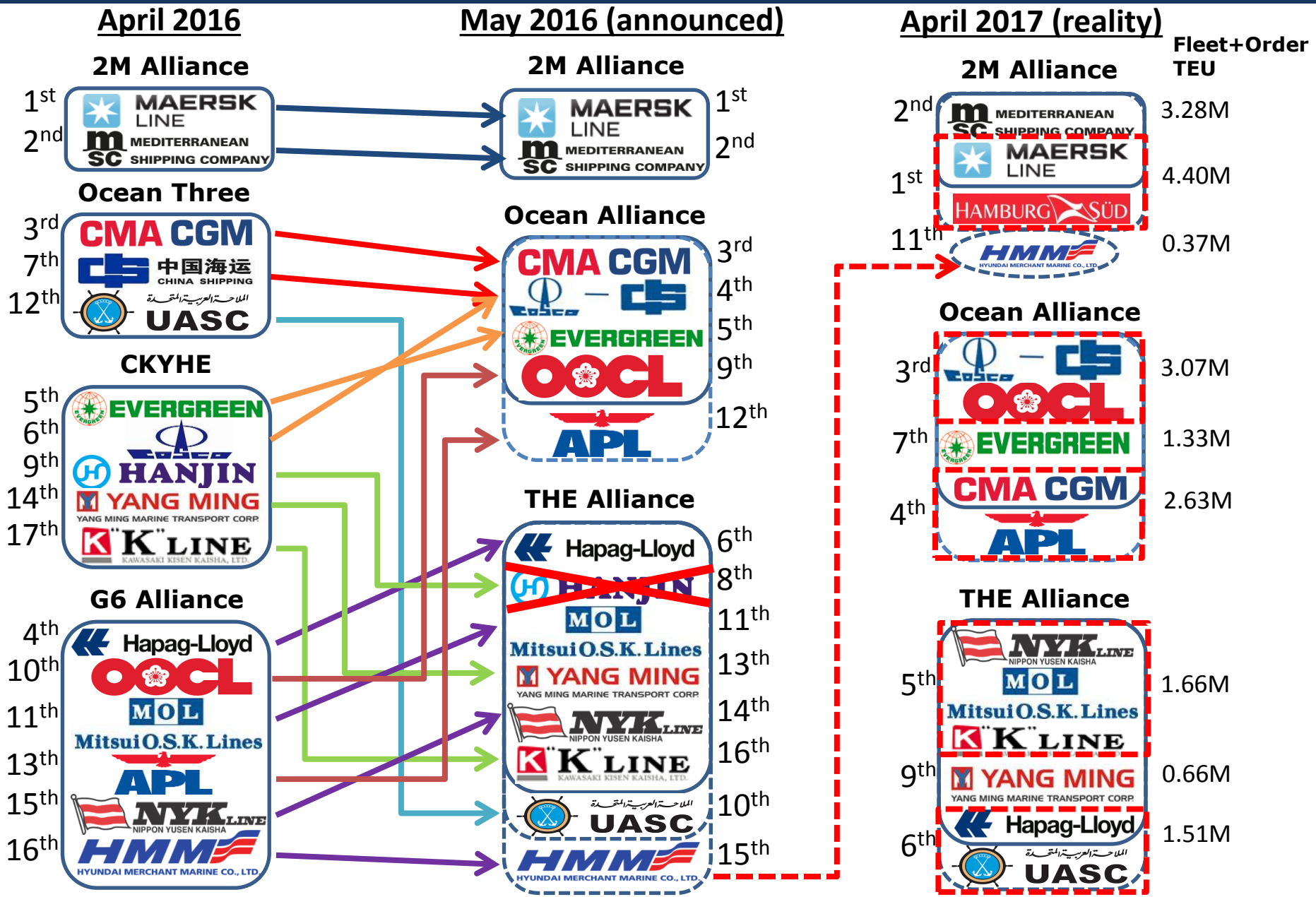




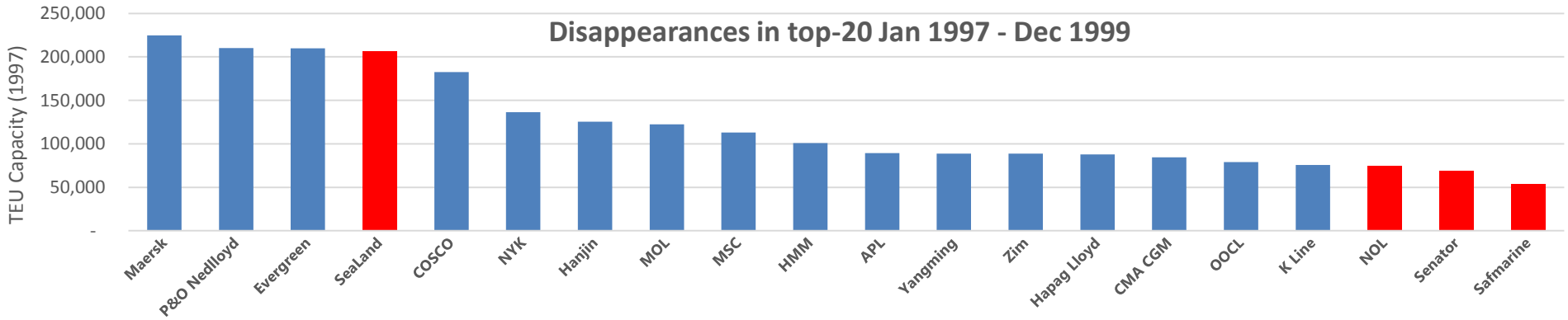


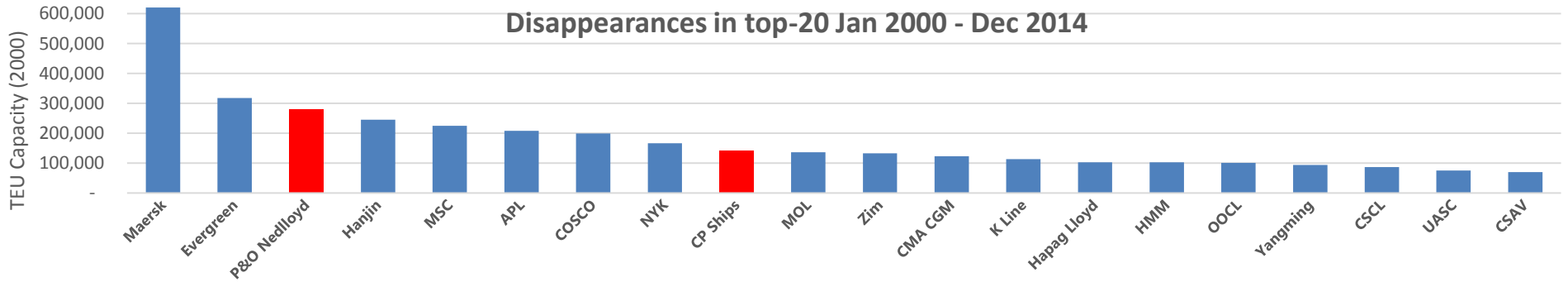
Mega-Alliances & Consolidation

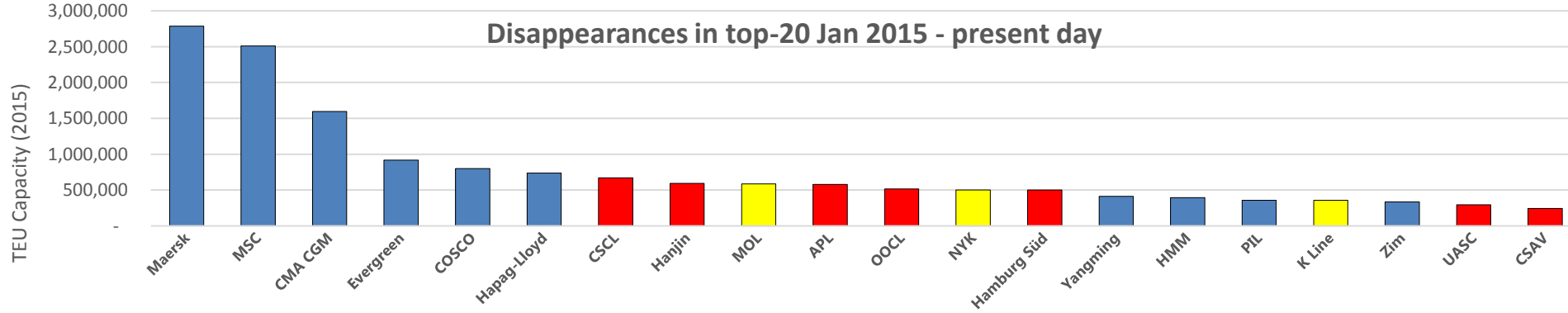
What are the new (April 2017) alliances?



