

# Strong & Inefficient Fundamentals: A Sustainable Combination?

Dr Adam Kent - 2024 Korea Ship Finance Forum, Oct 31<sup>st</sup> 2024

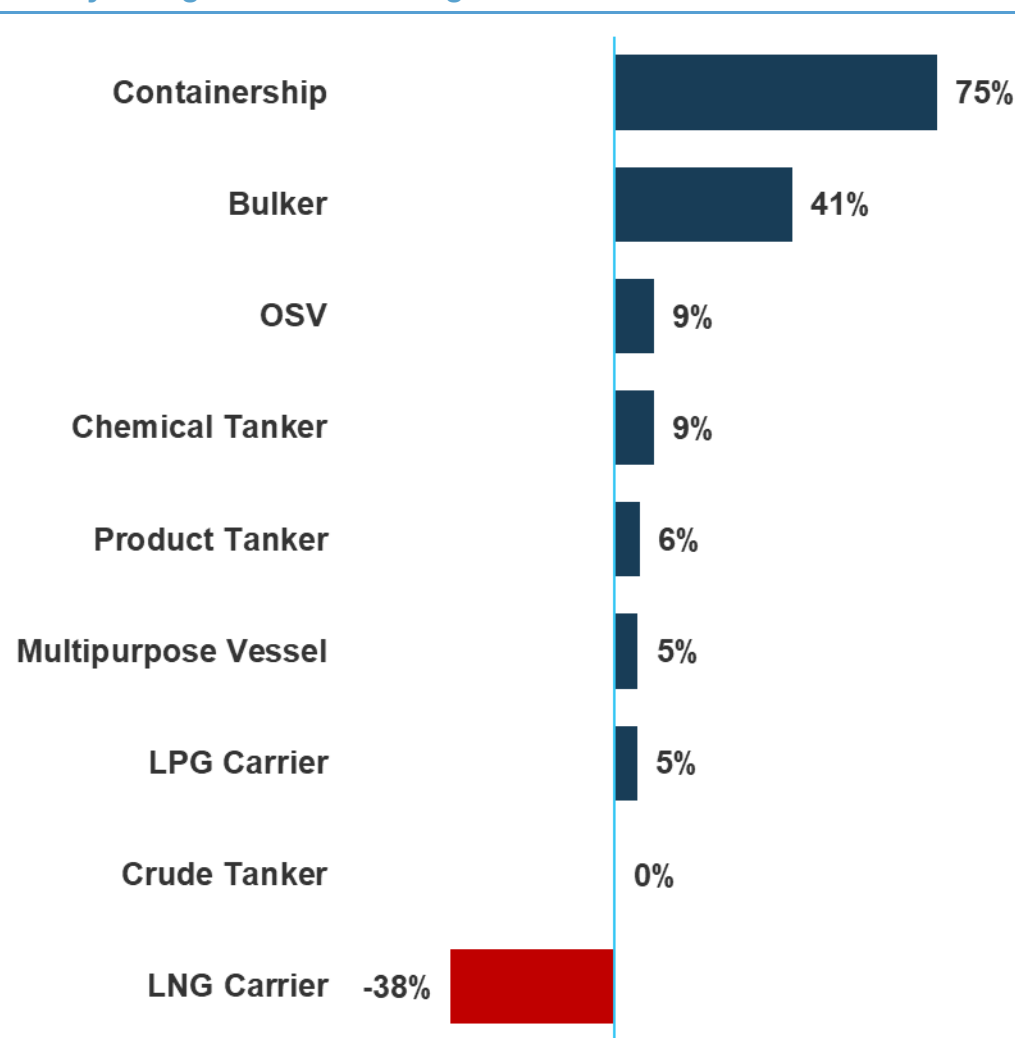


# 1 Yr TC Rate and 10 Yr Old Price Changes

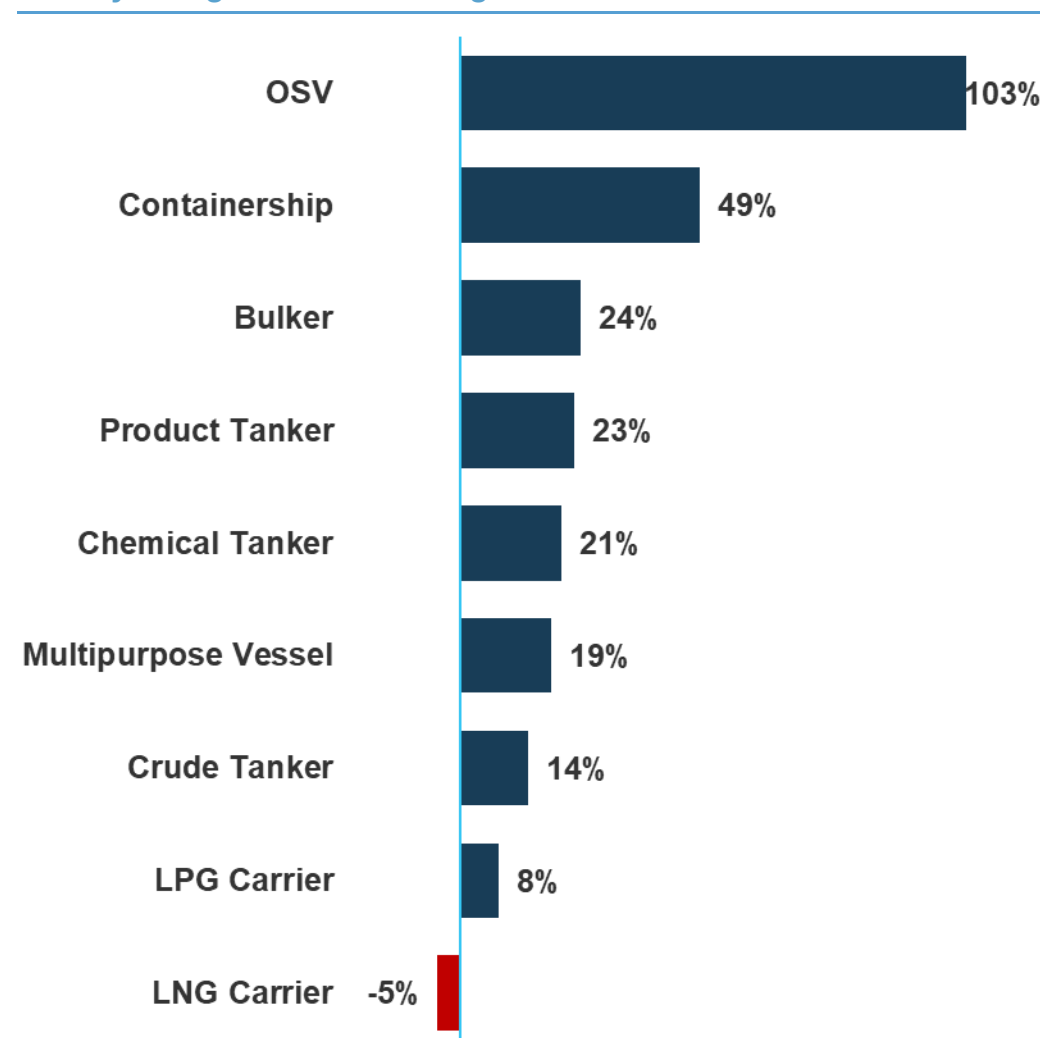
What a difference a year makes...

- Current Market
- Demand
- (In)Efficiency
- Structural Shifts
- Supply
- Earnings & Values

Today v August 2023 – Changes in 1 Yr TC Rate



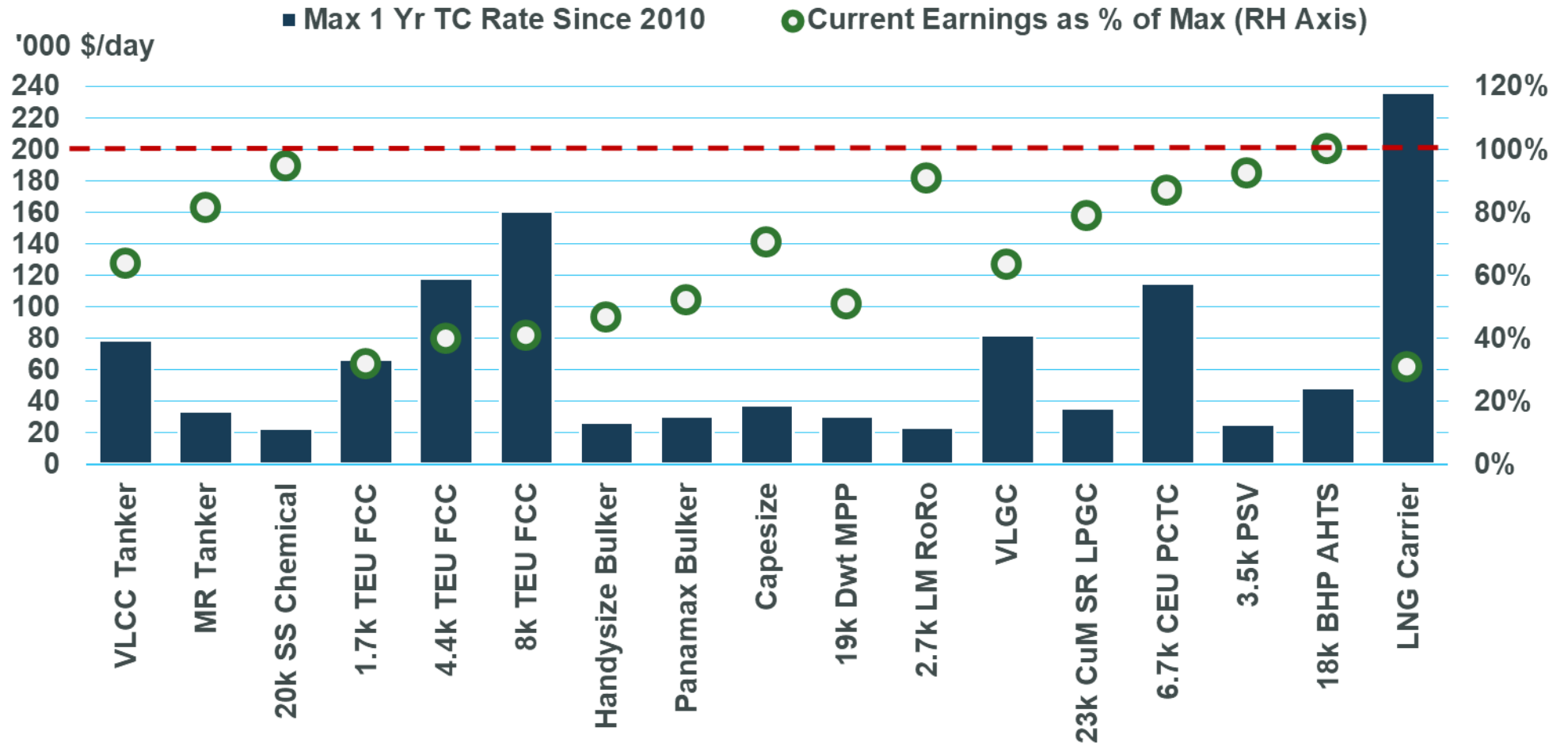
Today v August 2023 – Changes in 10 Yr Old Prices



# Today's Earnings Versus Maximum Since 2010

One of the best markets for some time, across multiple sectors

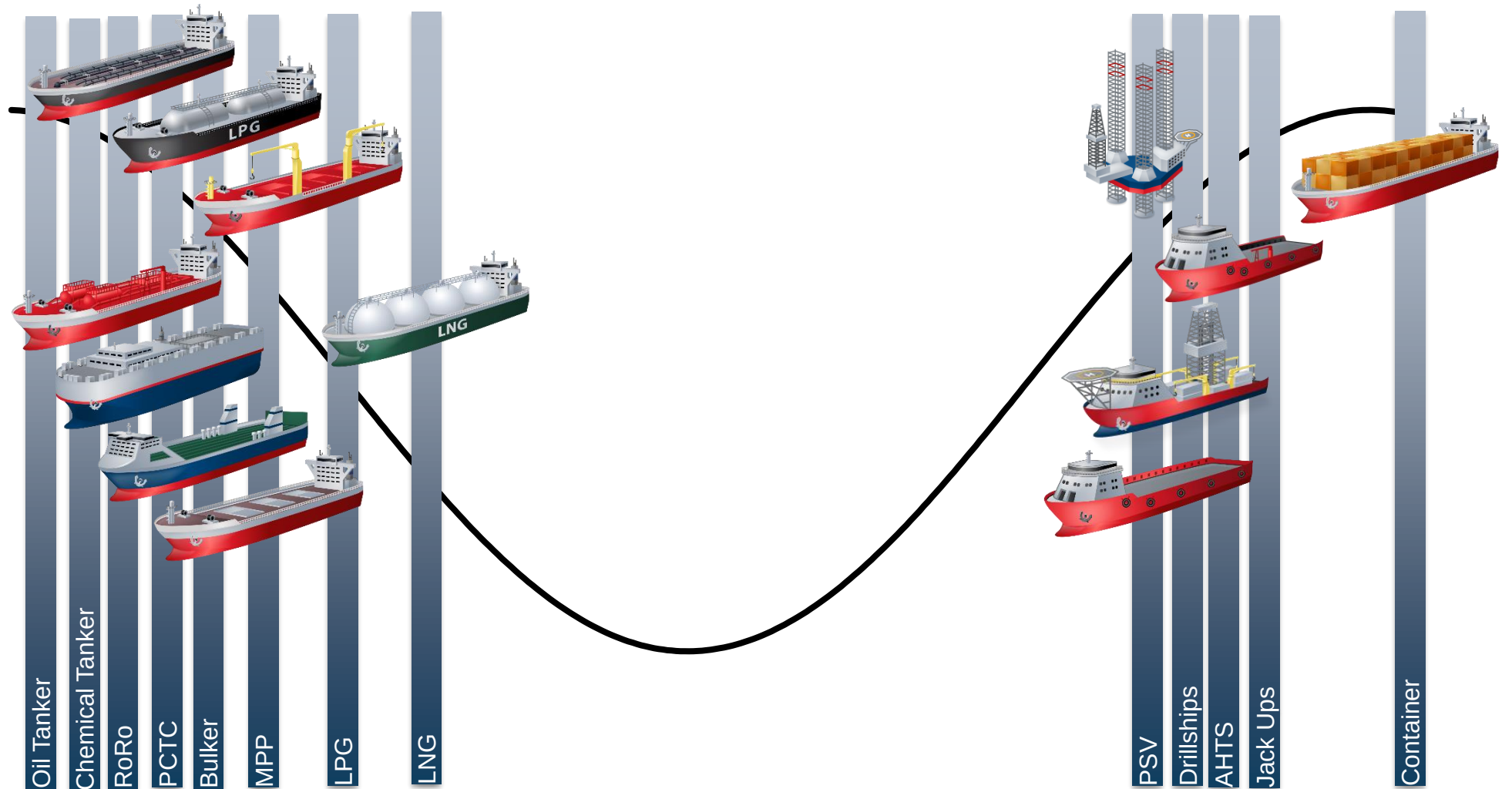
- [Current Market](#)
- Demand
- (In)Efficiency
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# Current Earnings

## Where are we on the cycle?

- Current Market
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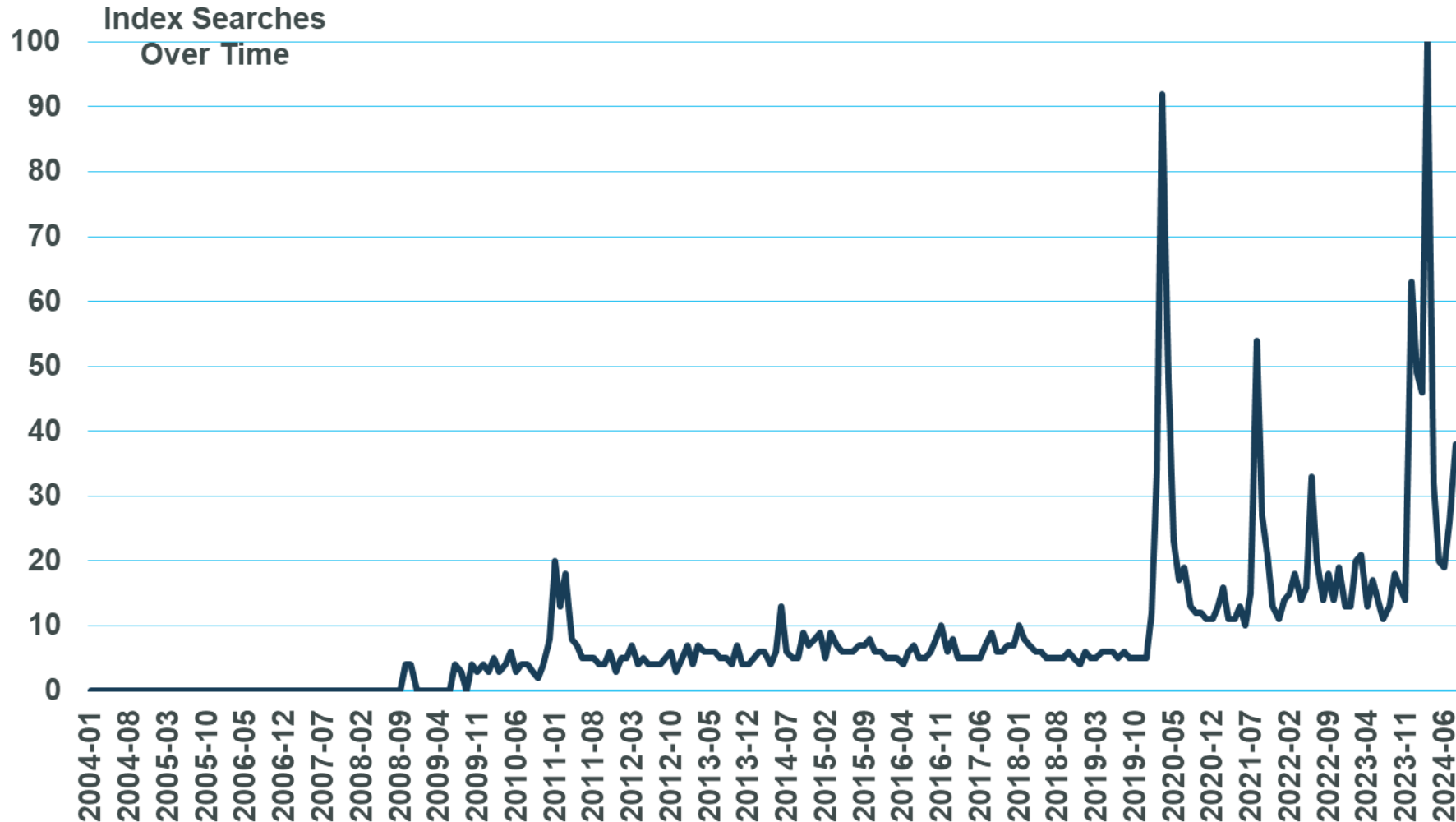


Note: Infographic for illustrative purposes only!

