



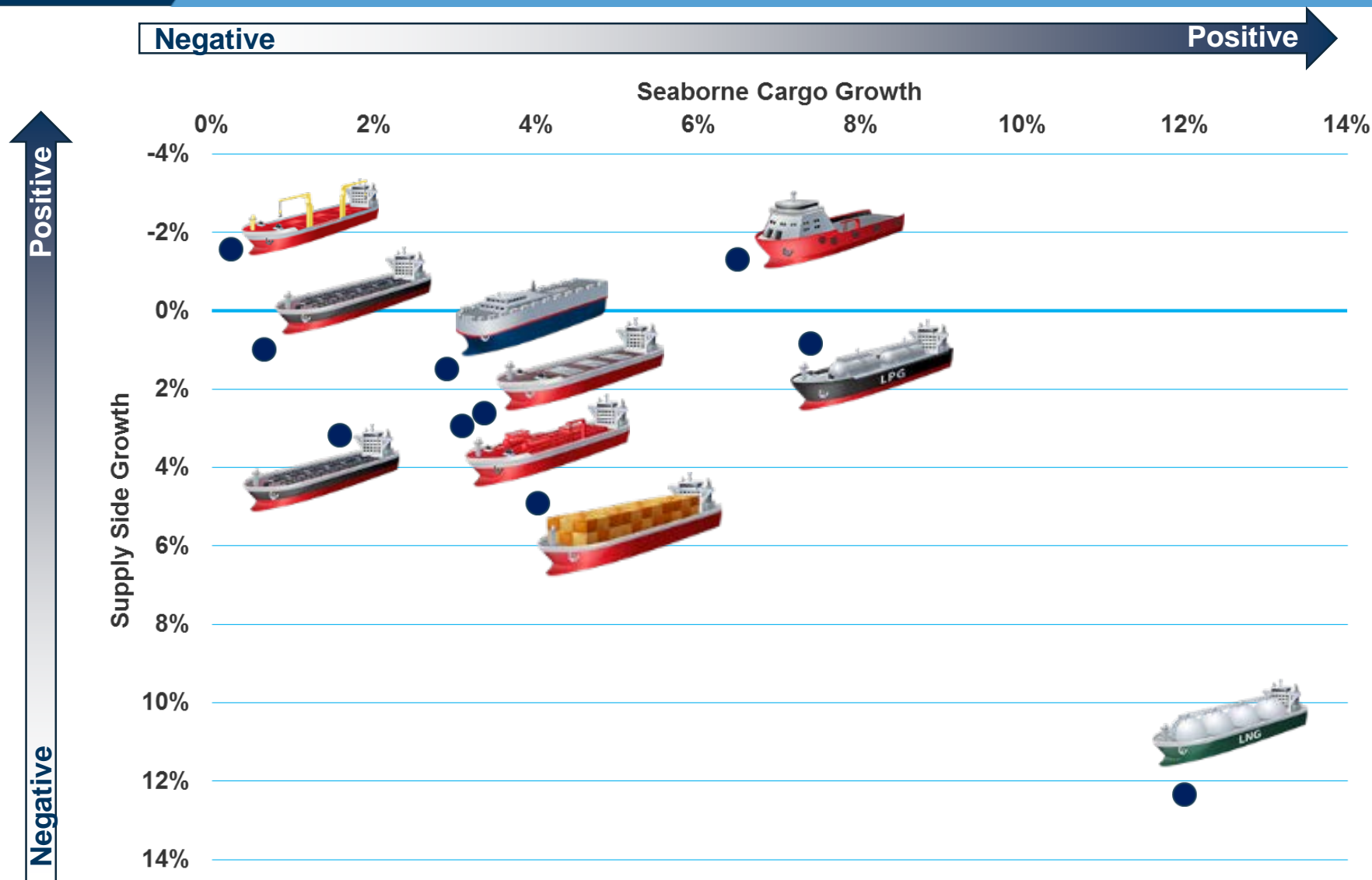
Roads to Riches or Ruin – which direction next?

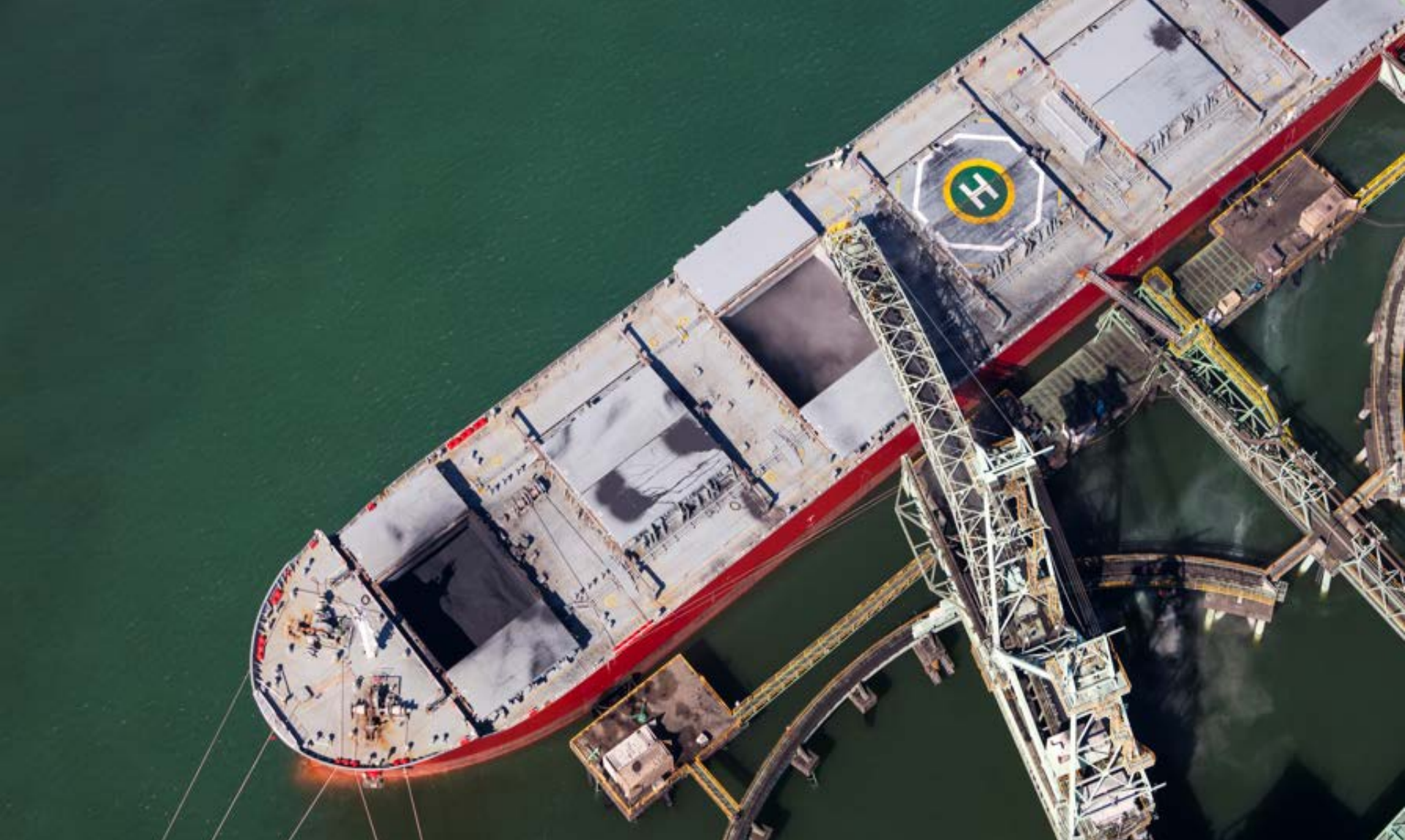
Dr Adam Kent - Maritime Strategies International (MSI)
10th Annual Marine Money London Forum – 23rd Jan 2019



Roads to Riches or Ruin – which direction next?

- 
- A large red-bordered white triangle is centered over a road that splits into two directions. The triangle contains a list of five items. The background shows a black asphalt road with white dashed lines, curving to the left and right, set against a green grassy field and a blue sky with white clouds.
1. Demand
 2. Supply
 3. Earnings
 4. Prices
 5. Which Way To Go?





