Shipyard Capacity Conundrum: What Next?

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Agenda

Shipyard Capacity Conundrum: What Next?

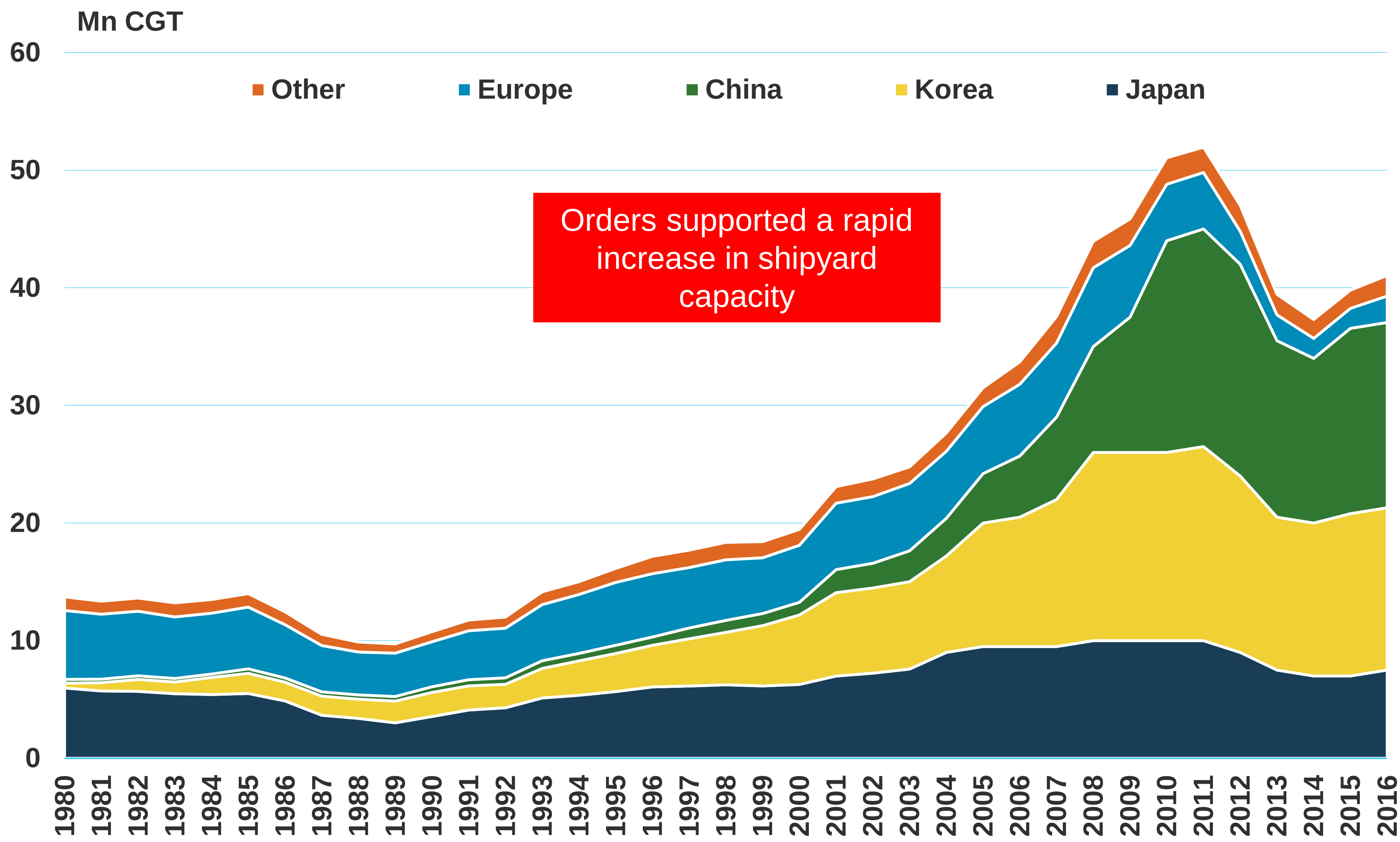
1. The ‘Issue’
2. Current Situation
3. Solutions
4. The Link
5. When does NB begin to make sense?

Shipyard Capacity Conundrum

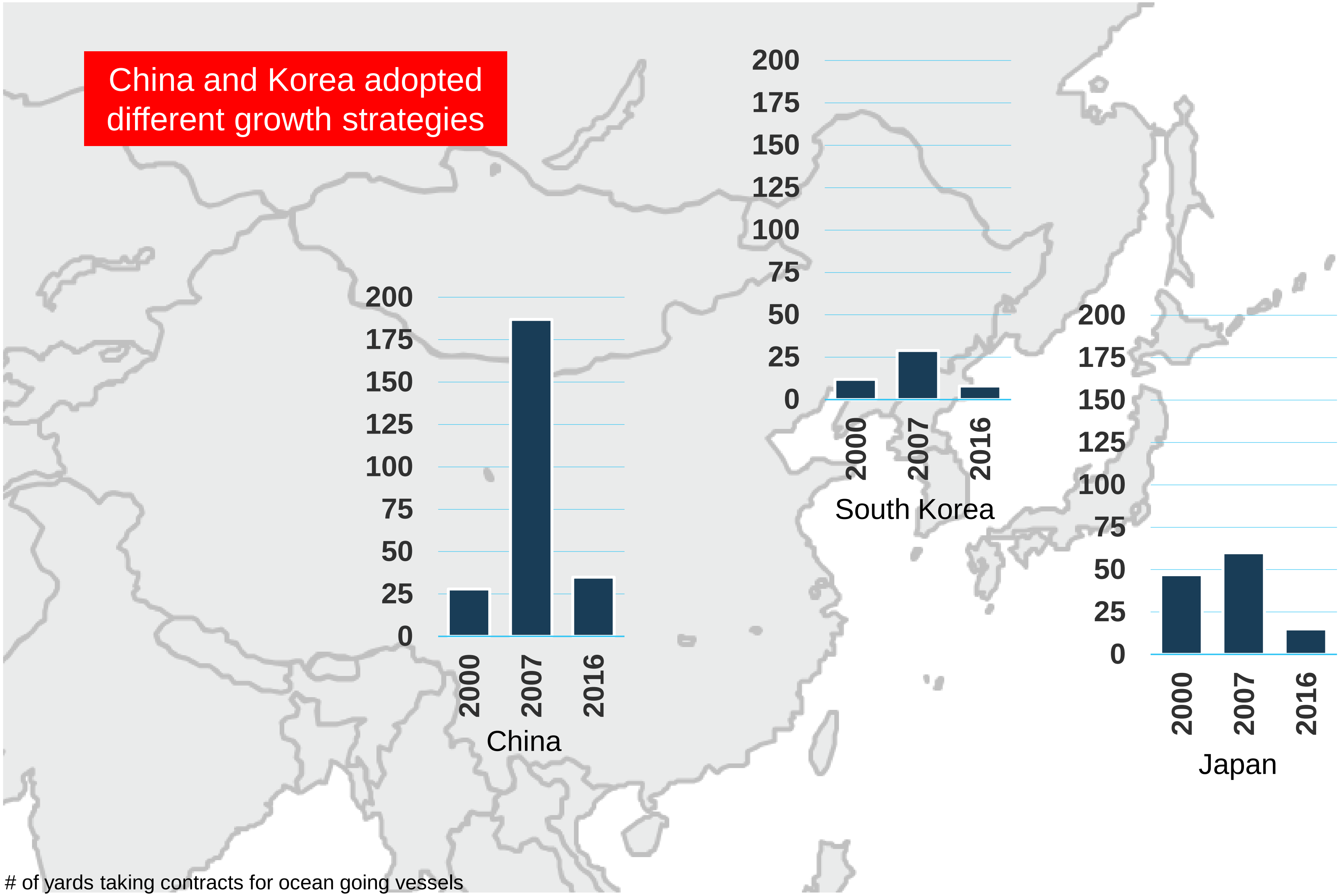
The ‘Issue’

