CONFIDENTIAL

Shipping Sector Capital Structure Insights

A Sea of Change?

September 2024

standard chartered

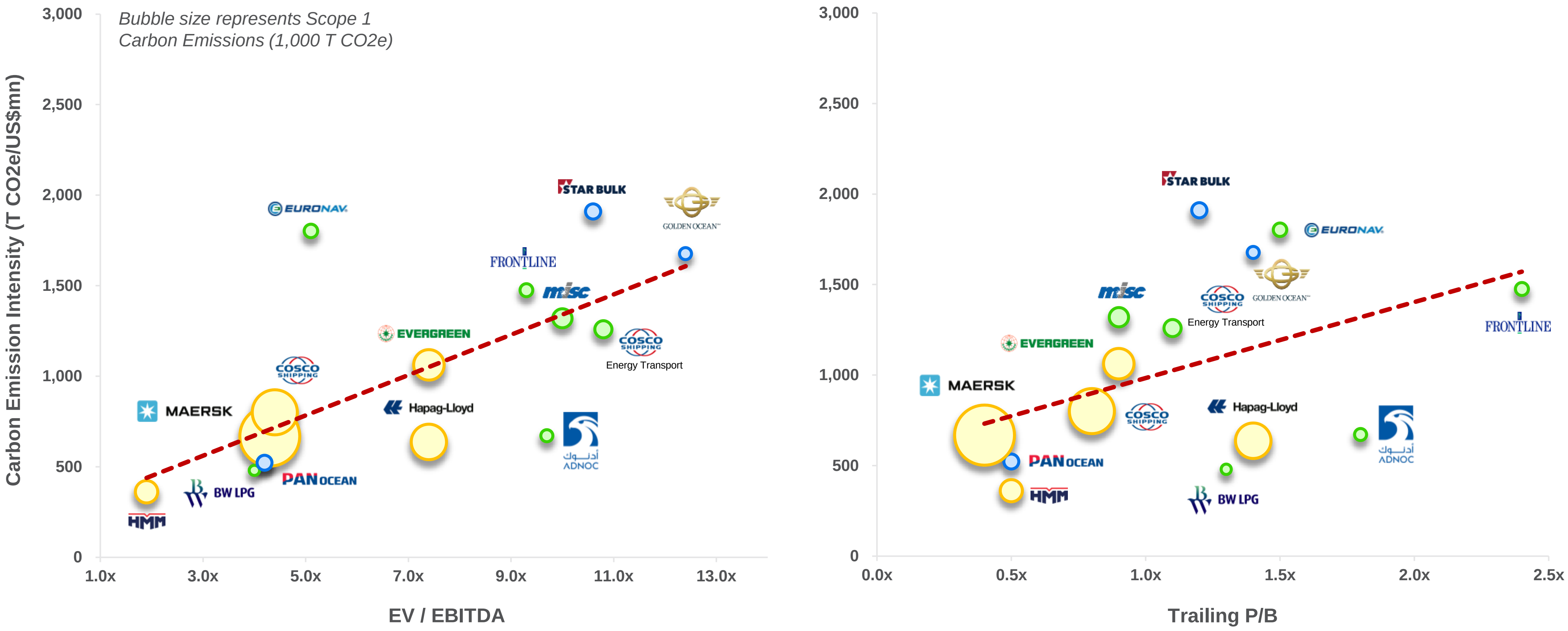
1. **Decarbonisation & Capital Allocation**

2. Are Balance Sheets Well-positioned?

3. What’s Next

Current valuations have not factored in any carbon intensity ‘penalty’ or indeed any impact of transitionary investment required

Valuations & Scope 1 Carbon Emission Intensity[1]



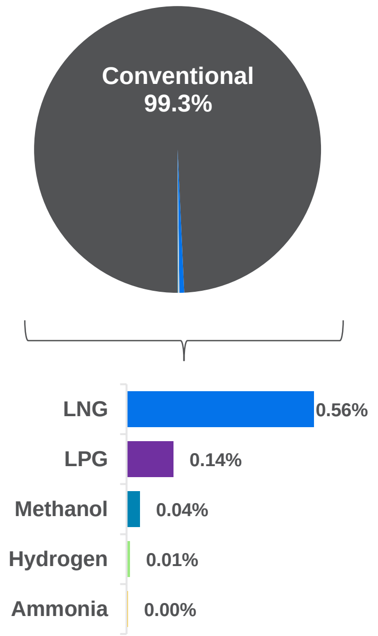
Source: SCB Analysis, Companies’ Reports and Presentations, Capital IQ
Notes: (1) Carbon emission intensity calculated using latest reported Scope 1 carbon emissions divided by the same year revenue