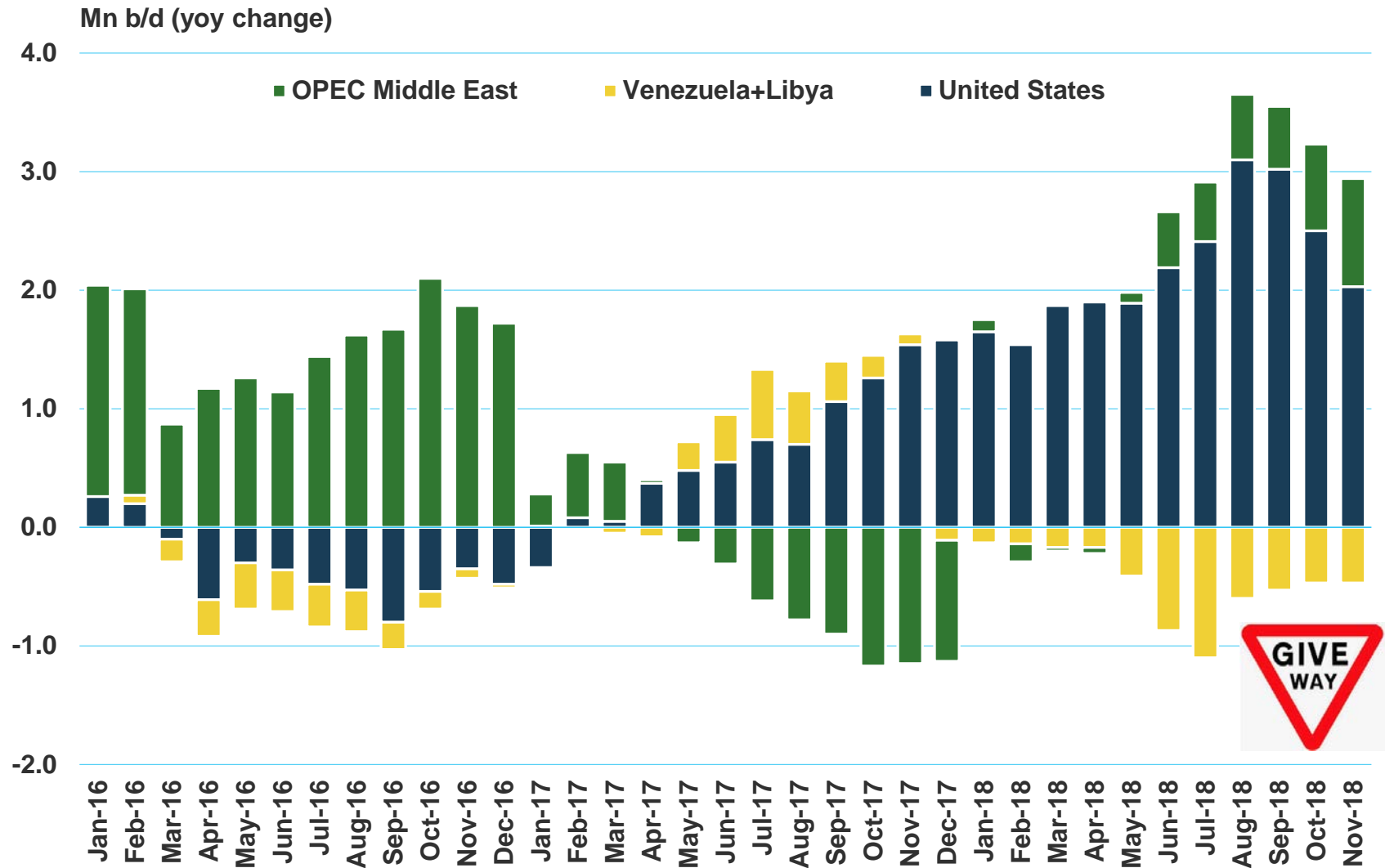
Demand

Riches or Ruin



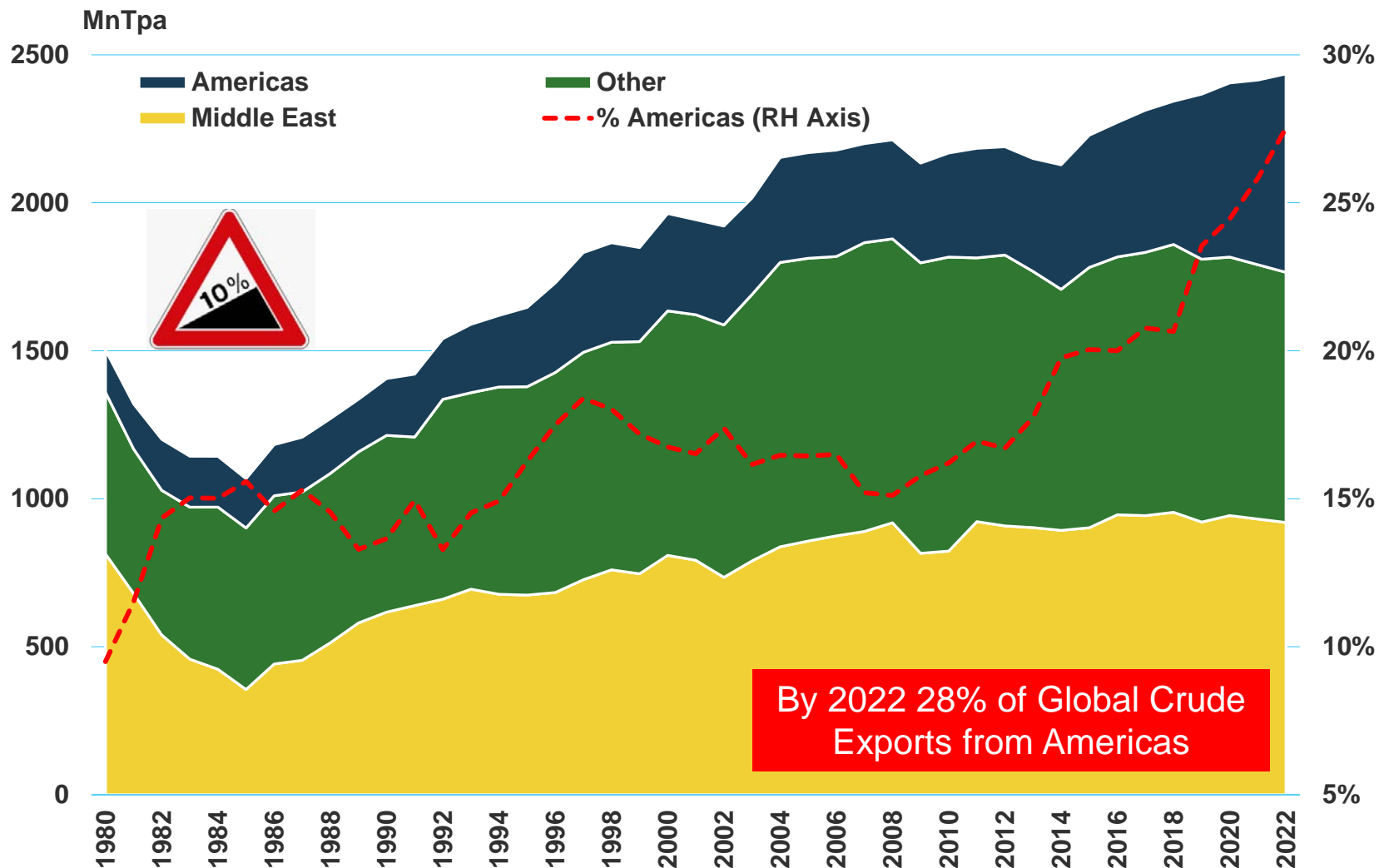


Production Changes



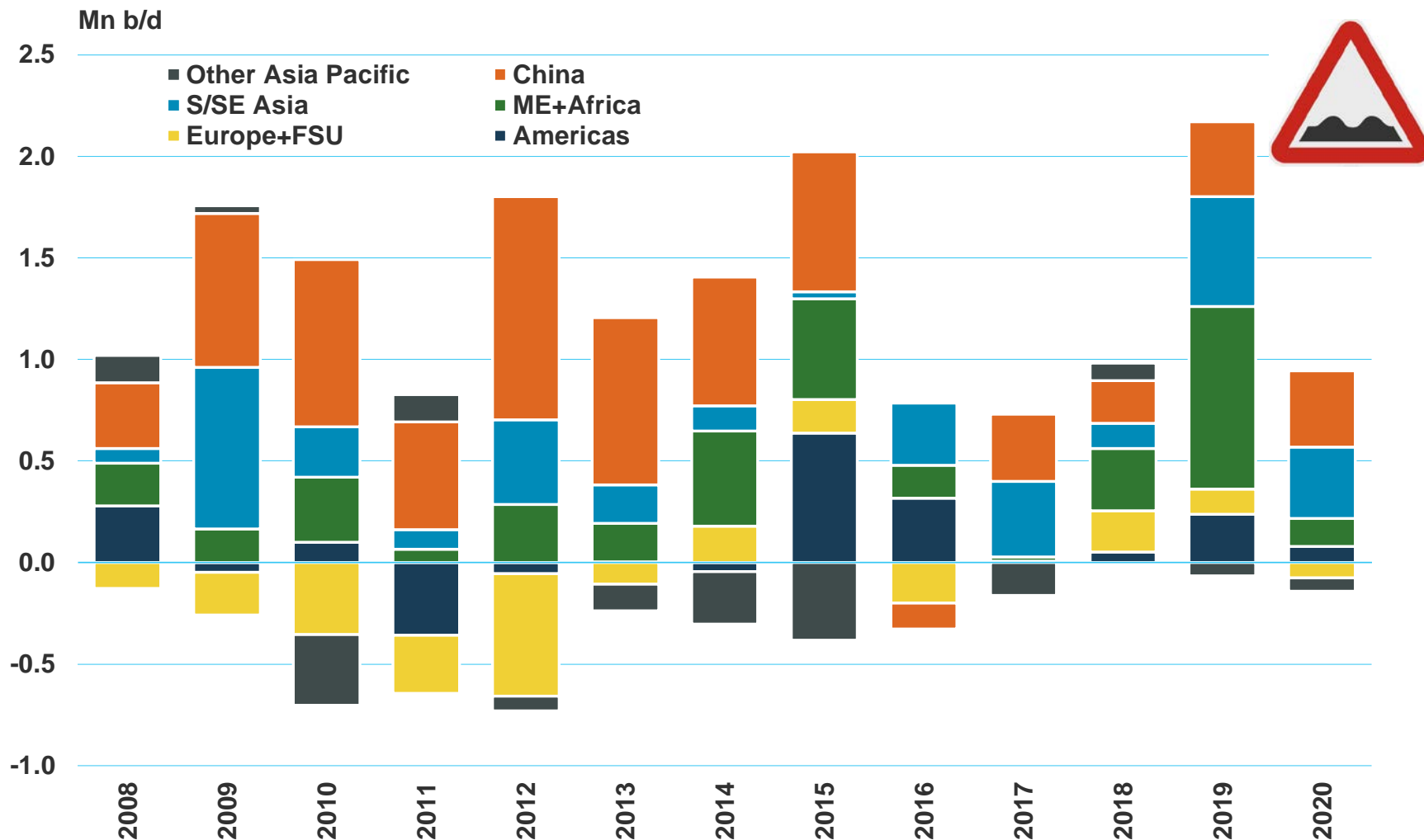


Global Crude Exports



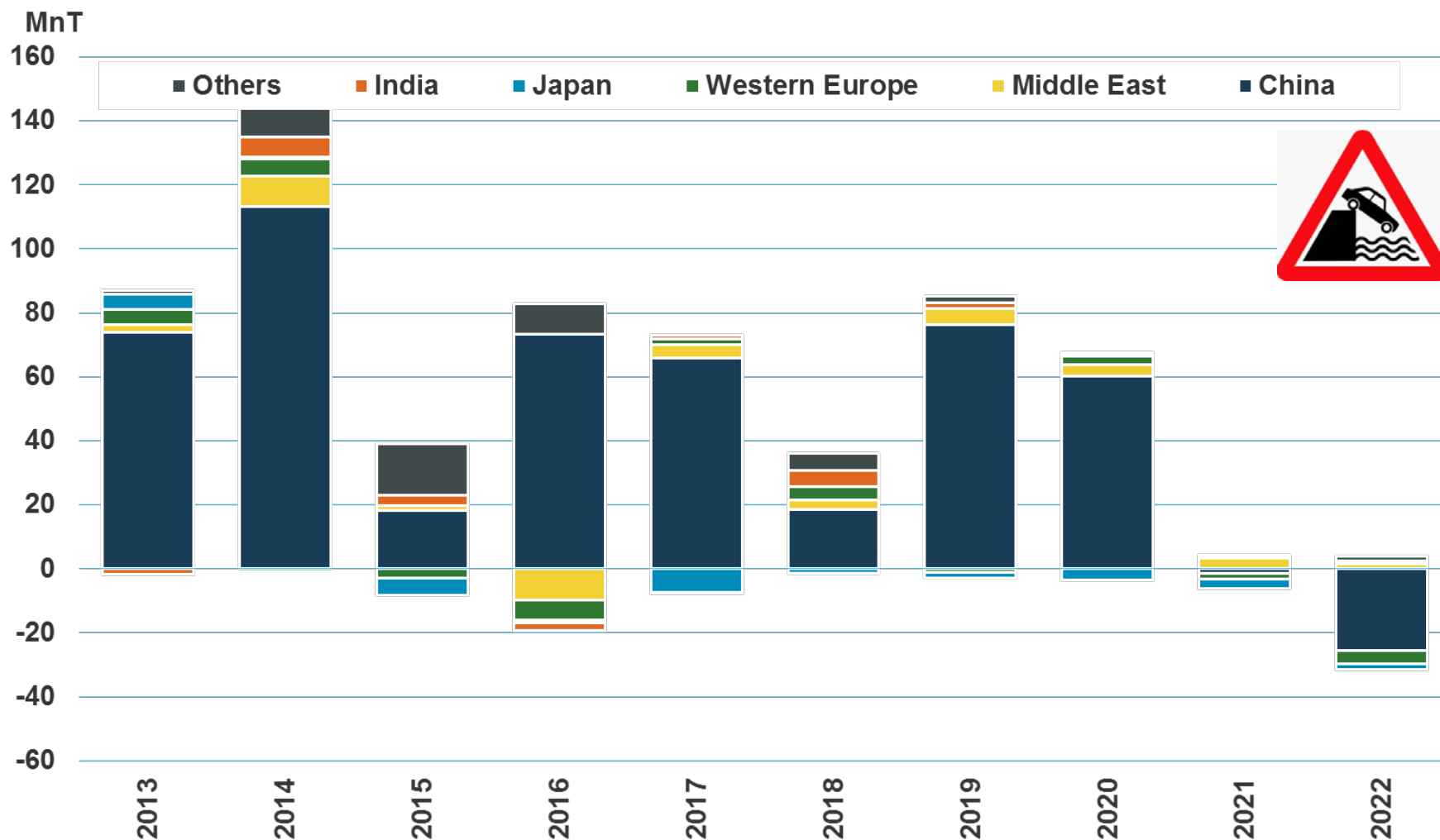


Major Incremental Refinery Additions