The level of consolidation is unprecedented

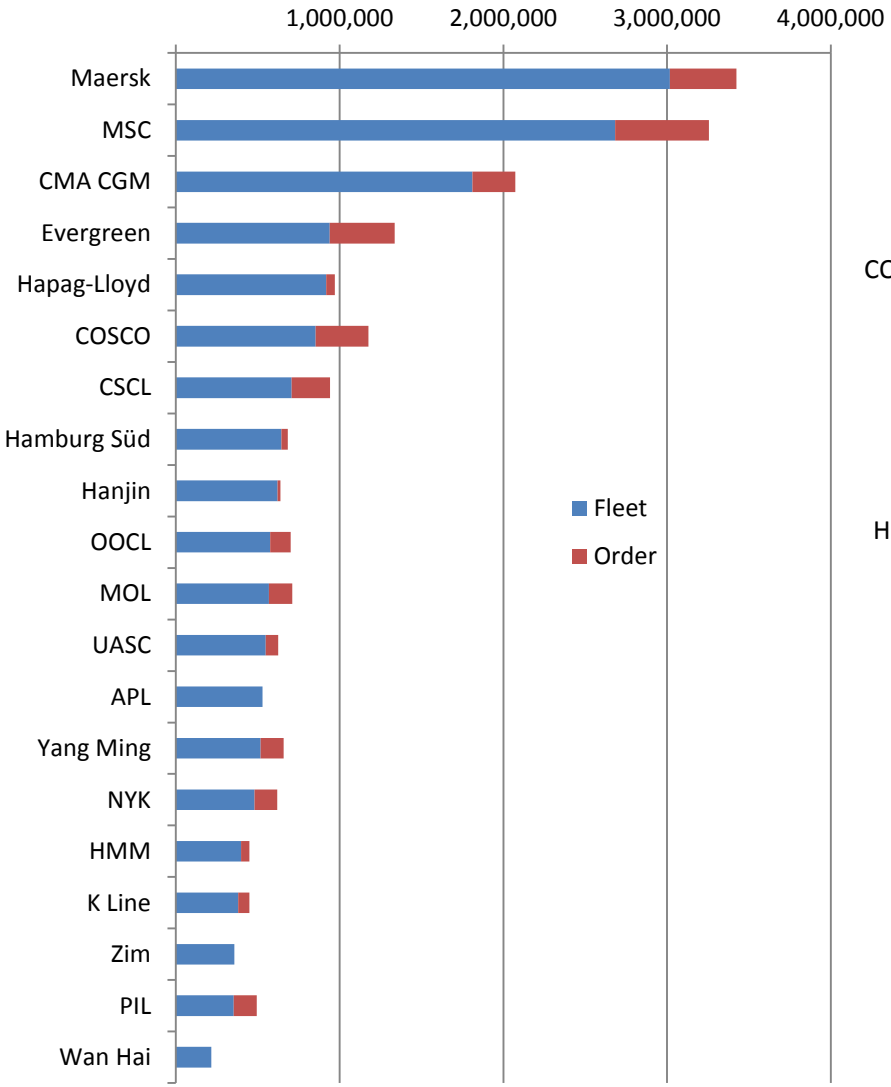




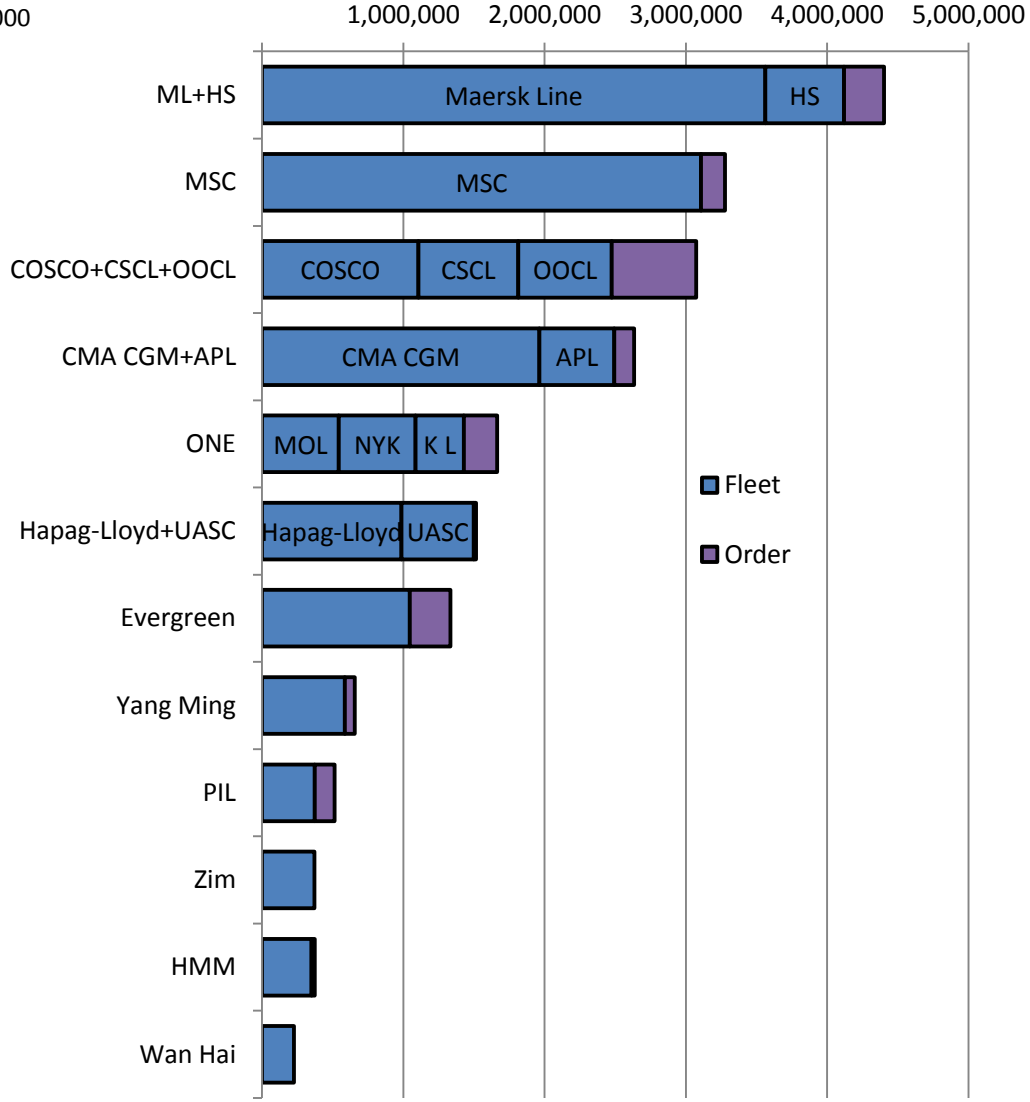


We will end up with 4-7 mega-carriers

Top 20 carrier fleets – Jan 2015

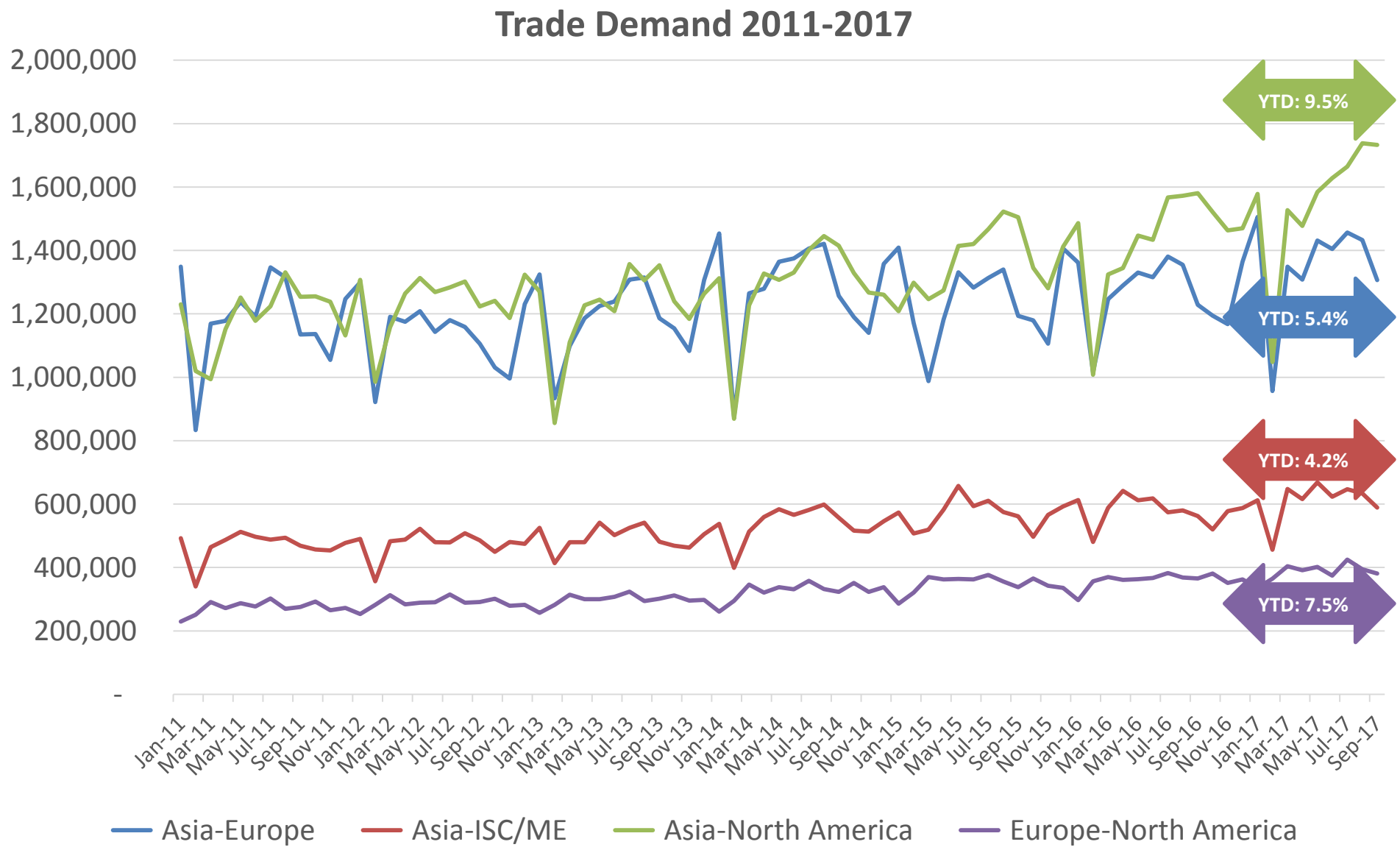


Same carriers – Sep 2017

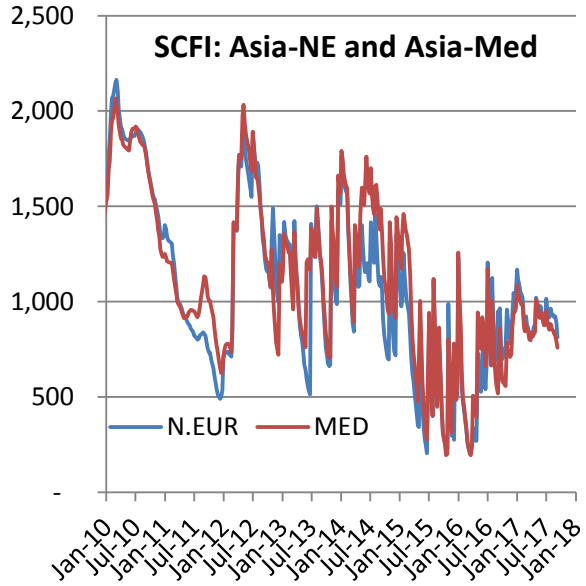


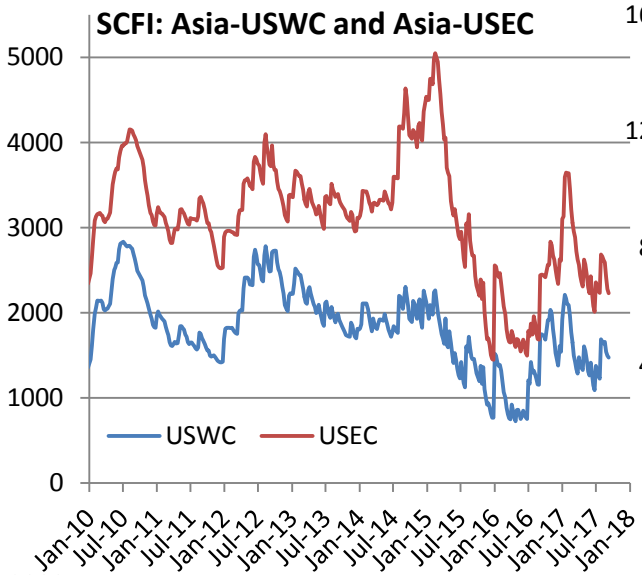
So how does 2017 look?