Contracting Perfect Storm Timeline

Evolution of Effective Shipyard Capacity



Chinese Yard Proliferation



\# of yards taking contracts for ocean going vessels

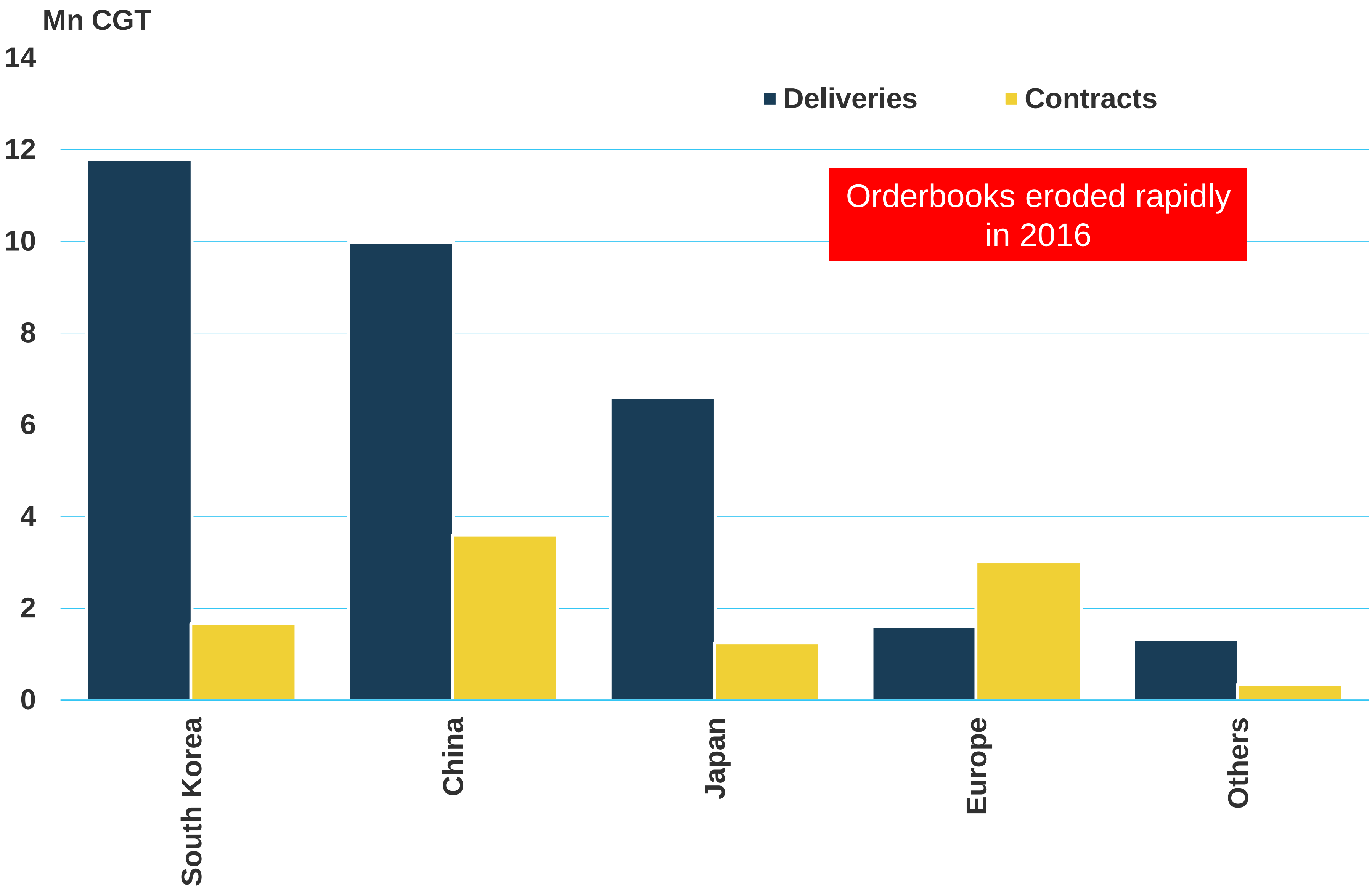
Shipyard Capacity Conundrum

Current Situation

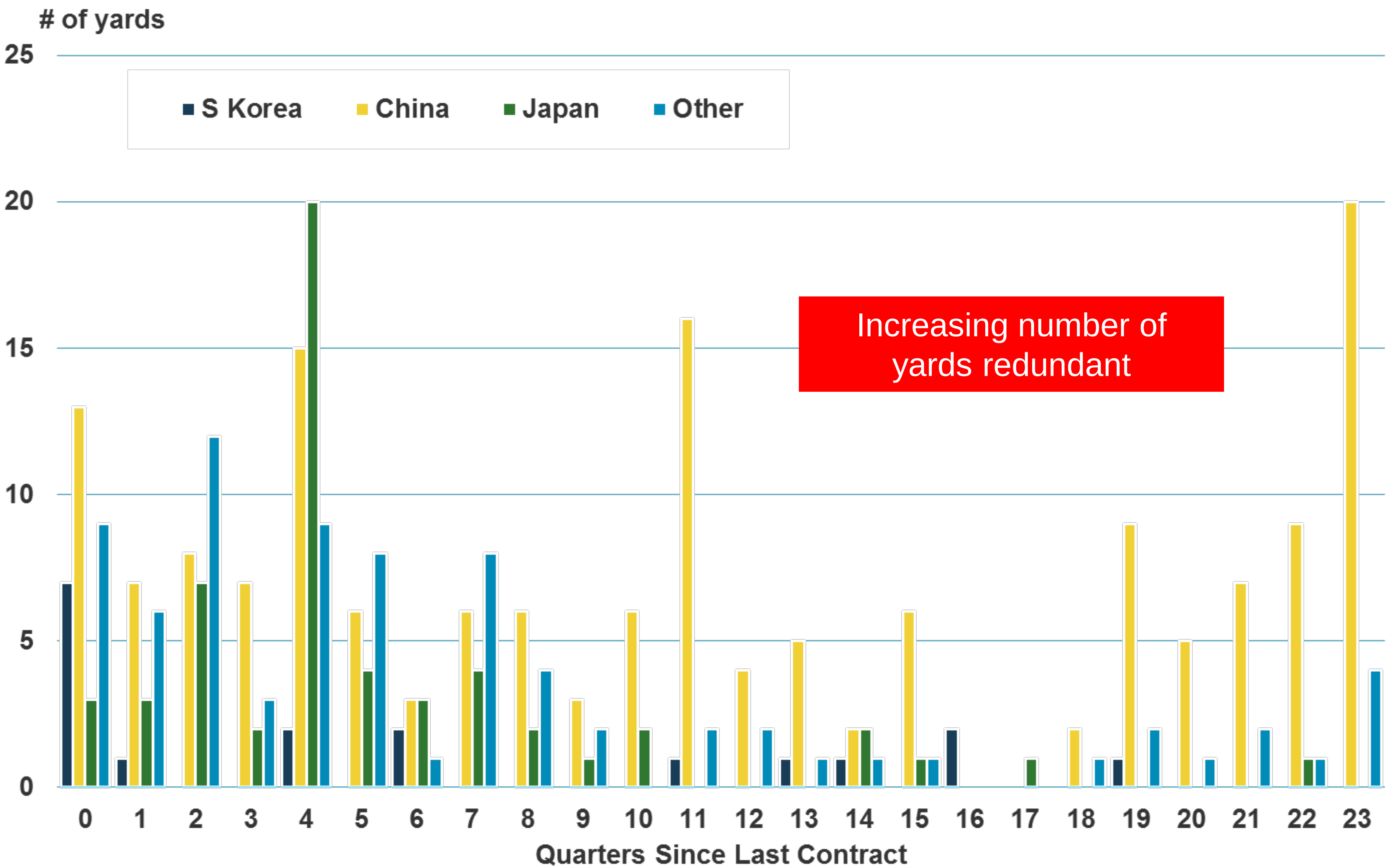
2016 Example
Bankruptcies & Restructurings

Year Reported	Shipyard	Country	Status
2016	Samsung Heavy Industries	South Korea	Self Restructuring
2016	STX Offshore & Shipbuilding	South Korea	Restructuring
2016	Zhong Chuan Heavy Industry Shipbuilding	China	Bankrupt
2016	DSME	South Korea	Self Restructuring
2016	Hyundai Heavy Industries	South Korea	Self Restructuring
2016	Sainty Marine Co.	China	Bankrupt
2016	Wuzhou Shipbuilding	China	Filed for bankruptcy
2016	Sinopacific Zhenjiang	China	Bankrupt
2016	Sinopacific Yangzhou Dayang	China	Restructuring
2016	Dung Quat Yard	Vietnam	Possible bankruptcy
2016	Qingdao Yangfan Shipbuilding	China	Bankrupt

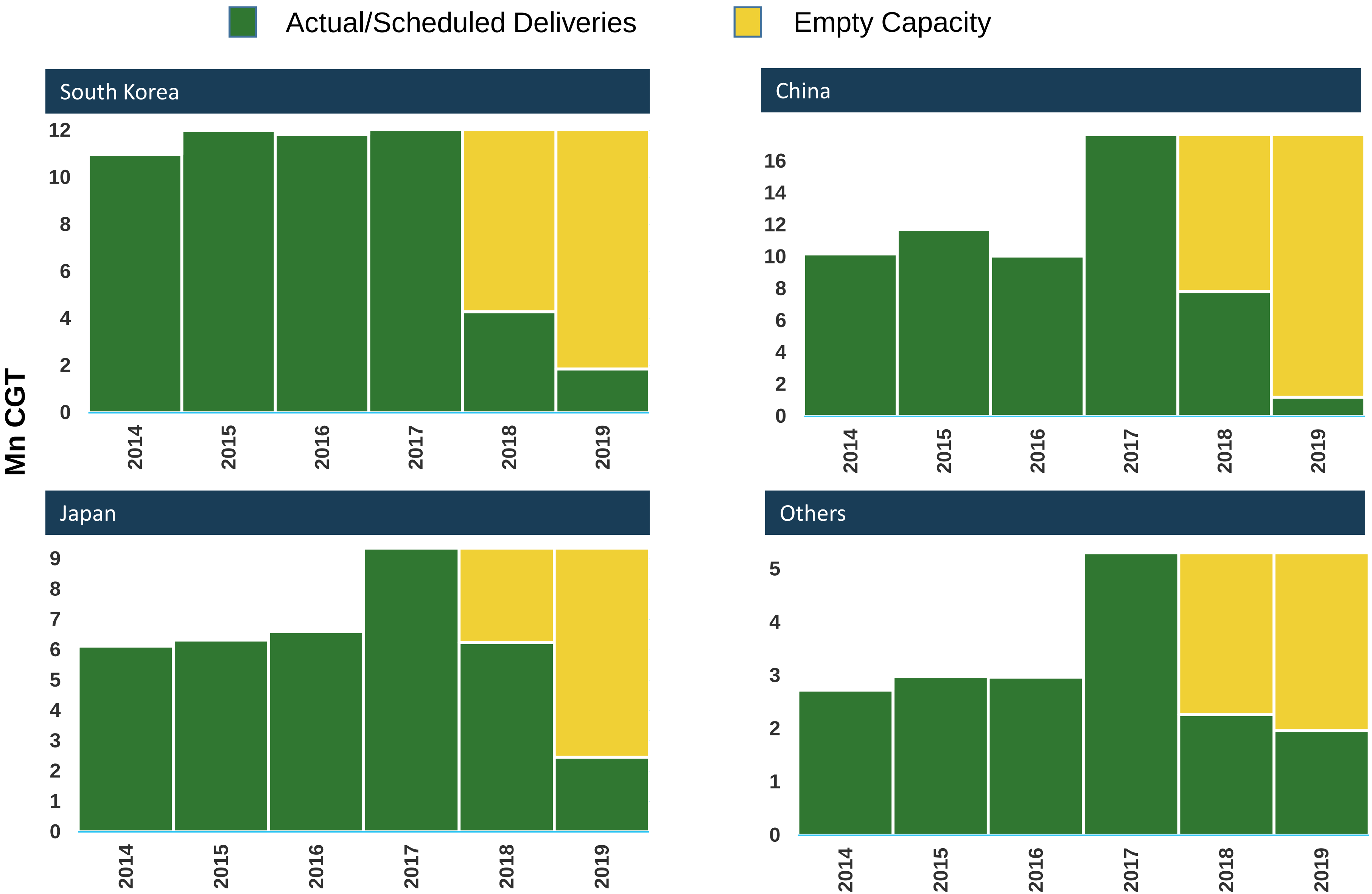
2016 Juxtaposition



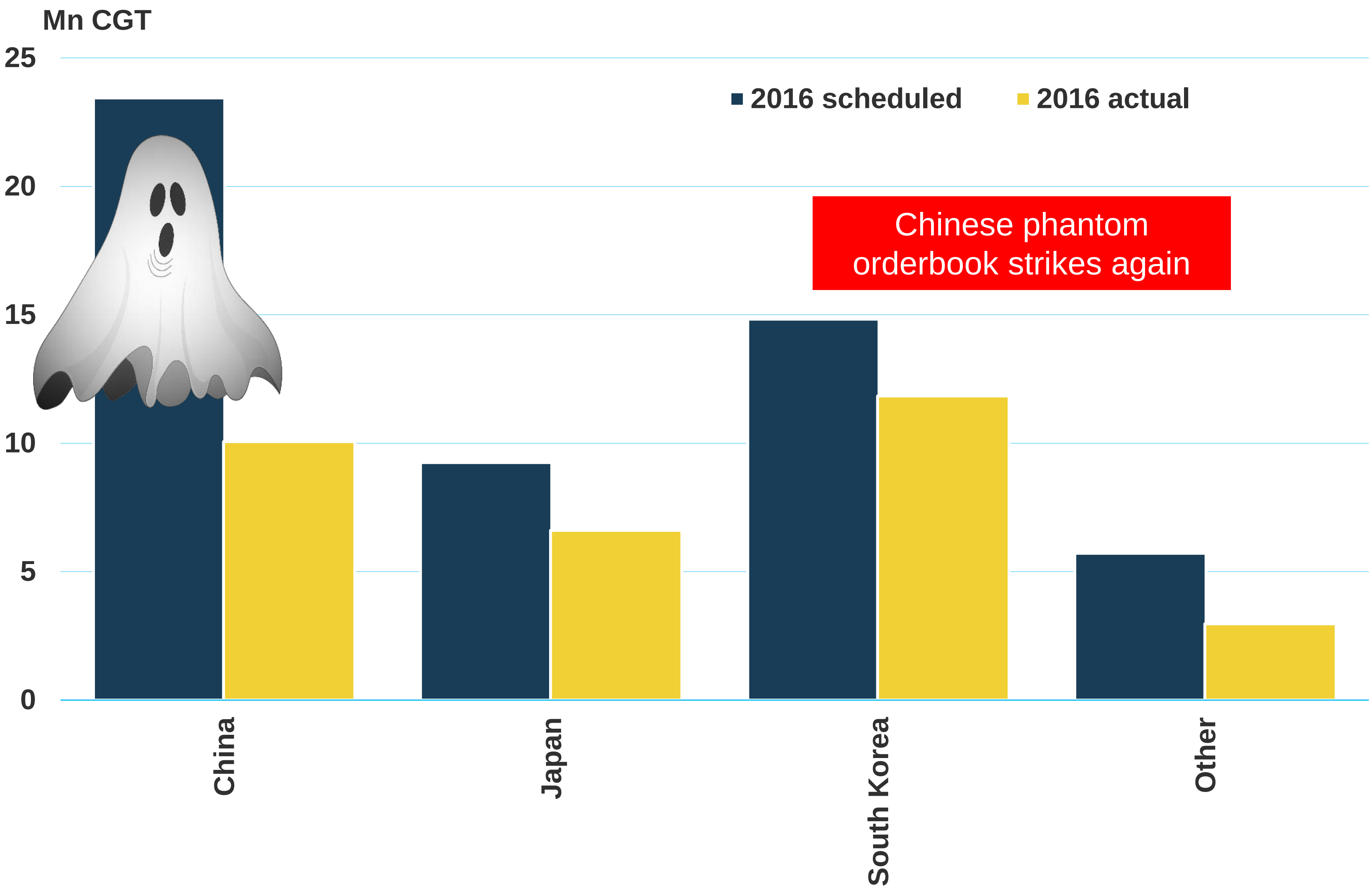
Quarters Since Last Order



Is there still an issue?