# Swans are Rife

## Google Trends “Black Swan Event”

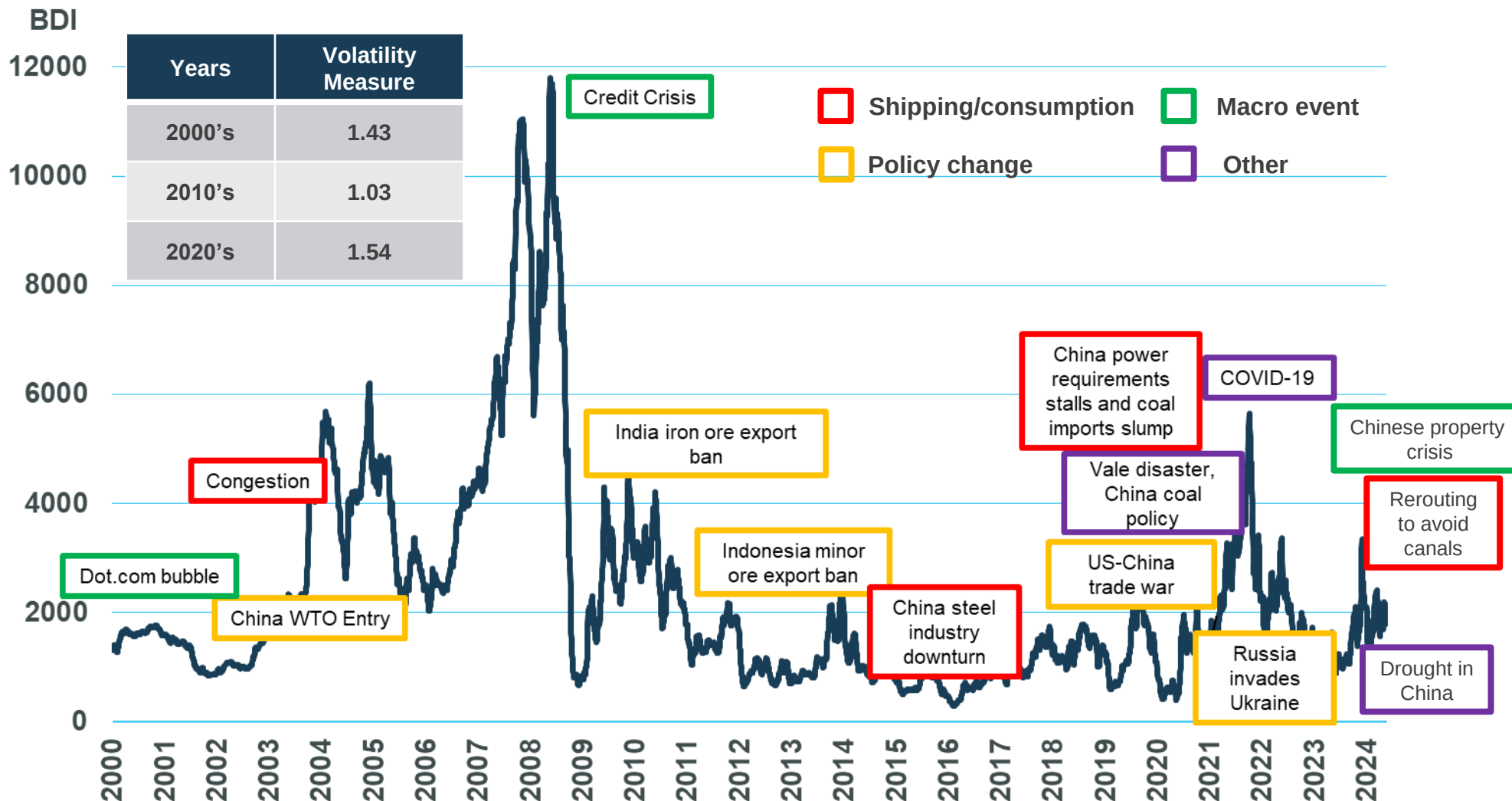
- Current Market
- Demand
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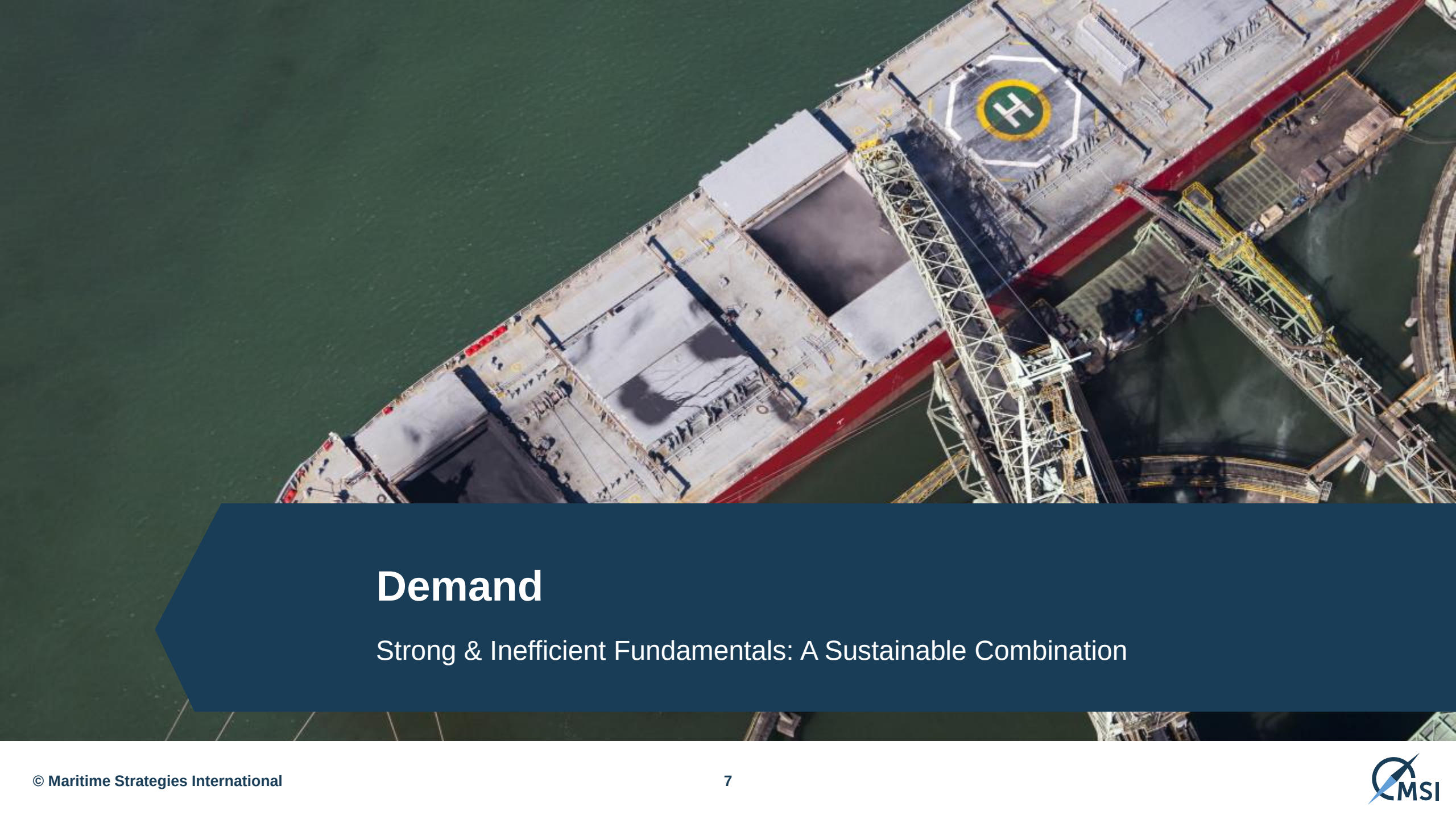
# Shipping Driven by Events Leading to Volatility

A series of events have increased volatility in shipping markets in recent years

- Current Market
- Demand
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An aerial photograph of a large offshore oil rig. The rig has a prominent red hull and a white upper section. A helicopter landing pad with a yellow and green 'H' is visible on the deck. Various cranes and structural elements of the rig are visible against the dark green water.

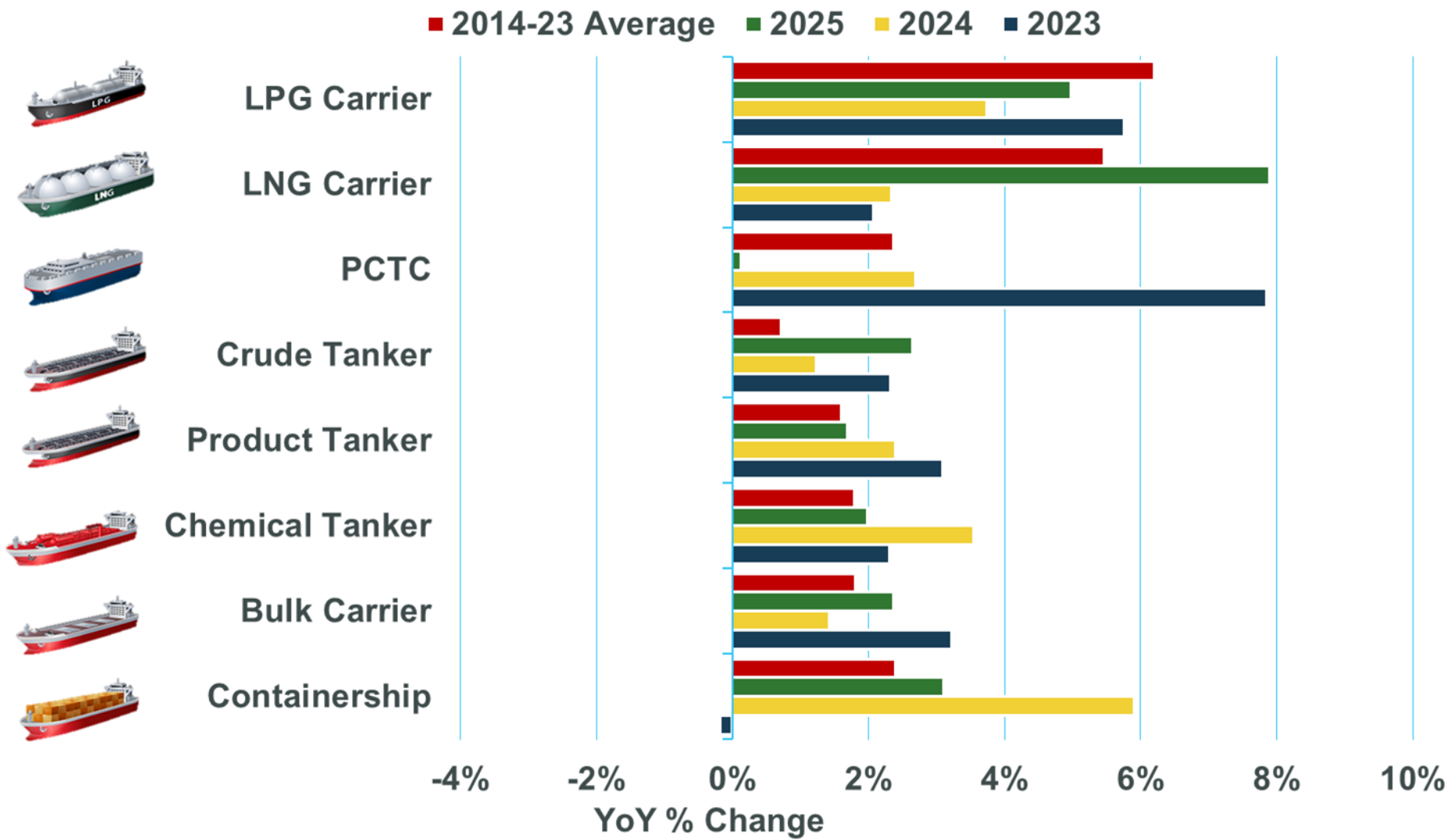
# Demand

Strong & Inefficient Fundamentals: A Sustainable Combination

# Cargo Growth

## A positive outlook

- Current Market
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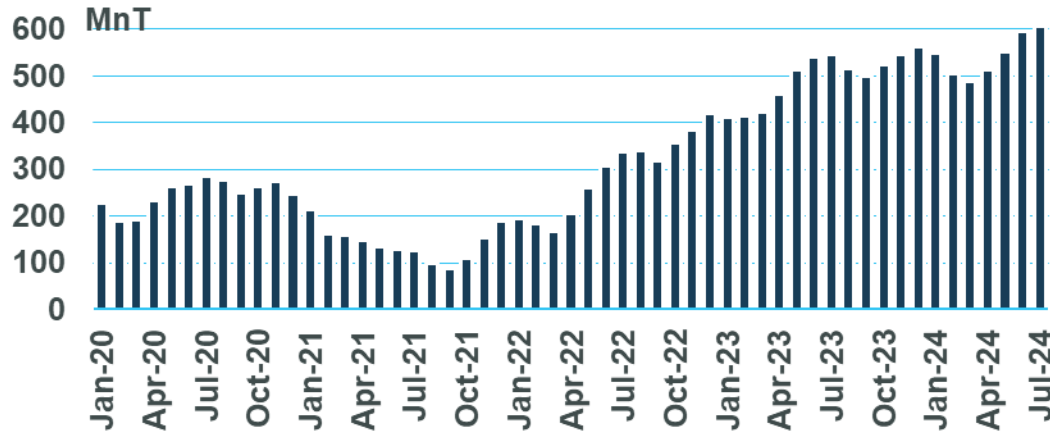


# Dry Bulk

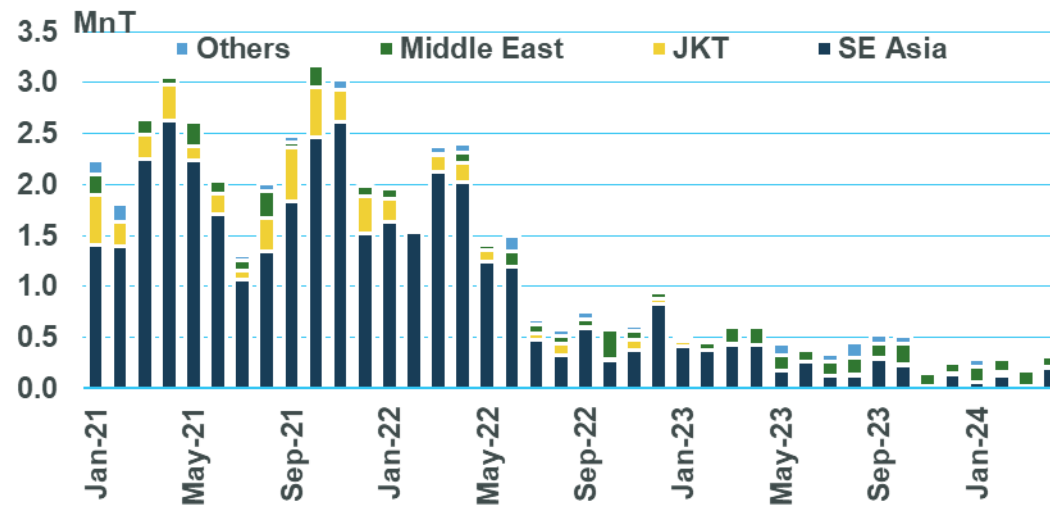
## China remains a key plank to demand

- Current Market
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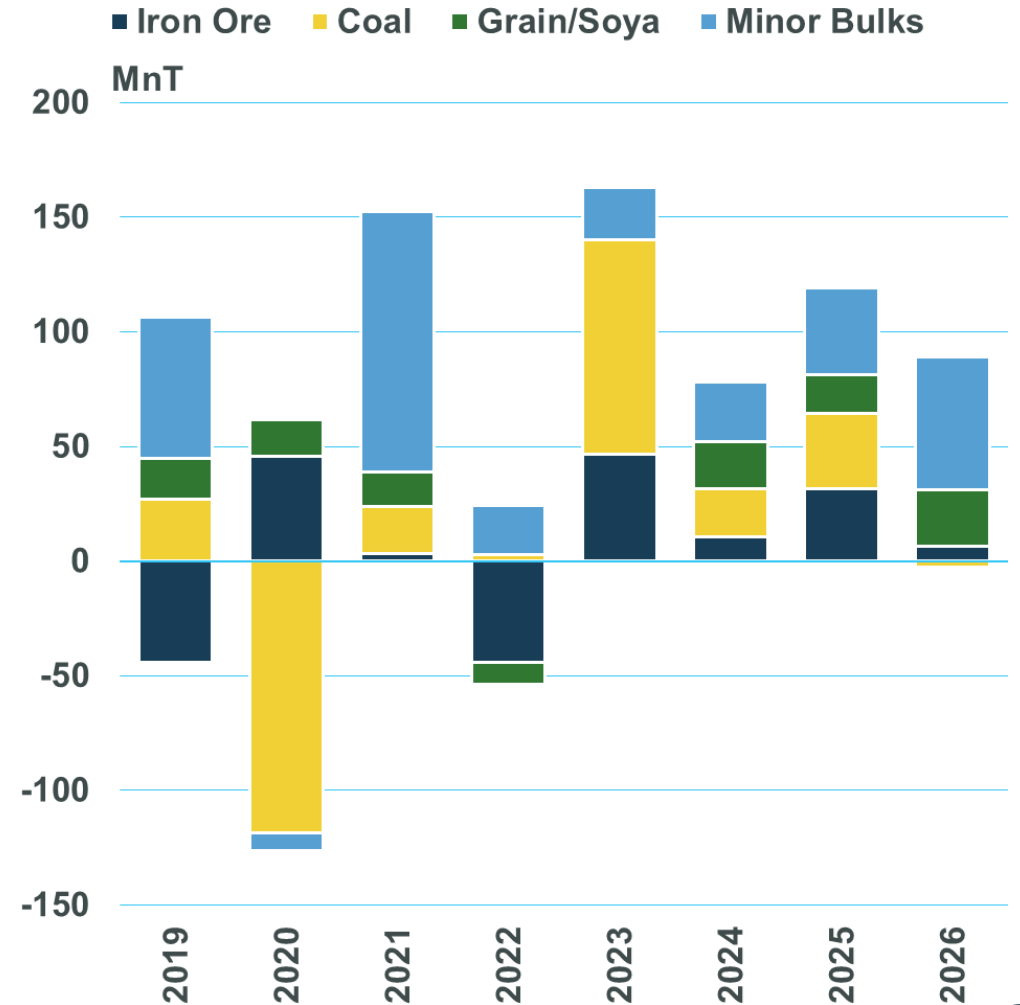
Chinese Coal Stockpiles