Low uptake mainly signifies the need for upgrades, but higher vessel cost and alternative fuel premium remain a significant hindrance

Alternative Fuel Uptake Still Very Low

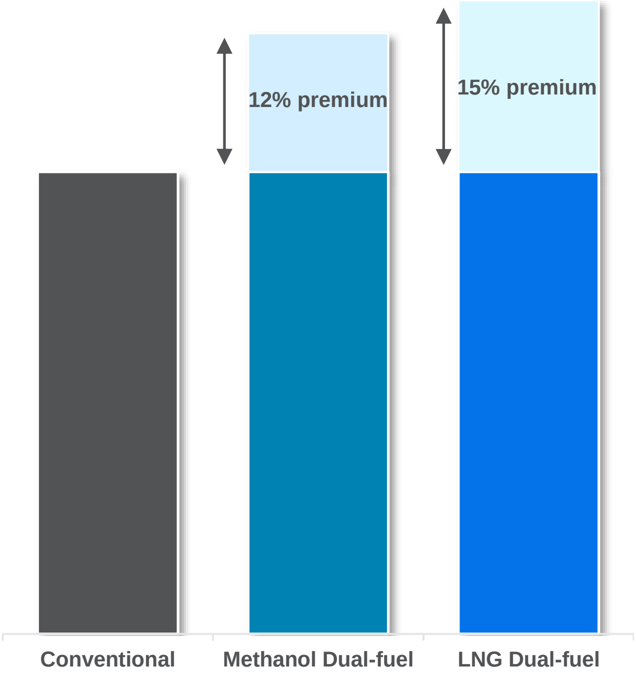
% of existing fleet using conventional vs alt. fuel

(For Global Shipping Sector)

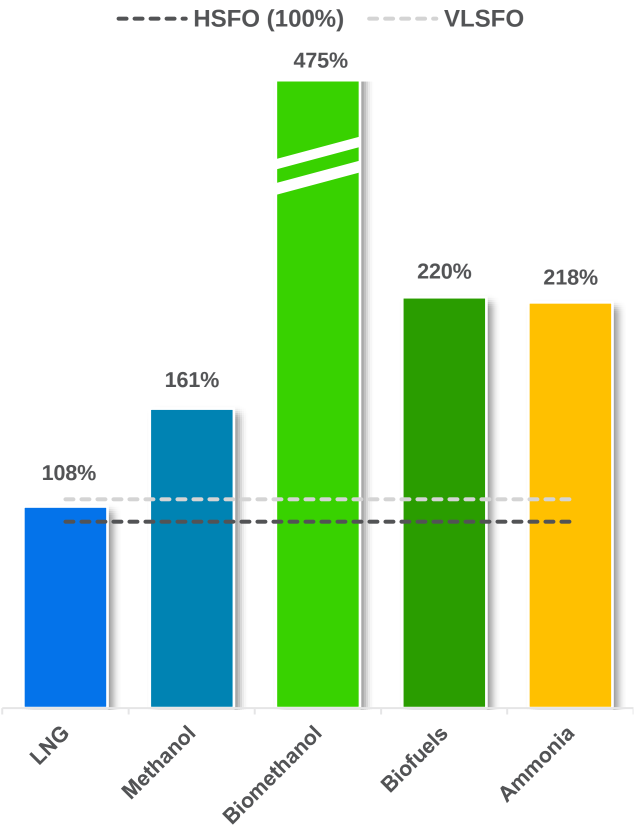


High Investment To Enable Dual-Fuel[2]

Alternative fuel newbuild vessel price premium



Alternative Fuel Prices Premium[3]