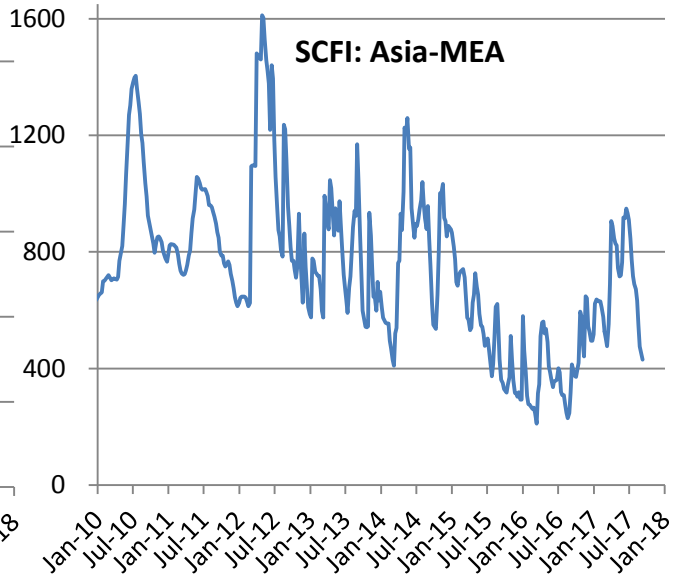
Good 2017-9M demand, good Q4 projections

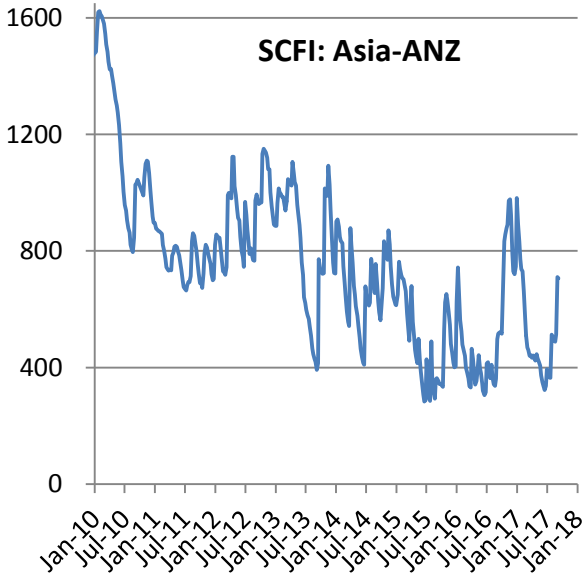


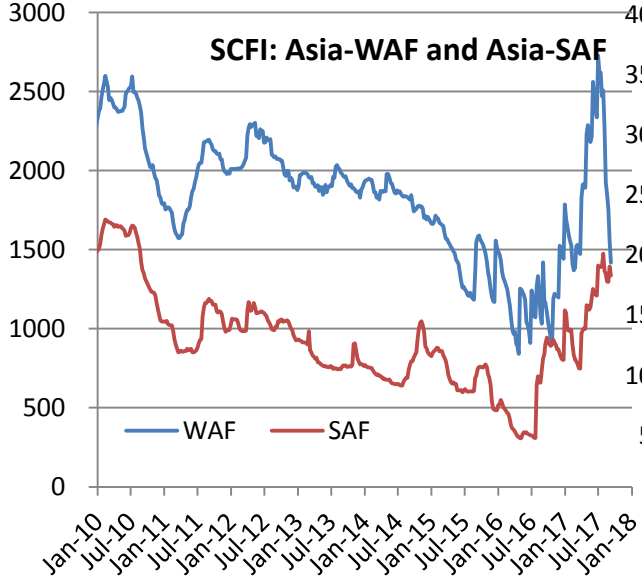
Freight rates were up, but have come down