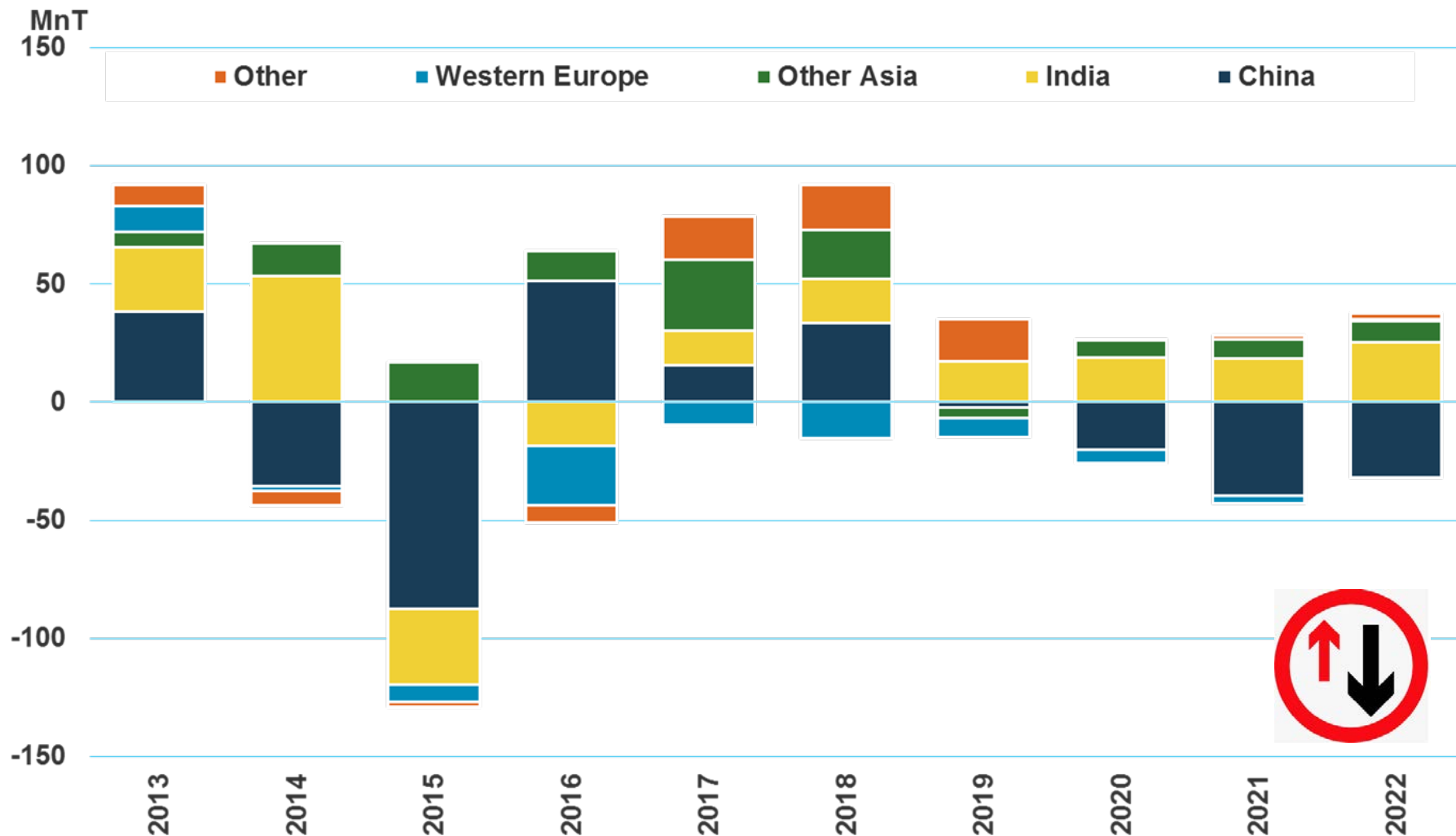


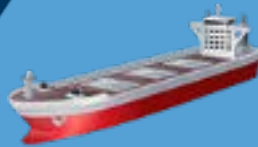
Incremental Iron Ore Imports



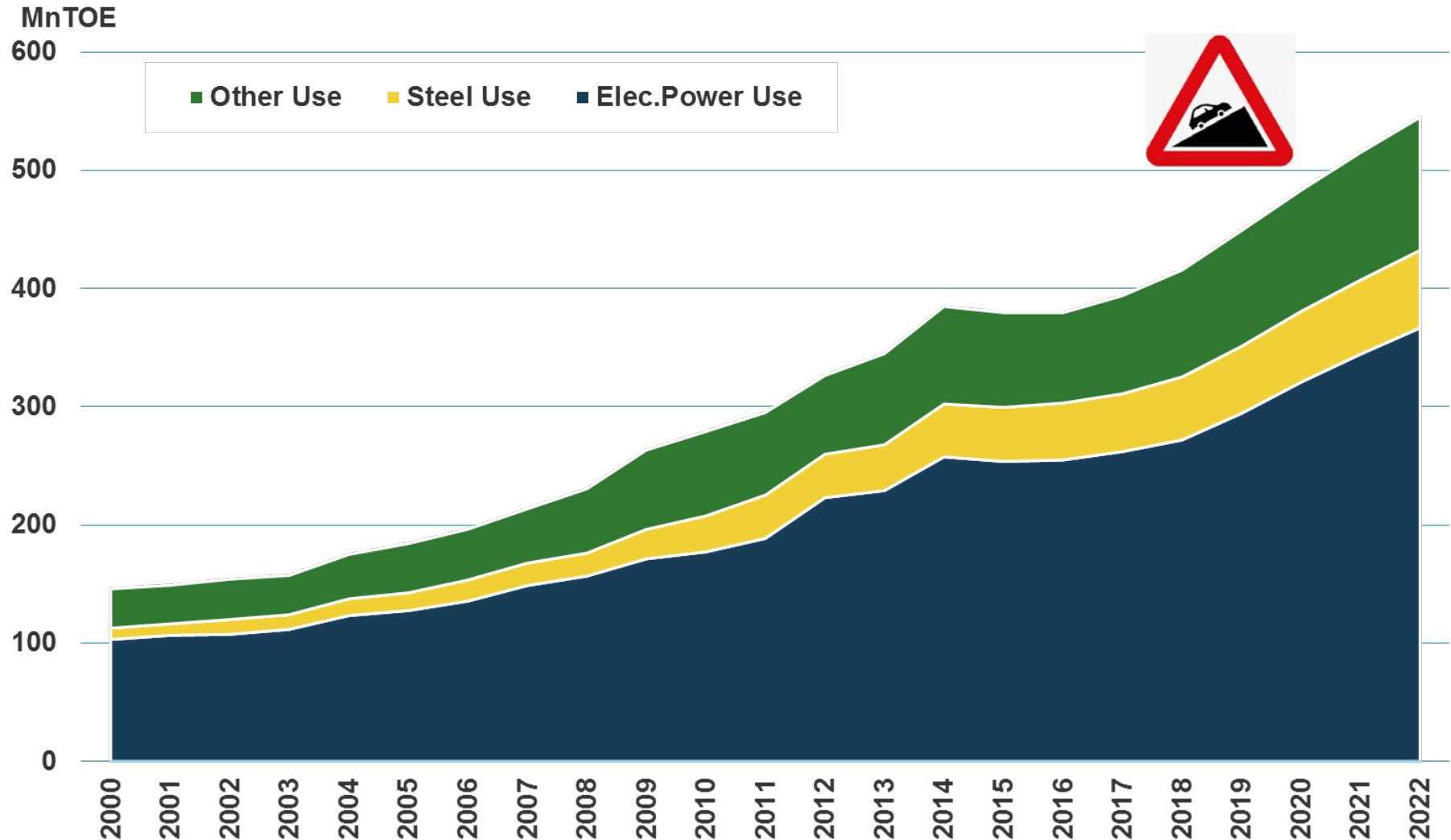


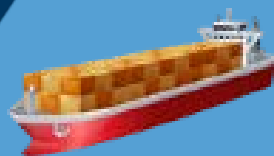
Incremental Coal Imports



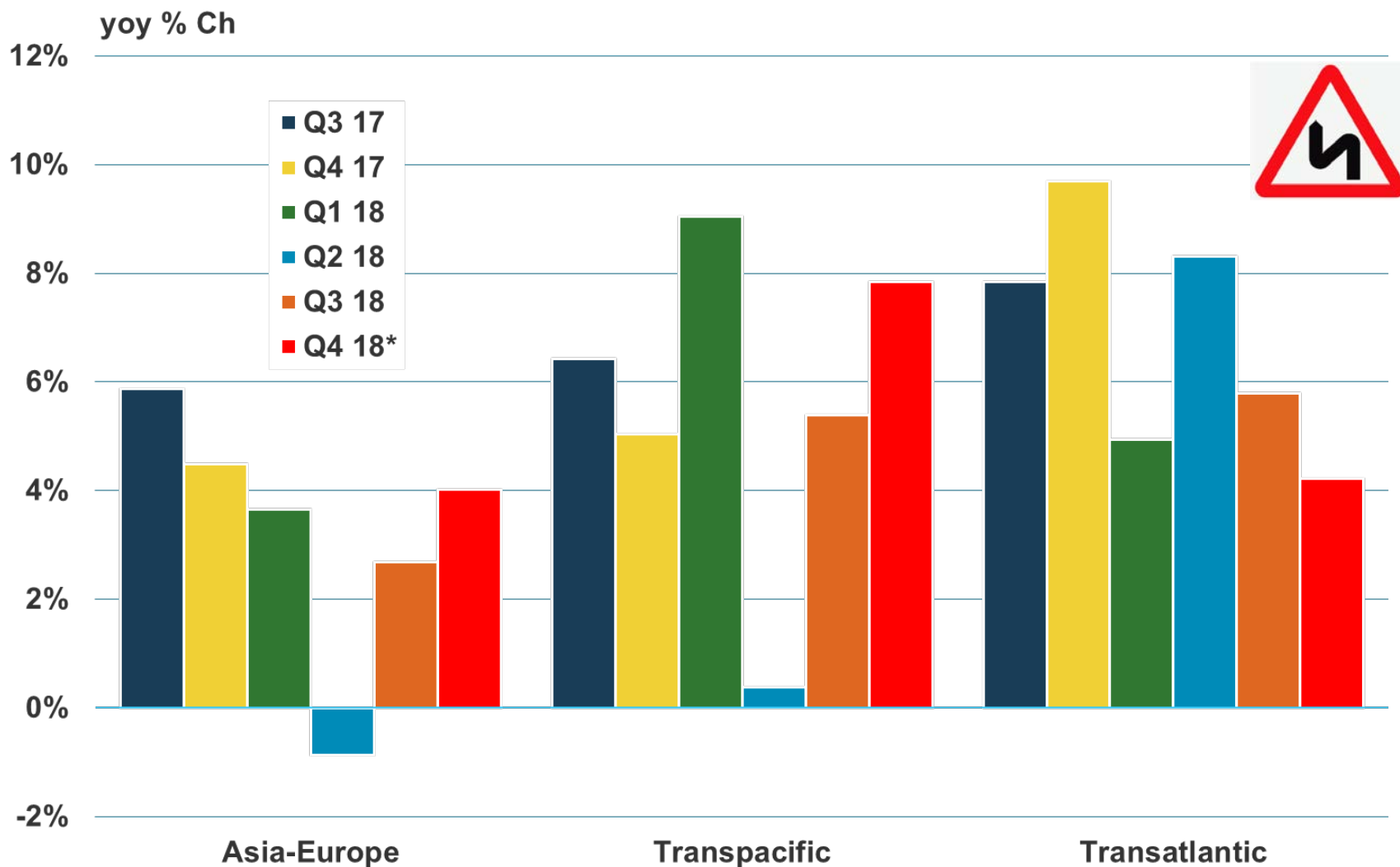


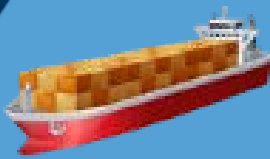