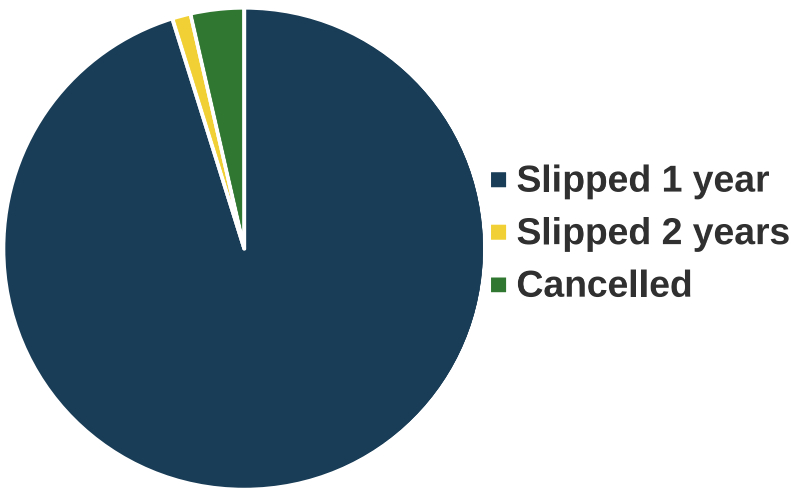


2016 – The Reality

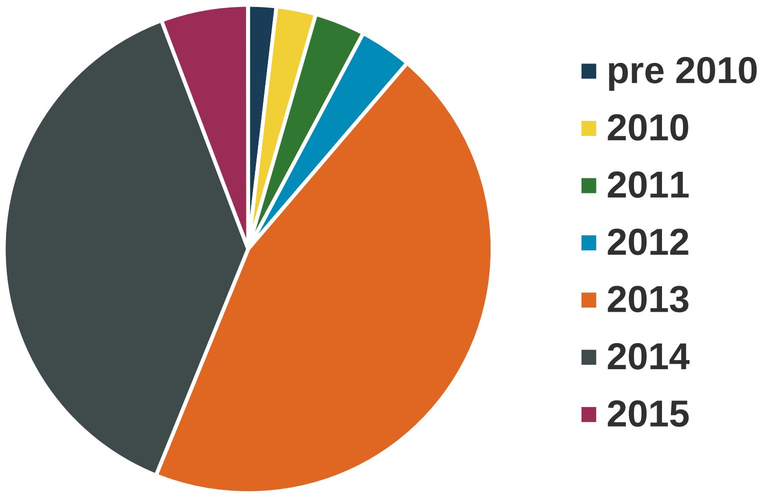


Phantoms – The Rationale Explanation

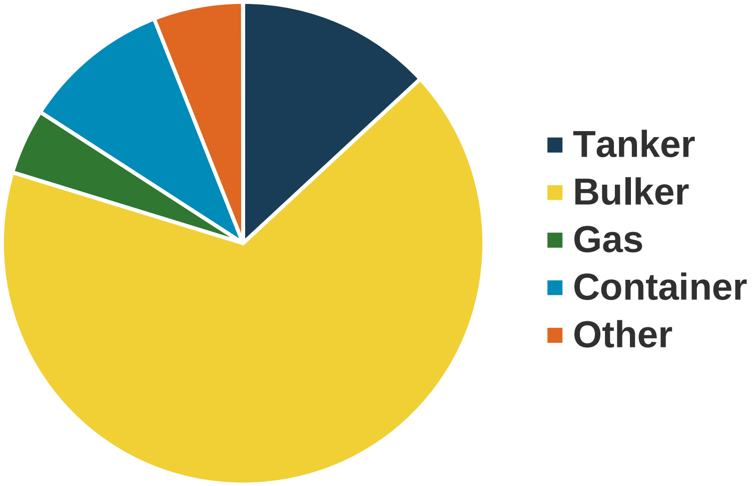
Fate of 2016 – Non Deliveries



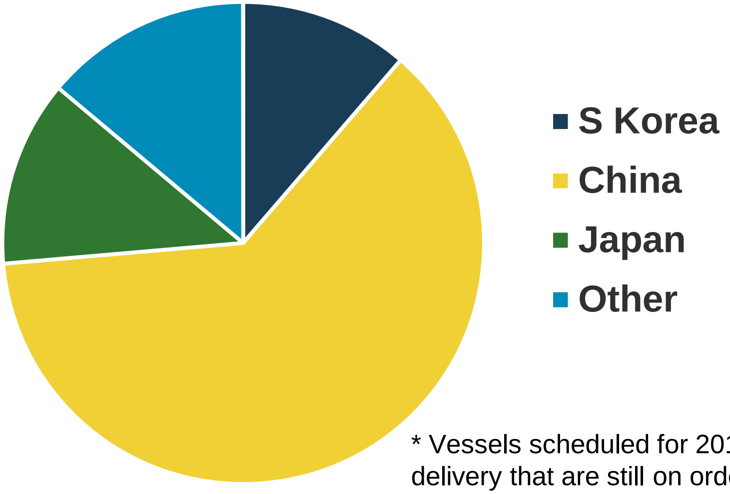
2016 Non Deliveries – Year of Contract



2016 Non Deliveries – Sectors to Blame

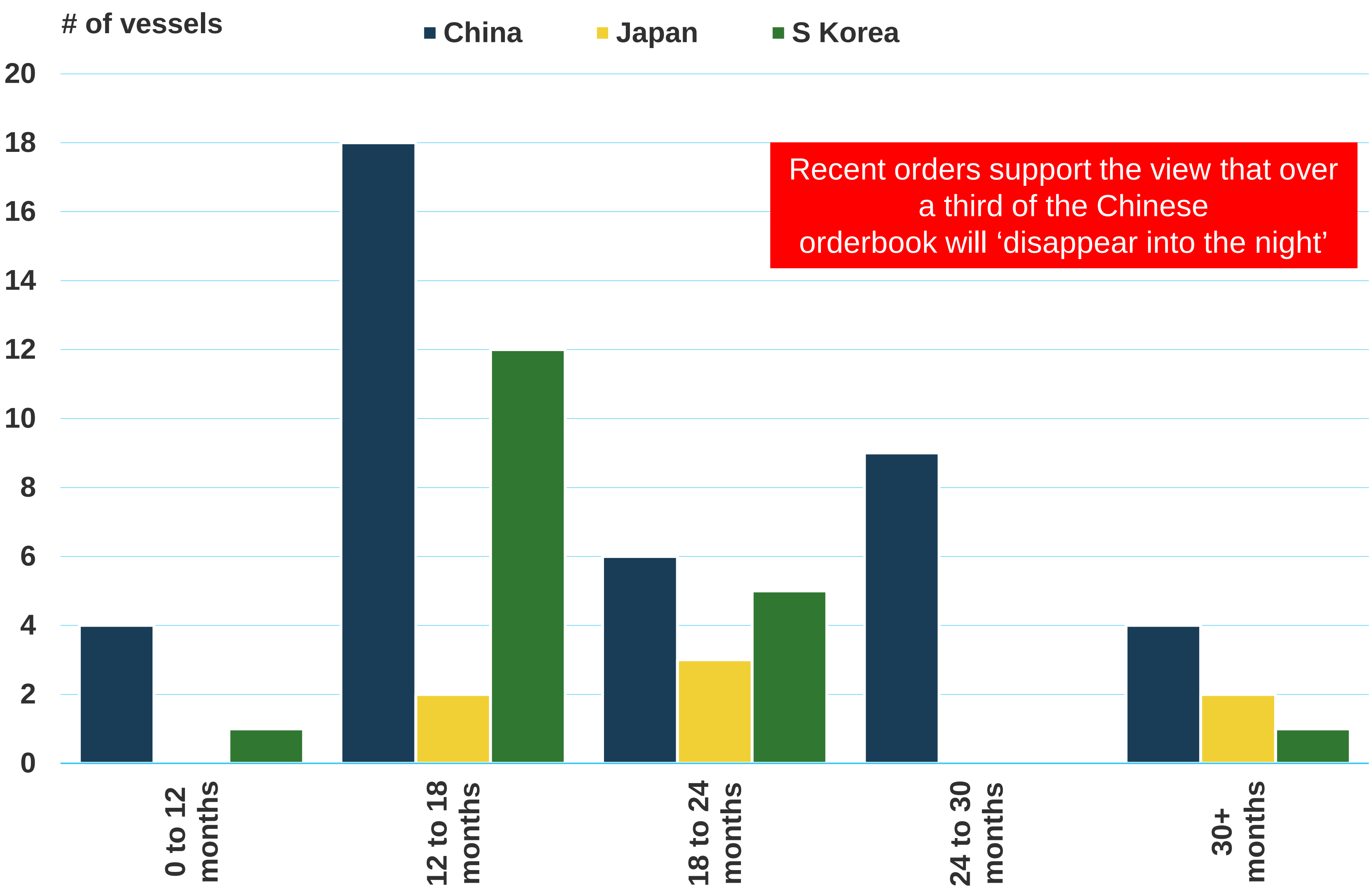


Reoccurring Nightmare – 2015*



* Vessels scheduled for 2015 delivery that are still on order

Q4 2016 Orders and Time to Delivery



Shipyard Capacity Conundrum

Solutions?