Source: SCB Analysis, Clarksons, DNV

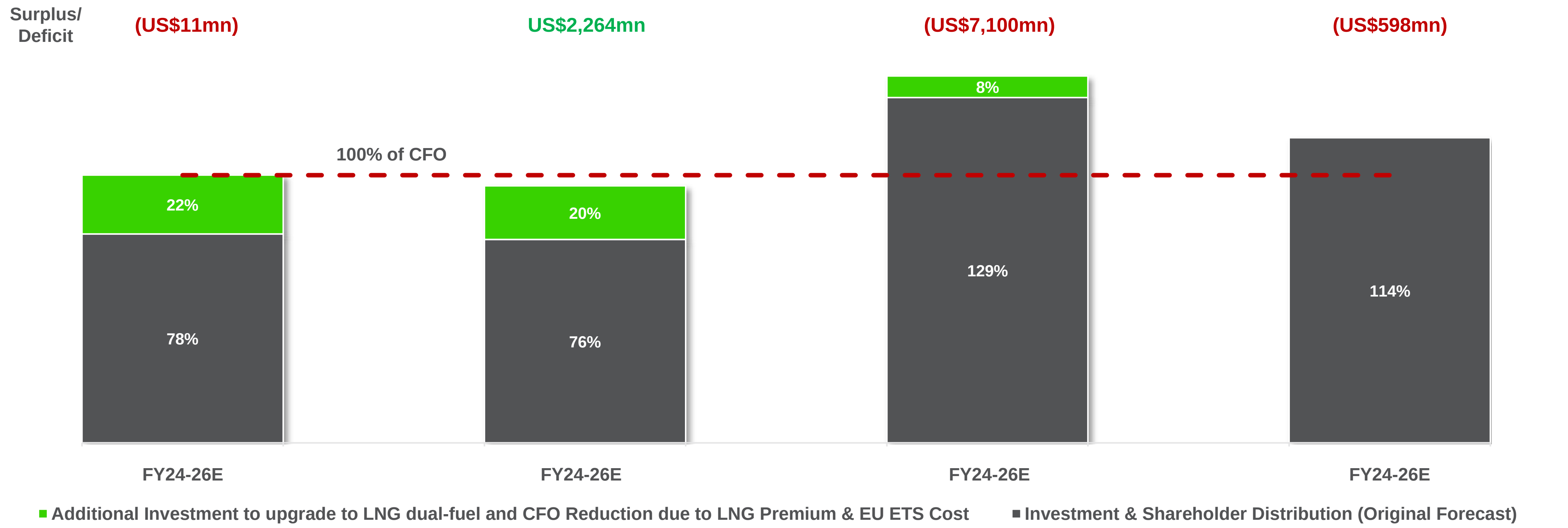
Notes: **(1)** As of May 2024; **(2)** Estimated based on pricing for a 16k TEU Containership as of 26 April 2024; **(3)** As of May 2024, estimated as % over HSFO

Almost US$8bn funding gap over the medium-term, although manageable, suggests higher indebtedness

What If the Orderbook (represents 17% of Existing Fleet[1]) is converted into LNG dual-fuel vessels?

Bulkers | **Containers** | **Tankers** | **Offshore**

Forecast Allocation of Cash Flow 2024-2026 (% of Cash Flow from Operations)[2]



Source: SCB Analysis, Companies' Reports and Presentations, Brokers Estimates, Capital IQ, VesselsValue, Intercontinental Exchange (ICE)
Notes: Investment = Net M&A + Net Capex. Shareholder Returns = Dividend + Sharebuyback
(1) By fleet count; **(2)** Analysis excludes CMA CGM, Seaspan and Bahri given absence of broker forecast, excludes Qatar Navigation from EU ETS cost due to lack of reported carbon emissions. Key Assumptions**:** Cash inflows and outflows per broker consensus, adjusted for additional vessel upgrades. Additional vessel upgrades assume all conventional fuel vessel orders will be converted into LNG dual-fuel vessels at 15% higher investment cost. CFO deduction from higher operating cost due to fuel switch from conventional to LNG at 8% premium for new orderbook. EU ETS cost calculated by taking latest scope 1 emissions as proxy for future emissions, forward EU ETS carbon price of US$68/T CO_2 for 2025 and US$71/T CO_2 for 2026, with assumed 30% of voyages affected across Bulkers, Containers and Tankers. There's no orderbook details disclosure for offshore sub-sector.