China Cement Imports



Incremental Seaborne Trade by Commodity Grouping

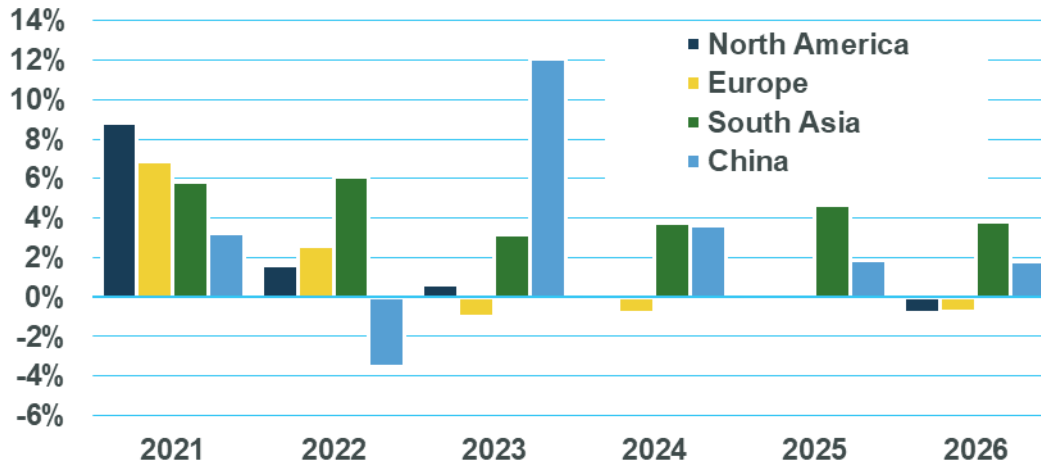


# Oil Tankers

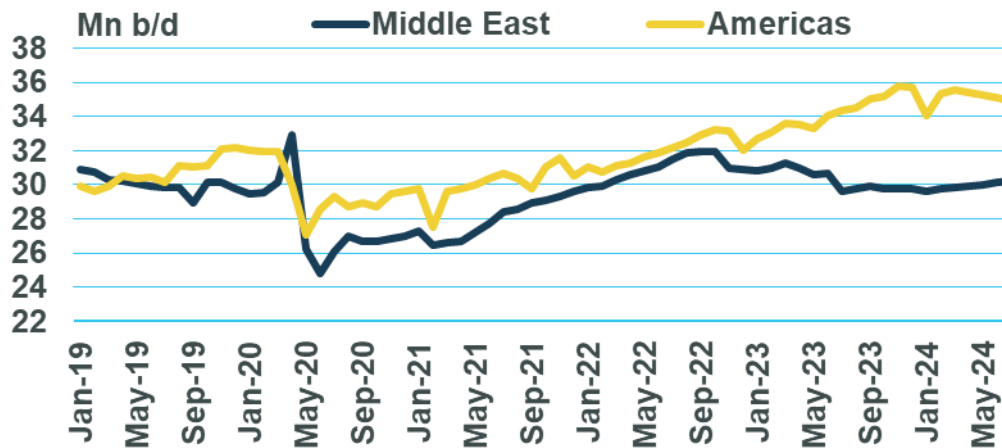
## Remapping trade routes

- Current Market
- Demand
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- Earnings & Values

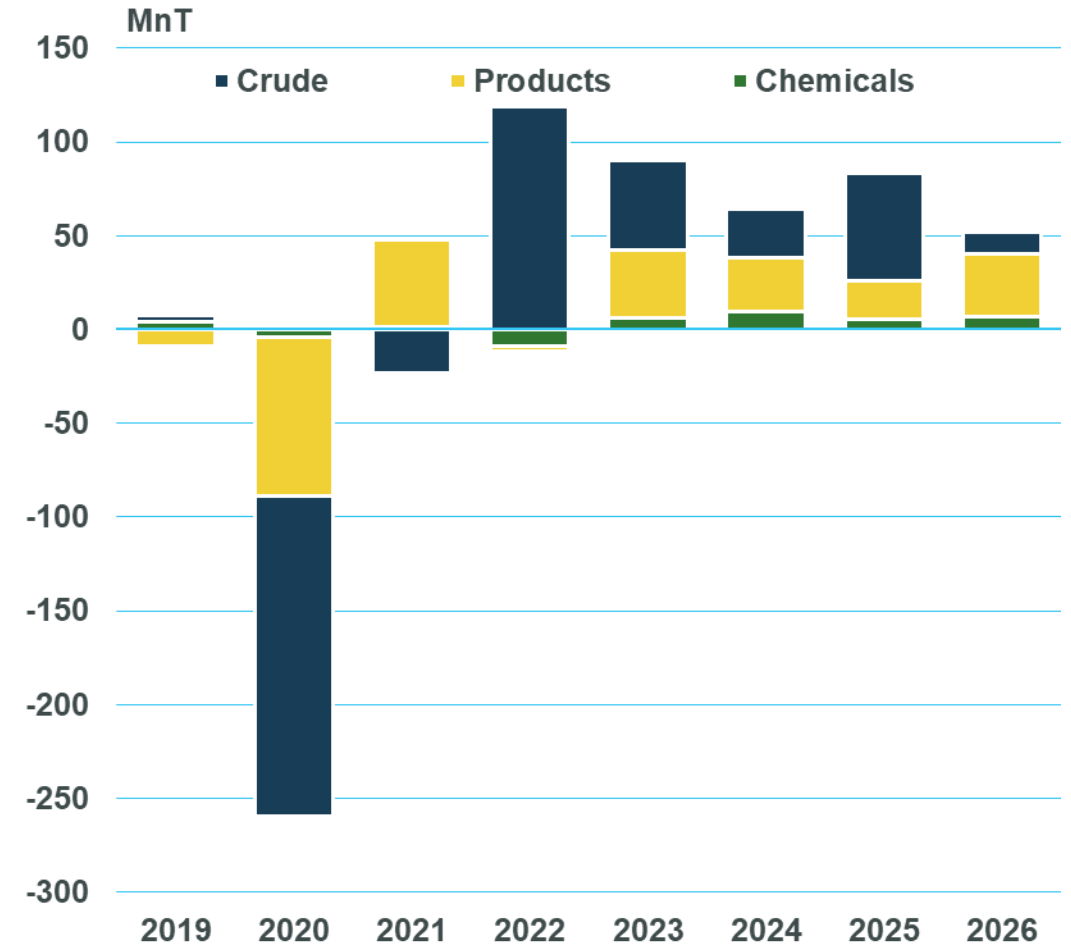
Oil Demand Growth – Selected Regions



Oil Production – Middle East and Americas



Incremental Seaborne Trade by Oil/Chem Cargo

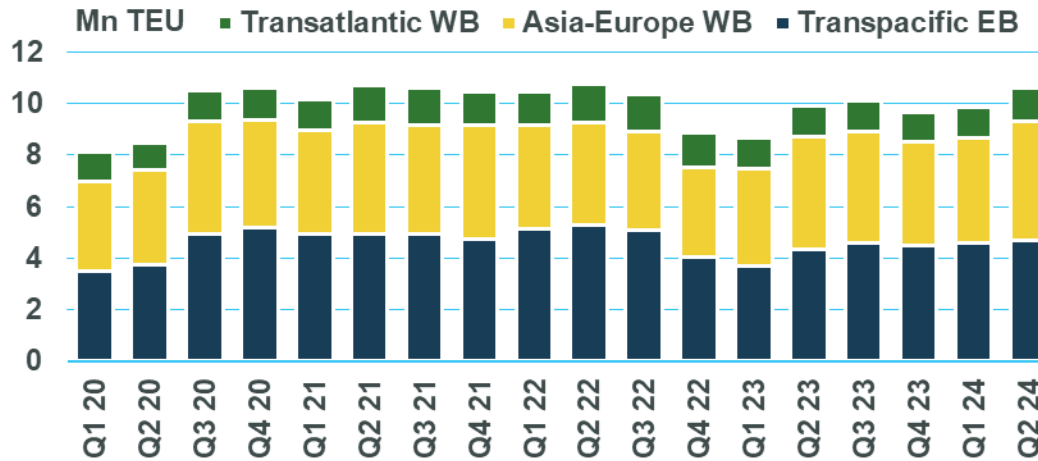


# Containers

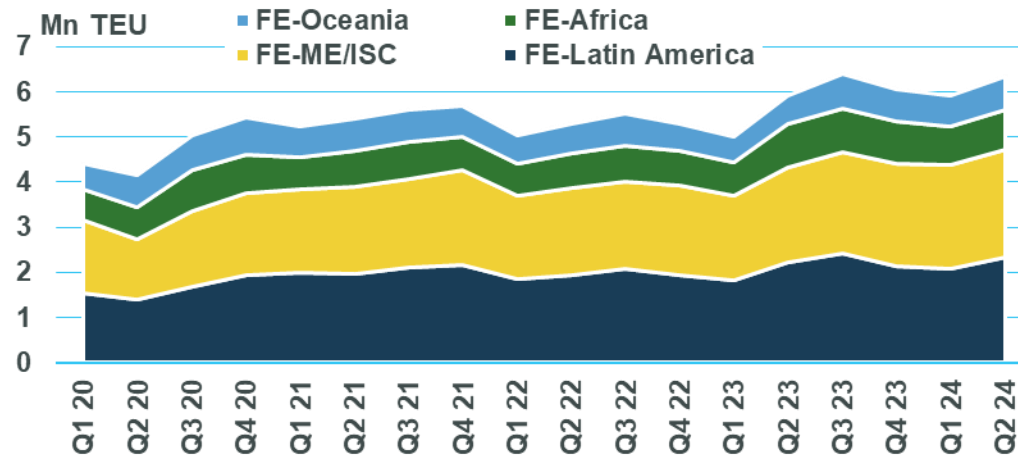
## Strong demand growth returns

- Current Market
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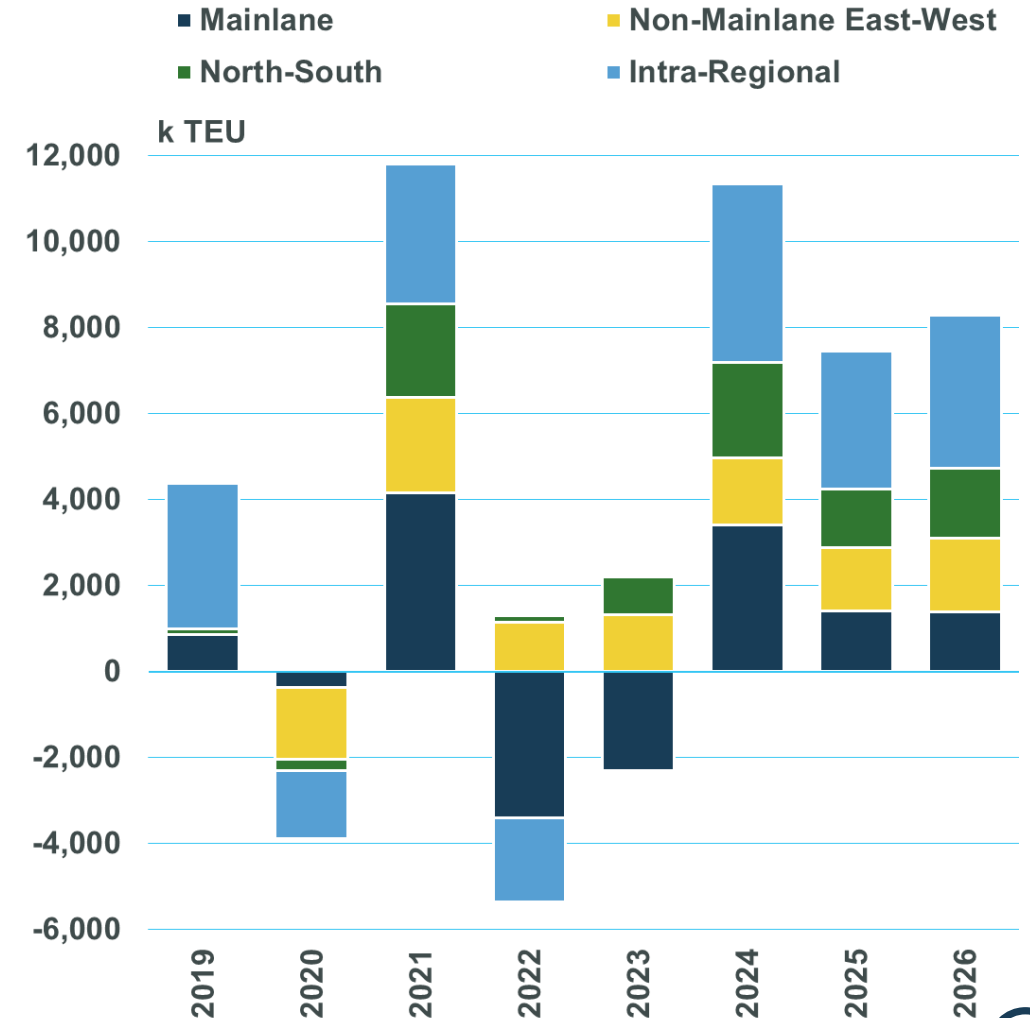
Mainlane Quarterly Headhaul Volumes



Far East Non Mainland Trades



Incremental Container Trade by Tradelane





# Vessel Operations & Efficiency

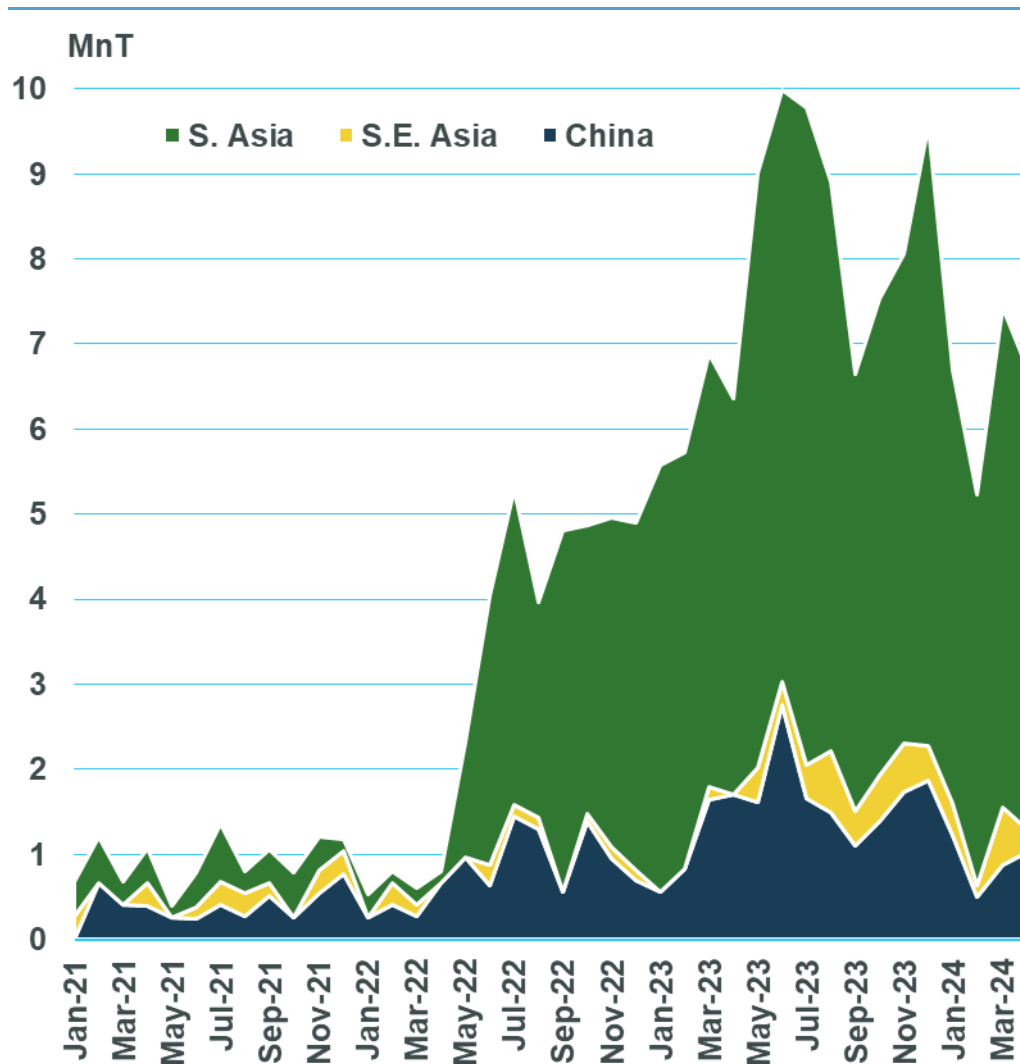
Strong & Inefficient Fundamentals: A Sustainable Combination

# Russia Ukraine Conflict

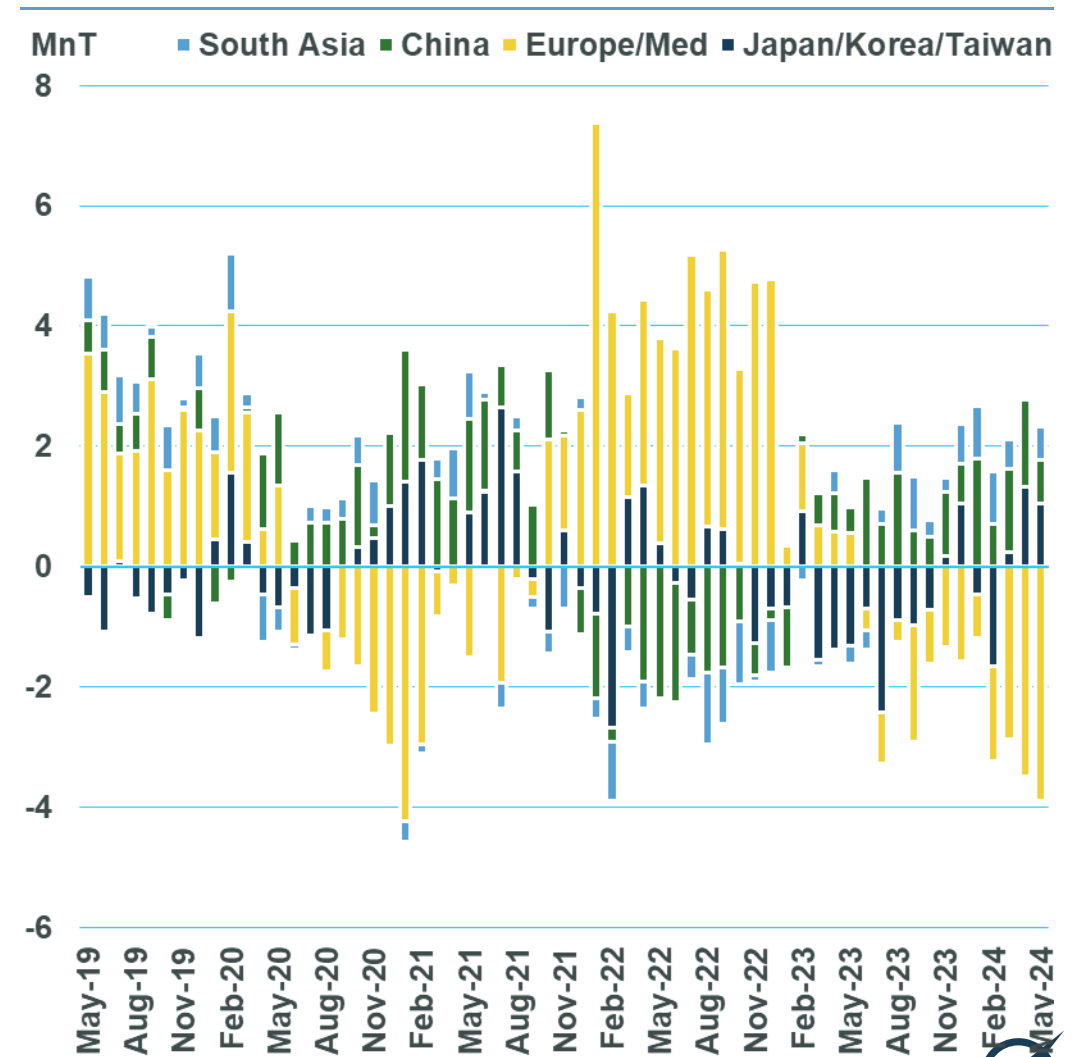
Many trade routes redefined indefinitely