Contracting Drivers

Cargo Demand

Replacement Tonnage

Earnings

Obsolescence

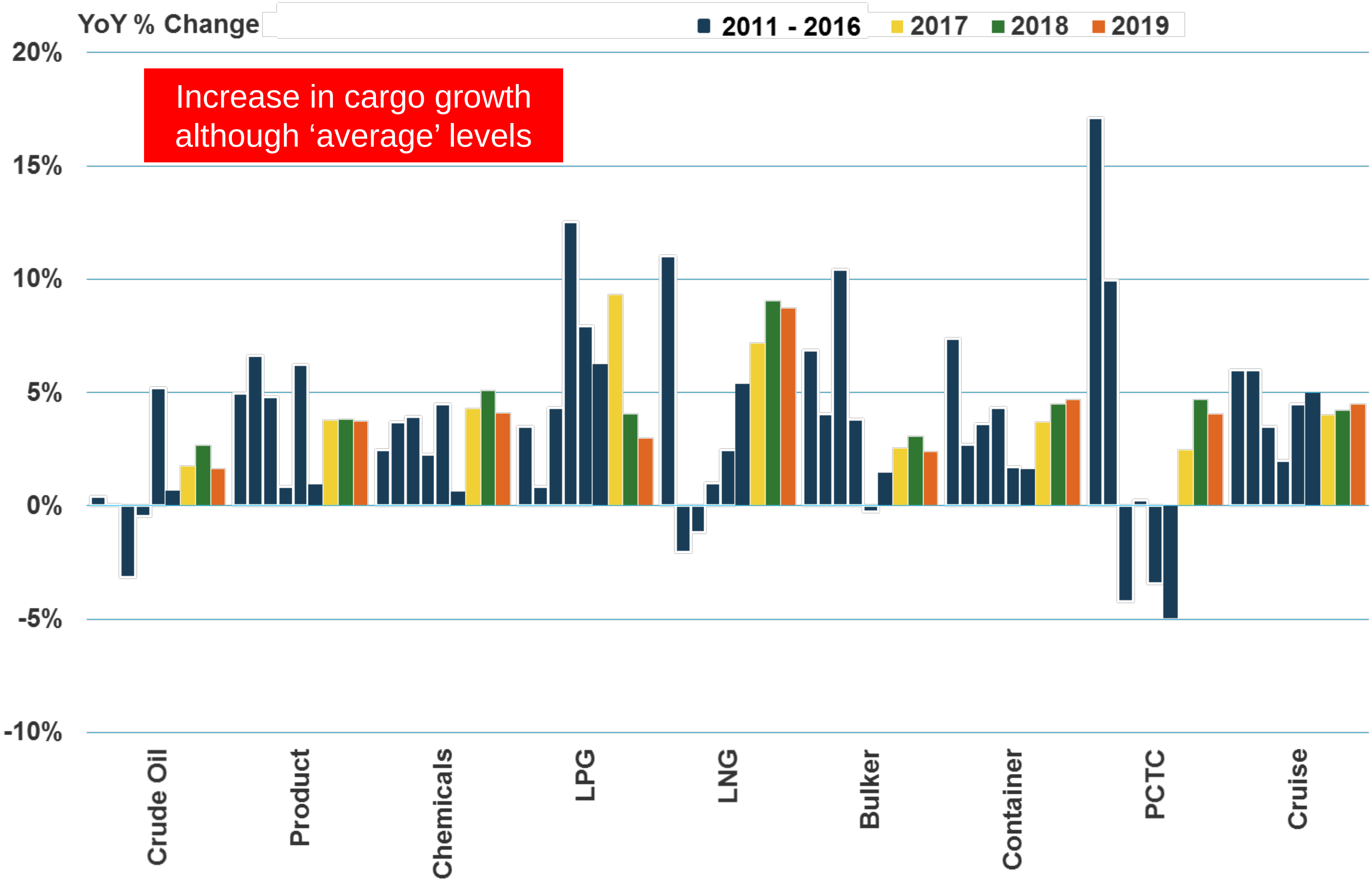
Herd Mentality

Market Insight

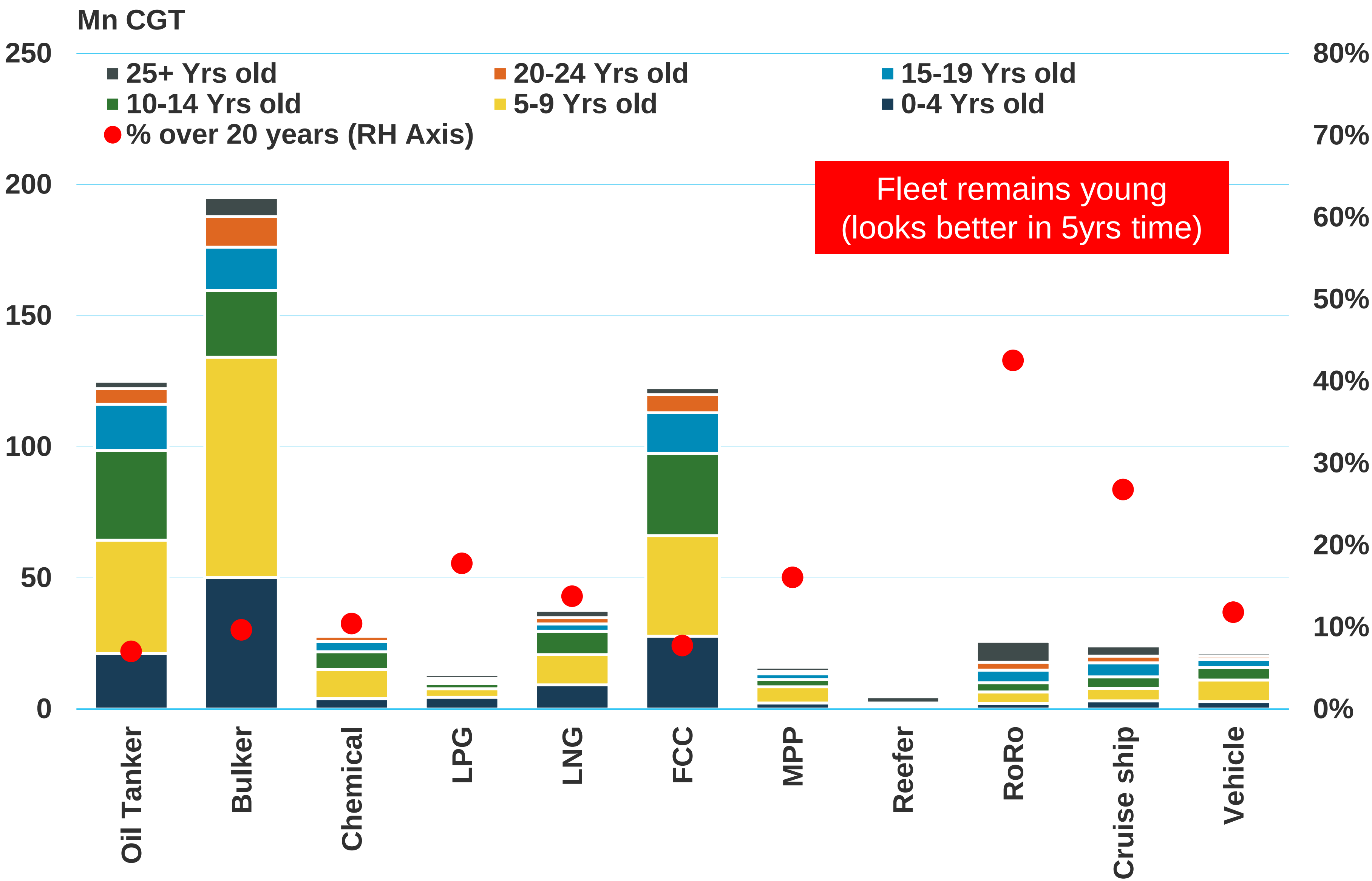
Calculated Strategy

Investment Thesis