Indian Coal Consumption



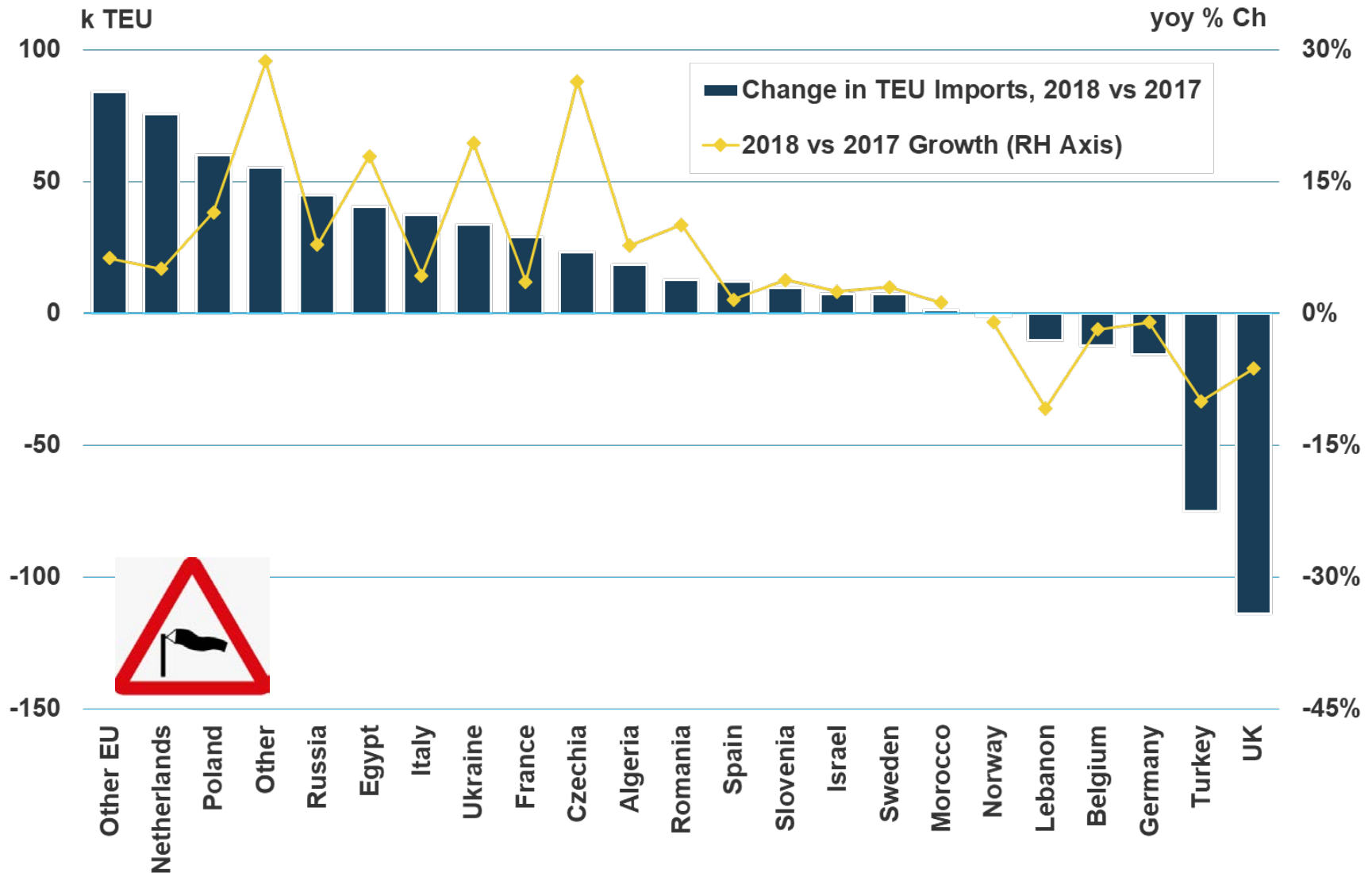


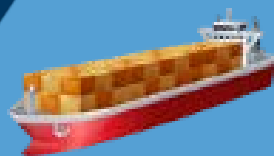
Mainlane Trade Growth



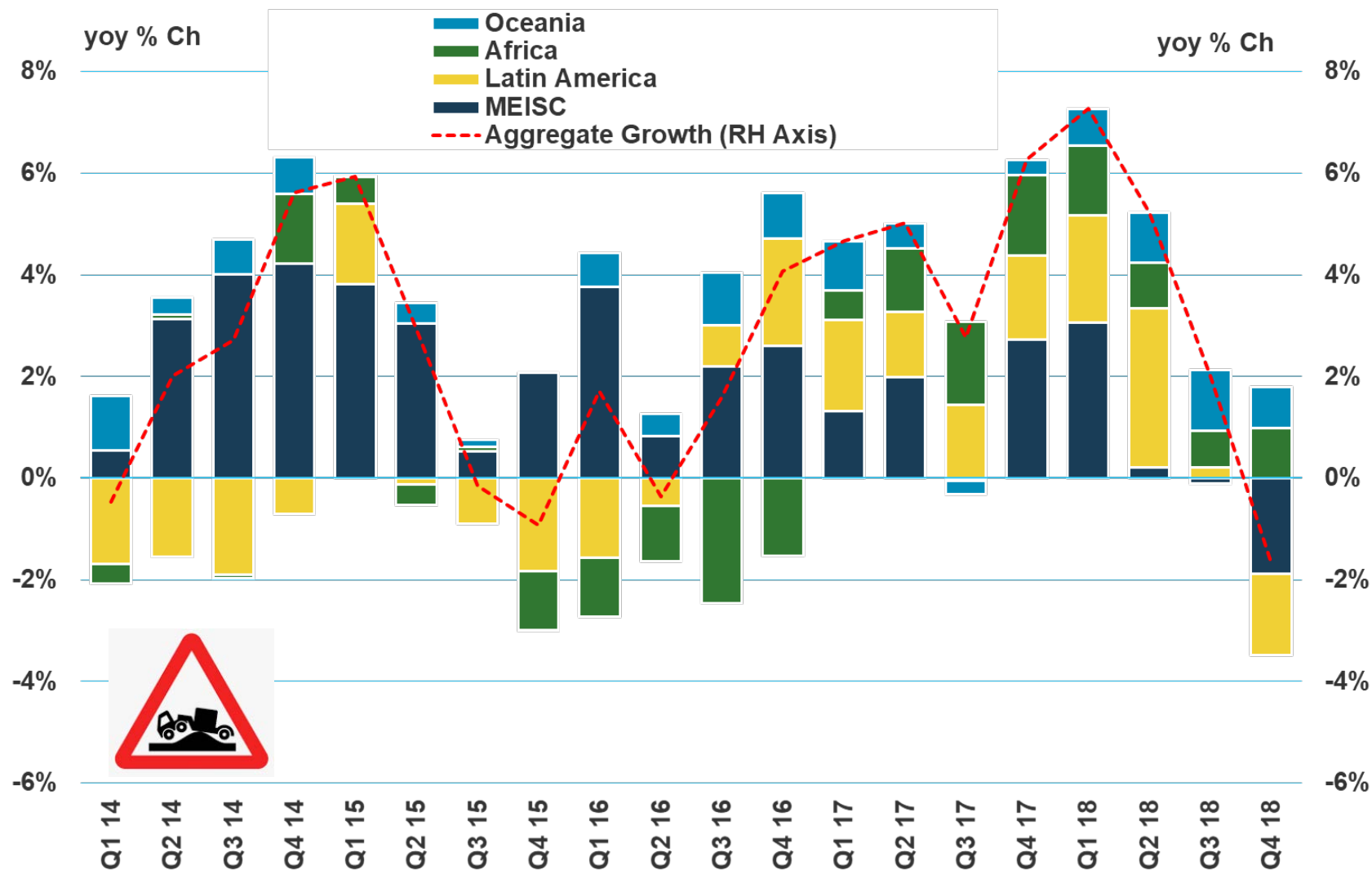


Asia – Europe Drivers: 2018 v 2017



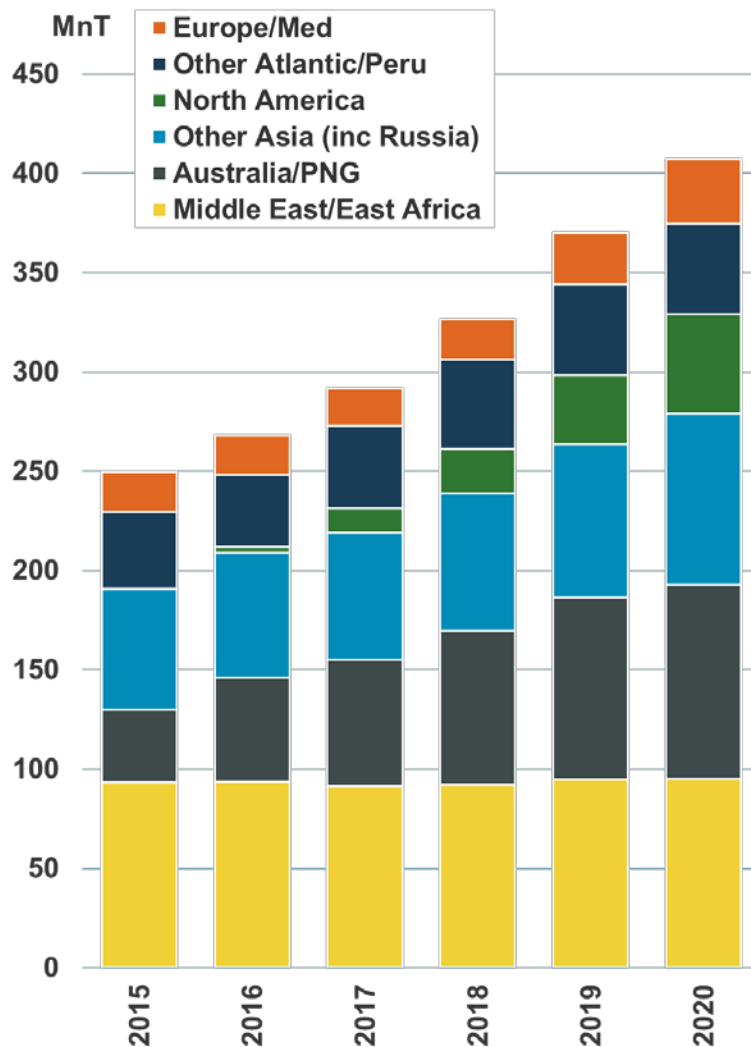


