Newbuildings & Yards
20 June 2018

Marine Money Week | New York
Prepared by Angelica Kemene | Head of Market Analysis & Intelligence
Tanker Markets have turned weak

- Clean Products(MR): -17.93%
- Aframax: -76.04%
- Suezmax: -85.81%
- VLCC: -108.09%

Bulk carrier & Container rates improve further after the extremely weak 2016

- Neo-Panamax 9000 teu: -2.66%
- Containership 4400 teu gls: -33.48%
- Feeder Containership 1700 teu grd: 5.44%

% change in average earnings from the 2009-2018 average

Source Data: CNPI
Newbuilding Prices out of the bottom - Bulkers

81K DWT Panamax Bulkcarrier NB Prices

61-64K DWT Supramax NB Prices
Newbuilding Prices - Containers

Containers 1700 TEU Newbuilding Prices

Containers 8800 TEU Newbuilding Prices
<table>
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<th>Bulk Carriers</th>
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<td><strong>Payment Term</strong></td>
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Source Data: Optima Shipping Services, CNPI
Yards revenue and deliveries in the 3 major sectors

Bulkers, Oil Tankers & Containers: Deliveries vs Yard revenue

Million DWT

Million $

Sum of Deadweight (rhs)

$ million


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A shift towards Chinese Ship Yards

Major Shipbuilding Countries Current Orderbook %

- Products Tanker
- Crude Oil Tanker
- Container
- Bulk Carrier

For the 3 major sectors there are currently 188 active yards – of which 35% is expected to deliver their final order this year, whilst 78% of them will deliver their final order until the end of 2019.

- In 2007 285 yards received more than 1 order, while in 2017 91 yards received more than 1 order – A decrease of 68%.
- Inability to secure orders at a profit.
- Issue: Yard Consolidation
- China: “Plans on structural reform 2016-2020 in shipbuilding industry” → China’s top 10 state-owned shipbuilders will be responsible for 70% of the country’s new tonnage by 2020.
- Japan follows the trend (capacity cuts & mergers), but S. Korea remains skeptical.
- Cost increase: steel prices, labor cost, exchange rates.
- The extra cost can be balanced if builders charge higher.
Asset Play with Newbuildings | Older years vs 2018

Dieleman outlines modern, green and profitable vision for Cargill

The president of Cargill Ocean Transportation opens up on the risks and opportunities ahead for one of the world’s biggest charterers, both in dry bulk and tankers.

Currently, Cargill owns no tonnage but it has made a strategic investment in up to five newcastlemax newbuildings due for delivery in 2019 and 2020.

“It’s basically an asset play, because just operating them is not going to hit the hurdles expected of us,” Dieleman says.

- Asset play was always on the table, but times have changed.
- Market dynamics have altered: financing, new regulations, shorter cycles, Al
- Need for access to capital, buy fleets instead of a ship, flexibility for financial structuring
- The “asset play” in newbuildings is a different game now.

Mangrove inks order in China for quartet of newcastlemaxes

Investment manager’s newbuildings at Yangzijiang believed to be speculative play
Bulk Carriers OB:
14.5% Capes
8.6% Pmax
5.5% Supras
5.4% Hsize

Oil Tankers OB:
15% VLCCs
8.5% Suezmax
13.2% Afras
9% Pmax
11% LR2
7% LR1
8% MRs/Handies

Containers OB:
20.2% >8K TEU
1.14% 3-7.9K TEU
9% Feeders
Orderbook Accuracy & Slippage

**Bulk Carriers Orderbook**

- **2018** slippage at 20% of 2018 orders
- For the **2019** 51.3% of the orders have not yet started

**Containers Orderbook**

- **2018** slippage at 12% of 2018 orders
- For the **2019** 56.4% of the orders have not yet started

Source Data: Optima Shipping Services
Orderbook Accuracy & Slippage

Crude Oil Tankers Orderbook

Product Tankers Orderbook

2018 slippage at 27.3% of 2018 orders
For the 2019 72.5% of the orders have not yet started

Source Data: Optima Shipping Services
Orderbook Replacement Tonnage in Mll DWT | SOx

SOx compliance

Tier 2 Delivery 2019 | 2020
Retrofit like 2nd hand market

“Wait and see” attitude

Scrubber Fitted

Scrubber Ready marginally the majority of the orderbook

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THANK YOU!

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According to SHELL, the transition to 0.5% Sulphur will cause more changes to global marine industry that the switch to the 0.1 Sulphur fuel in the ECAs. The impact of this transition represents approximately 75% of global marine fuel demand when compared to the demand of ECA.
Who will convert, finally?

- Alternative fuels are likely to be a more viable option for smaller vessels, while scrubbers are more suitable for larger vessels – due to their increased fuel consumption and benefits of economies of scale.
- Each vessel is different, so specific studies on each should be made.
- An additional hidden cost is the approximately 2% additional energy needed to run a scrubber.
- Cheap Fuel Oil in 2020 will not guarantee cheap HSFO bunkers:
  - Logistic Margin: maintaining HSFO infrastructure will become a lot more expensive.
  - Inelastic Demand: a number of suppliers have already advised owners and operators looking to use scrubbers in 2020 to lock up their volume now so they can ensure future supply.
- Blended fuels will be considered a very attractive option and may be cheaper than MGO.
- The price of MDO today might be the best indicator for foreseeing the complying diesel oil price in 2020.
- Some oil majors have indicated that the price for low Sulphur HFO would be somewhere between the current HFO and MDO prices.
- Naturally, nobody knows what the actual prices at that time will be.
- “Doing nothing is not an option” – IMO, BIMCO, INTERTANKO, ICS are all united and the flag states are on board for the end results, although the means to get there are not clear.

Source Data: Eikon Reuters
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Is there a real impact in vessel earnings?

- Limited evidence fuel costs impact vessel earnings
- However, they do impact voyage costs
- We would expect some extra 1 knot speed (slow steaming) reduction to appear if fuel costs soar to high levels.
- Expectations are that since the 2H 2019 the shipping and the refining market will start seeing changes in fuel demand, supply and prices.
- Currently, swap curves for middle distillates and fuel oil are in backwardation implying that the IMO2020 has not yet invaded into the oil market. But it will soon do! – No move yet into longer term supply contracts.

Source Data: Eikon Reuters

Fuel Oil Forward curve, $/tonne

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