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Russian Oil Export Flows to Asia



LNG Key Importers Monthly Nominal YoY Changes



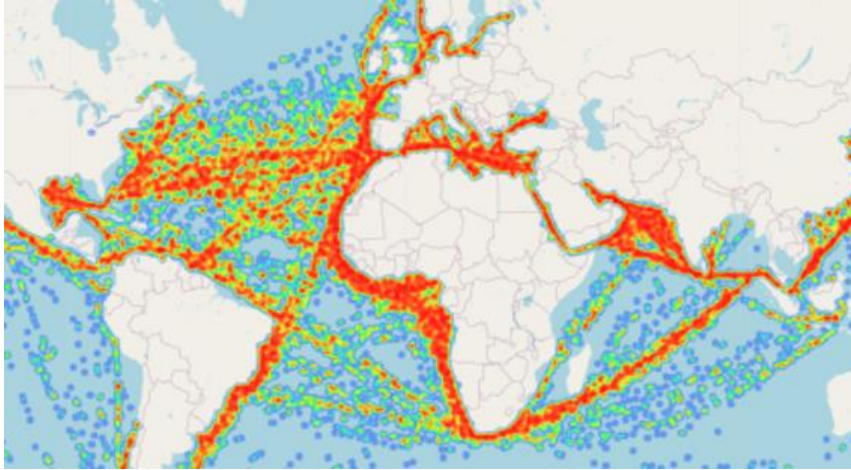


# Suez Canal/Red Sea Diversions

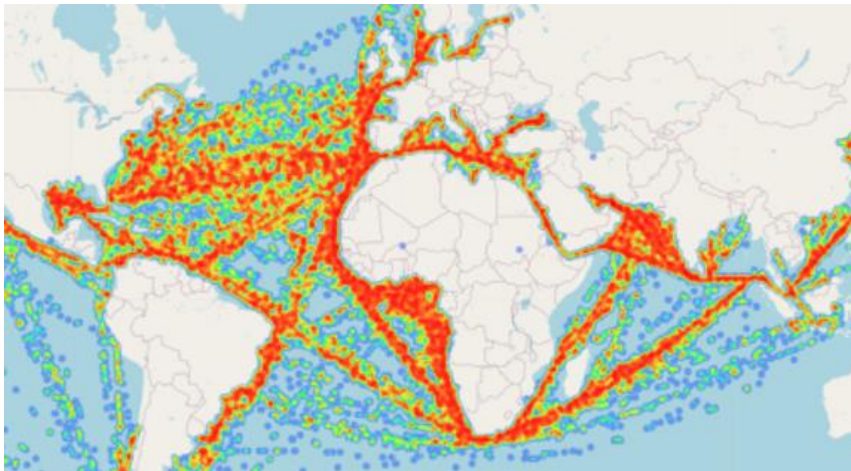
## Diversions depend on sector and operator

- Current Market
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**Suezmax** Vessel Deployment – H1 2023



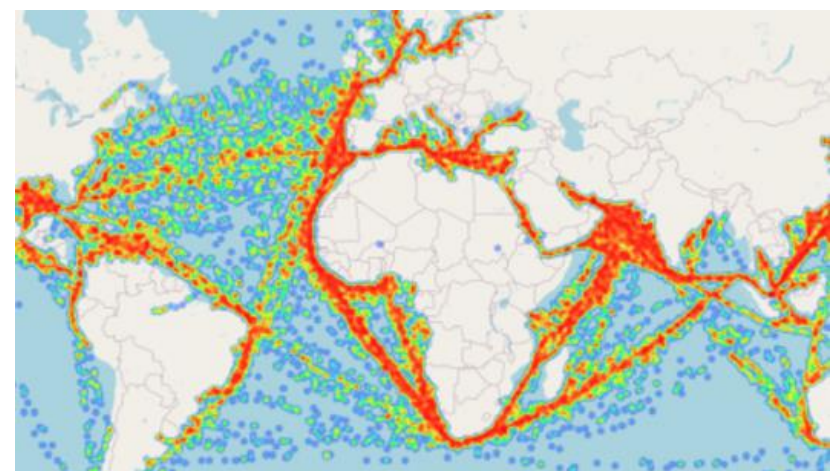
**Suezmax** Vessel Deployment – 2024 YTD



**LR1/LR2** Vessel Deployment – H1 2023



**LR1/LR2** Vessel Deployment – 2024 YTD

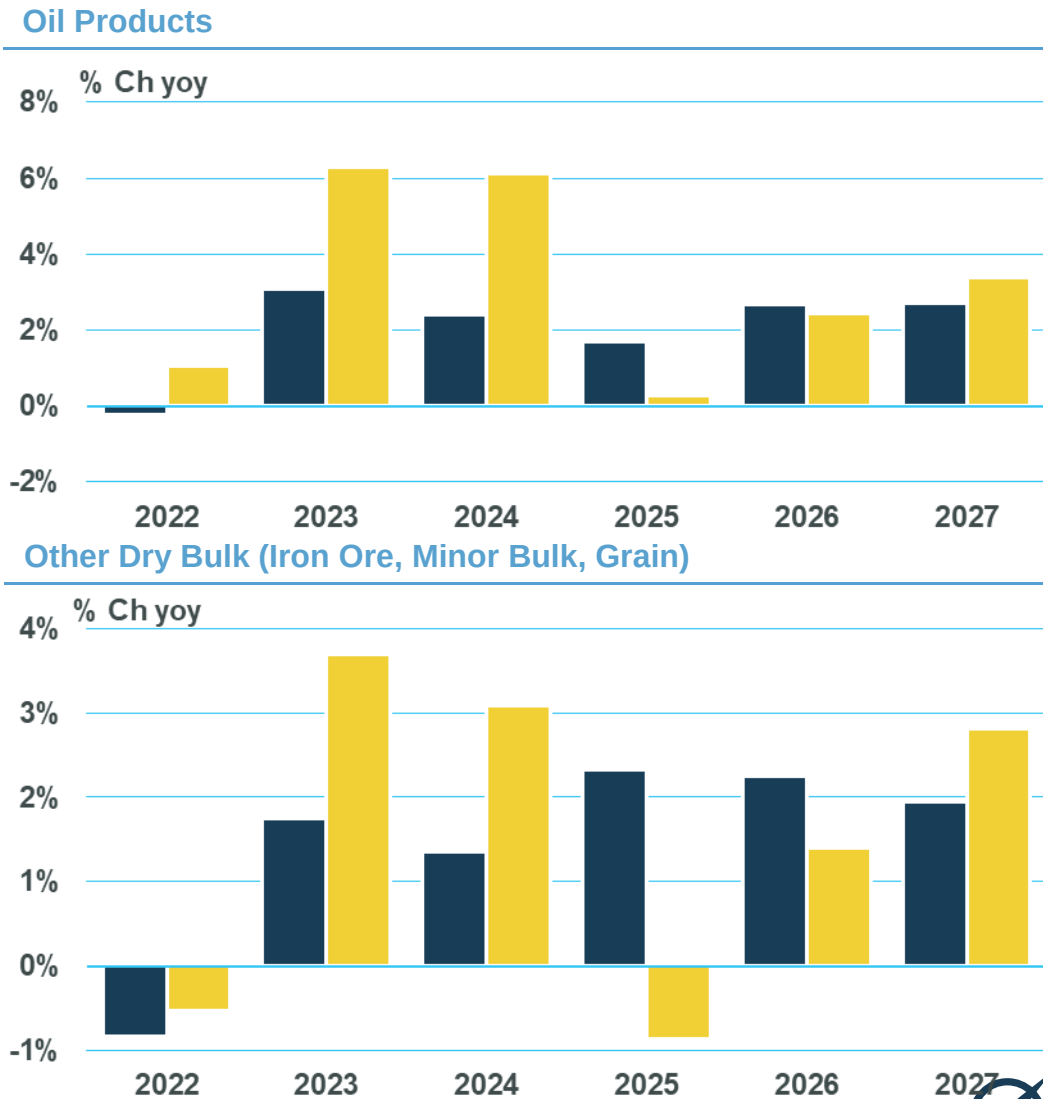
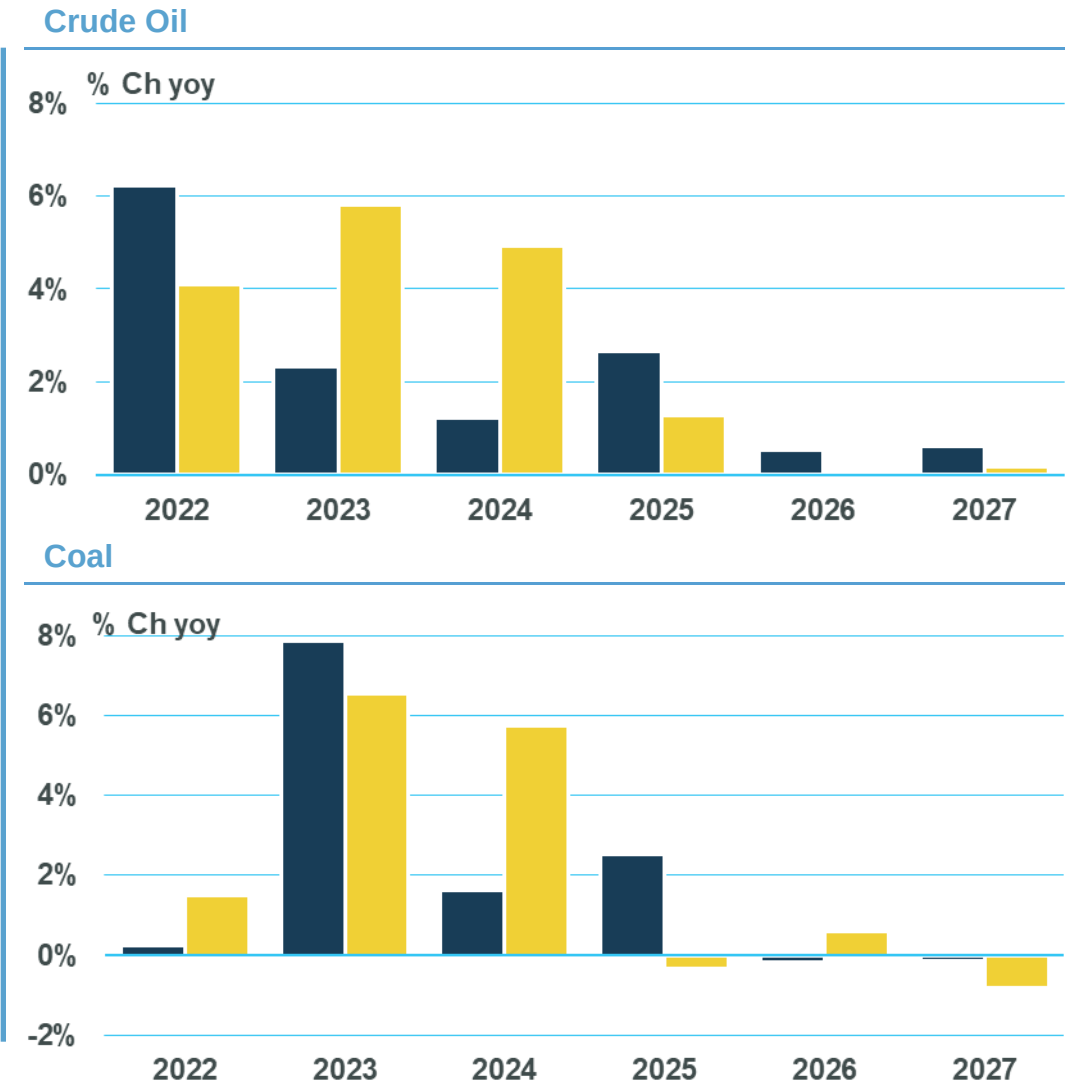


# Tonne Miles

Incremental distances have provided a huge boost to balances

■ Tonnes ■ Tonne Miles

- Current Market
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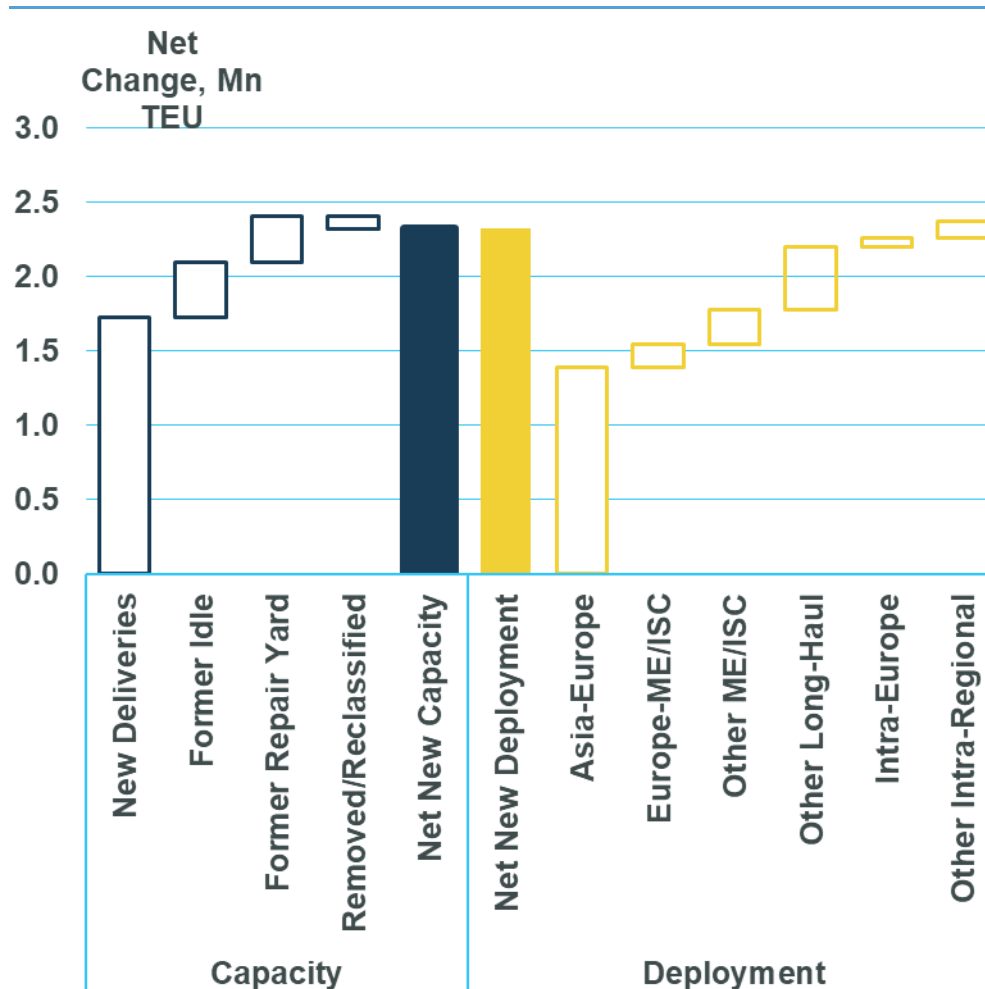


# History Repeating Itself...

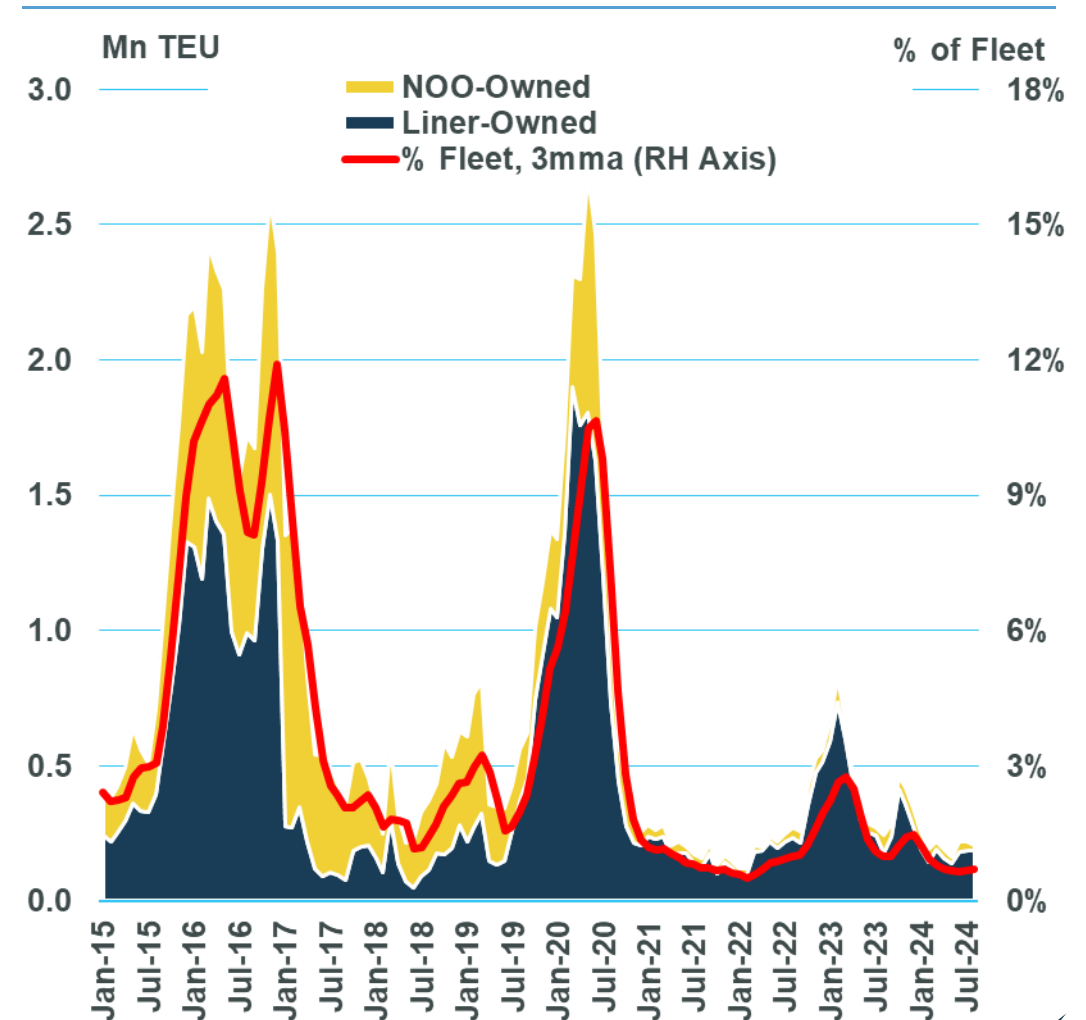
Containers - Longer sailing distances and a minimal idle fleet are supporting market balances

- Current Market
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Capacity vs Deployment, Net Change Jun-24 vs Nov-23