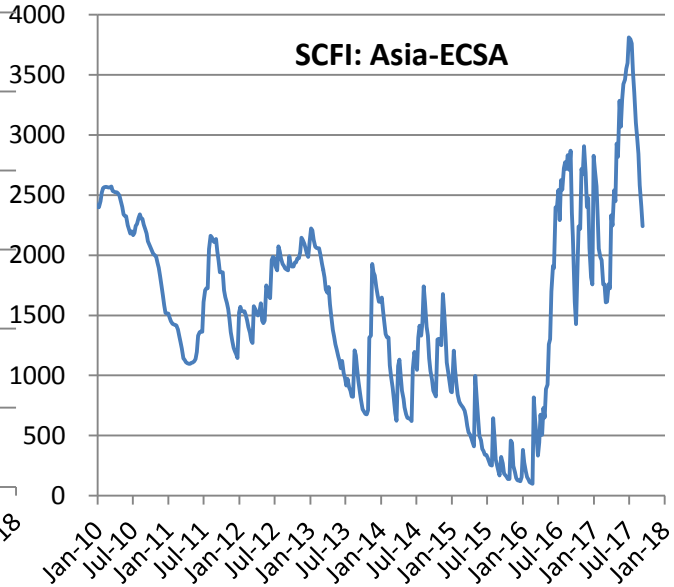




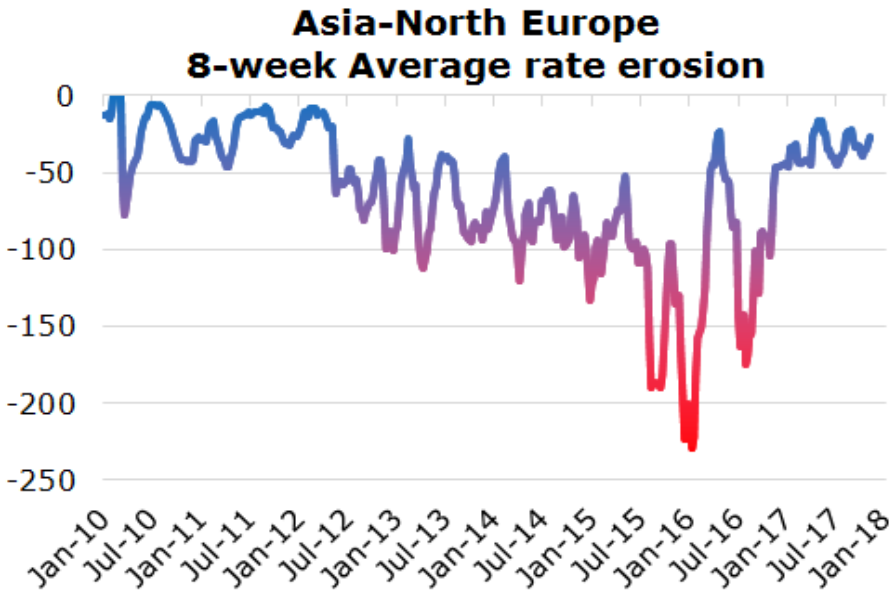


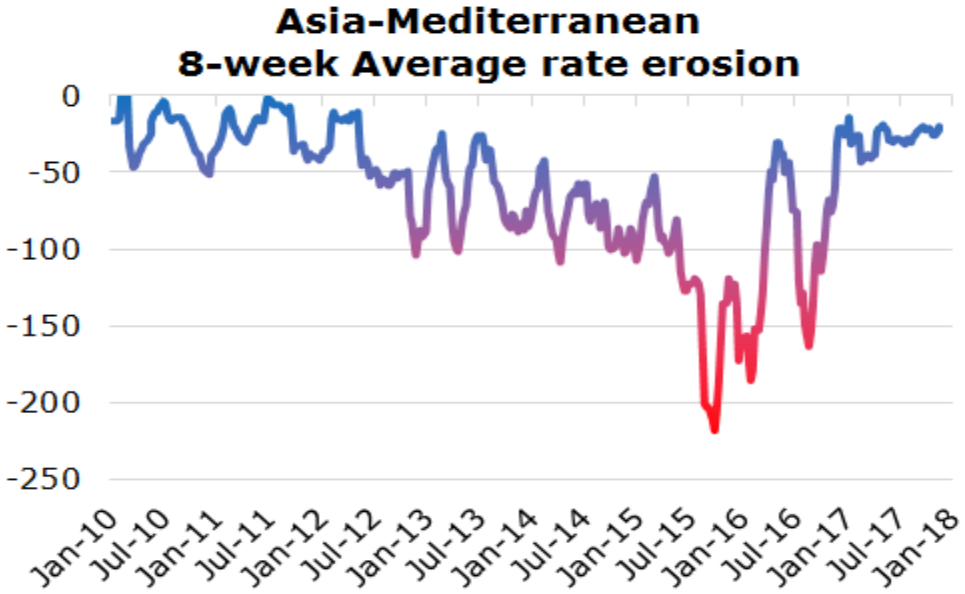


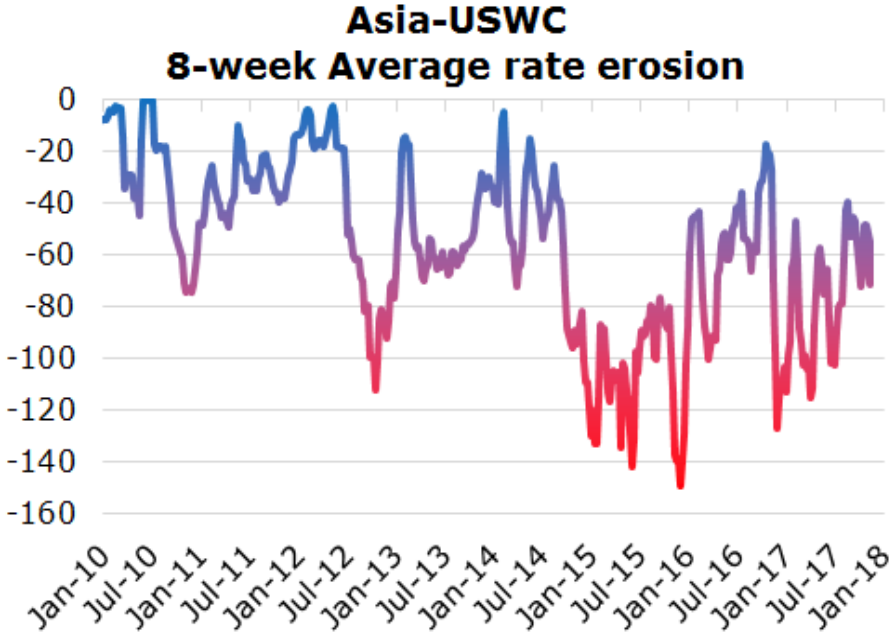


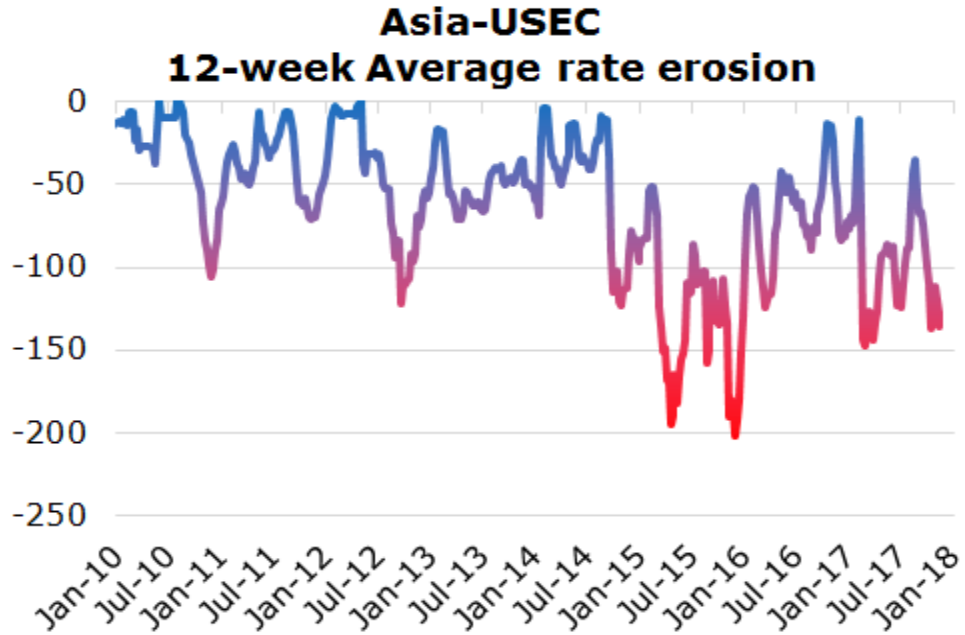


Rate erosion better on Asia-Europe, but not TP









2017-Q2 operating profits were good

Top-16 carriers - Q2 Segment EBIT/Operating Profit 2010-2017 in Thousands USD									Change Y/Y
	2010-Q2	2011-Q2	2012-Q2	2013-Q2	2014-Q2	2015-Q2	2016-Q2	2017-Q2	Q2 Delta 17-16
Maersk Line - EBIT	1,076,000	-49,000	265,000	467,000	567,000	530,000	-123,000	376,000	499,000
CMA CGM - Core EBIT	N/A	N/A	380,000	172,000	204,000	325,000	-81,000	472,000	553,000
COSCO - Segment Operating Profit*	74,640	-73,239	-103,166	-161,755	-69,968	268,422	-259,025	121,826	380,852
Hapag-Lloyd - EBIT	275,318	23,956	30,518	79,225	-28,610	104,169	-50,285	92,800	143,085
Evergreen - Operating Profit**	N/A	N/A	22,688	8,247	20,271	11,304	-36,182	72,748	108,929
OOCL - Segment Operating Profit*	149	80,908	30,434	-2,193	67,574	105,233	-38,160	10,888	49,048
Yang Ming - Operating Profit**	N/A	N/A	36	-80,260	16,961	-203	-148,007	4,690	152,697
MOL - Segment Profit/Loss	93,274	-66,173	-30,381	-11,171	-71,109	-41,508	-114,190	-55,093	59,096
NYK - Segment Recurring Profit	112,945	-105,091	-10,394	-6,383	-1,833	32,968	-86,661	50,668	137,329
ZIM - EBIT	N/A	-79,000	1,000	-29,000	-9,300	41,600	-47,800	36,400	84,200
HMM - Segment Operating Profit	139,200	-42,300	-39,600	-31,500	1,000	-44,100	-194,234	-81,752	112,482
K Line - Segment Profit/Loss	97,366	95,160	7,380	0	21,560	34,030	-120,540	54,205	174,745
Wan Hai - Operating Profit**	N/A	N/A	48,419	16,882	53,933	42,570	15,044	33,083	18,039

*Jan-Jun Profit/Loss divided by 2

**Group Profit/Loss

- Last year, all but one carrier recorded losses, this year all but two recorded operating profits
- All carriers improved upon their 2016-Q2 results
- The larger carriers seem to be ahead, with CMA, ML, and COSCO coming out on top

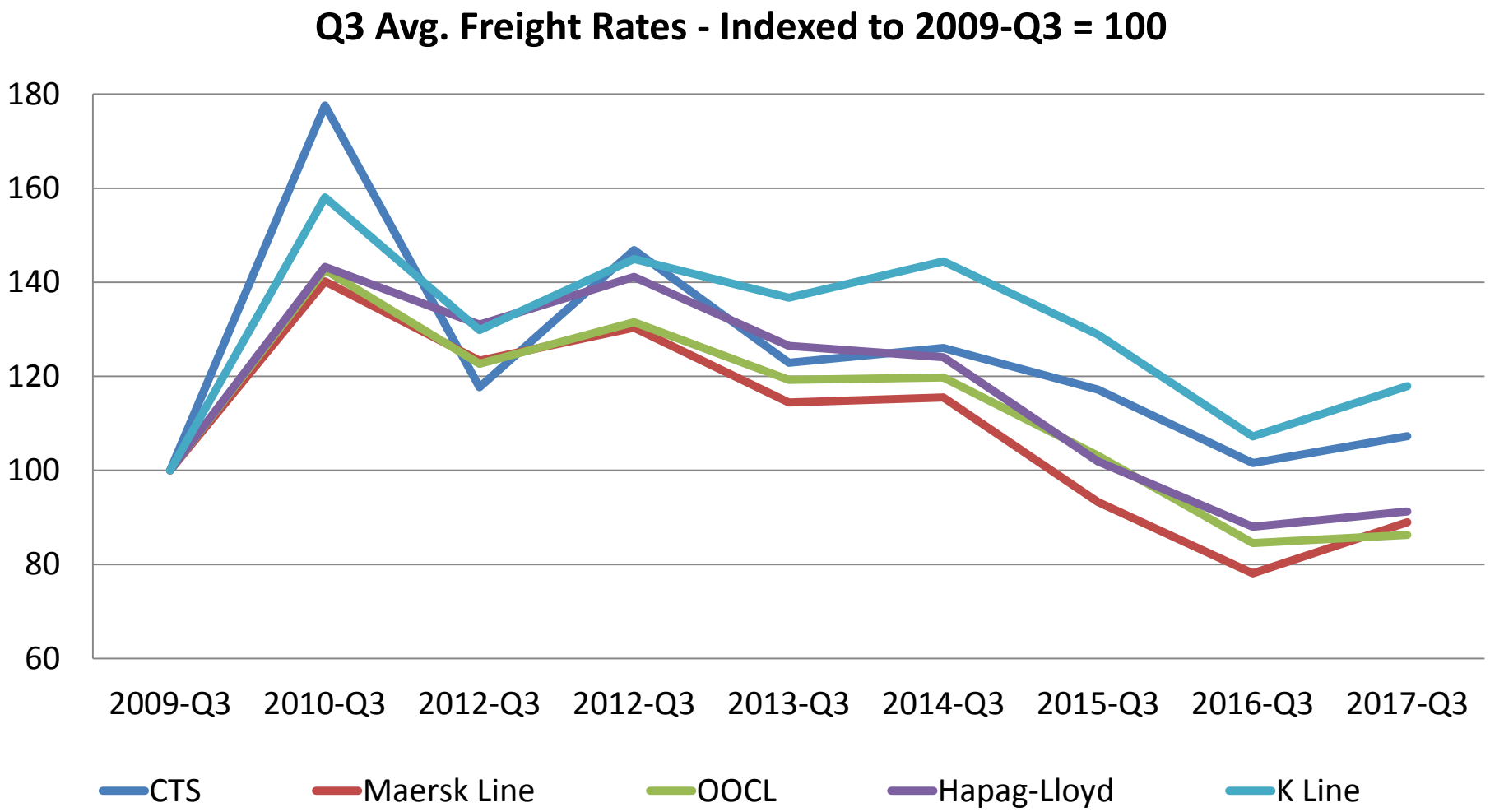
2017-Q3 Results have been a bit disappointing

Table A3: Q3 Segment EBIT/Operating Profit 2010-2017 in Thosands USD									Change Y/Y
	2010-Q3	2011-Q3	2012-Q3	2013-Q3	2014-Q3	2015-Q3	2016-Q3	2017-Q3	Q3 Delta 17-16
Maersk Line - EBIT	1,158,000	-257,000	547,000	567,000	740,000	303,000	-153,000	263,000	416,000
CMA CGM - Core EBIT *	N/A	N/A	541,000	271,000	248,000	158,000	-86,000	N/A	NA
COSCO - Operating profit/loss **	454,301	-268,899	-186,206	-74,009	93,497	-182,631	-253,089	15,254	268,343
Hapag-Lloyd - EBIT	349,744	46,427	103,006	82,663	29,937	90,810	72,363	214,885	142,522
Evergreen - Operating Income ***	N/A	N/A	58,756	1,936	92,890	-81,012	-57,925	100,252	158,178
Yang Ming - Operating Income	N/A	N/A	96,342	56,685	65,523	-106,358	-148,197	51,361	199,558
MOL - Ordinary income	207,600	-66,810	-2,560	-26,260	-32,760	-34,112	-93,508	19,152	112,660
NYK - Recurring Profit	190,452	-113,970	23,040	-2,020	43,680	32,448	-62,660	69,312	131,972
ZIM - Operating income	102,000	-63,000	81,000	16,500	-251,300	34,400	-7,200	N/A	N/A
HMM - Operating income	294,300	-67,500	14,400	3,600	-7,200	-67,897	-195,774	-25,932	169,842
K Line - Segment income	200,400	-137,550	40,960	15,150	66,430	-8,320	-83,868	26,448	110,316
Wan Hai - Operating Income	N/A	N/A	30,394	23,996	56,140	2,866	10,484	48,451	37,967

* 2012: EBIT, all other years: Core EBIT **COSCO SHIPPING Holdings Co., Ltd. ***Evergreen Marine Corp. (Taiwan) Ltd.