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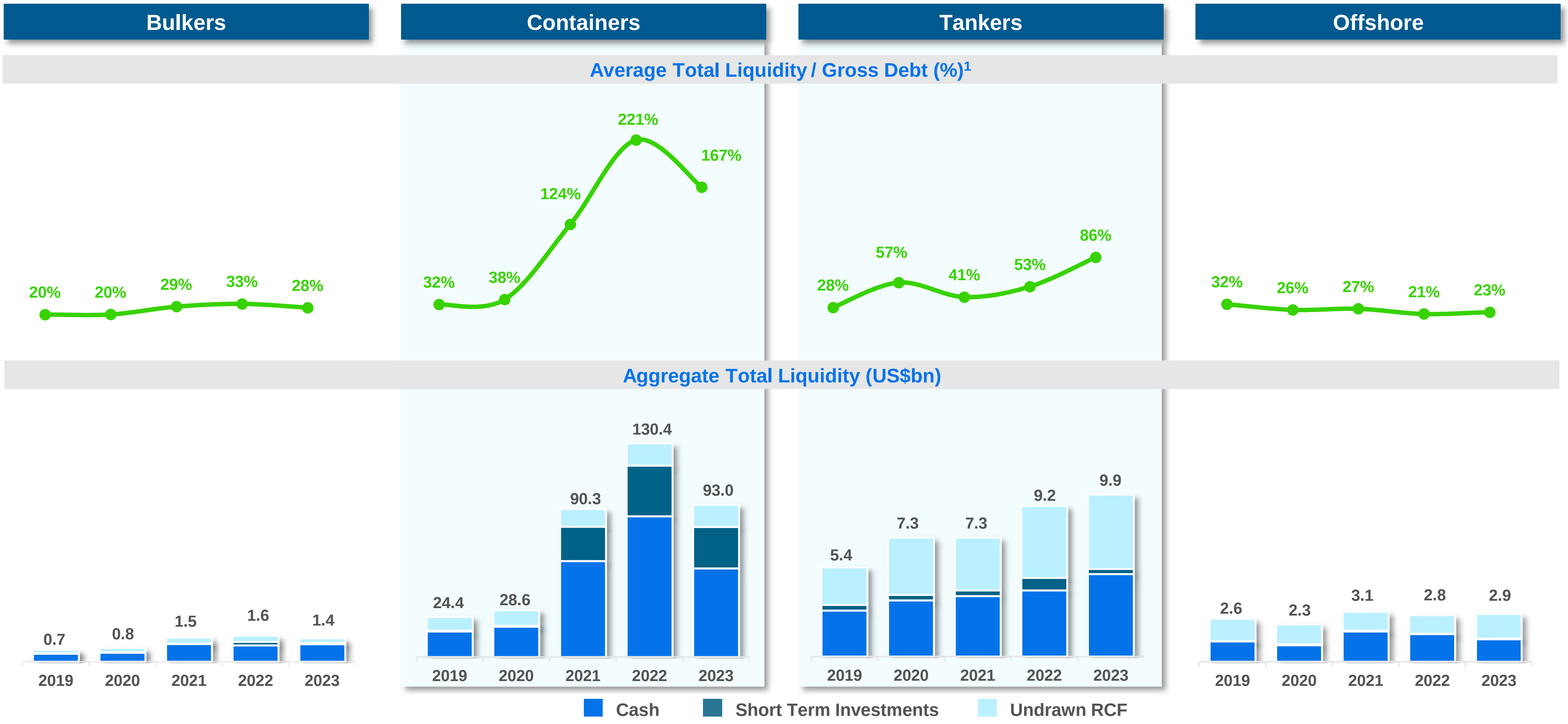
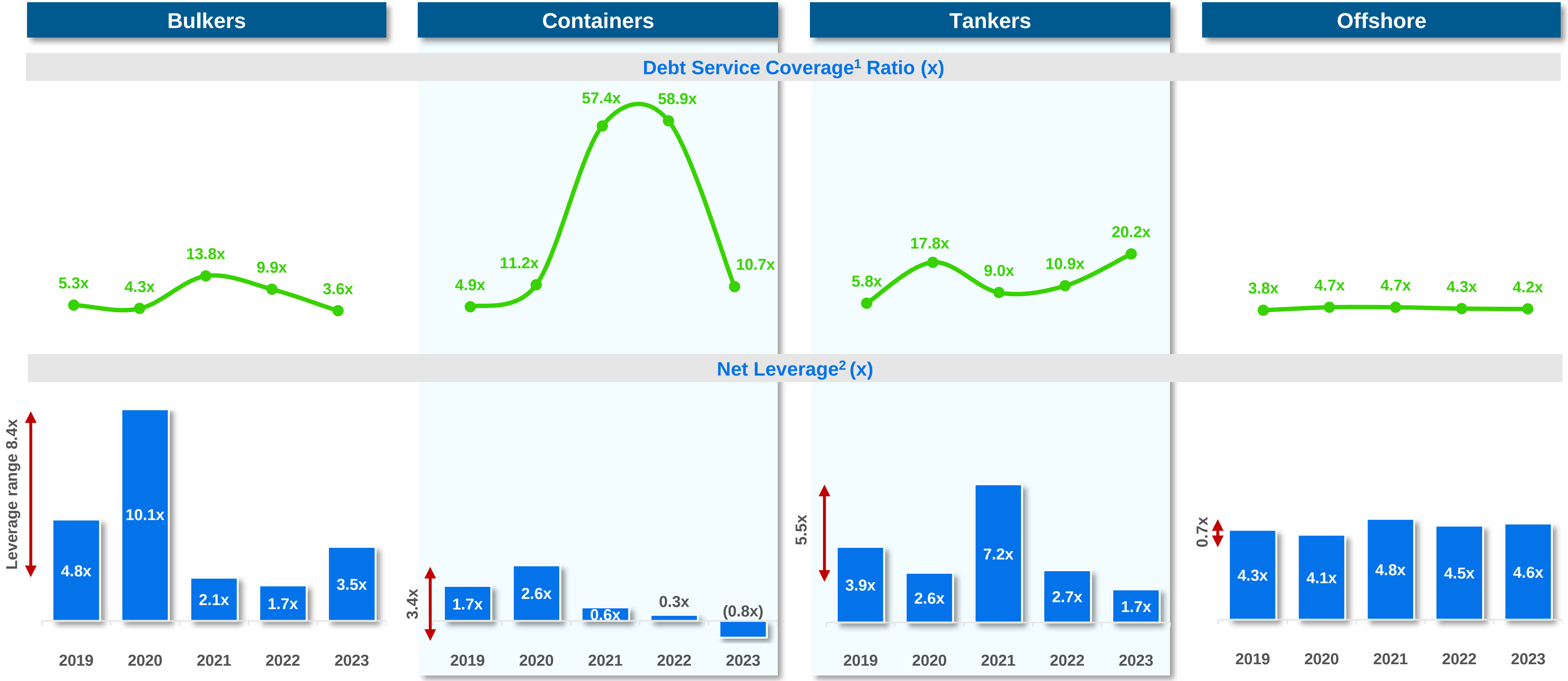
Liquidity is strong across the sub-sectors, with room for further optimisation in both level and structure for Containers and Tankers