Idle Fleet





# Structural Demand Shifts

Strong & Inefficient Fundamentals: A Sustainable Combination

# Chinese Demand Story Isn't What it Once Was

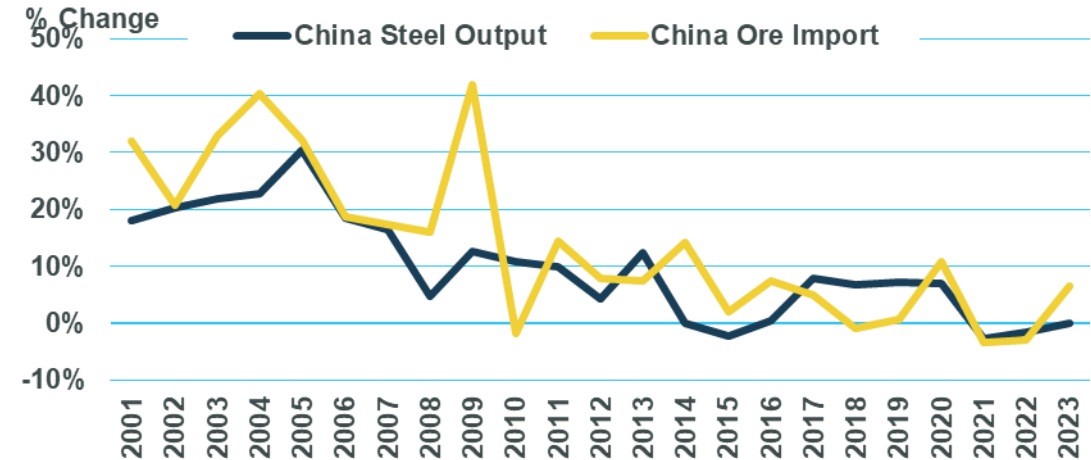
## Continues to cool

- Current Market
- Demand
- (In)Efficiency
- Structural Shifts
- Supply
- Earnings & Values

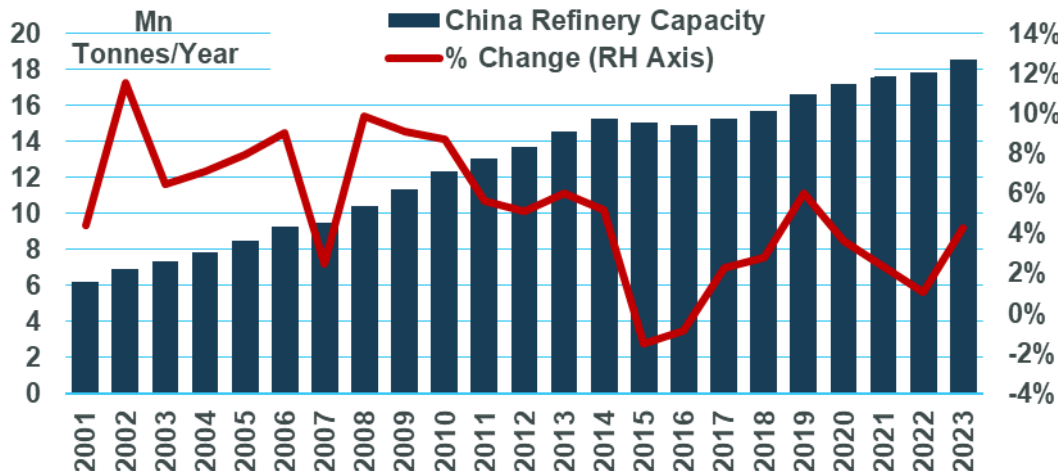
Chinese Property Market



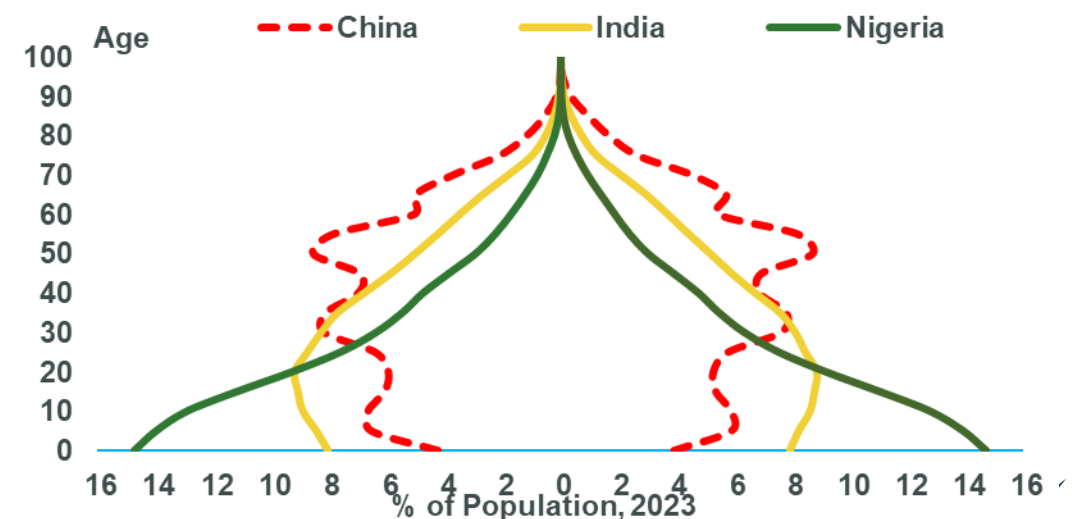
Chinese Steel Output and Iron Ore Imports



Chinese Oil Refinery Capacity



Chinese Population Continues to Age



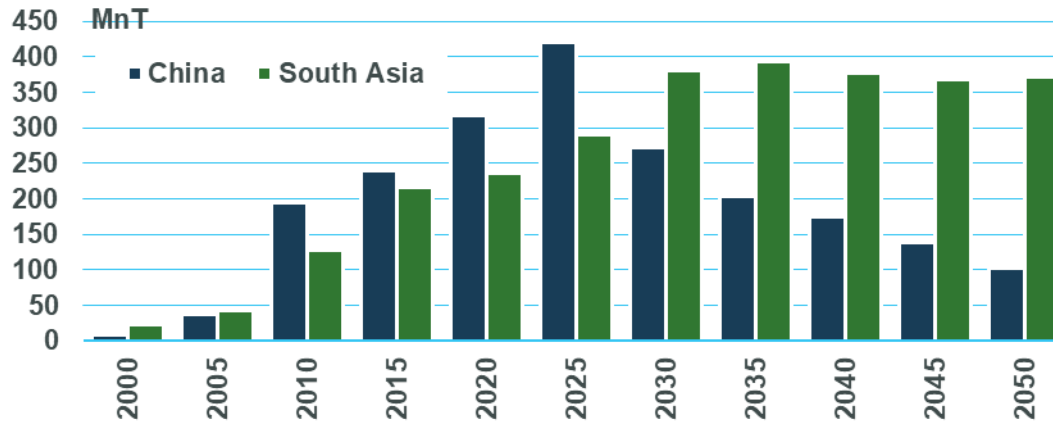


# Demand Replacements

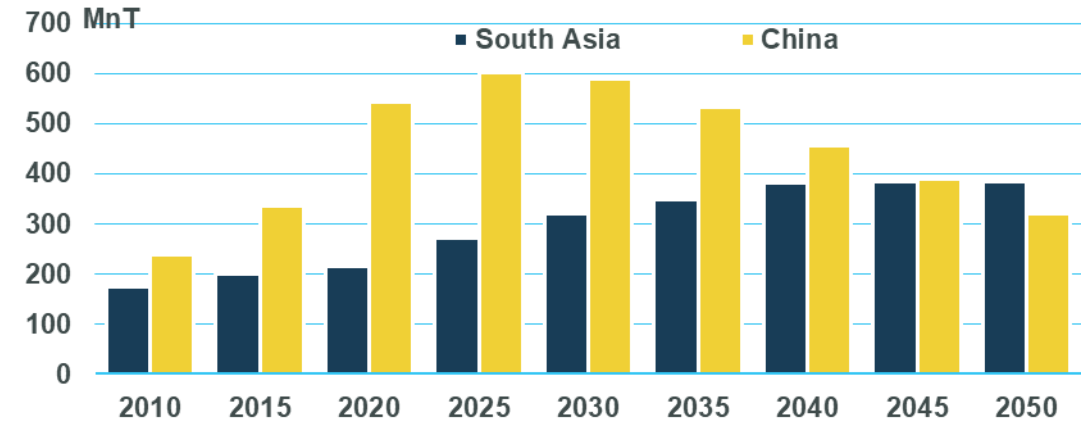
## New focuses and new cargos

- Current Market
- Demand
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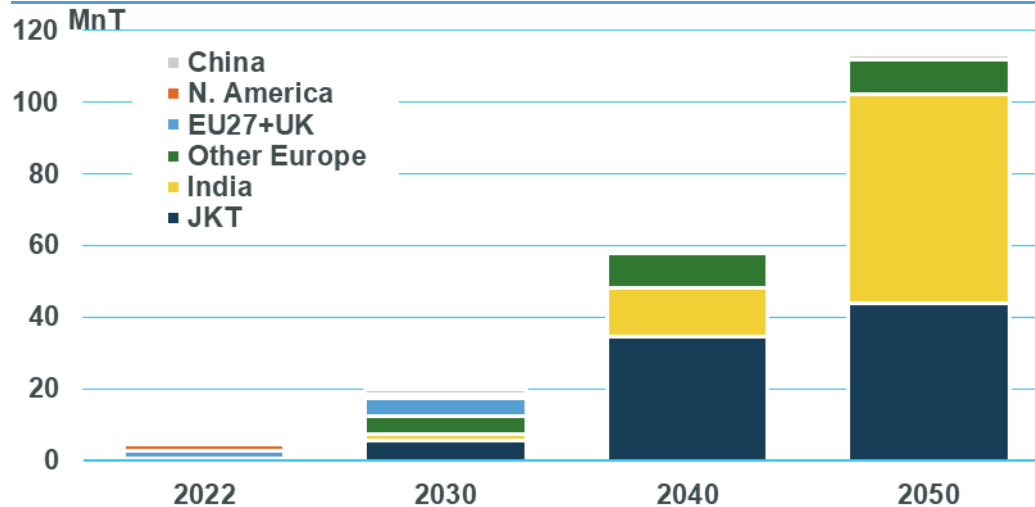
South Asia v Chinese Coal Volumes



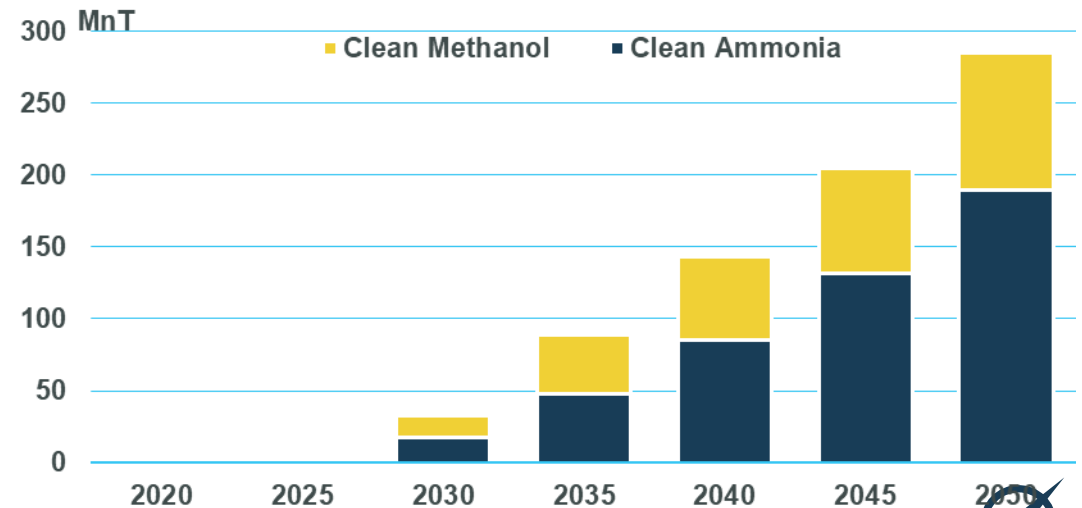
South Asia v China Crude Imports



Hot Briquetted Iron (HBI) and Direct Reduced Iron (DRI)



Clean Methanol and Clean Ammonia Trade Outlook

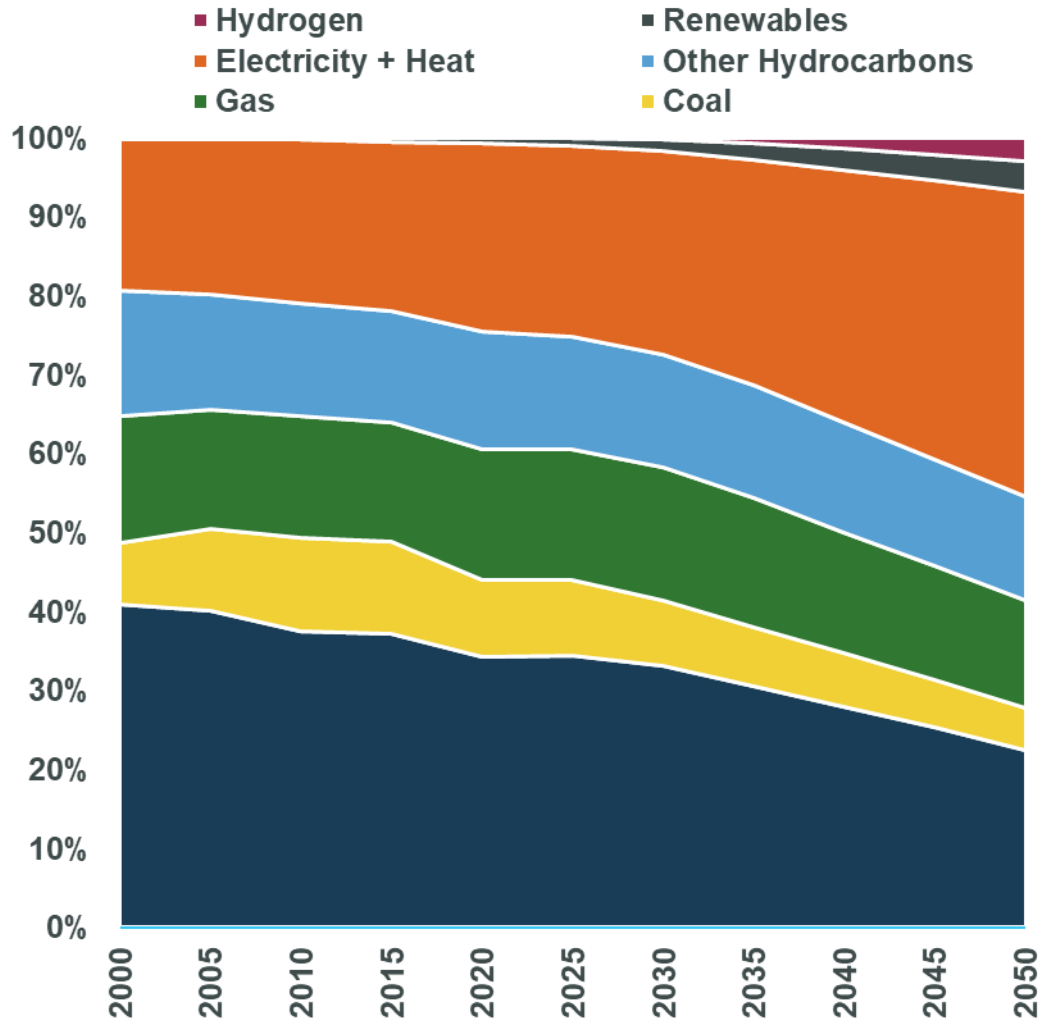


# Macro Structural Changes

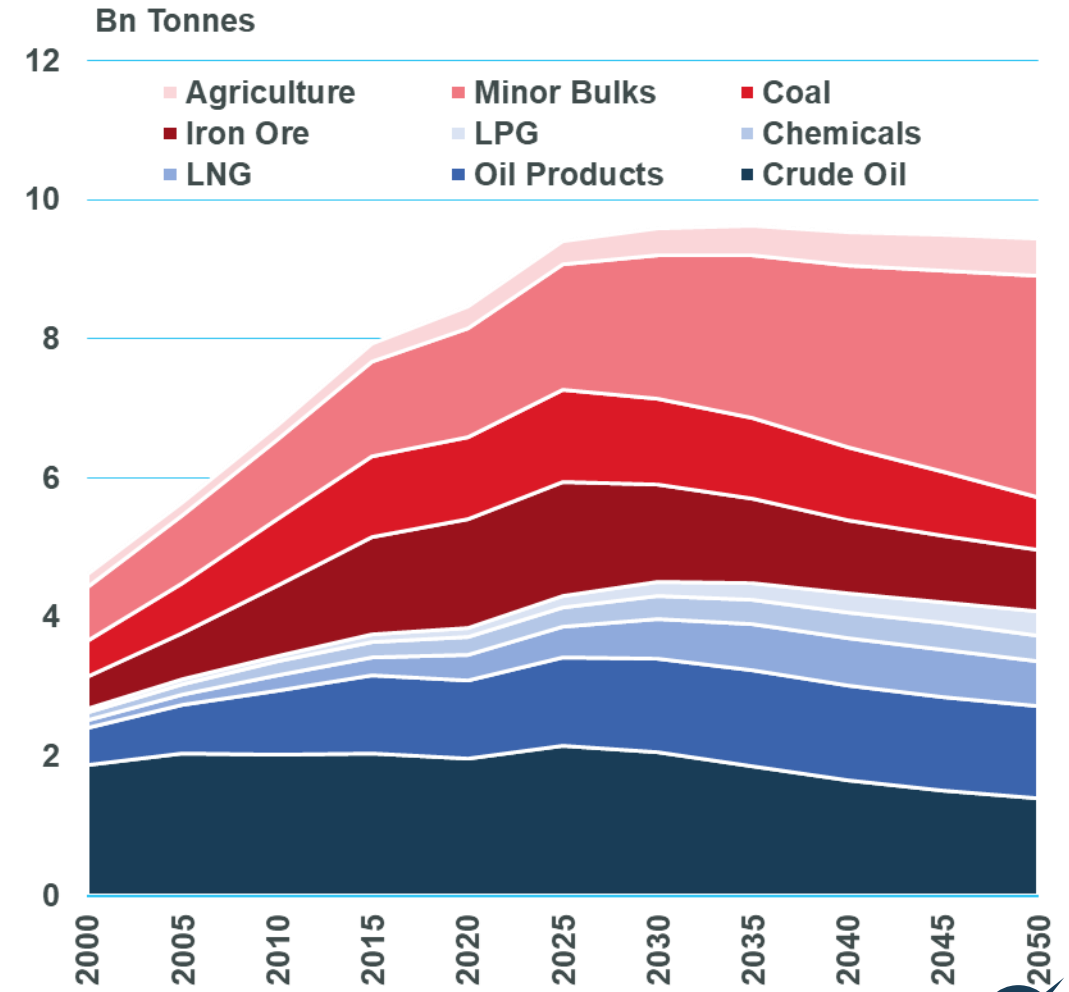
## Changing energy landscape – entering the transition period

- Current Market
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Share of Energy Consumption by Fuel Type