Non Mainlane Trade Growth

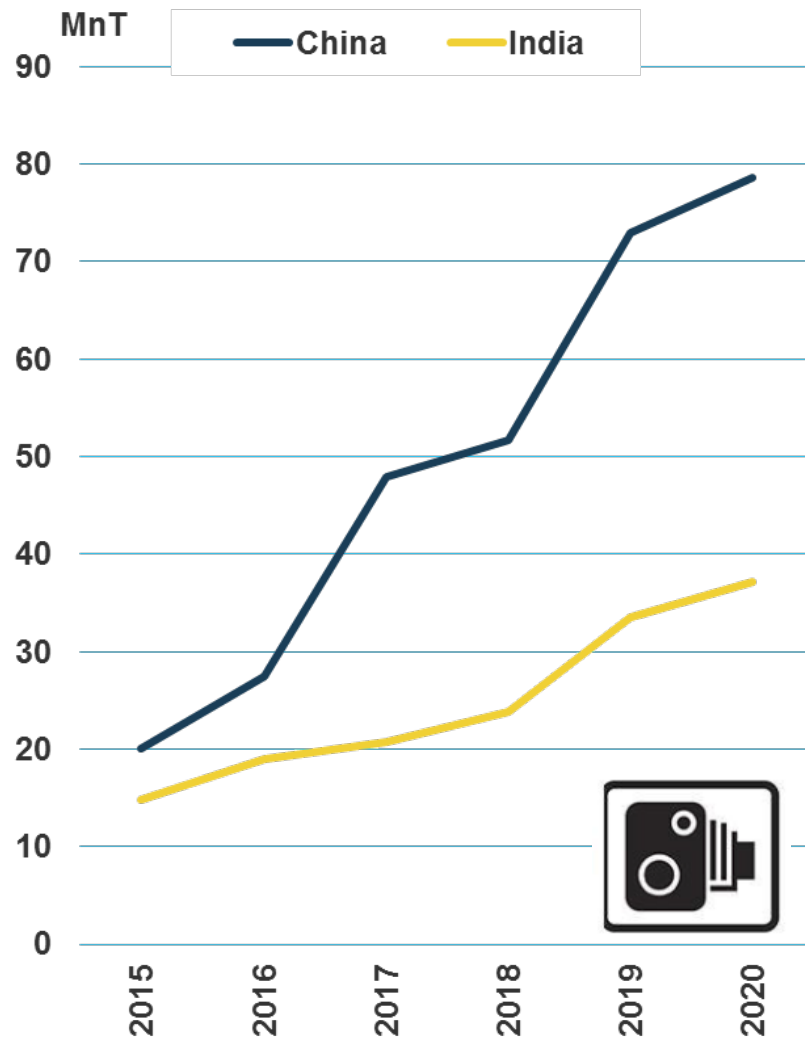




Exporters



Fast Growing Importers



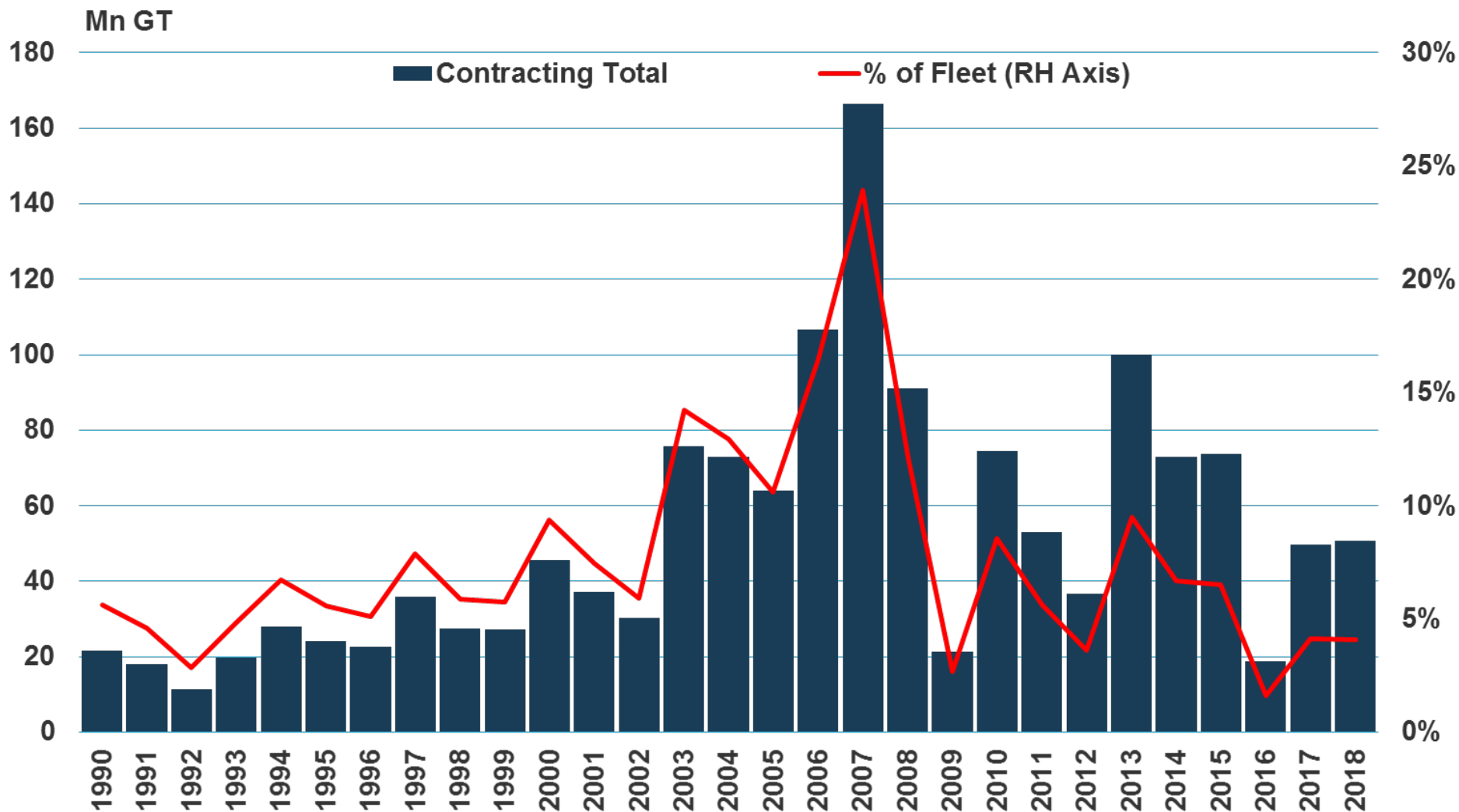


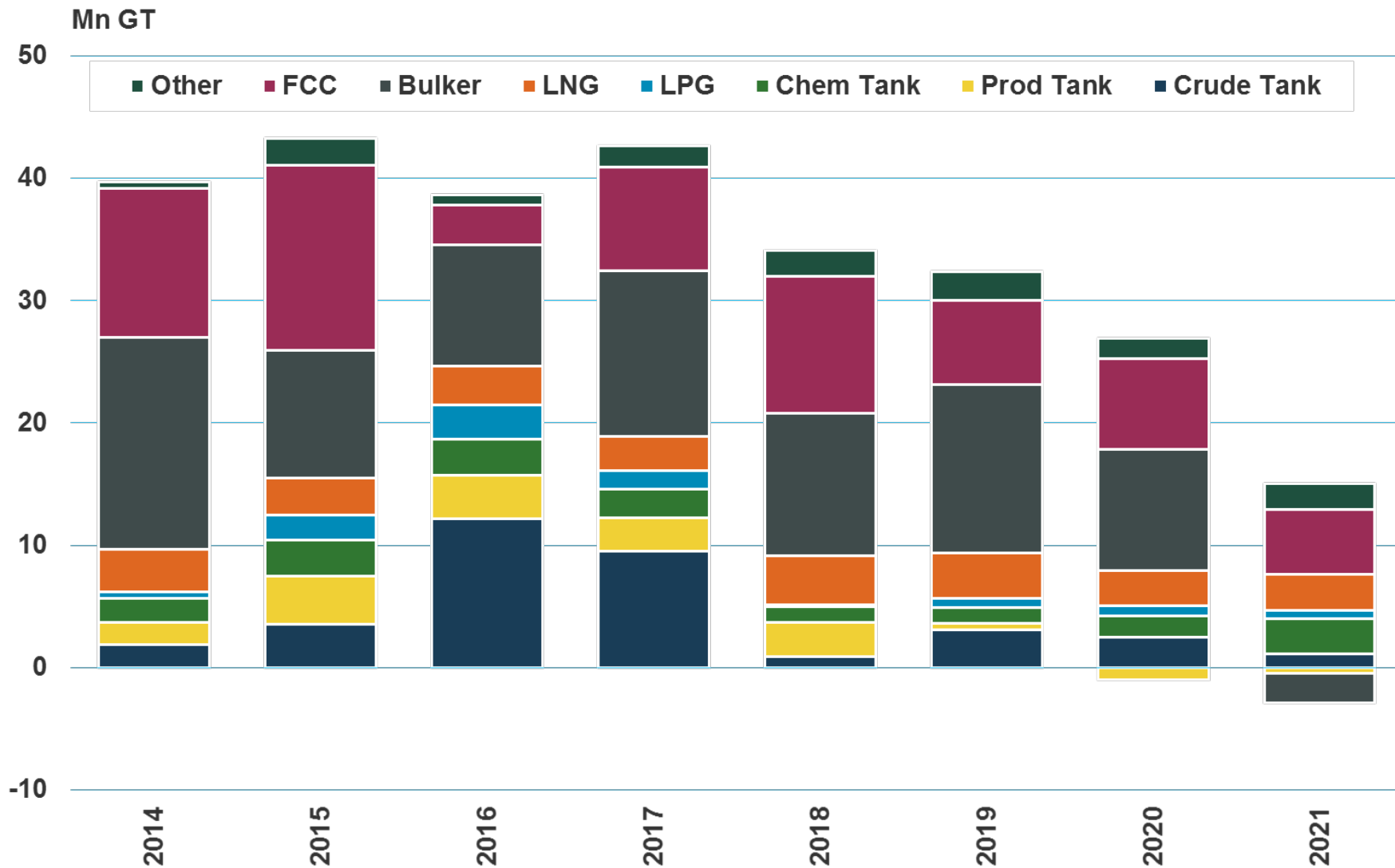
Supply

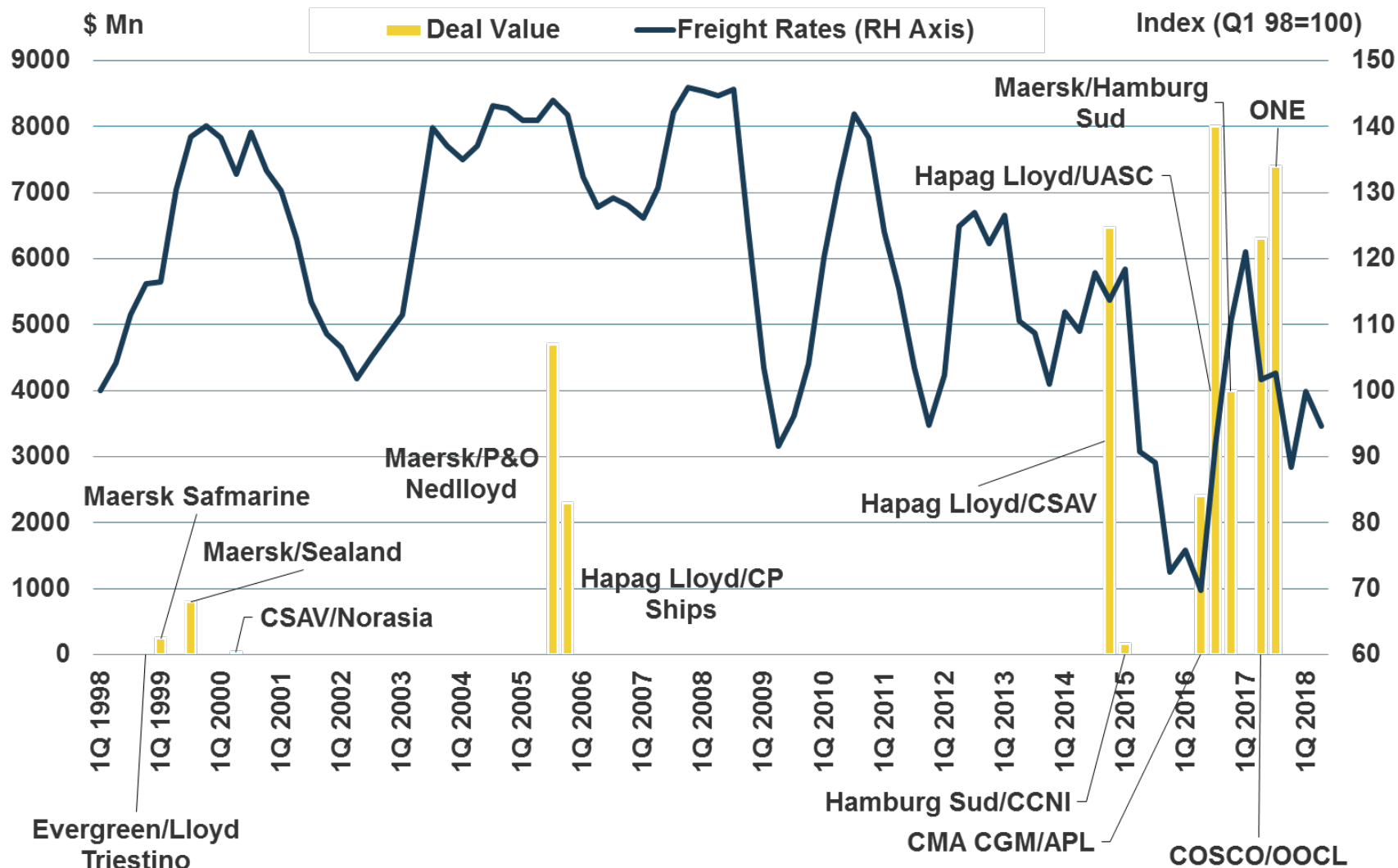
Riches or Ruin



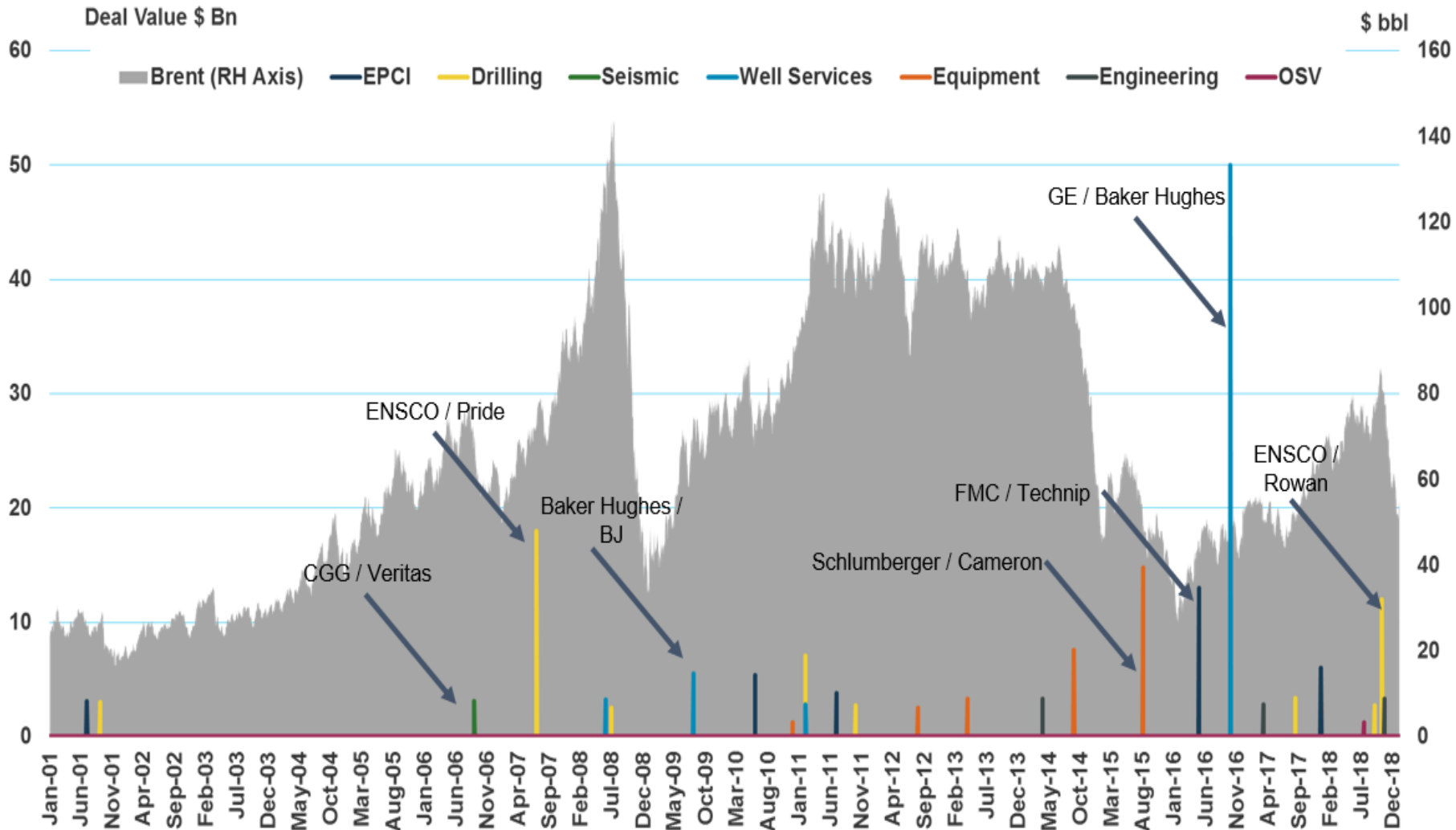