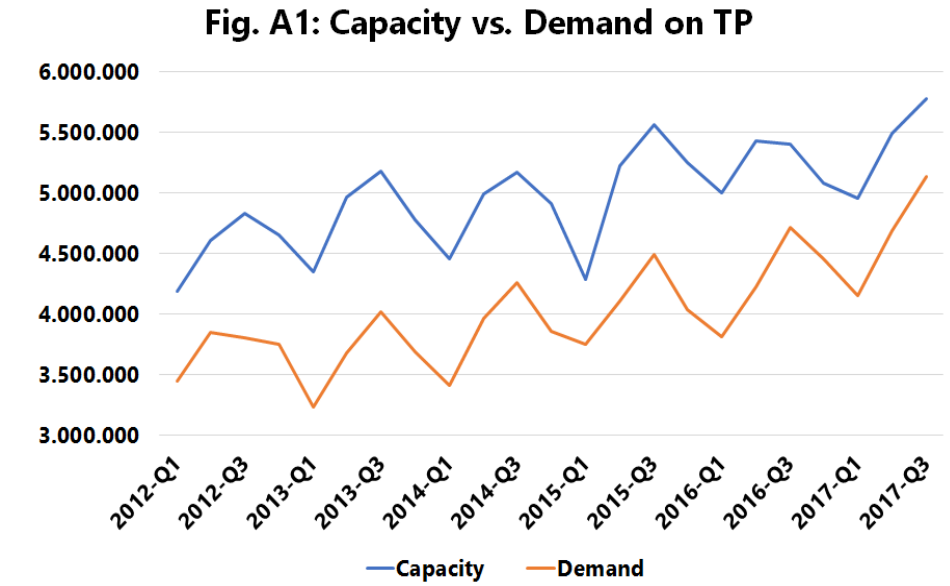
- Carriers were expecting strong 2017-Q3 peak season returns
- Some analysts (not us!) were predicting FY2017 returns of 5-6 Bn USD
- In reality, we are likely not going to breach 2.5-3 bn USD, but CMA CGM is not out yet
- Again, the big carriers are dominating the positive results

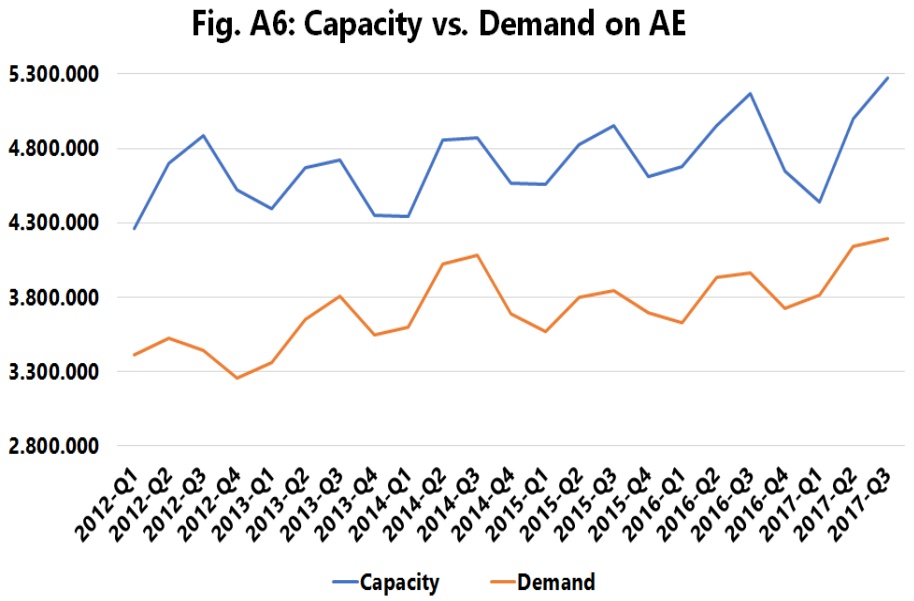
Soft 2017-Q3 result due to low freight rates

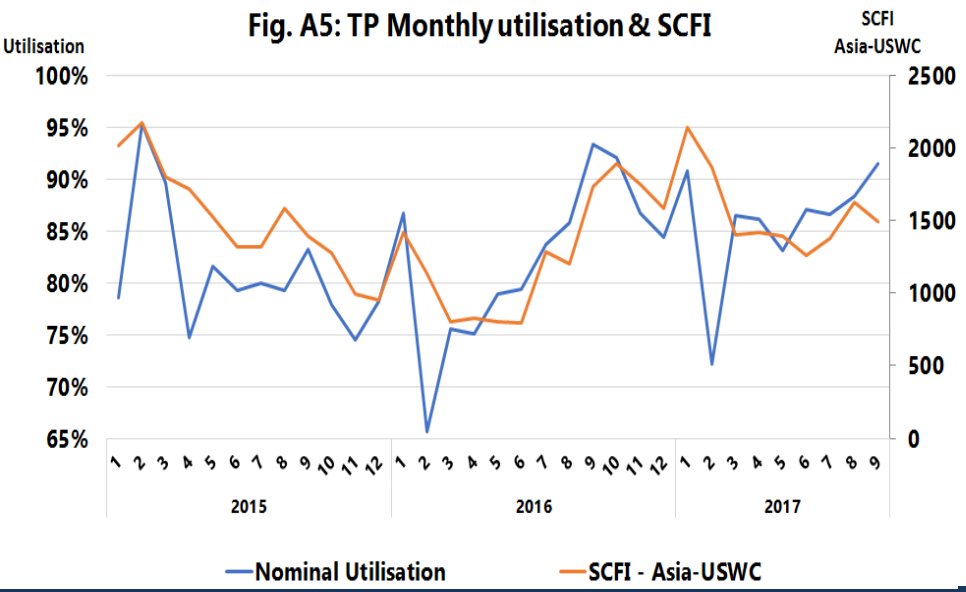


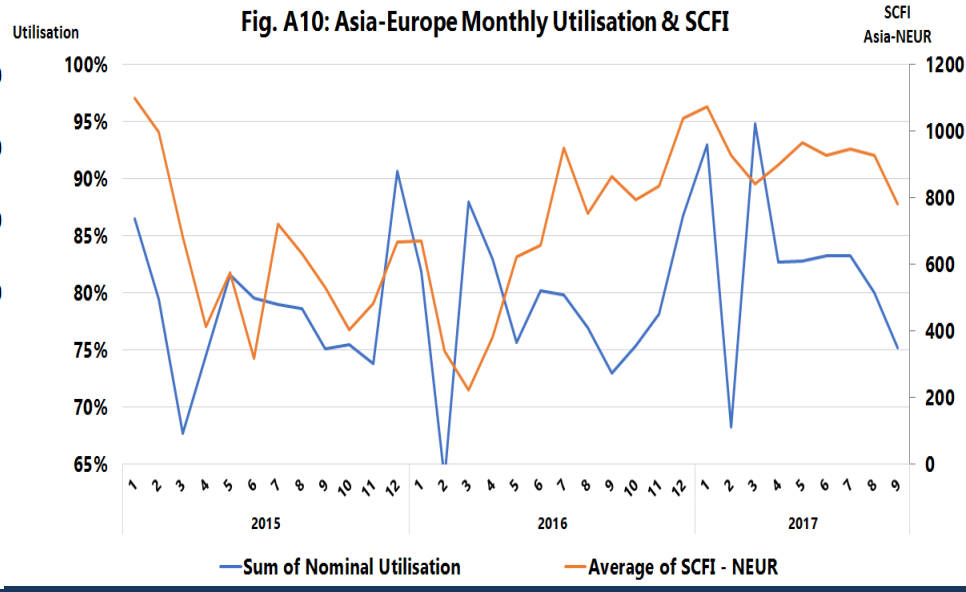
- 2017-Q3 freight rates certainly better than the horrors of 2016
- 2017-Q3 freight rates barely at 2015 levels, and far below 2011-2014 levels