Liquid (Blue) vs. Dry Bulk (Red) Seaborne Cargoes





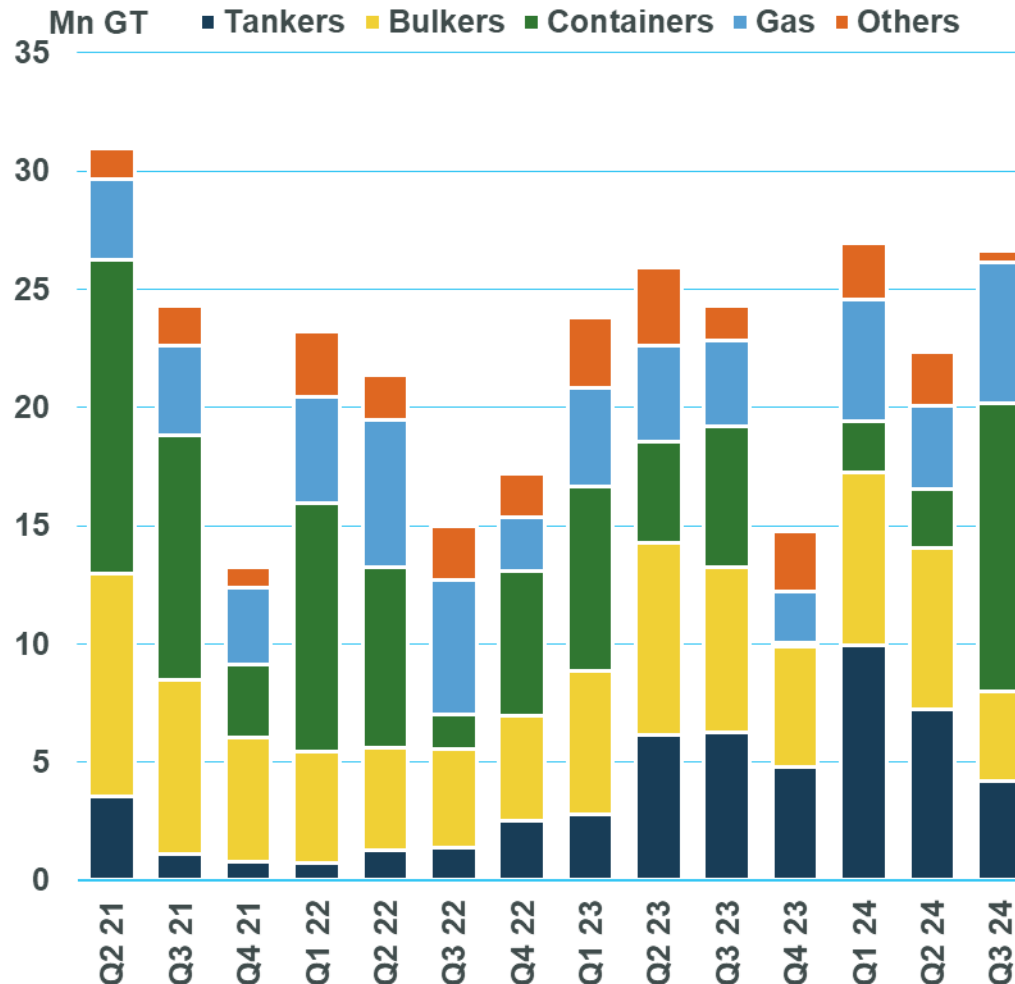
# Supply and Shipbuilding

Strong & Inefficient Fundamentals: A Sustainable Combination

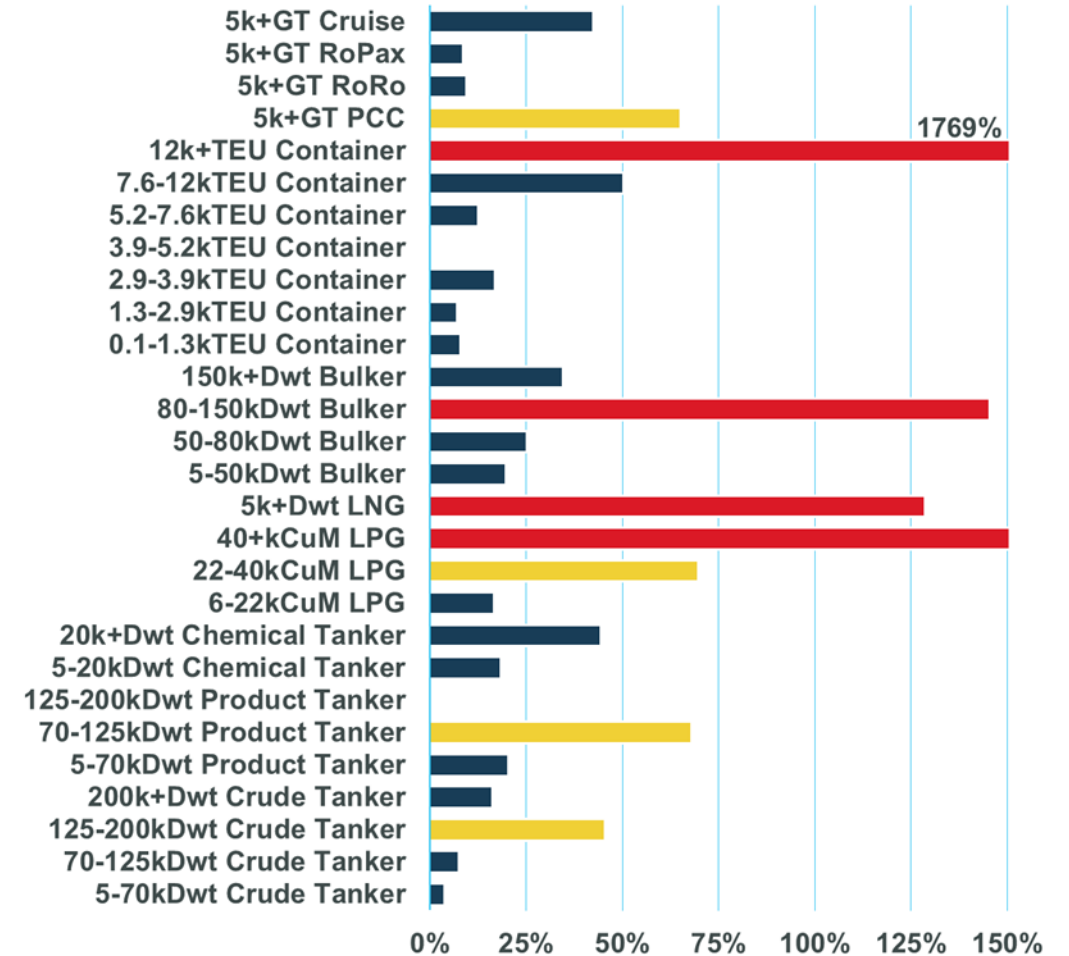
# Contracting & Orderbook Dynamics

The last three years have seen a resurgent interest in the newbuild market

Quarterly Newbuild Contracting by Type



Orderbook as a % of +15Yr Old Fleet

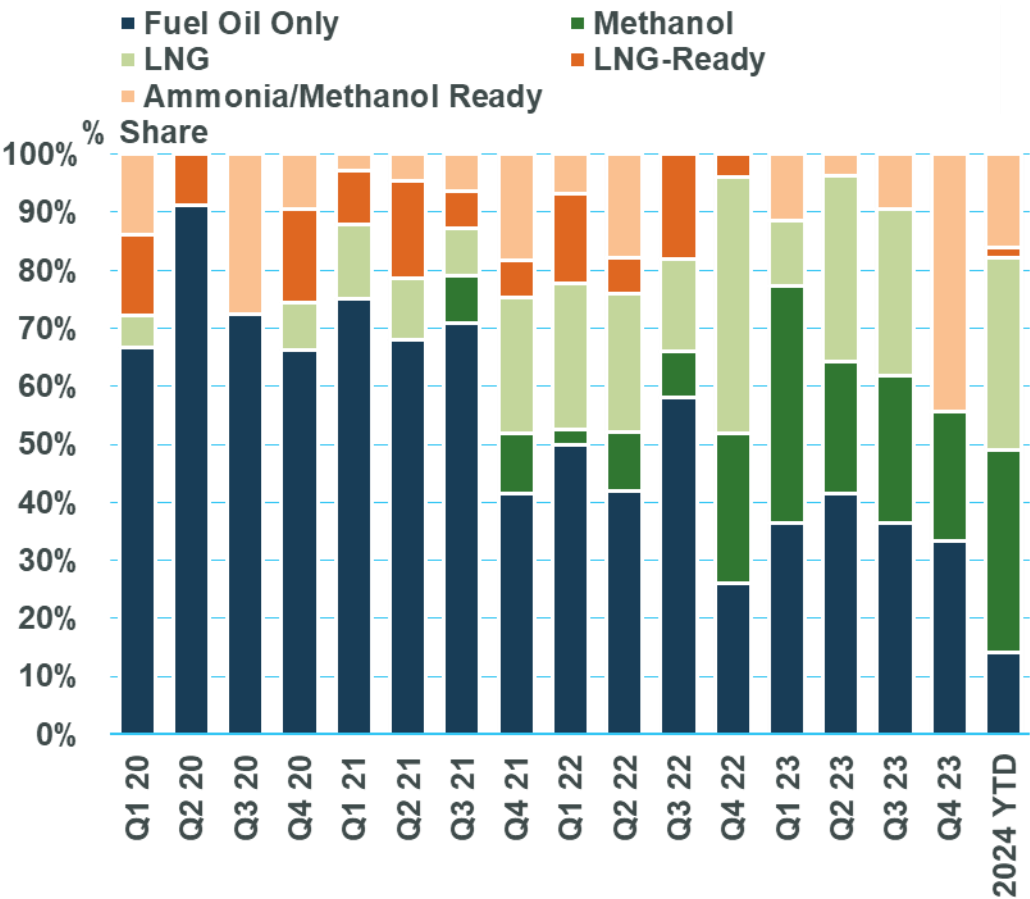


# Alternative Fuels

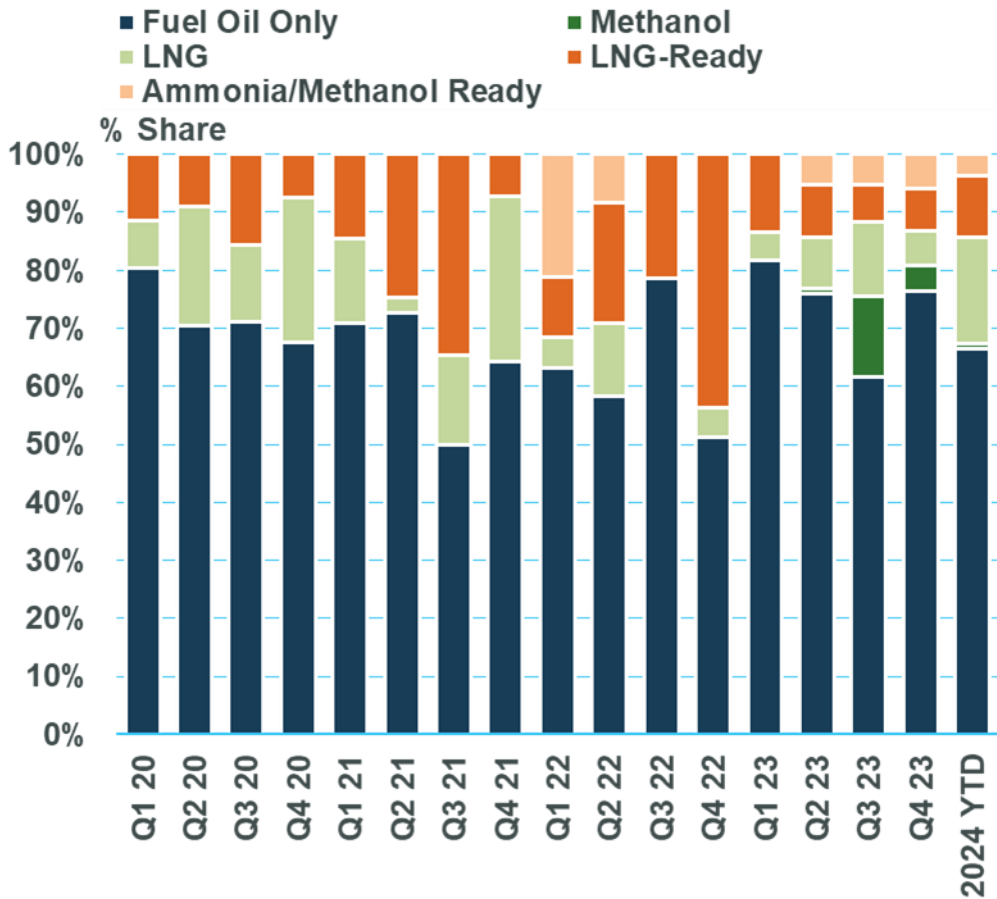
## Containerships are leading the way

- Current Market
- Demand
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Contracting of Containerships by Fuel System Type (No. Ships)



Contracting of Oil Tankers by Fuel System Type (No. Ships)