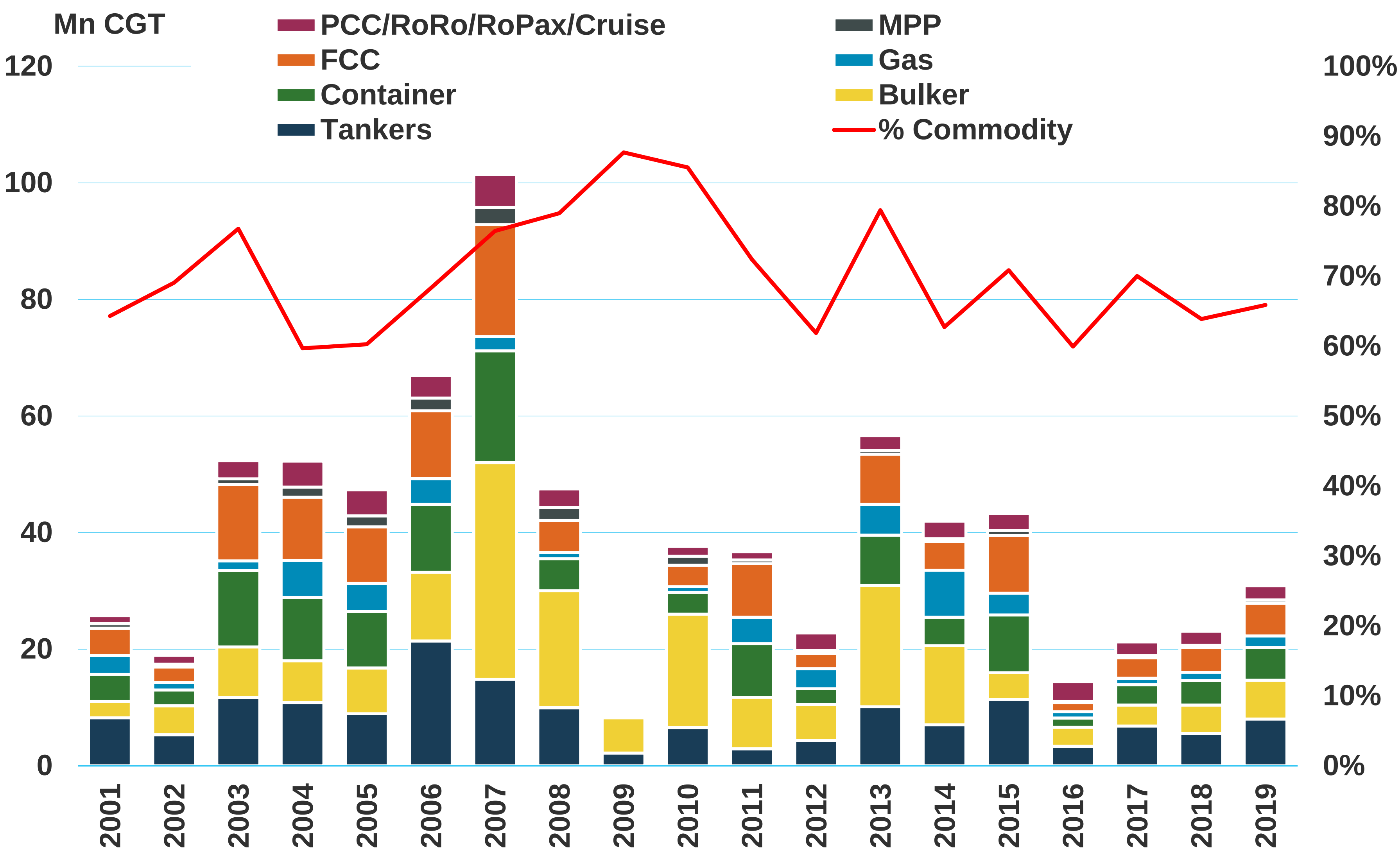
Cargo Growth



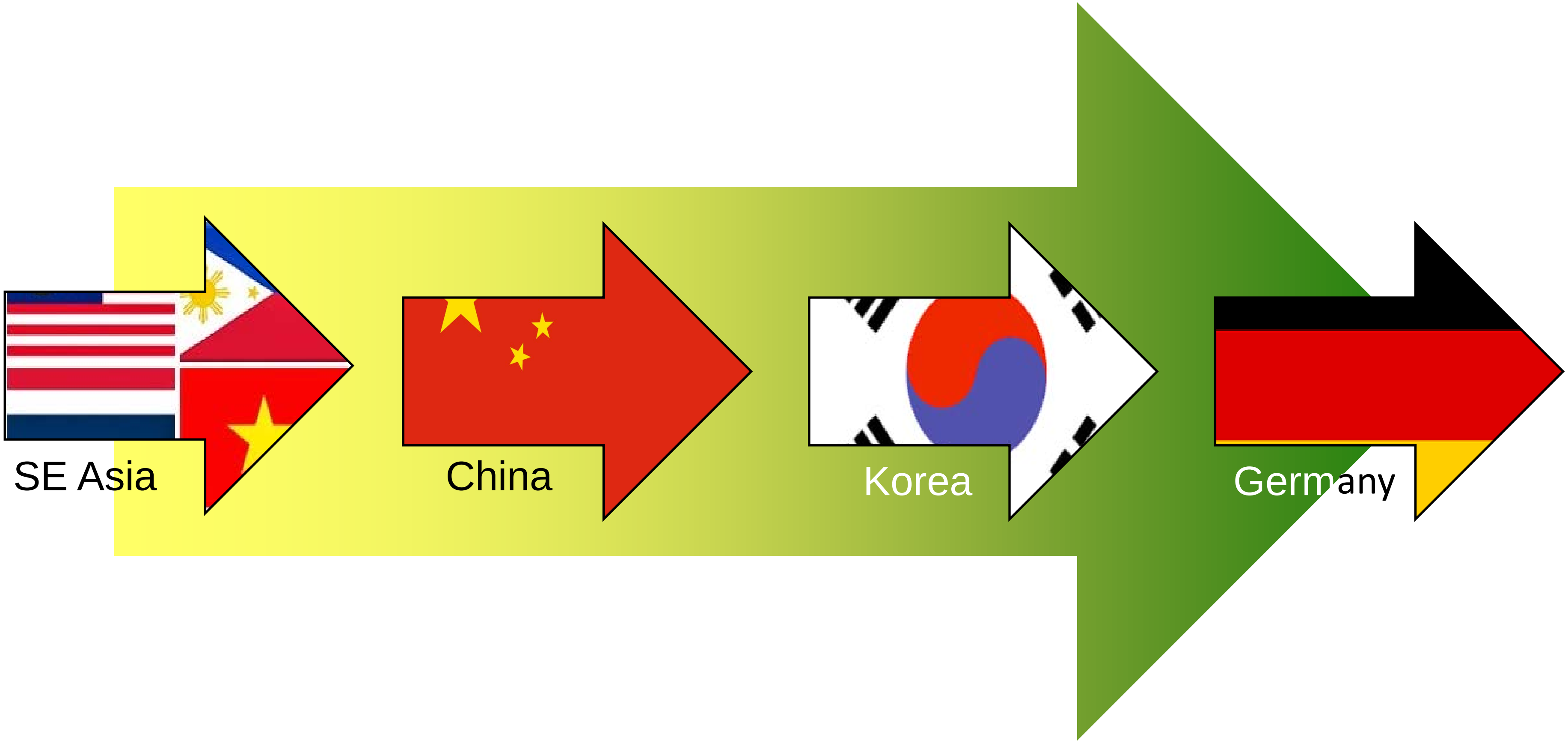
Replacement Tonnage



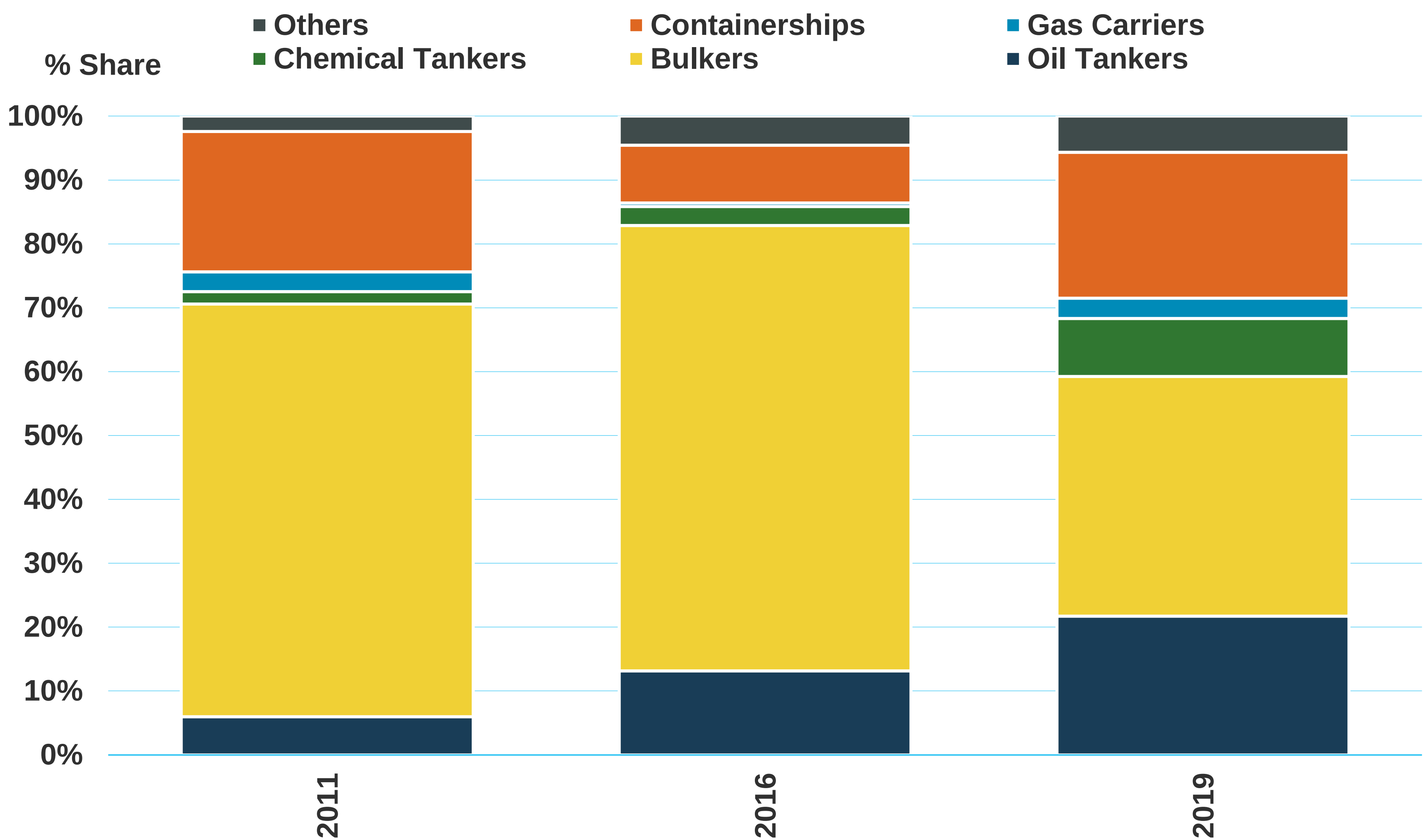
Contracting Forecast



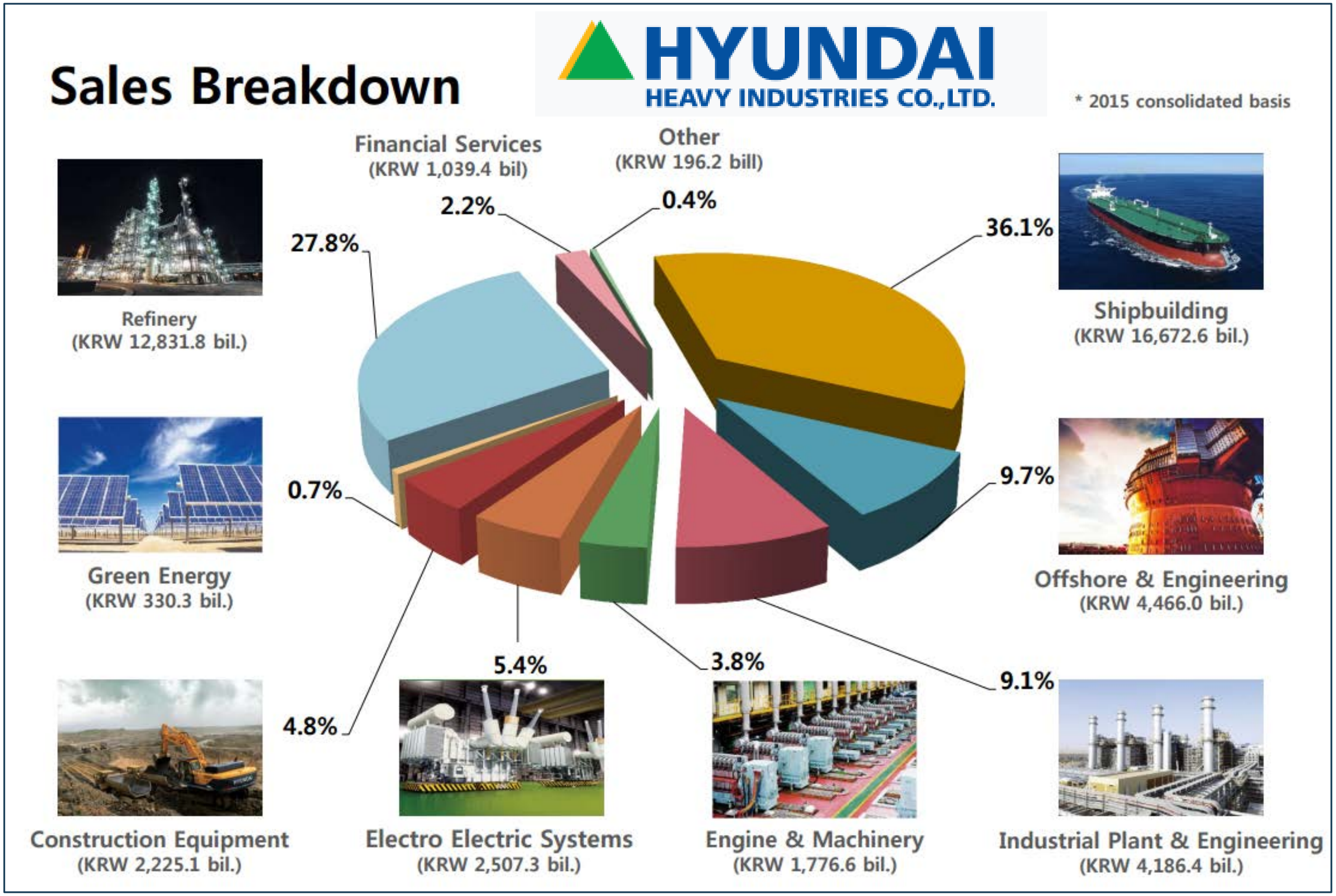
Business Model - Grass is Always Greener