Which in turn were due to low utilisation

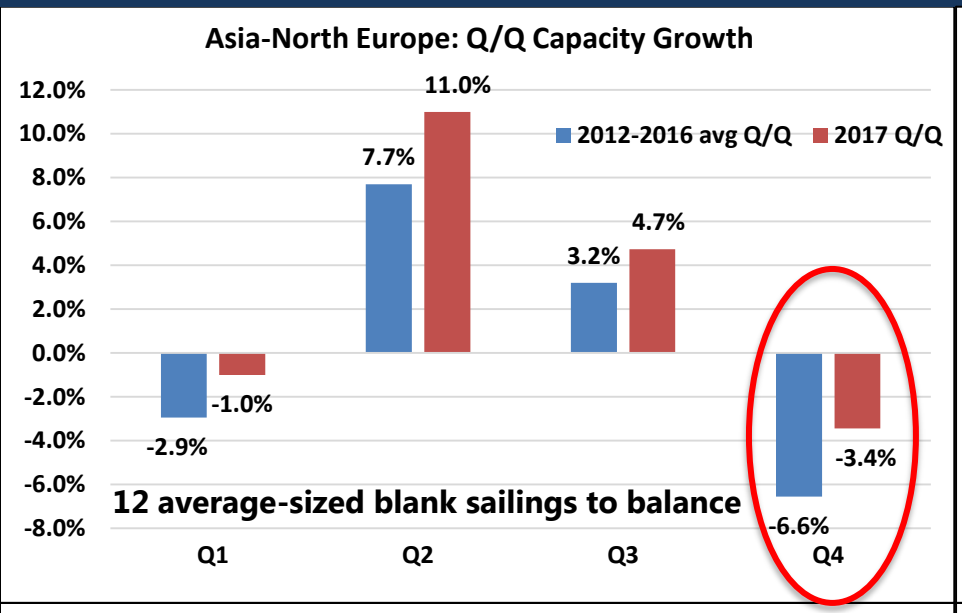


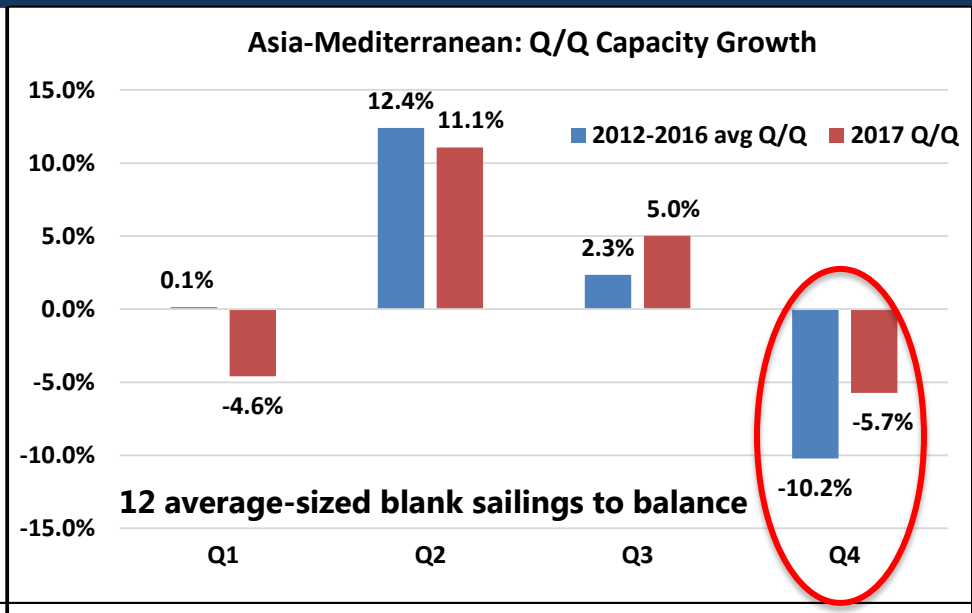


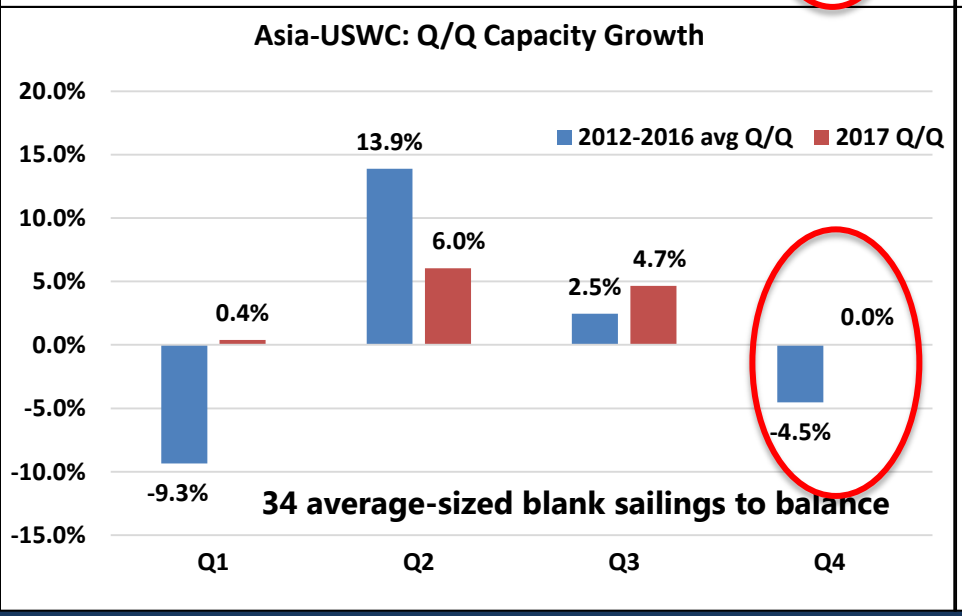


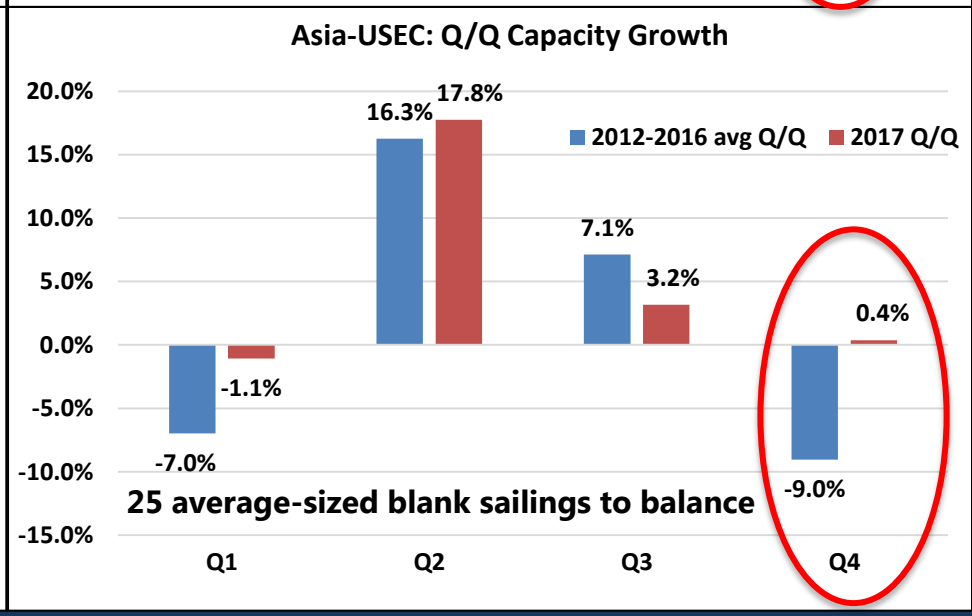


Massive over-capacity scheduled for 2017-Q4



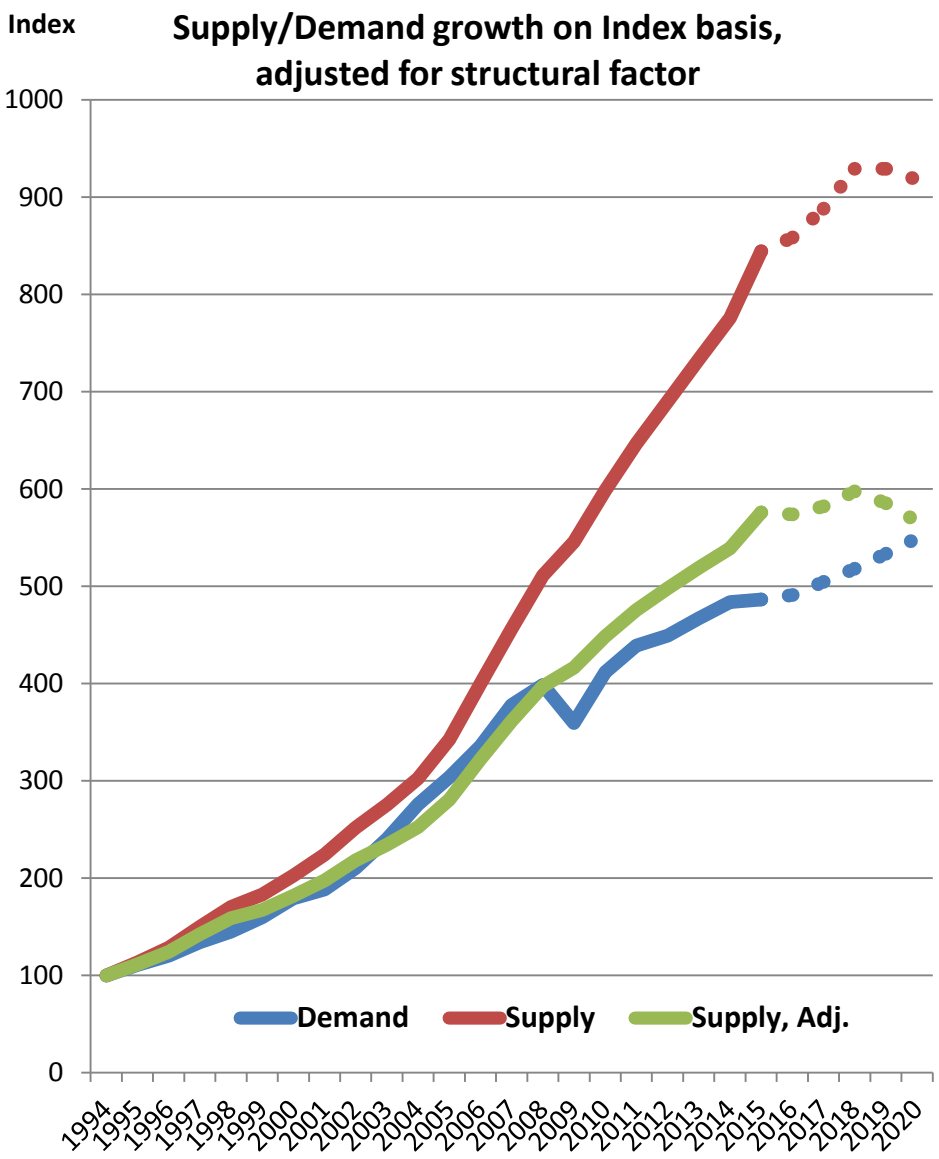


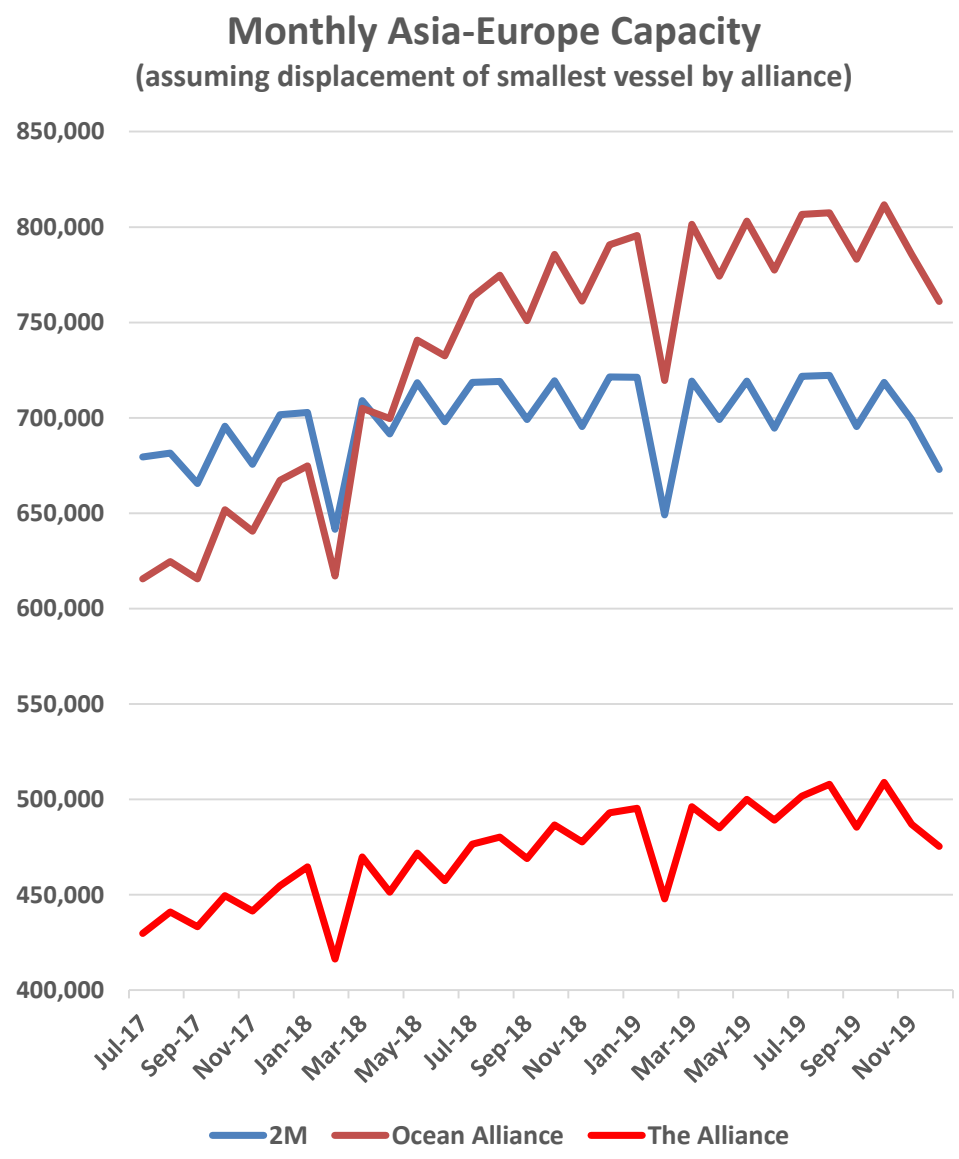




Will we see a recovery in 2017/2018?

NO. Supply/Demand may balance in 2019/2020





Balance possibly in 2019-20, but assumptions must be met:

1. **Complete freeze on new mega-vessel orders**
2. Continued high scrapping levels
3. Healthy global Head-haul demand growth of 4-6%
4. No rate war for market shares
5. Closing of A-E services in tune with deliveries
6. Ambitious market entrants may disrupt
7. No major oil price increases / regulations

Bad News:

CMA CGM in the market for 22,000 teu ships

Shipyards confirm talks for giant MSC order

CONTAINER: Yet another large order for as many as 11 container ship

Media: CMA CGM gearing up to order new mega-vessels

Asia-Europe trade could be set for 24,000 teu ships from 2019

The great 22,000 teu ship race

31 Aug 2017 | NEWS

Good News:

Hapag-Lloyd turns its back on new ship orders

15 Nov 2017 | NEWS

Race for ever-larger container ships is not sustainable, warns Maersk chief

Diego Aponte warns of supply chain nightmare if ships exceed 20,000 teu-class

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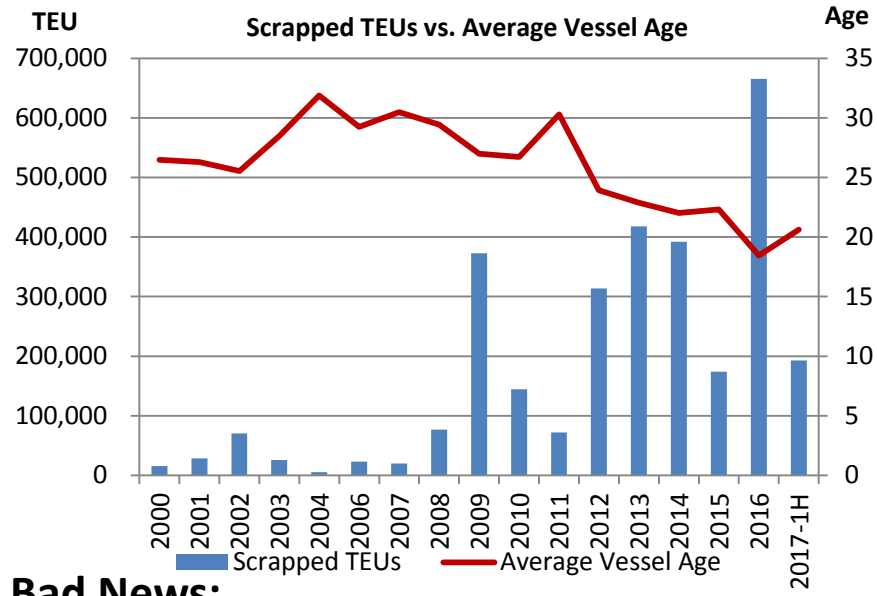
<u>Good News:</u>