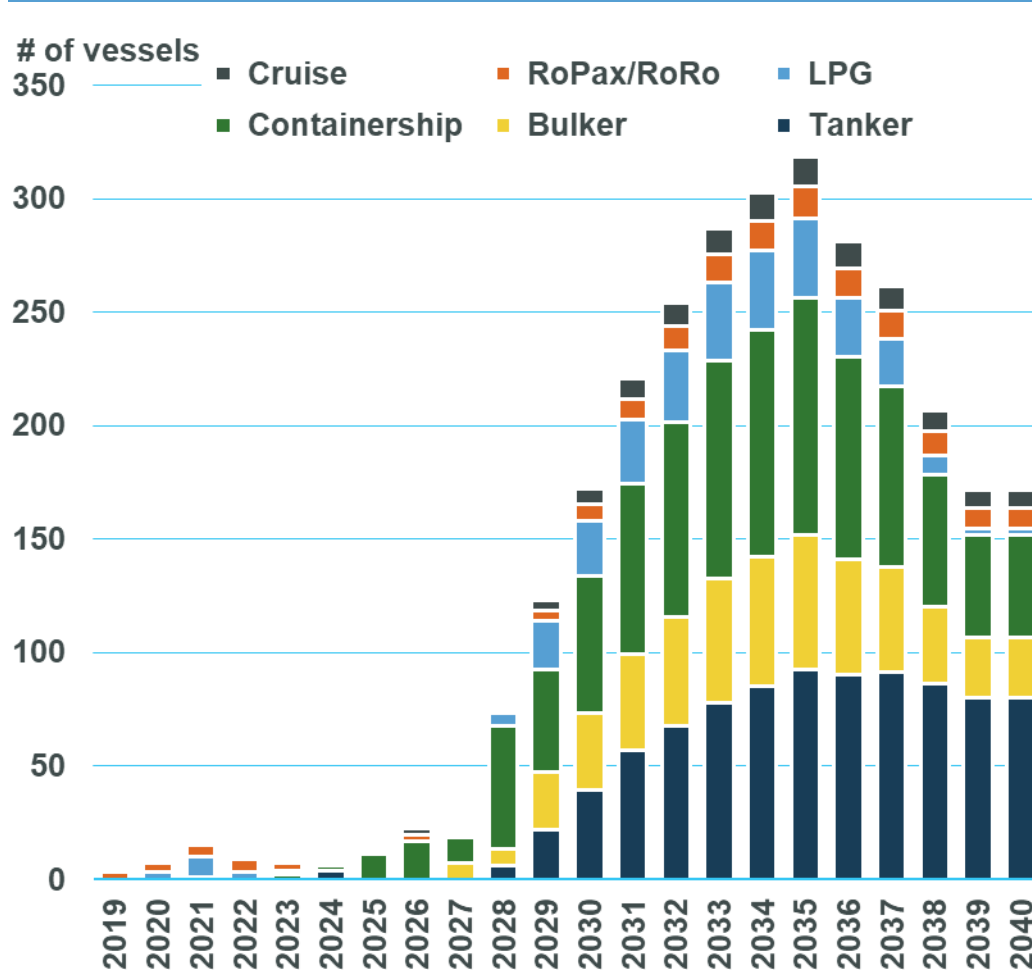




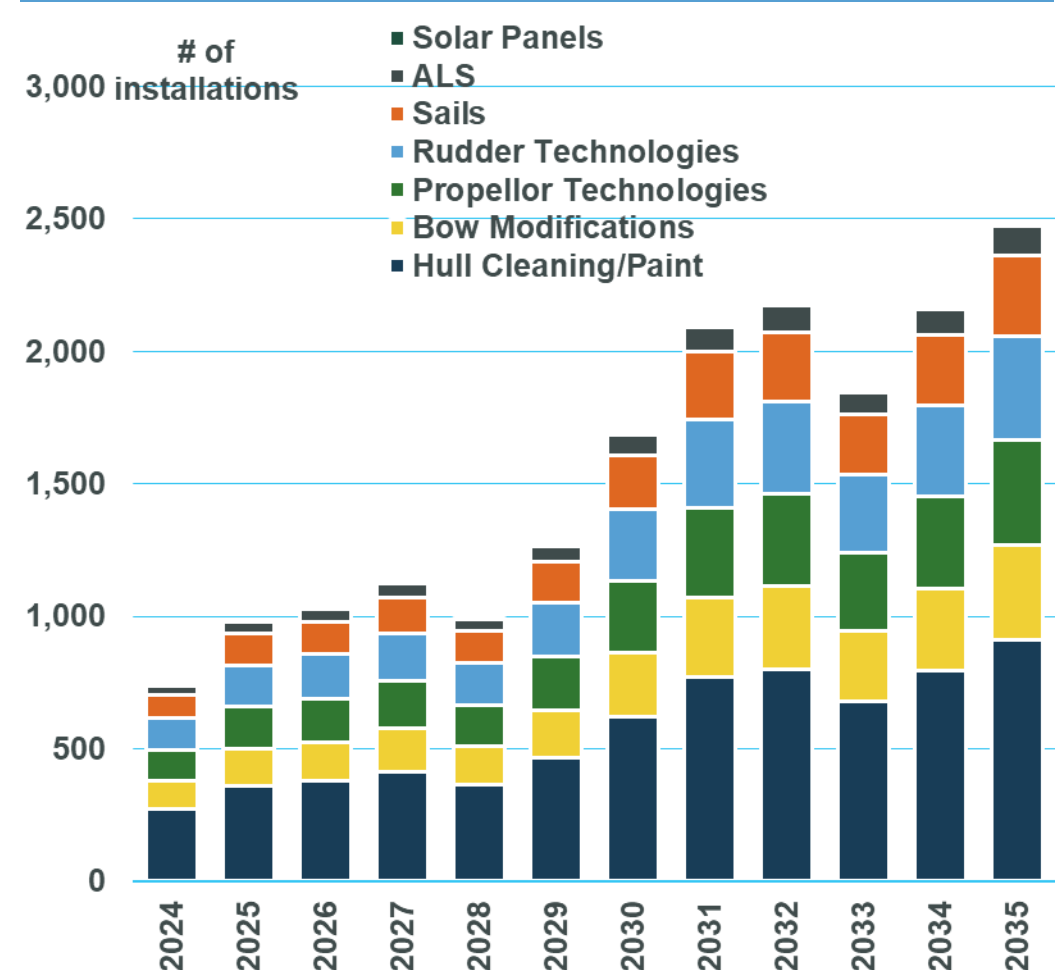
# Regulations and Retrofits

Will put shipyard capacity under further pressure

Engine Retrofit Forecast



Volume of EST Installations

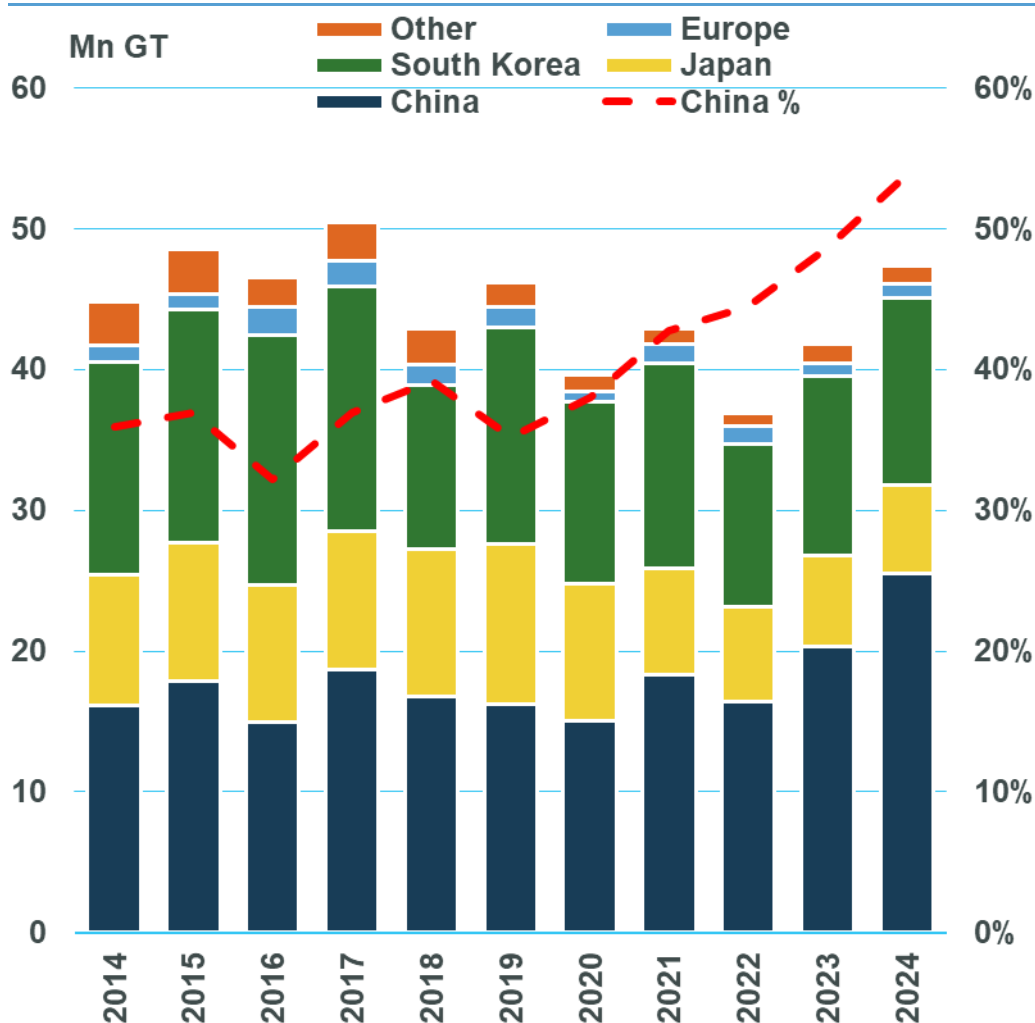


# Chinese Yard Output

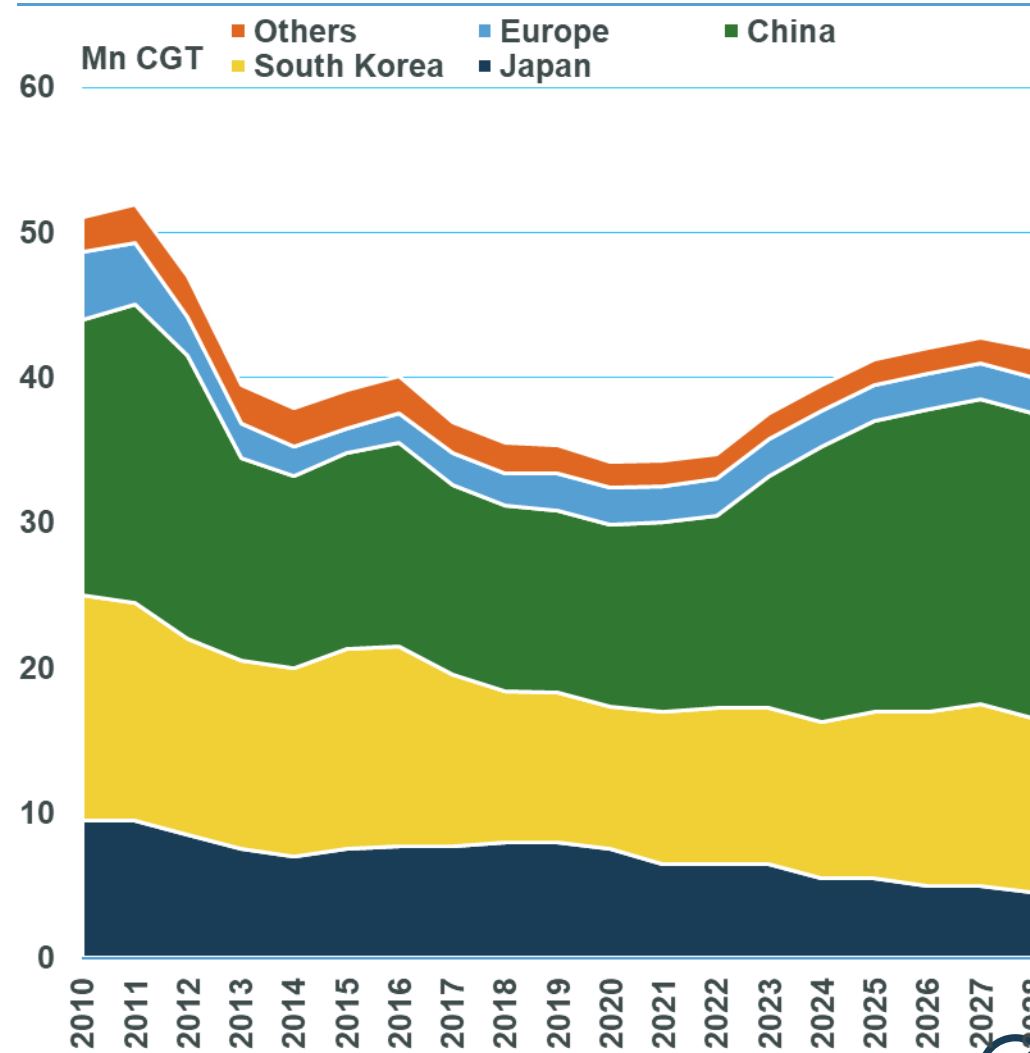
## Is only going in one direction

- Current Market
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Deliveries by Build Region



Shipyard Effective Capacity Development



# Chinese Yards Capacity Increases

**Mothballed yards are back!**

- Current Market
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- Earnings & Values



## Yards Don't Just Disappear



Source: Google Earth

© Maritime Strategies International

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www.msilttd.com

**2017 Marine Money Slide  
Shipyard Capacity Elasticity**

**STX Dalian declared  
bankrupt in 2015**

**now known as  
Hengli Heavy Industry**





# Earnings and Values

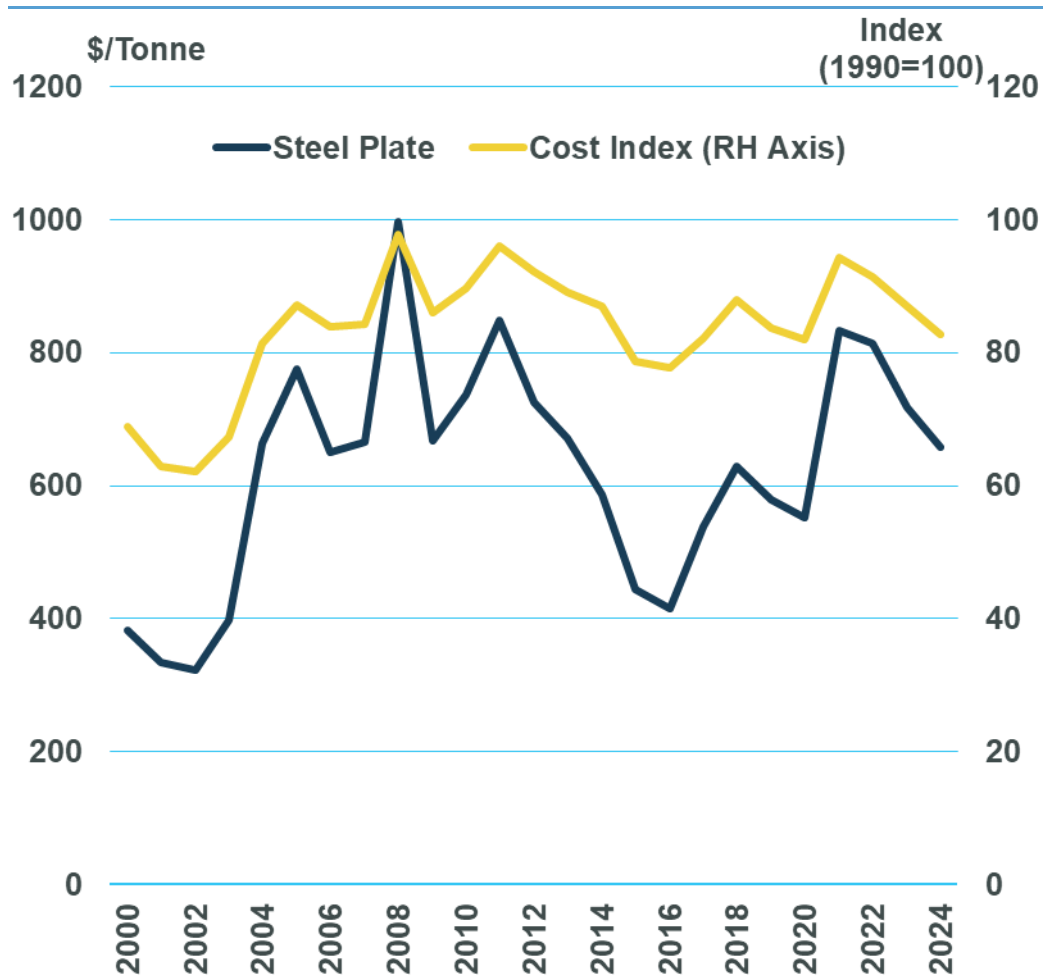
Strong & Inefficient Fundamentals: A Sustainable Combination

# Newbuilding Prices

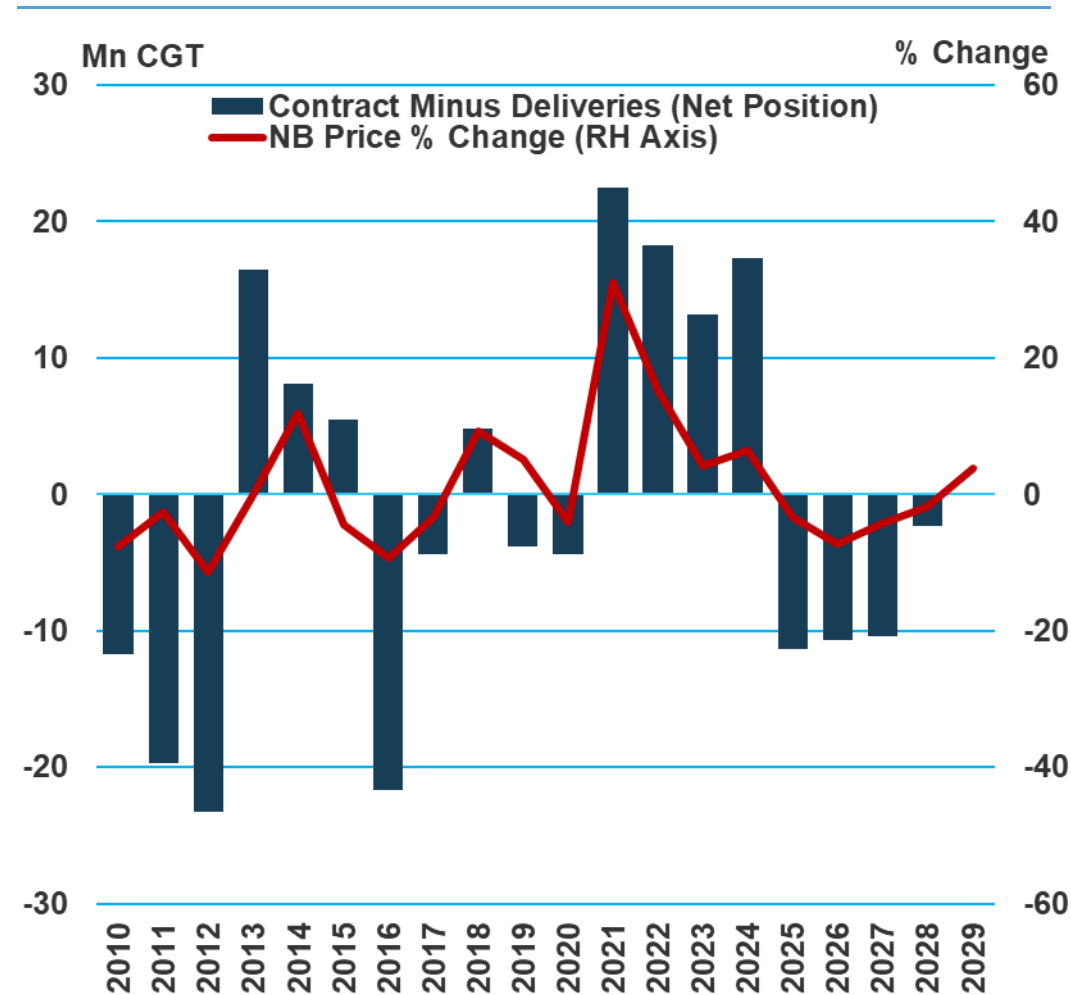
Cost pressures receding, yard forward cover to decline

- Current Market
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Costs Still High but Inflationary Pressure has Eased



Net Orderbook and Newbuilding Price Changes



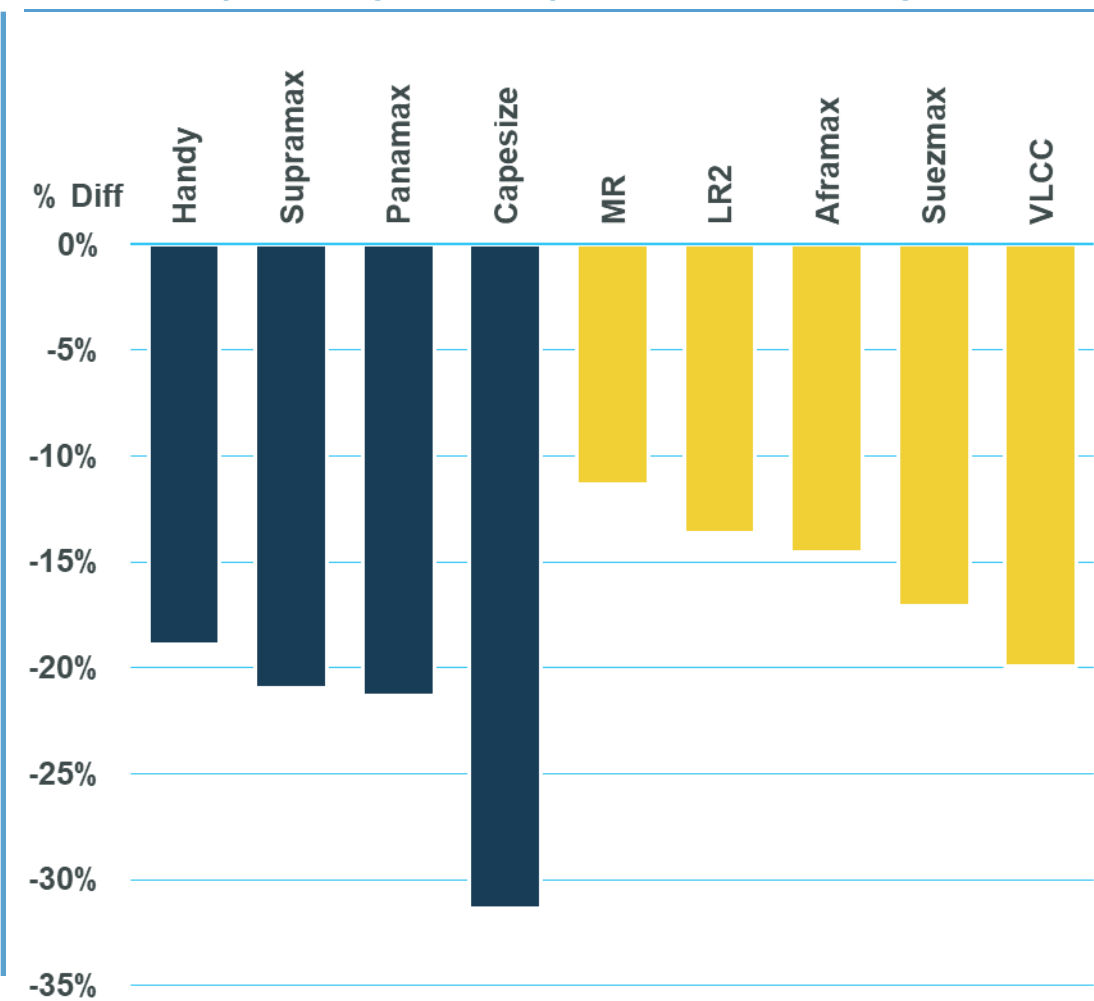


# Earnings

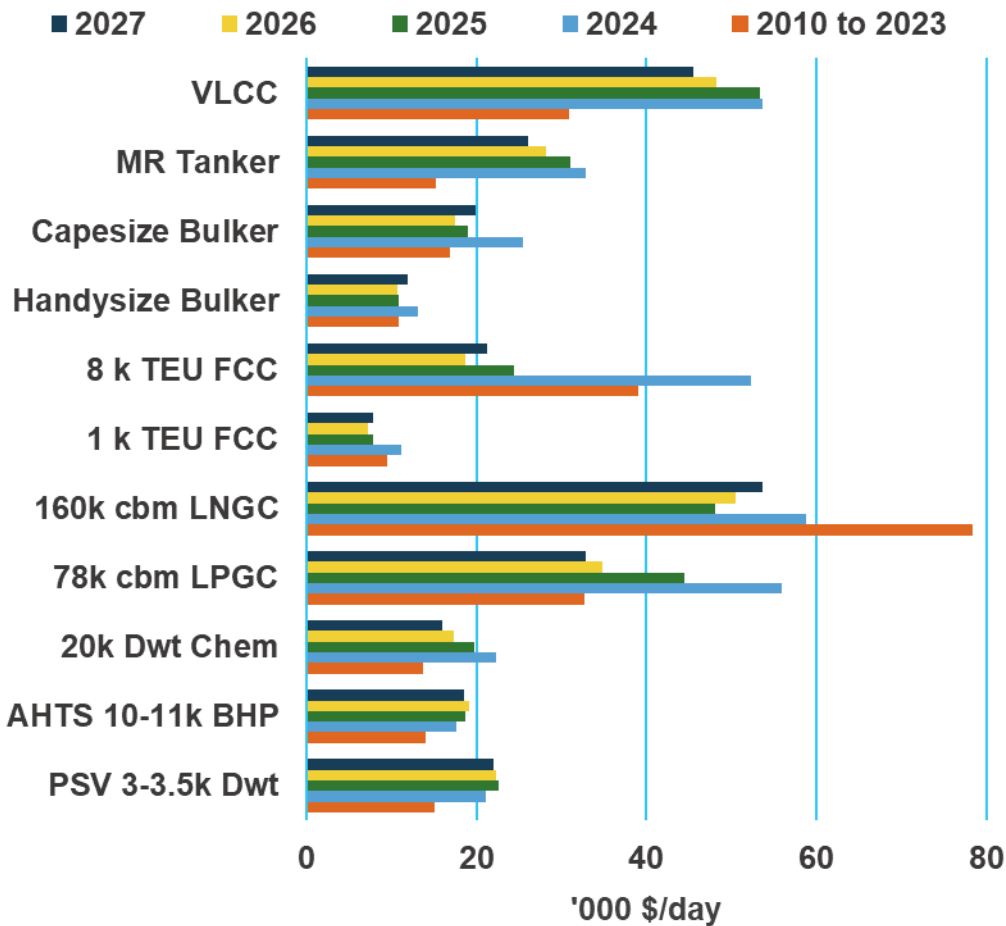
Will remain strong, though diversions have been helping significantly