Contracting “Low” by Historical Levels







Cosco/CSCL deal omitted



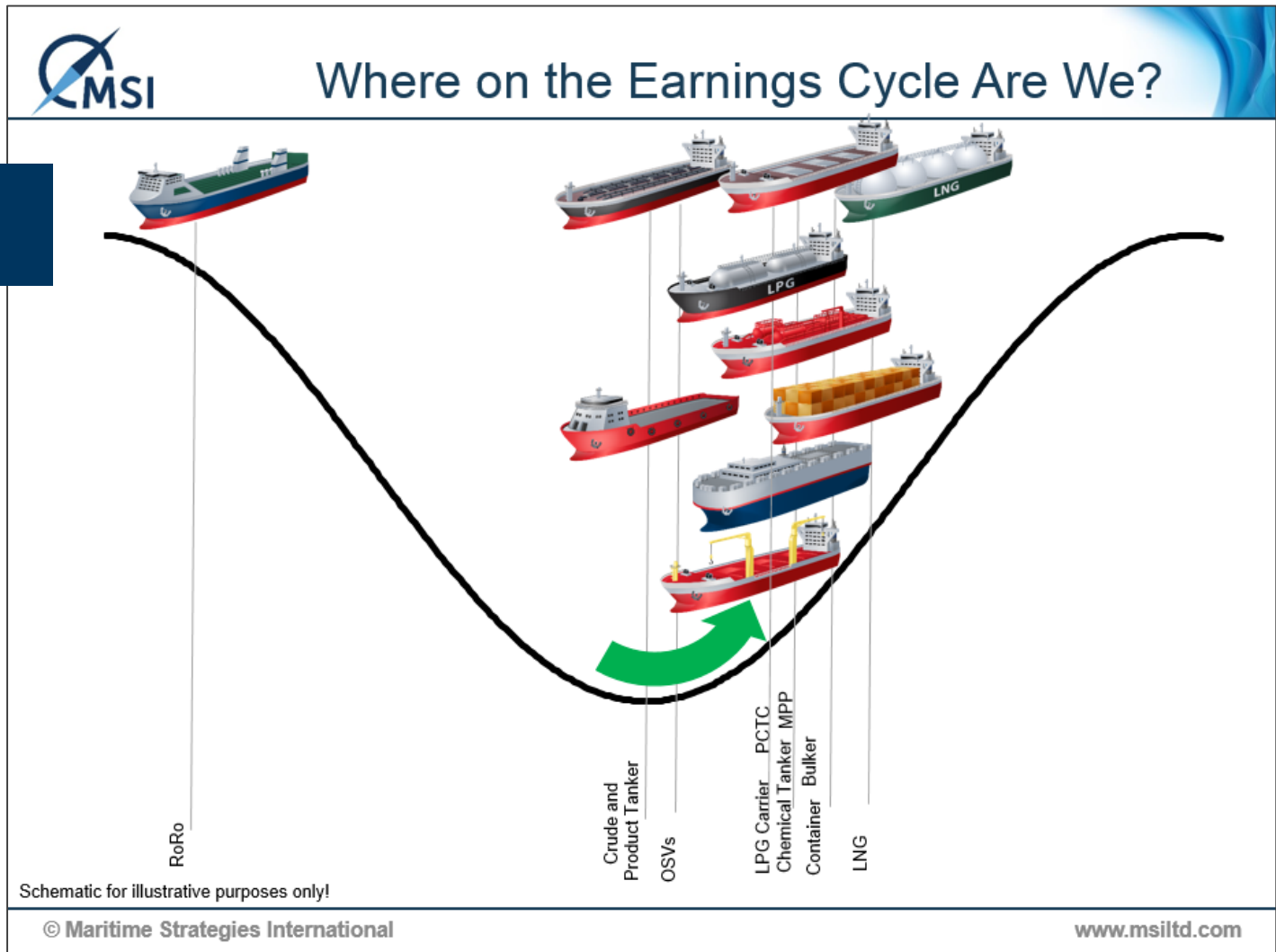


Earnings

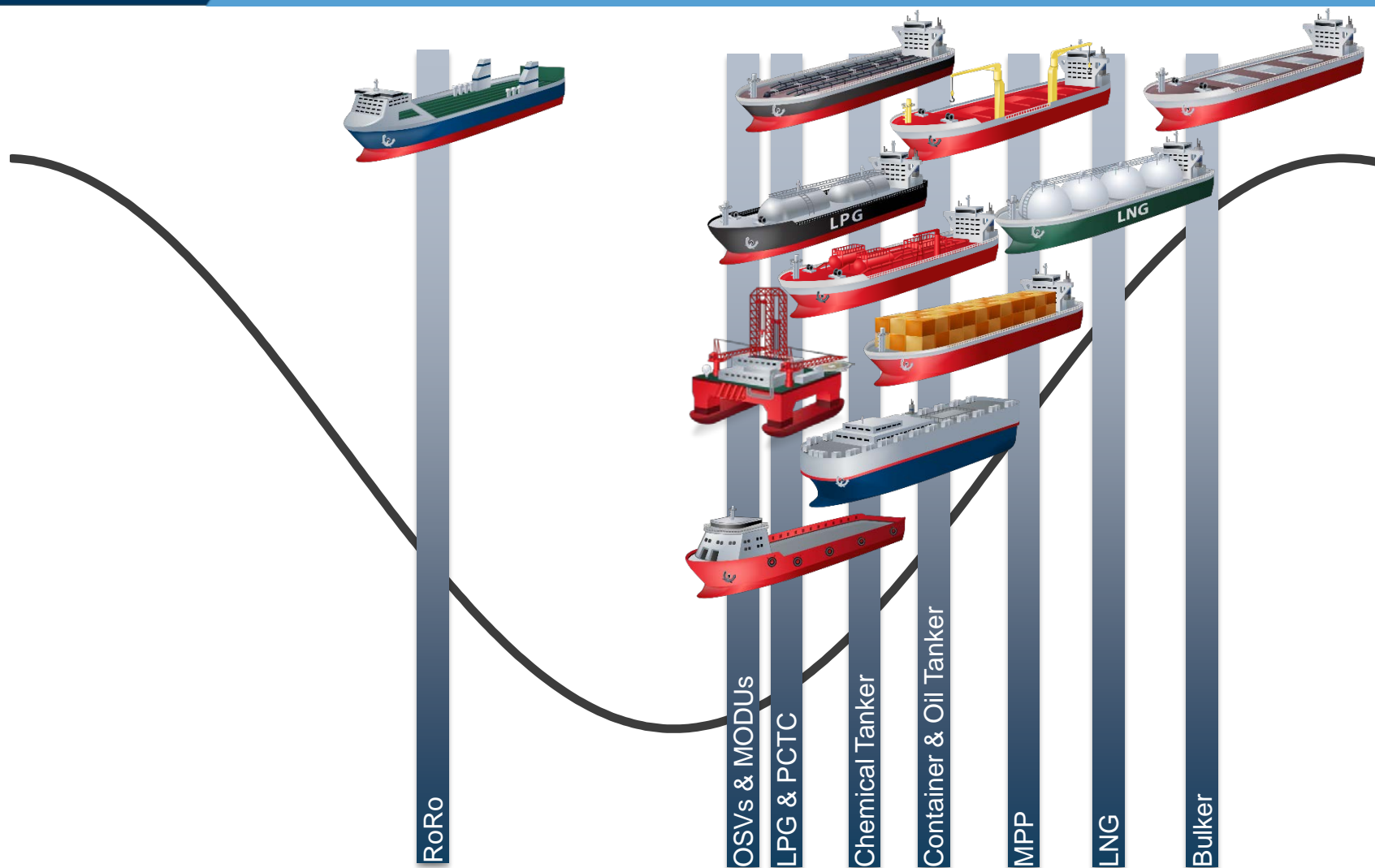
Riches or Ruin



MM London
2018



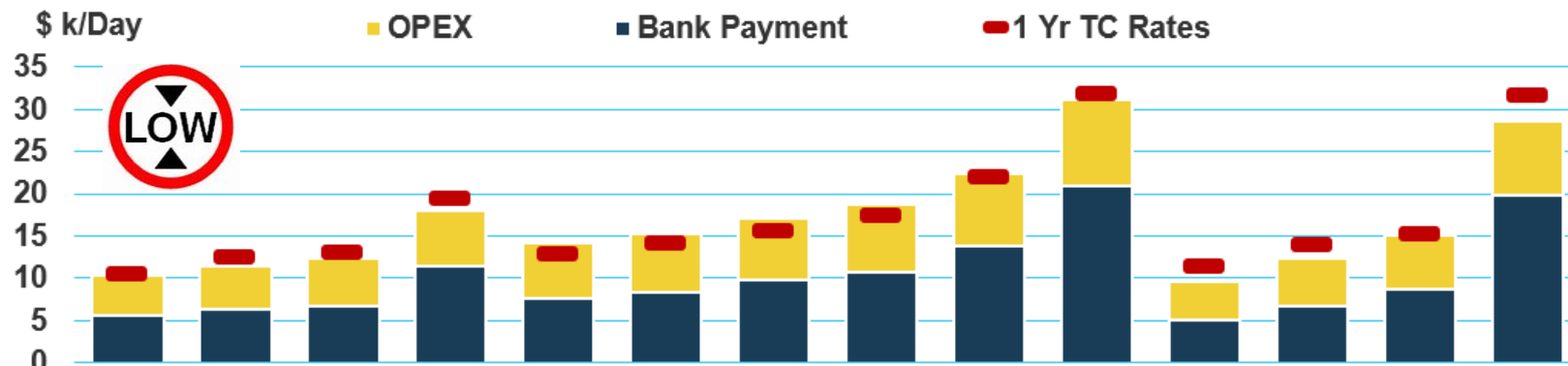
Where on the Earnings Cycle Are We?