China Shipyard Evolution- Contracting Share by Vessel Type



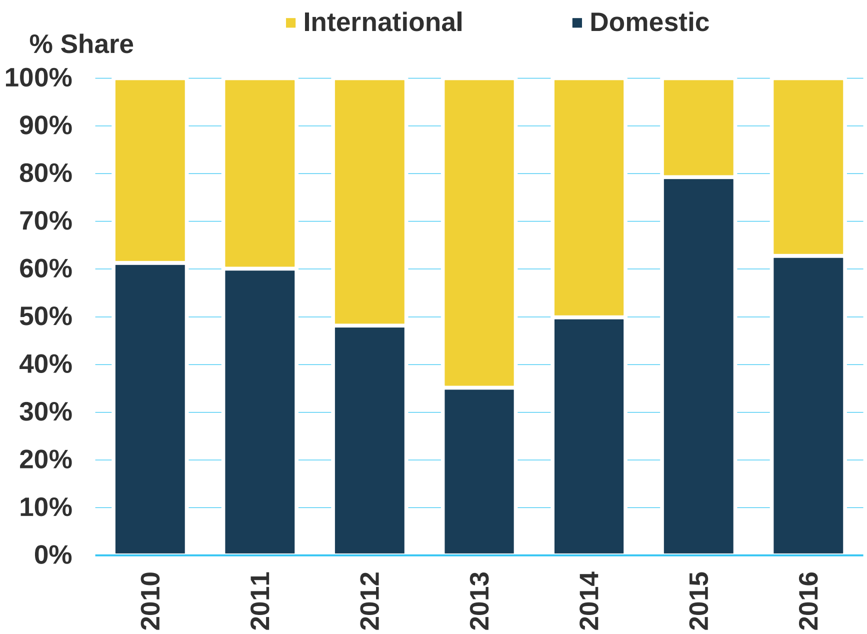
A Cog in a Larger Machine - Diversification



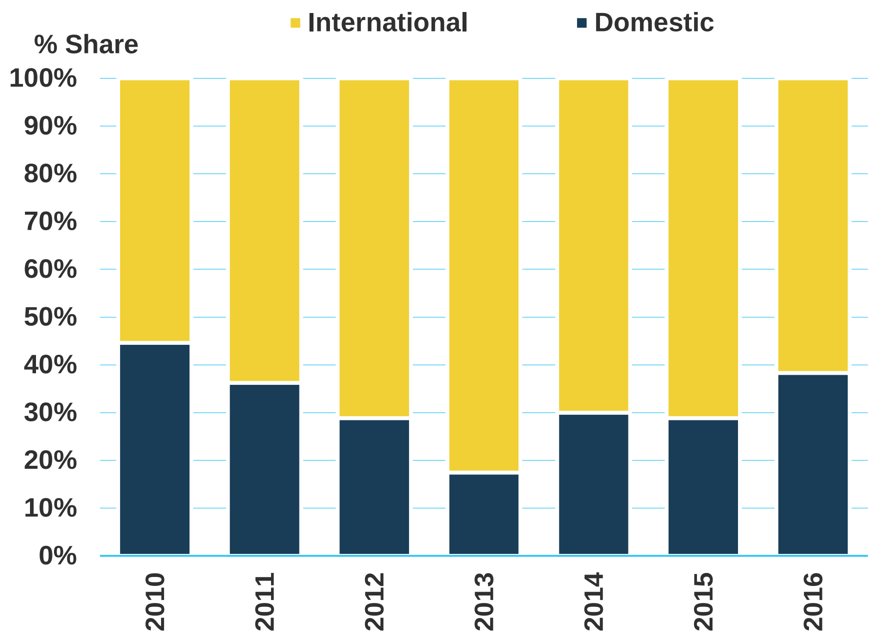
Source: Hyundai Heavy Industries I.R.

Domestic Ordering

Japan

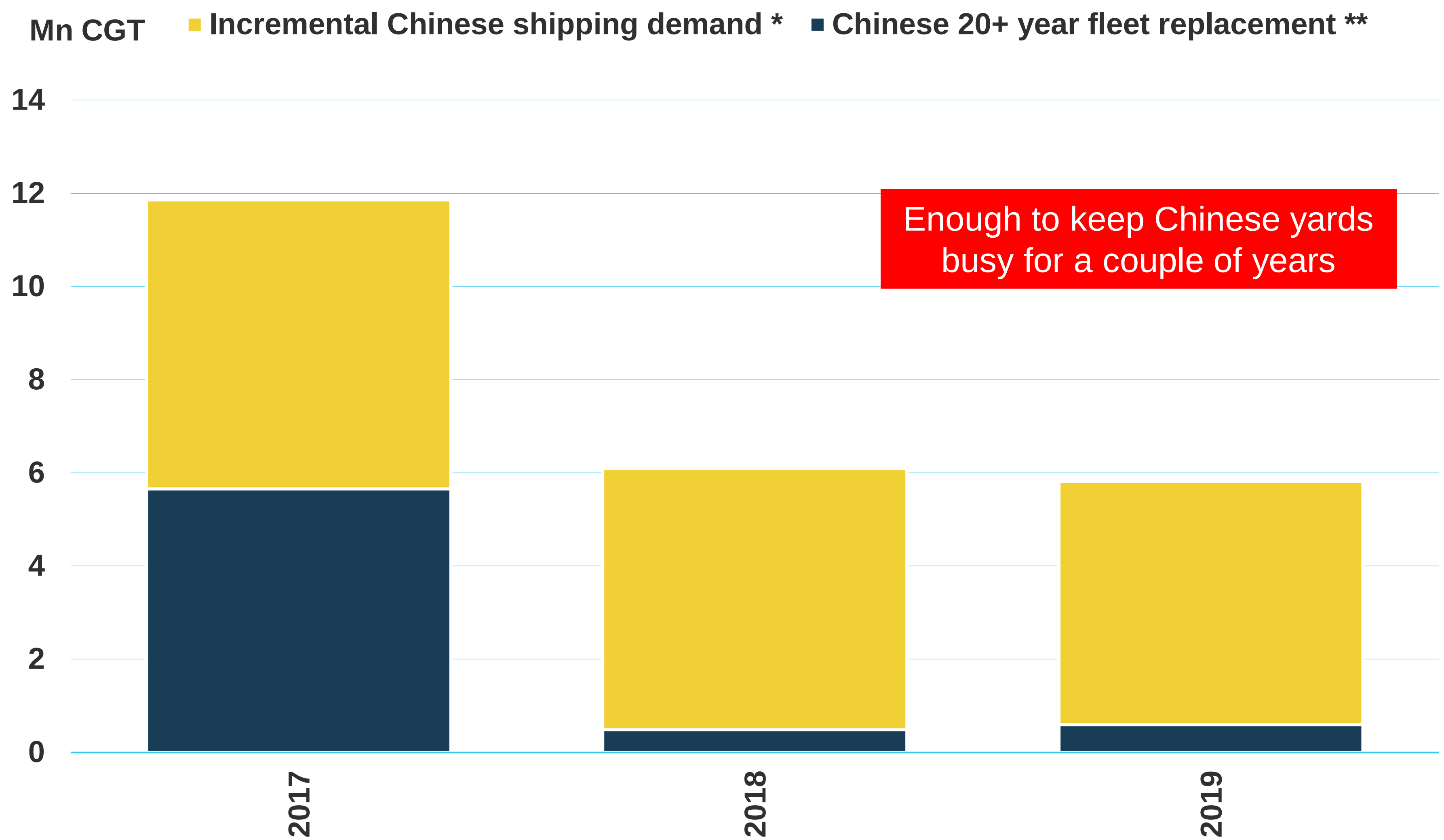


China



China cannot rely on domestic orders – unlike Japan

Chinese Shipyard - Extreme Self Help Scenario



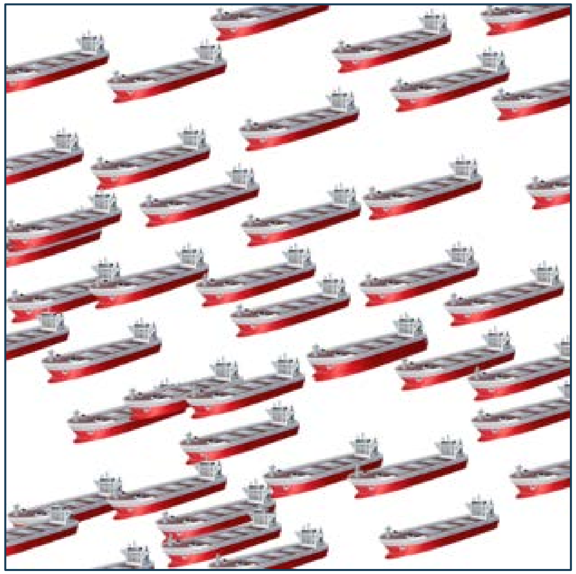
* Incremental demand taken from MSI's econometric models (tanker, bulker, container only) based on cargo moved translated into requirement for shipping
** Chinese 20+ year fleet assumes all Chinese vessels are scrapped once they are 20 years old and are replaced with new contracted tonnage

Shipyard Capacity Conundrum

The Link

Why’s it Important?

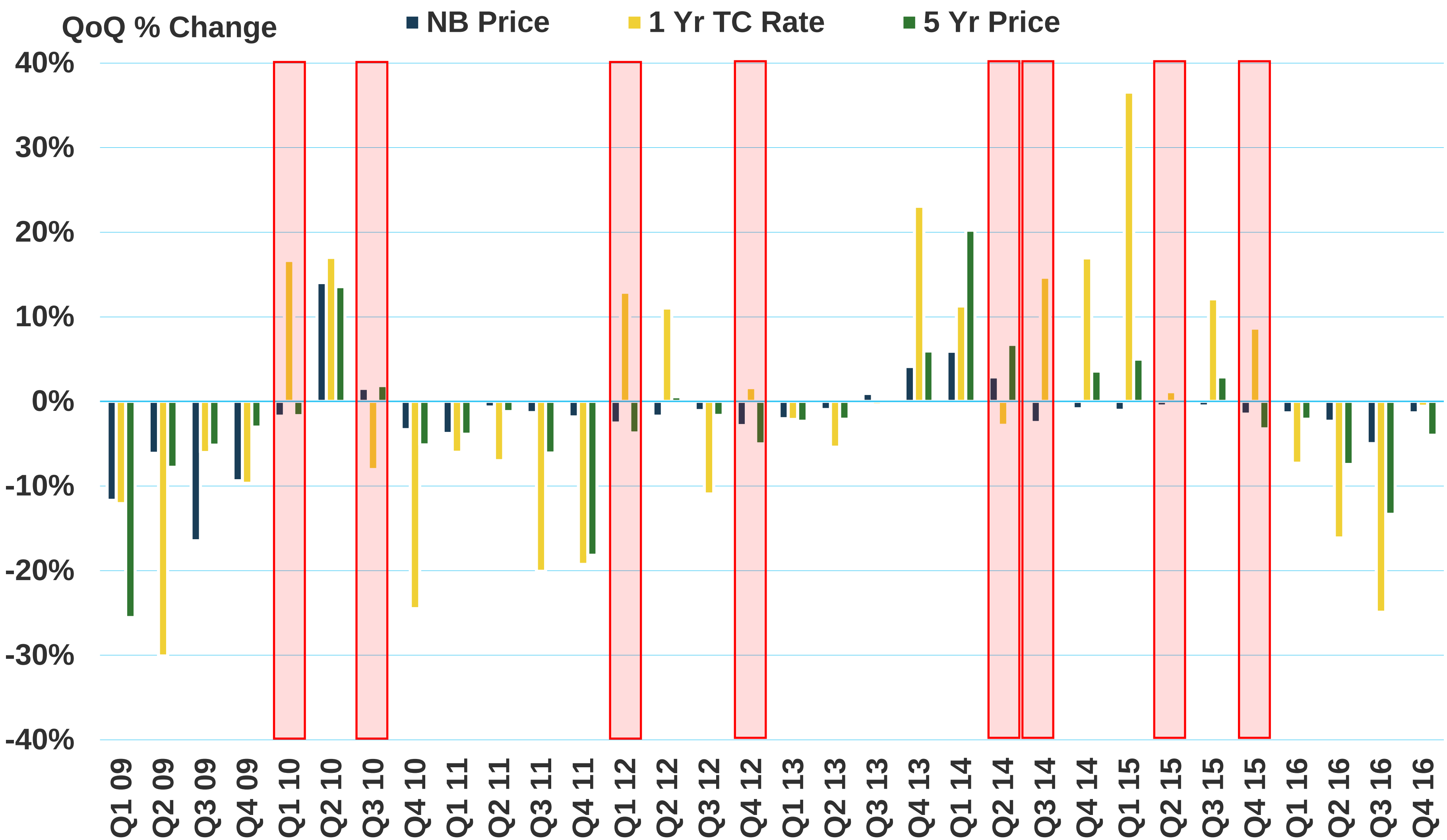
Newbuilding Prices part of the secondhand price jigsaw