<u>Bad News:</u>

Ship Demolition Market Hits Standstill, While Shipping Needs More Scrapping To Recover

in Hellenic Shipping News 01/06/2017

Content Mode Verticals People & Training Events

The ups and downs of container vessel scrapping as charter rates rise and fall

Demolition to slow in 2017 despite pressure to scrap vessels

Balance possibly in 2019-20, but assumptions must be met:

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Looks feasible, although the past 8 years have seen demand with a CAGR of just 2.9%

4% Y/Y demand growth in 2017-2020 will balance capacity **by 2020**, *ceteris paribus*

5% Y/Y demand growth in 2017-2019 will balance capacity **by late 2019**, *ceteris paribus*

6% Y/Y demand growth in 2017-2019 will balance capacity **by early 2019**, *ceteris paribus*

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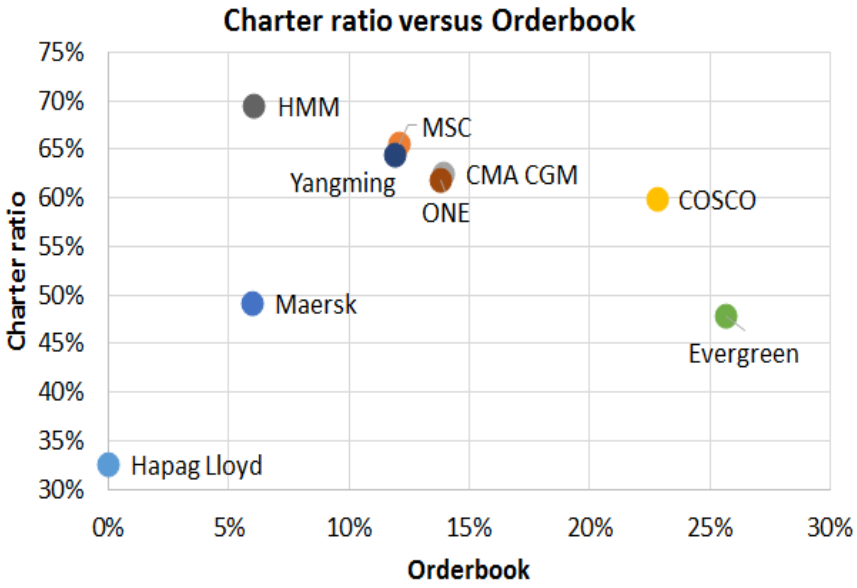
The main risks is carriers with large orderbooks relative to their charter ratio. If their fleet grows faster than the return of charter tonnage, they will have to grow market share to retain utilisation.

COSCO and Evergreen will be challenged, unless they can sub-charter to their alliance partners



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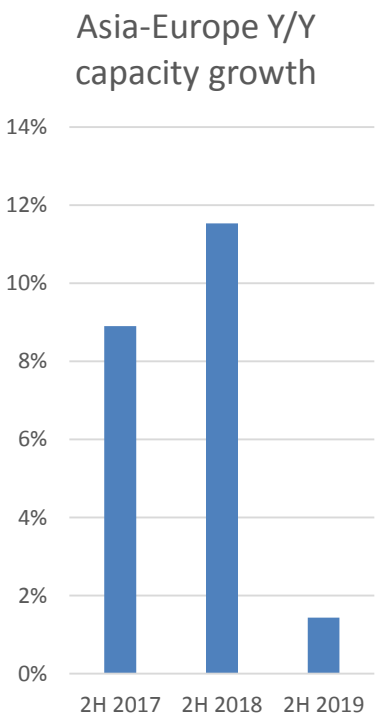
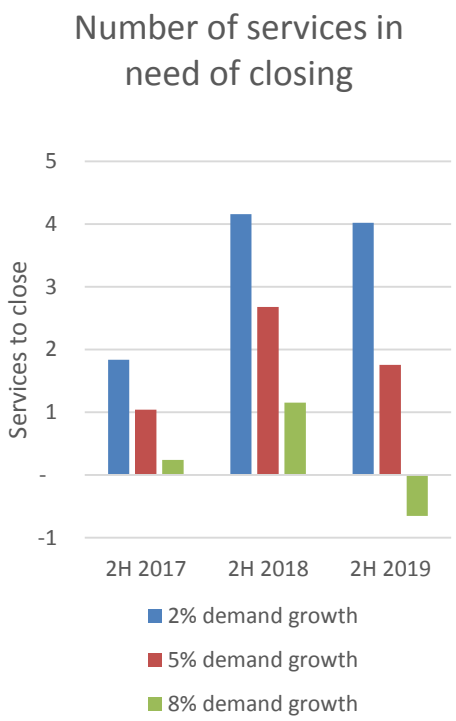
Carriers will have to close down Asia-Europe services in tune with the delivery of mega-vessels, as the vessel size will increase faster than demand.