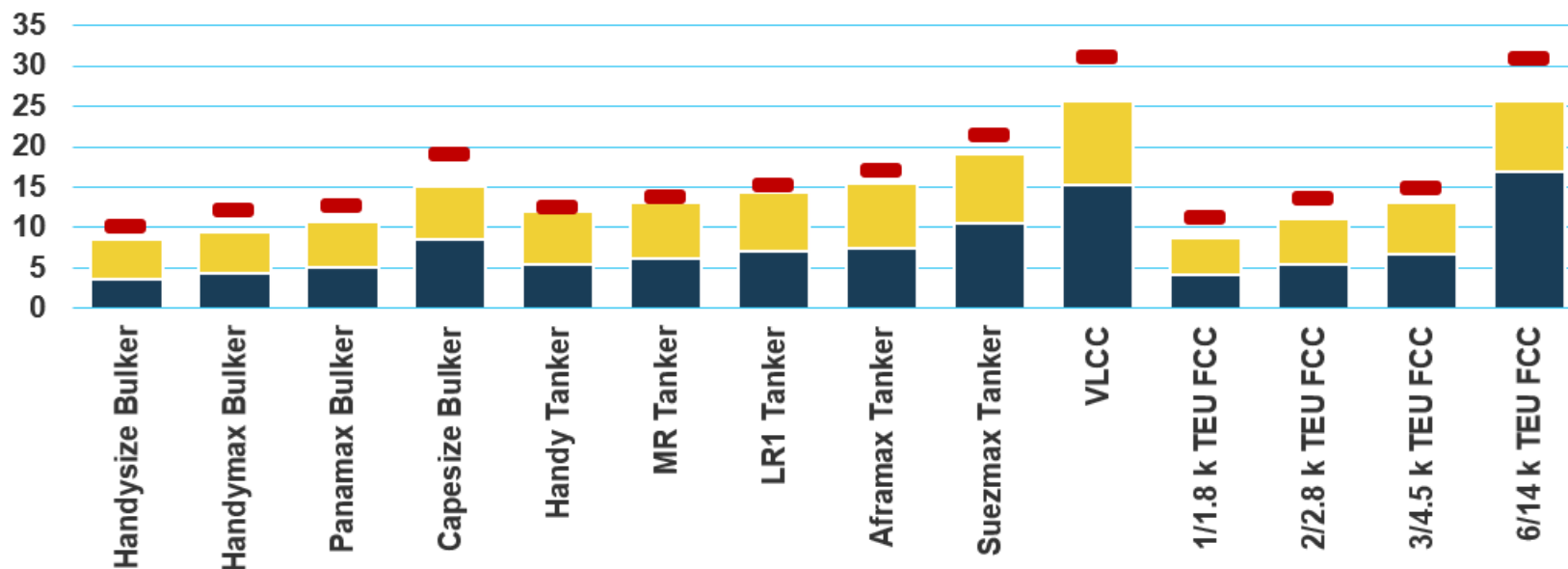
Schematic for illustrative purposes only

Breakevens – Is There Head Room?

0 Year Old Resale



5 Year Old





Strengths

- Improving fleet dynamics
- Stable underlying oil demand growth
- Higher % of long-haul movements
- **Limited impact from US-China trade wars**
- Product tanker market highly diversified cargo base

Weaknesses

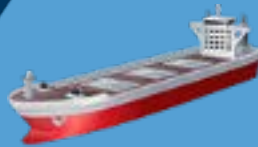
- **Subject to policy decisions, particularly OPEC actions**
- Over-ordering/over-capacity continued risk
- Crude tanker market dependent on non-OECD Asia import growth
- Continued high deliveries in e.g. VLCCs

Opportunities

- Long-term shift in global oil flows
- **IMO 2020 presents dislocation in oil demand** and refining activity which is likely to drive changes in crude and product flows, also supporting e.g. floating storage
- Ageing fleet profile necessitates continued high long-term scrapping rates

Threats

- Technological shifts drive efficiency gains
- **Alternative fuels**
- Fragmented sector ownership - ordering
- **Policy a key conditional factor:**
 - **macro (e.g. trade wars)**
 - **oil-specific (e.g. OPEC, China)**
 - **and shipping-specific (e.g. increasing regulation).**



Strengths

- Positive market fundamentals (evidenced by strong 2018 rates)
- Low sub-Capesize Orderbook

Weaknesses

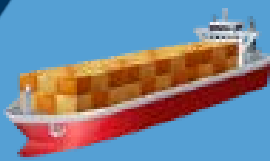
- Exposure to China
- **US-China Soybeans trade**
- Young fleet
- Large Capesize Orderbook

Opportunities

- **IMO 2020 (modern tonnage)**
- Iron ore mining expansions to 2020
- Bauxite mining expansions (Africa)
- Grains – growing populations and changing diets
- Minor Bulks – intra-Asian trade

Threats

- 'Peak Steel' in China
- **China coal import policy**
- **Indian domestic coal production and policy**
- **US-China Trade War escalation**
- Cargo-backed new ship orders (e.g. Valemax)
- **IMO 2020 (older tonnage)**



Strengths

- Supply growth to slow over coming years due to ordering restraint
- Ageing feeder fleet
- Intra-regional trade growth, remains healthy

Weaknesses

- In near-term, overhang of idle vessels will limit TC market increases
- Synchronised trade growth has ended
- Commoditised freight markets & state-backed carriers in Far East, continue to place downward pressure on freight rates

Opportunities

- Tank cleaning/scrubber installation could potentially limit deployed capacity in Q3-Q4 19
- Continued strong volume growth and new markets in South Asia, East Africa
- Expansion of containerised transport to new products, above all refrigerated goods

Threats

- Slowing economic growth in key regions
- IMO 2020 fuel bill will challenge liner company balance sheets – risks if they cannot pass costs on to shippers
- Possible that US could further increase tariffs on Chinese goods, ongoing negotiations notwithstanding