Shipyard Capacity is no longer a limiting factor

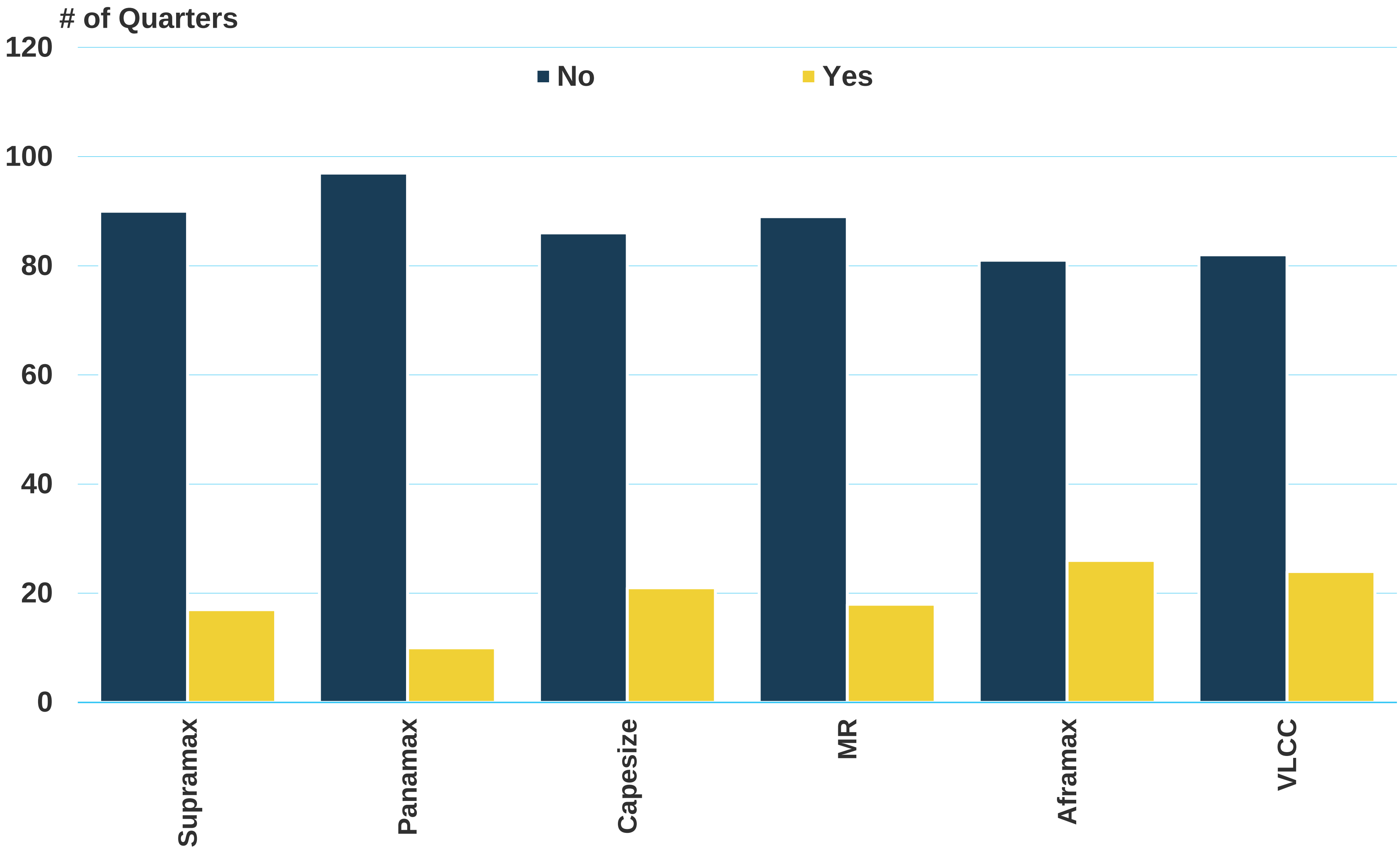
Directional Analysis

VLCC

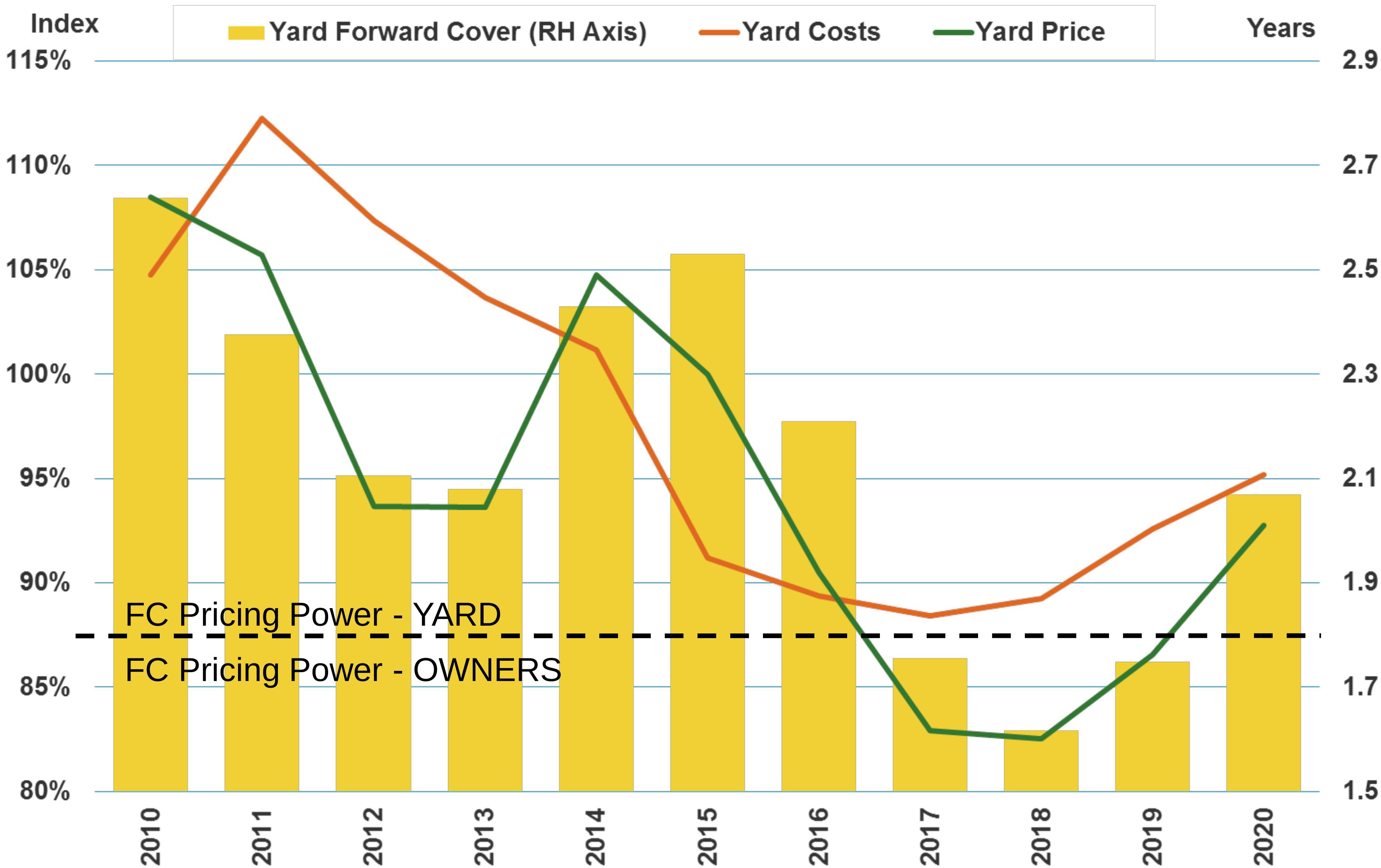


Quarters Where 2nd hand Price Moves with NB Price Only

Since 1990



NB Price Outlook

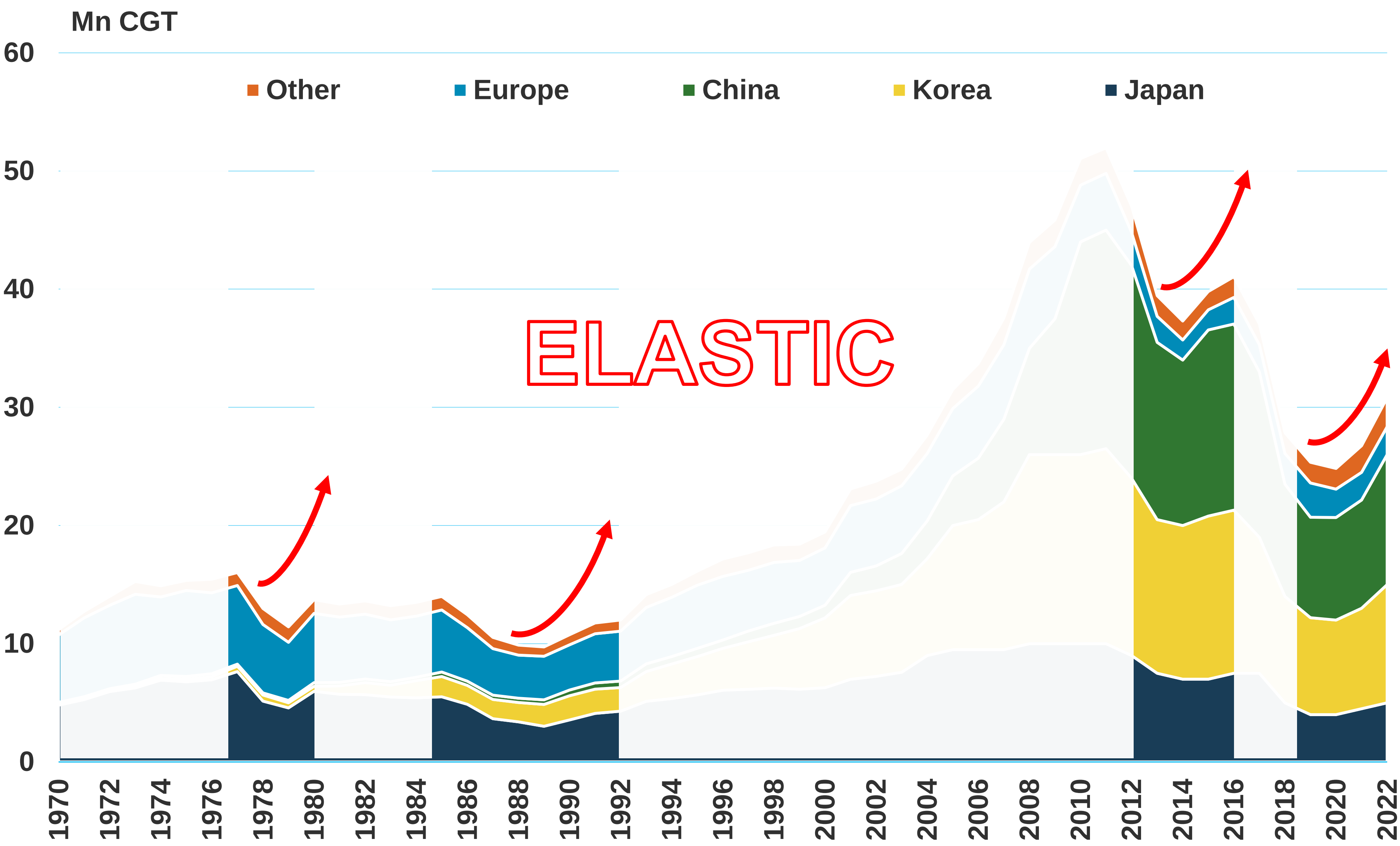


FC = forward cover

Yards Don’t Just Disappear

Source: Google Earth

Shipyard Elasticity



Shipyard Capacity Conundrum

When does NB begin to make sense?