- Current Market
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Canal Disruption - Significant Impact on Current Earnings in 2024



Earnings to Remain Strong

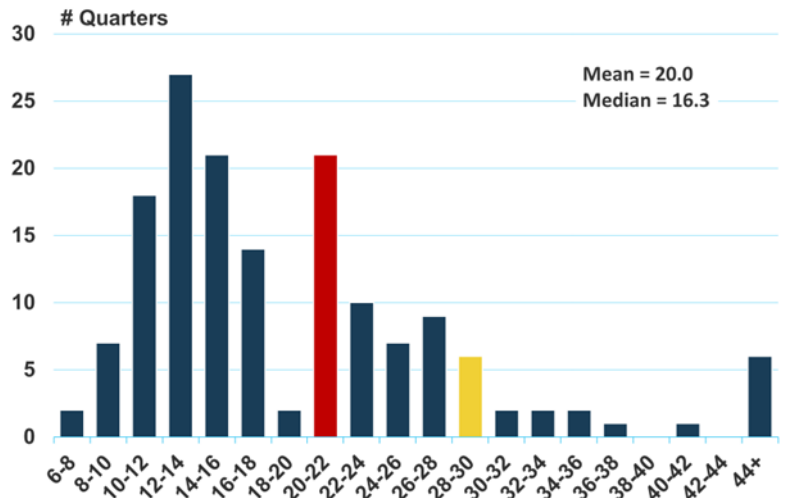


# 10 Yr Old Prices

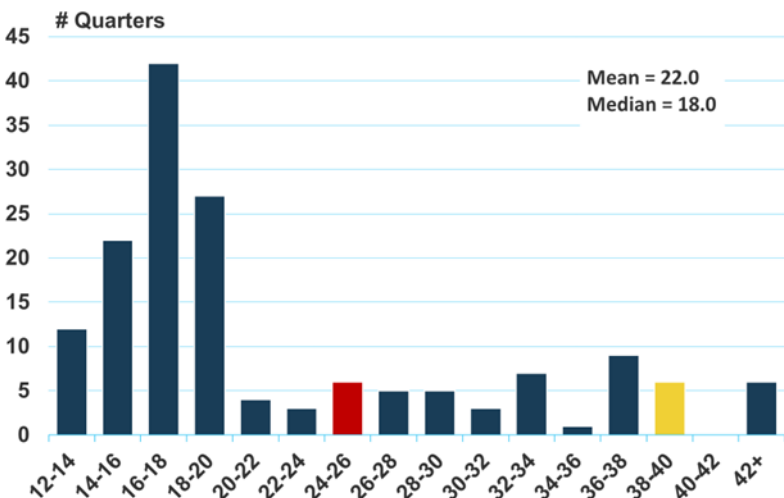
## Quarterly Historical Distributions Q3 24 v Q4 28

Q3 2024 Q4 2028

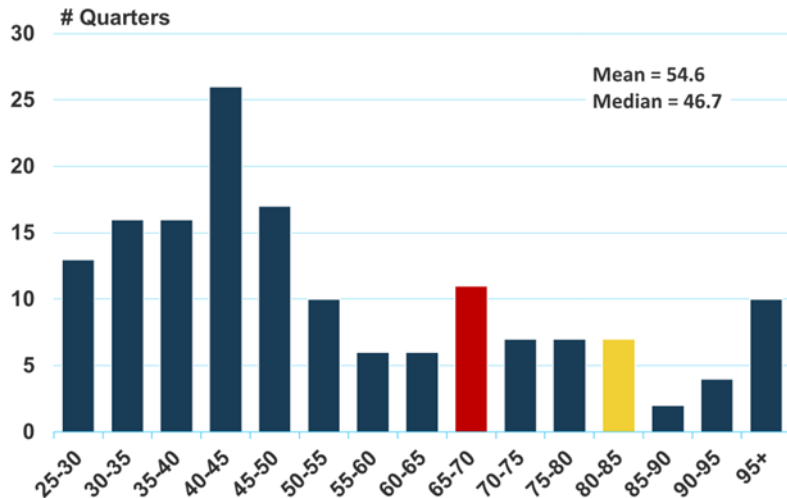
Panamax Bulker



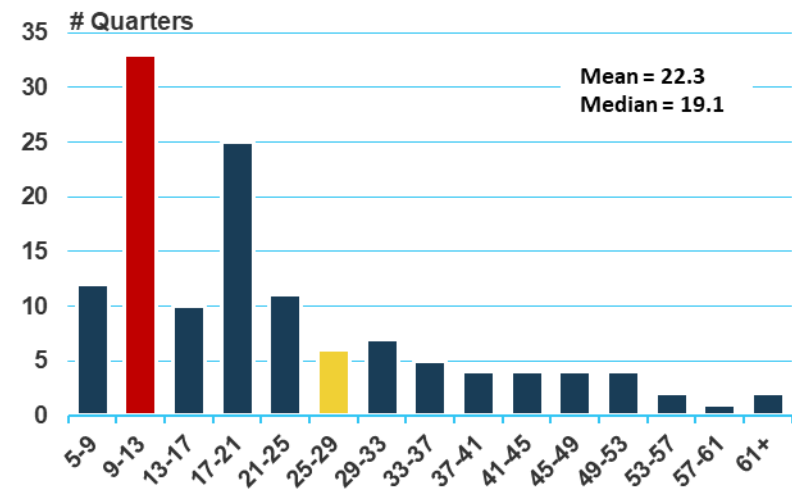
MR Tanker



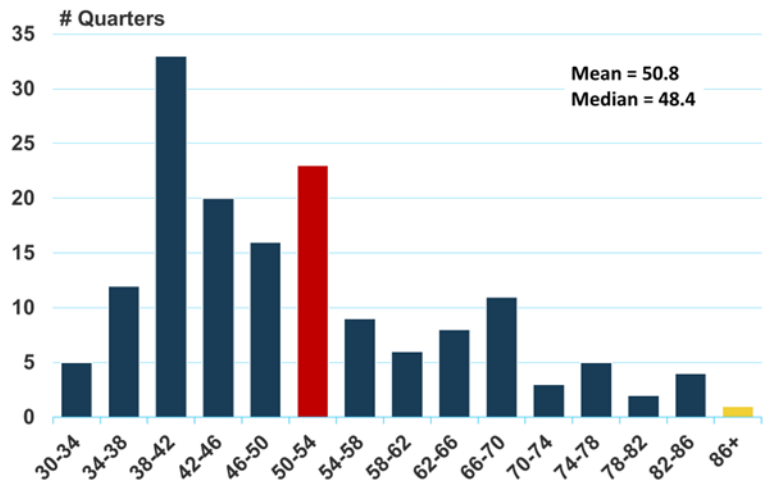
VLCC



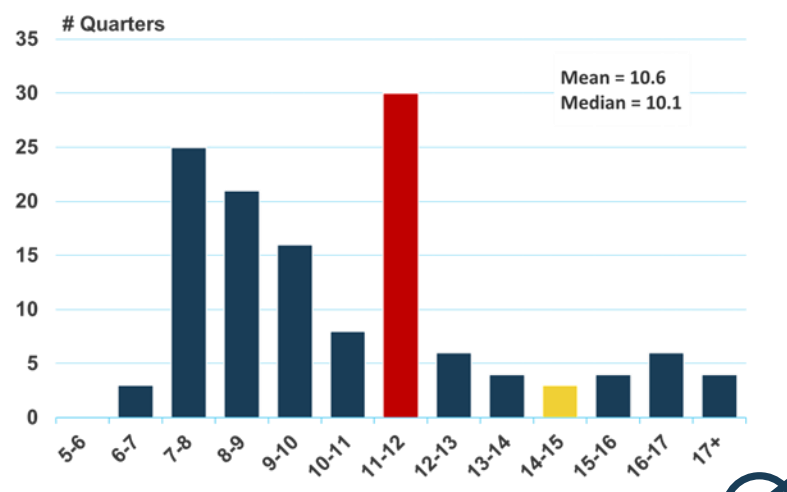
3.4kTEU Container



VLGC



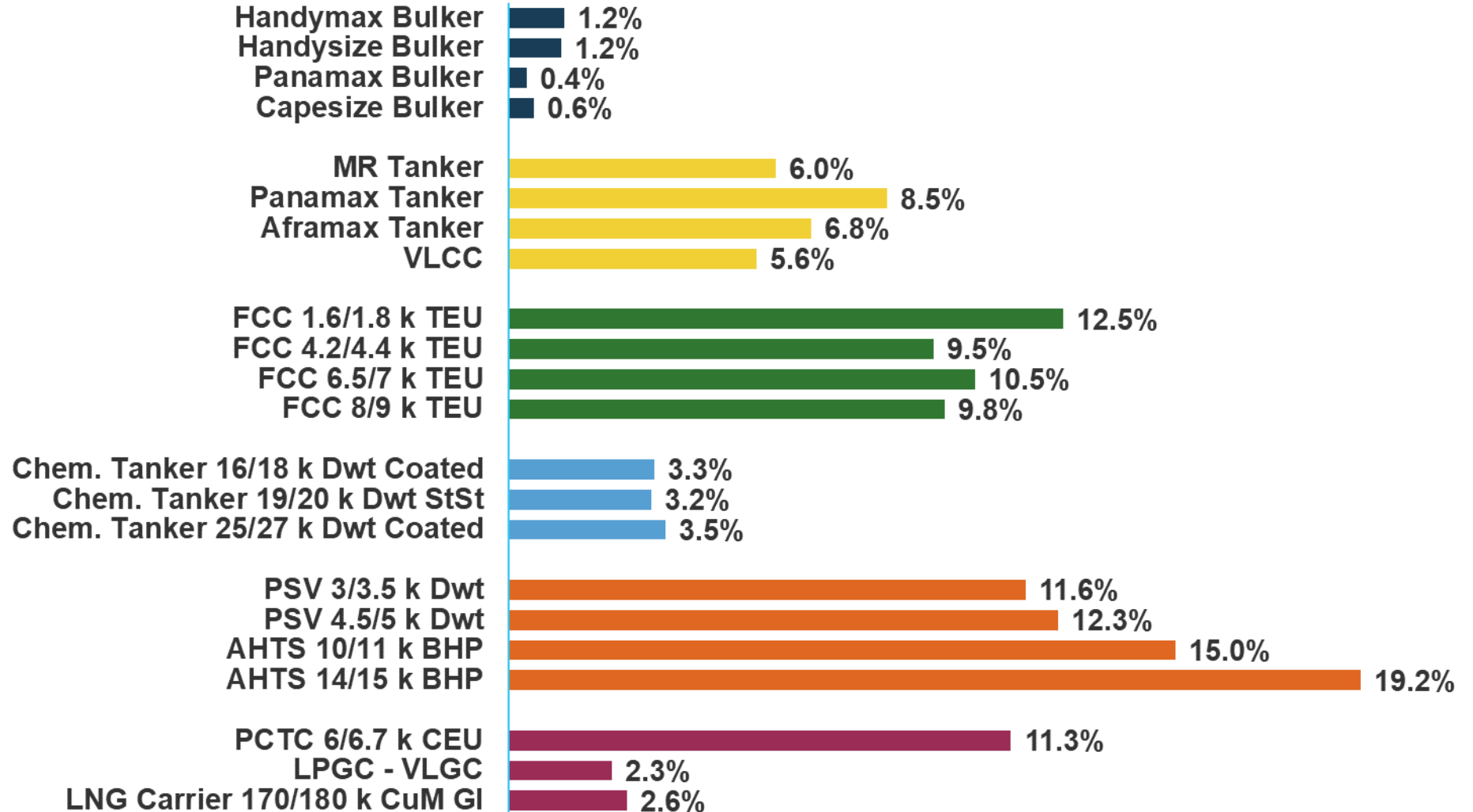
MPP



# Investment chart

## IRR returns - buy and fix a 5 Yr Old for three years then sell the vessel

- Current Market
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- Supply
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?

# MSI Background and Disclaimer

For almost 40 years, MSI has developed integrated relationships with a diverse client base of financial institutions, ship owners, shipyards, brokers, investors, insurers and equipment and service providers.

MSI's expertise covers a broad range of shipping sectors, providing clients with a combination of sector reports, forecasting models, vessel valuations and bespoke consultancy services.

MSI's team is comprised of professionals with extensive academic credentials, deep industry knowledge and many years experience of delivering successful client projects.

MSI balances analytical power with service flexibility, offering a comprehensive support structure and a sound foundation on which to build investment strategies and monitor/assess exposure to market risks.

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## Maritime consultancy firm offering modelling, data, asset valuation and strategic advisory services



*Model-based forecasting of shipping, offshore and allied industries and offers structured quantitative analysis to support business decisions.*

**Approach**

*Unbiased, independent market forecasting and business advisory services.*

**Independence**

**Expertise**

*The team is comprised of professionals with extensive academic credentials, deep industry knowledge and many years' experience of delivering successful projects.*

**Coverage**

*Depth and quality of market coverage is unparalleled, providing reports, models, valuations and consultancy across all shipping and offshore sectors.*

**Online Platform**

*MSI HORIZON provides a unique delivery mechanism for data, forecasts and market insight.*

**Network**

*MSI can draw upon corporate partners and an extensive network of industry contacts to offer a broad range of consulting and analytical services.*

The flowchart is divided into two main sections: 'Sector Forecasting Methodology' (left, blue boxes) and 'Newbuilding Price Methodology' (right, green boxes). The process starts with 'Economic Assumptions' leading to 'Vessel Operating Costs' and 'Cargo Demand'. 'Cargo Demand' leads to 'Trading Efficiencies' and 'Supply Response'. 'Supply Response' leads to 'Contracting Volumes' and 'Fleet Availability'. 'Contracting Volumes' leads to 'Market Balances' and 'Shipbuilding Capacity'. 'Shipbuilding Capacity' leads to 'Market Balances'. 'Market Balances' leads to 'Secondhand Prices'. 'Secondhand Prices' leads to 'Valuations & MSI FMV'. 'Fleet Availability' leads to 'Secondhand Prices'. 'Shipyard Costs' leads to 'Newbuild Prices'. 'Newbuild Prices' leads to 'Secondhand Prices'.

```

graph TD
    subgraph "Sector Forecasting Methodology"
        EA[Economic Assumptions] --> VO[Cargo Demand  
(Consumption, Production, Trade Requirements)]
        EA --> VOC[Vessel Operating Costs]
        VO --> TE[Trading Efficiencies  
(Speed, Ports, Canals)]
        TE --> MB1[Market Balances  
(Employment Rate, Earnings)]
        MB1 --> SP[Secondhand Prices  
(by Benchmark Age)]
        SP --> VMSI[Valuations & MSI FMV]
    end

    subgraph "Newbuilding Price Methodology"
        RD[Replacement Demand  
(Fleet Age, Scrap Age, Regulatory Environment, Technical Obsolescence)]
        SC[Shipbuilding Capacity  
(Physical Capacity by Region, Productivity Growth)]
        CV[Contracting Volumes  
(Contracting Forecasts by Vessel Type and Size)]
        MB2[Market Balances  
(Orderbook, Shipyard, Forward Cover, Shipyard Utilisation Rate)]
        SHC[Shipyard Costs  
(Cost Index, FX Rates, Interest Rates, Inflation, Steel Price, Productivity)]
        NP[Newbuild Prices  
(Newbuilding Prices by Vessel Type and Size)]
    end

    VO --> SR[Supply Response  
(Contracting, Scrapping, etc)]
    SR --> CV
    SR --> FA[Fleet Availability  
(Deliveries, Casualties, Storage, etc)]
    CV --> RD
    CV --> MB2
    SC --> MB2
    MB2 --> NP
    SHC --> NP
    NP --> SP
    FA --> SP

```

**MSI dependent valuations are derived by applying a meta-analysis approach using:**

1. MSI's proprietary econometric modelling processes and algorithms developed over the last 25+ years
2. Vessel benchmarked and analysed in relation to MSI published timeseries data
3. Vessel directly compared to last done sales and current market intelligence on likely sale candidates and prices.

**MSI's valuation services include:**

- Certificated spot valuations
- Vessel forecasts (value, earnings, nb price and opex)
- Charter attached valuations
- Option price valuations
- Forecast value sensitivity and stress testing
- RVI support including soft value, forced value, recessionary value, cautious plausible value, 1 in 100 value etc.
- Historical value development and static age data
- Valuation briefing notes
- Valuation reports
- Expert witness/Expert testimony

**MSI is a member of:**

 **Baltic**  **Baltic Expert Witness**

1. How do the Company's assets and market position benchmark against MSI's forecasts?
2. Is there a clear strategic vision for the development of the business?
3. Does the market, customer and competitor analysis in the Business Plan align with MSI's assessment?
4. Does the market, customer and competitor analysis in the Business Plan align with MSI's assessment?
5. What external stakeholders will influence the business plan's success or failure?
6. Are the financial projections realistic considering MSI's forecasts?
7. What are the key enablers for success and where do the key risks and considerations lie?

- Based on the results of the analysis, MSI will review the Company's existing business plan to assess:
  - Viability relative to external market conditions
  - Feasibility based on the Company's likely ability to deliver upon it
- The review will focus on the following factors:
  - Market- related
  - Financial
  - Organisational structure
  - Office locations
  - Operating cost benchmarking
  - Overhead costs
  - Management team experience
  - Business development process
  - Opportunity red flag report

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