At 5% demand growth, 3 services should be closed in 2018, with the option of reopening one in 2019





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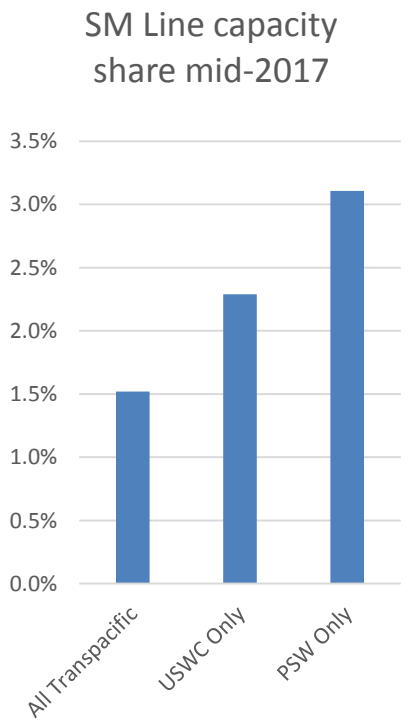
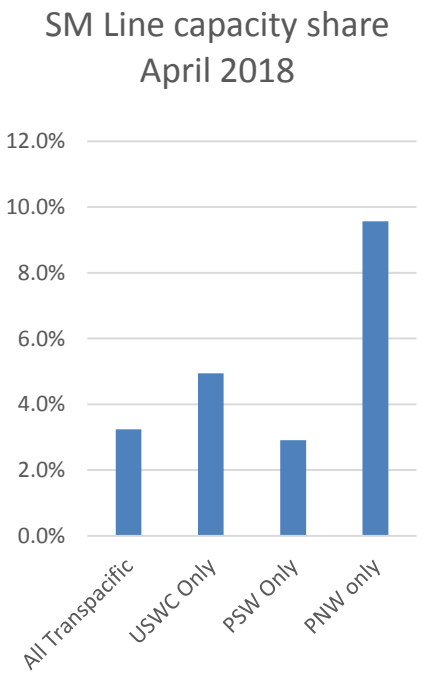
New market entrants may want to take advantage of the discounted newbuilding prices, and attempt to grow market share through a price war.

SM Line is the latest entrant to the TP trade, targeting an aggressive PNW market share of 10%.





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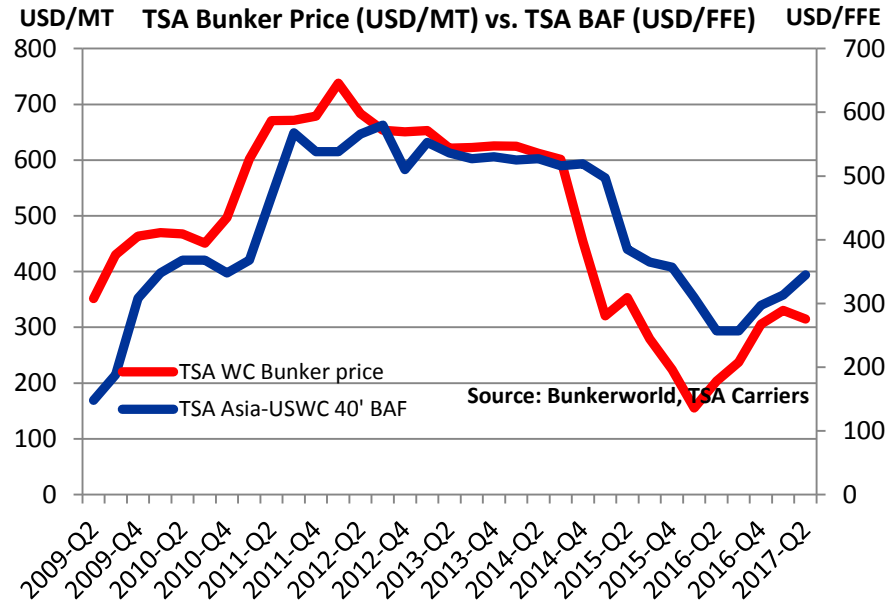
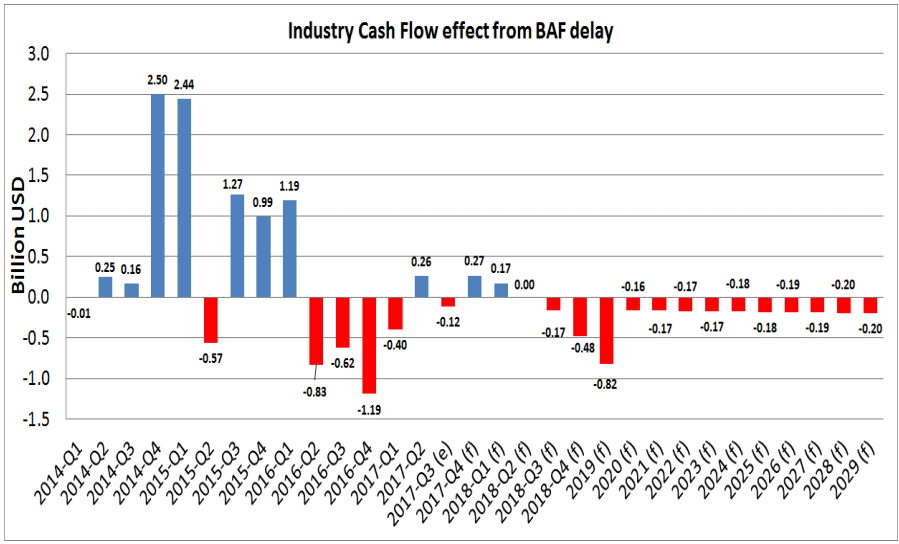
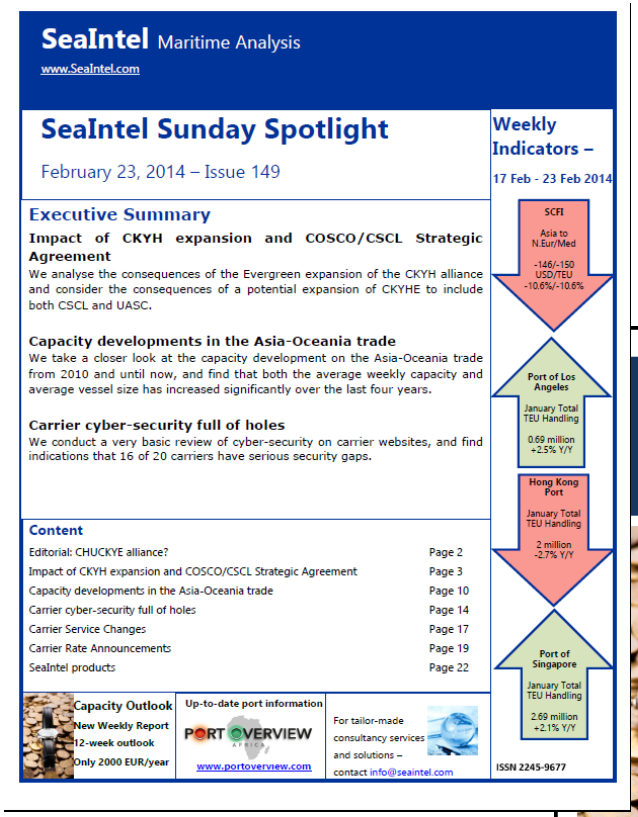




Thank you!



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SeaIntel Sunday Spotlight

February 23, 2014 – Issue 149

Executive Summary

Impact of CKYH expansion and COSCO/CSCL Strategic Agreement
We analyse the consequences of the Evergreen expansion of the CKYH alliance and consider the consequences of a potential expansion of CKYHE to include both CSCL and UASC.

Capacity developments in the Asia-Oceania trade
We take a closer look at the capacity development on the Asia-Oceania trade from 2010 and until now, and find that both the average weekly capacity and average vessel size has increased significantly over the last four years.

Carrier cyber-security full of holes
We conduct a very basic review of cyber-security on carrier websites, and find indications that 16 of 20 carriers have serious security gaps.

Content

Editorial: CHUCKYE alliance? Page 2
Impact of CKYH expansion and COSCO/CSCL Strategic Agreement Page 3
Capacity developments in the Asia-Oceania trade Page 10
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SCFI
Asia to N.Eur/Med
-146/-150 USD/TEU
-10.6%/-10.6%

Port of Los Angeles
January Total TEU Handling
0.69 million
+2.5% Y/Y

Hong Kong Port
January Total TEU Handling
2 million
-2.7% Y/Y

Port of Singapore
January Total TEU Handling
2.69 million
+2.1% Y/Y

ISSN 2245-9677

Global Liner Performance
February Report 2014

Content

Executive summary 2
Global developments 3
Top 20 carriers 4
Niche carriers 5
Trade lane reliability 6
Trade lane container delivery 7
Transpacific EB 8
Transpacific WB 11
Asia-North Europe 14
Asia – Mediterranean 17
Europe – Asia 20
Transatlantic EB 23
Transatlantic WB 26
Europe-South America 29
South America – N.Europe 32
South America – Mediterranean 35
North America-South America 38
South America – North America 41
Europe - Oceania 44
North America - Oceania 46
Oceania – North America 48
Oceania - Asia 50
Asia-Middle East 53
Midde East – Asia 56
Europe – Middle East 59
Middle East – Europe 62
Asia – Indian Subcontinent 65
Indian Subcontinent – Asia 68
Europe - Indian Subcontinent 71
Indian Subcontinent – Europe 74
Asia – Africa 77
Africa – Asia 80
Europe – Africa 83
Africa – Europe 85
Asia – ECSA 87
ECSA – Asia 90
Asia – WCSA 93
WCSA – Asia 96
Methodology 99
Disclaimer and Copyright 104

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Tradelane Capacity Outlook

28 February 2014

Week 9-20

Content

Asia-Europe East – and Westbound Page 2
Transpacific Eastbound Page 3
Asia – East Coast South America East – and Westbound Page 4
USEC-East Coast South America South – and Northbound Page 5
North Europe-East Coast South America South – and Northbound Page 6
North Europe - USEC East – and Westbound Page 7
Mediterranean- USEC East – and Westbound Page 8
Europe - USWC East – and Westbound Page 9
USWC - Asia Page 10

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