- MSI Forecast Marine eValuator (FMV) is the first web-based tool to provide forecast and historical price data covering virtually all of the deepsea shipping fleet.

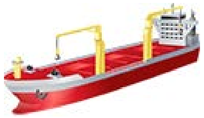
- Data includes forecasts of newbuilding, second-hand prices, 1 year timecharter rates and operating costs for specific vessels.

- MSI FMV draws on MSI's proven, proprietary models and a consistent cross-sectional view across all principal shipping sectors. It puts asset values in the context of the near term market to enable reliable benchmarking with outputs based on annual averages.

- Coverage:

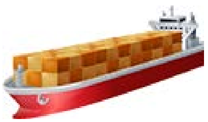

Crude Oil Tanker


Chemical Tanker


Multi Purpose


Product Oil Tanker

LPG Carrier


Containership


Dry Bulk Carrier

LNG Carrier

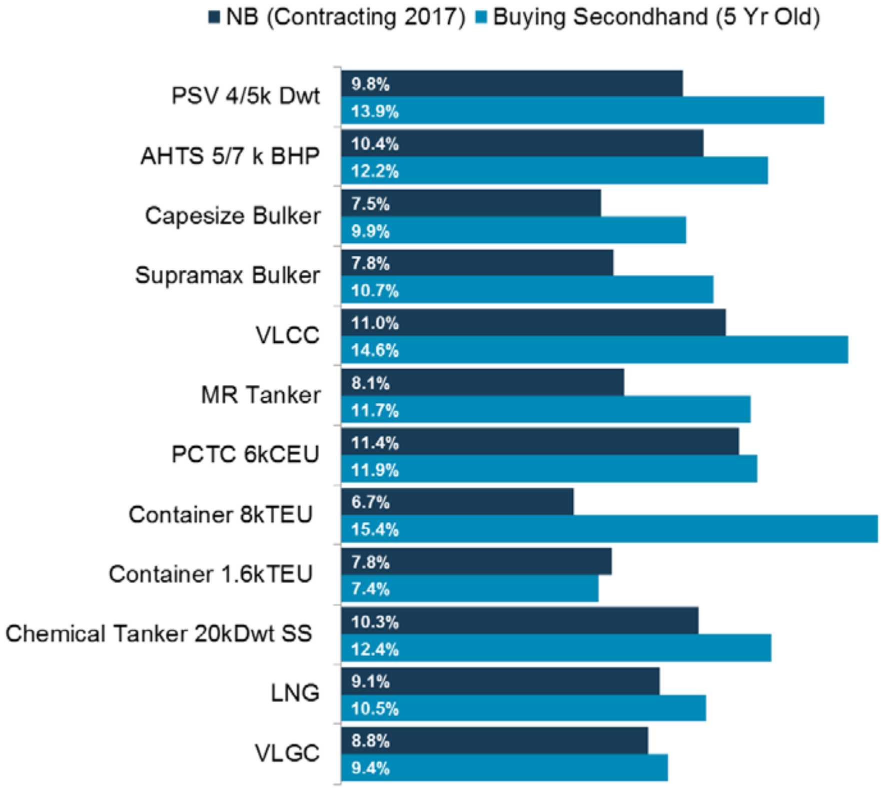

PCC/PCTC

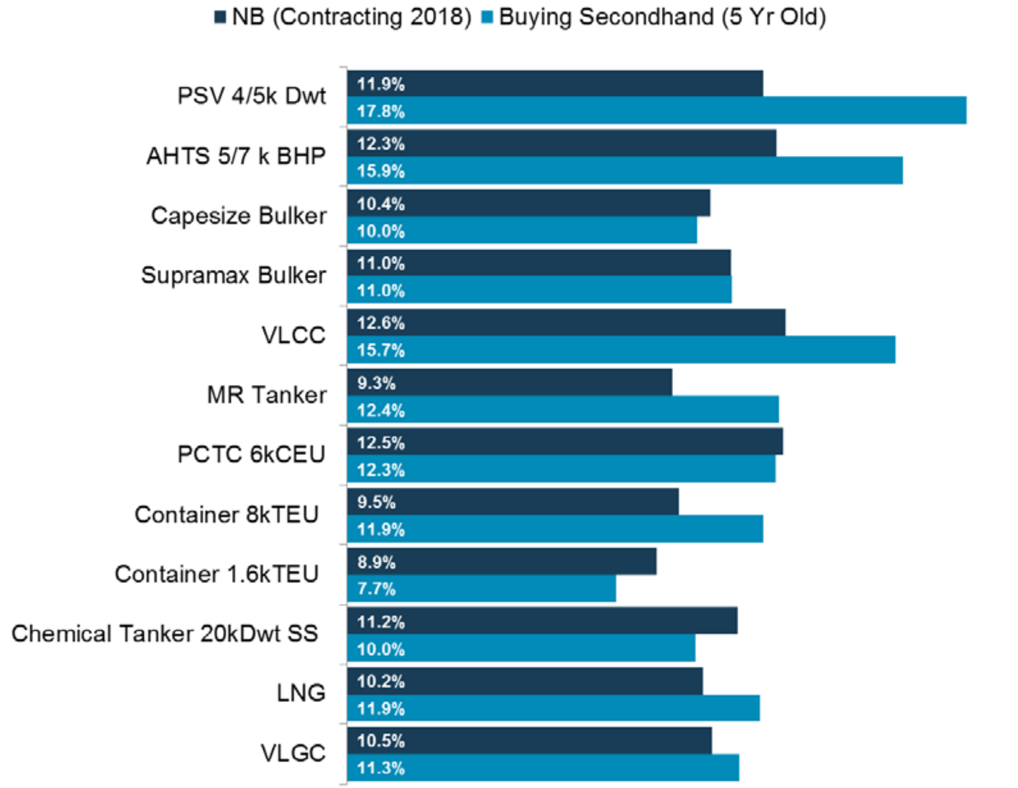

AHTS

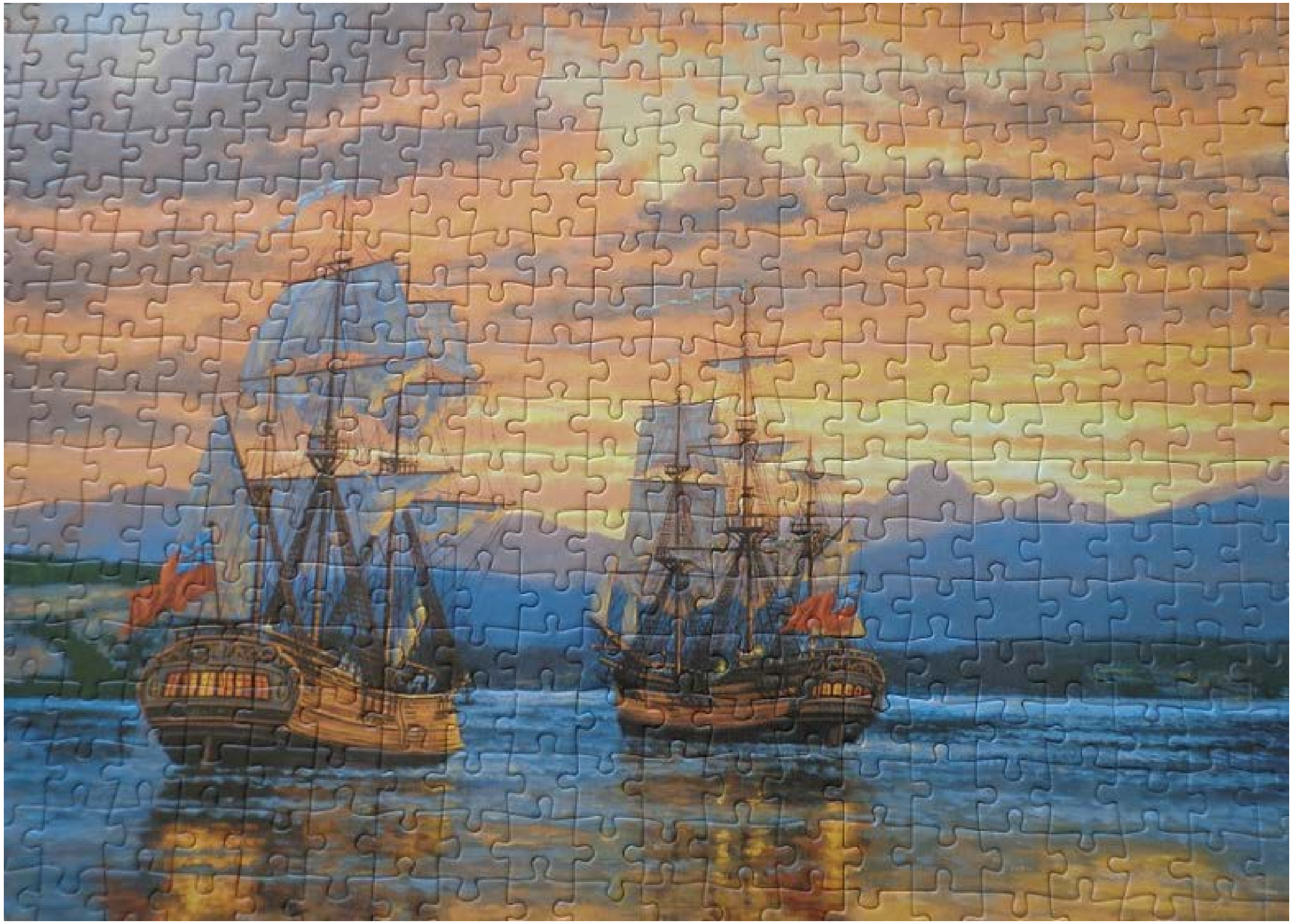
www.msiltd.com/fmv


PSV

IRR - NB versus Modern Tonnage







Thank you for listening

MSI Background

For over 30 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 is staffed by economists and scientists offering a structured quantitative perspective to shipping analysis combined with a wide range of industry experience.

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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