Source: SCB Analysis, Companies' Reports and Presentations
Notes: FY19 results for ADNOC L&S is not available. Given that FY23 full year results for CMA CGM Data is not available, total liquidity is taken to be the same as FY22 in FY23 calculations. FY23 data is taken as of Yinson's latest financials at 31 Jan 2024. Rest of the firms taken as 31 Dec 2023. **(1)** Total Liquidity includes Cash, STI and undrawn RCF. Gross Debt includes leases.

Leverage and debt affordability largely in check, with meaningful headroom for Containers and Tankers



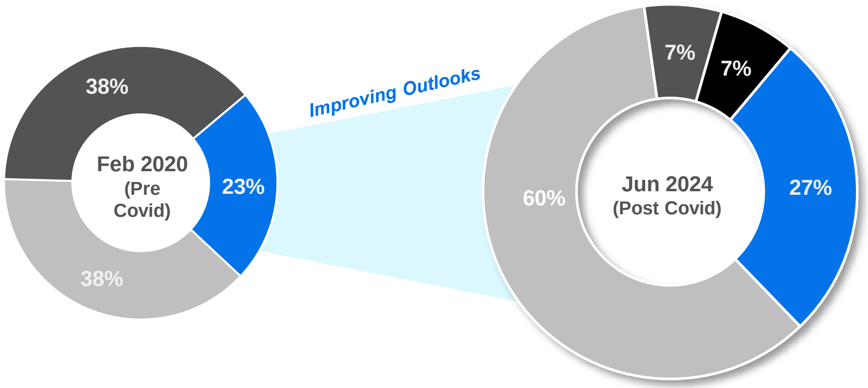
Source: SCB Analysis, Companies' Reports and Presentations

Notes: FY19 results for ADNOC L&S is not available. Given that FY23 full year results for CMA CGM Data is not available, interest expense is taken to be the same as FY22 in FY23 calculations. FY23 data is taken as of Yinson's latest financials at 31 Jan 2024; **(1)** Debt Service Coverage Ratio is taken as EBITDA / Interest; **(2)** Net Debt (including leases)/EBITDA

Credit profiles have been migrating upwards along the ratings curve and outlook of the sector remains stable / positive

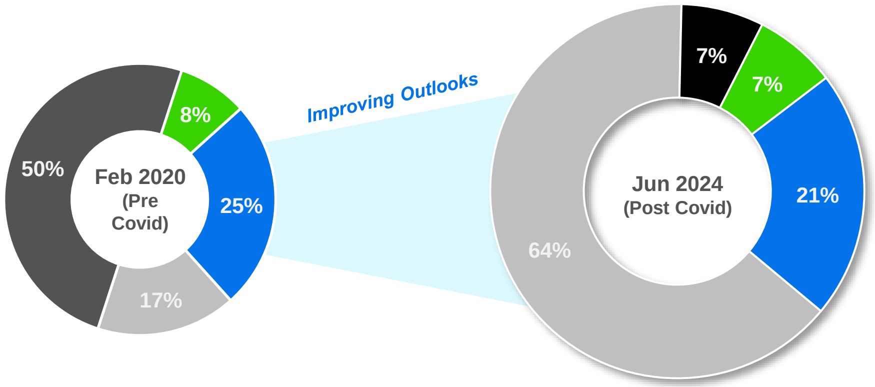
Improving Credit Ratings

MOODY'S RATINGS



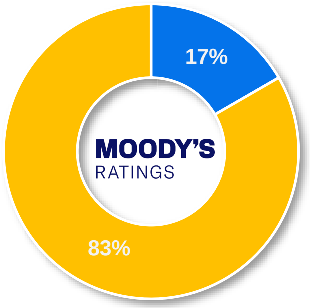
■ Baa ■ Ba ■ B ■ Caa and Below

S&P Global Ratings

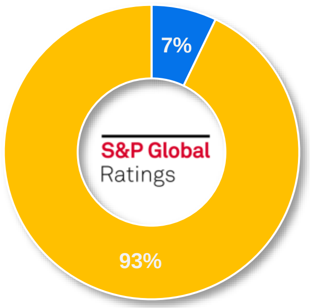


■ AA- ■ BBB ■ BB ■ B ■ CCC and Below

Stable / Positive Outlook[1]



■ Positive ■ Stable



■ Positive / Watch Positive ■ Stable

Source: SCB Analysis, Companies' Reports and Presentations, Moody's S&P Ratings
Notes: **(1)** As of 1 June 2024

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What’s Next for the Sector?

	Bulkers	Containers	Tankers	Offshore
Expected Medium Term Funding Gap	Minimal	None	Significant	Minimal
Liquidity Strength	Moderate	Strong	Strong	Moderate
Leverage & Debt Affordability	Moderate	Strong	Strong	Moderate
Recommended Next Steps	✓ Manage leverage ✓ Pivot capital allocation towards balance sheet preservation	✓ Optimise liquidity level & structure ✓ Invest with surplus cash	✓ Optimise cash level ✓ Invest with surplus cash	✓ Manage leverage ✓ Explore debt-neutral capital raising (including hybrids)

Source: SCB Analysis

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