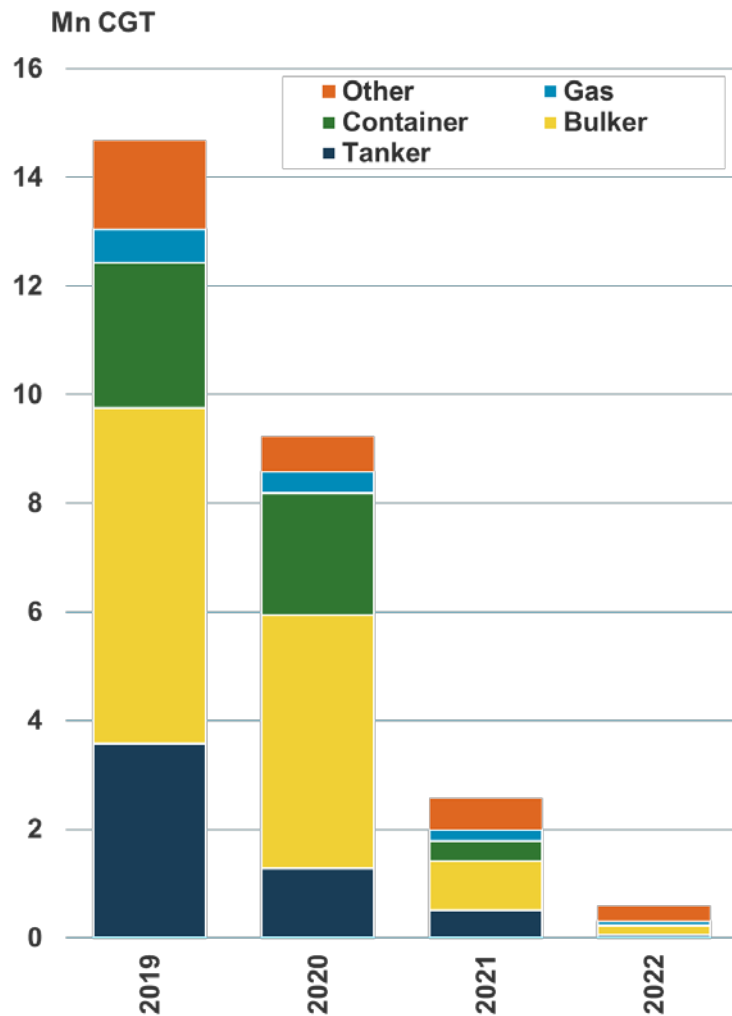
Newbuilding Prices

Riches or Ruin

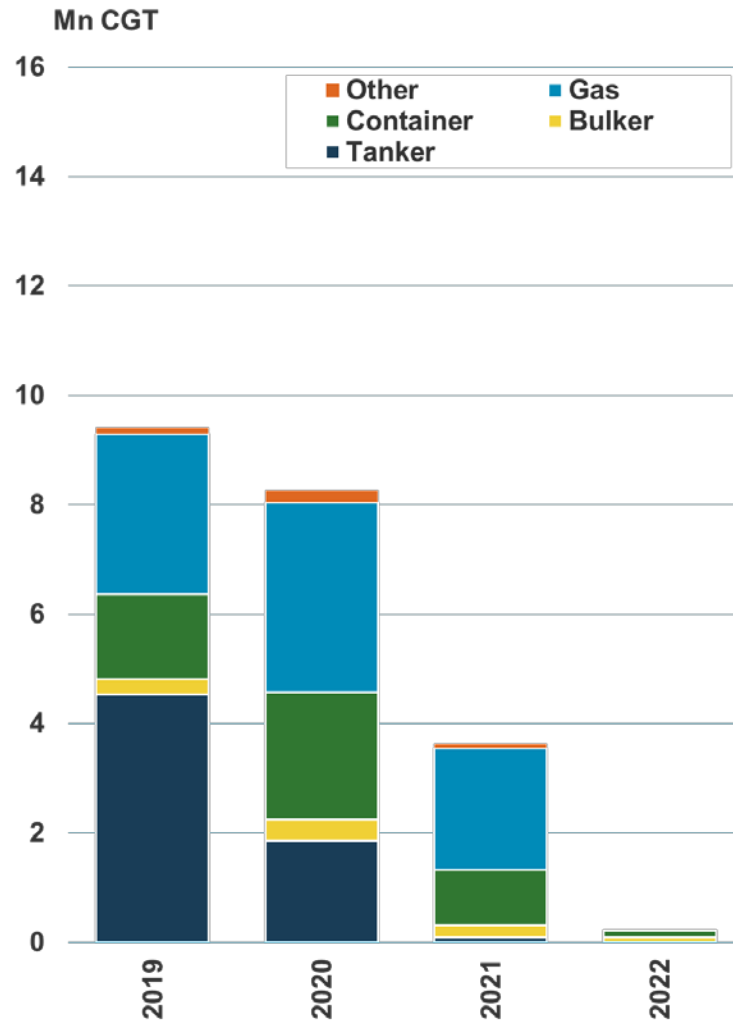


Divergent Orderbooks

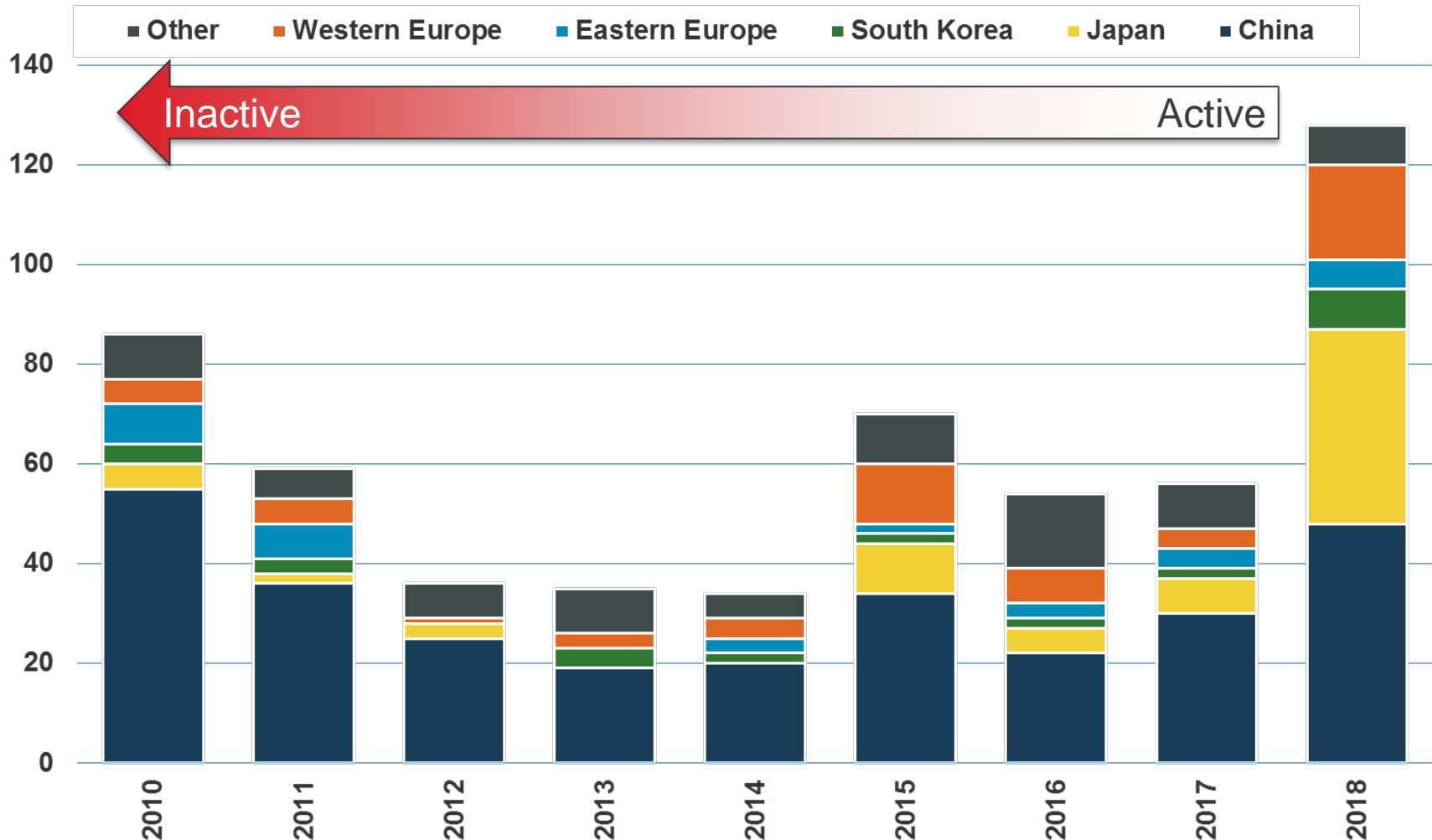
Chinese Shipyard Orderbook



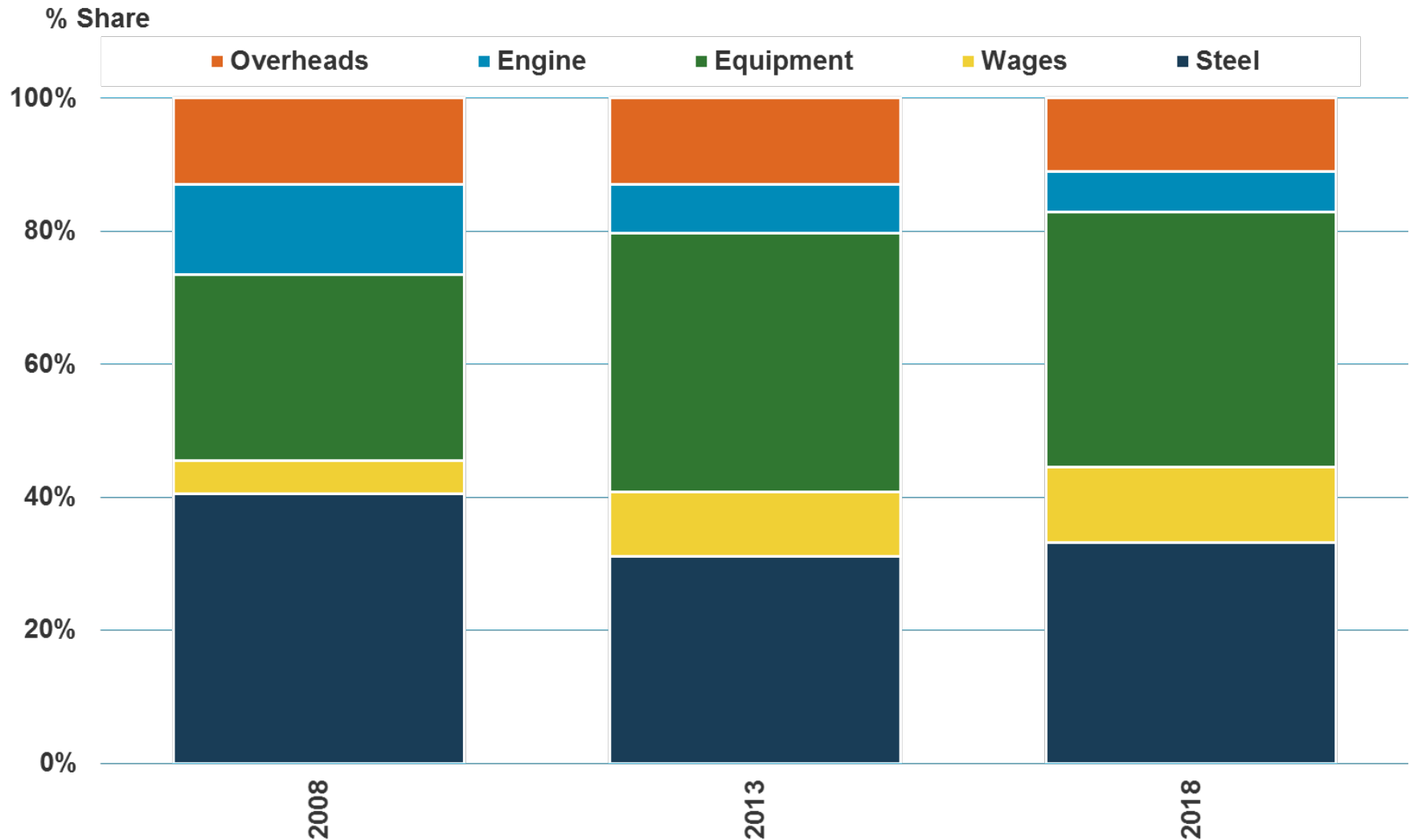
South Korean Shipyard Orderbook

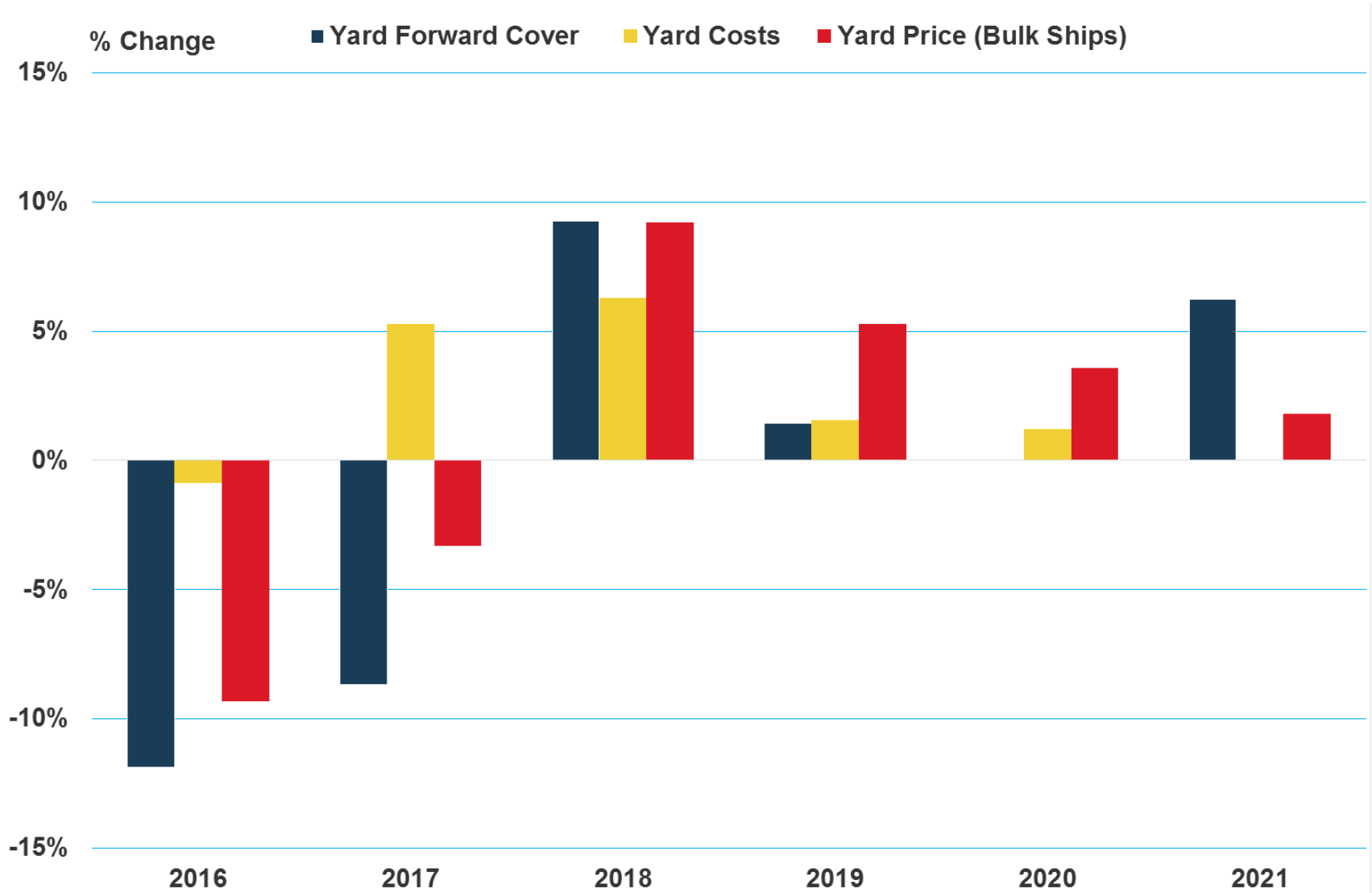


Yards



Build Cost Component Evolution





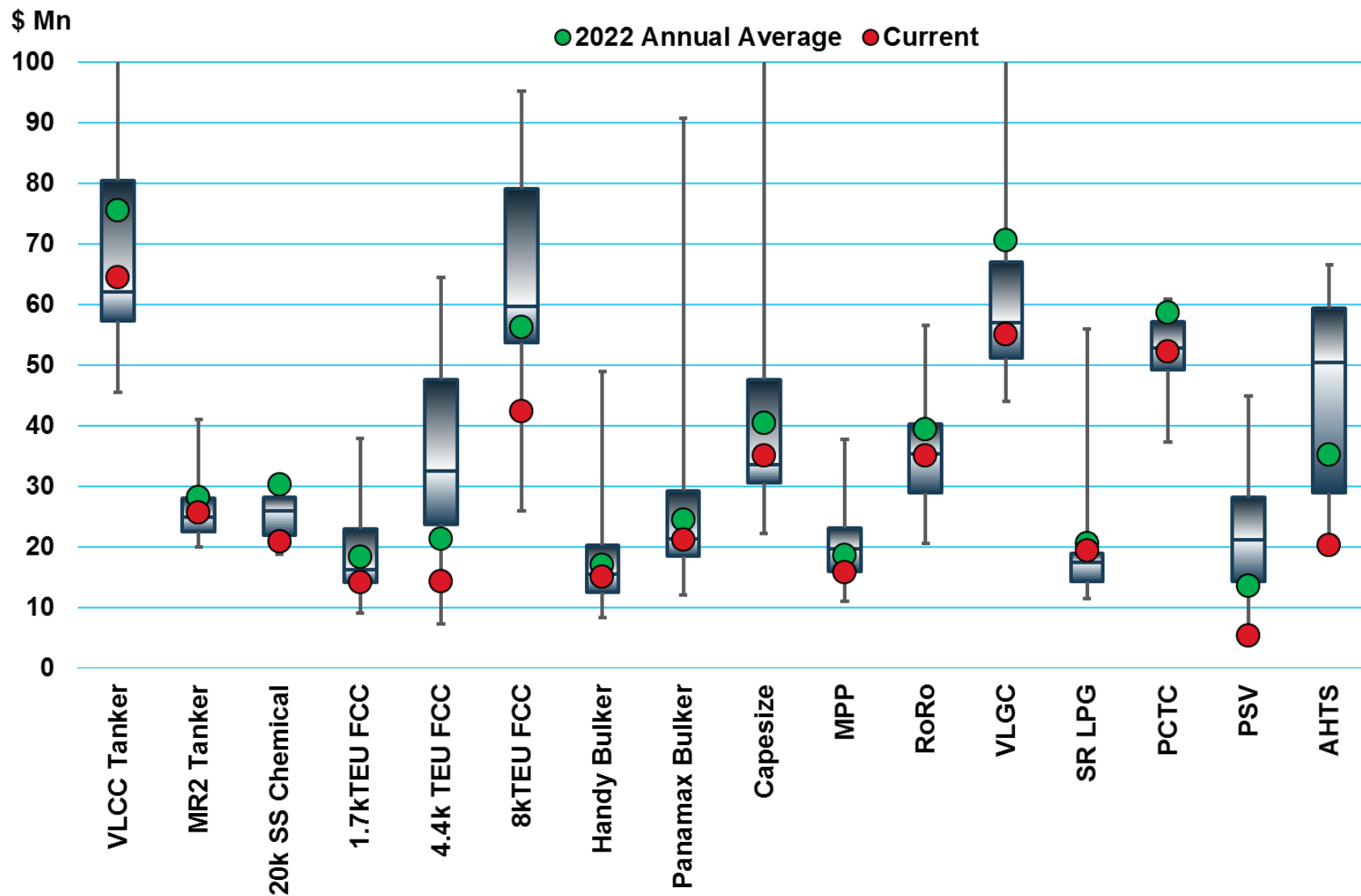


Secondhand Prices

Riches or Ruin



Secondhand Price Improvements



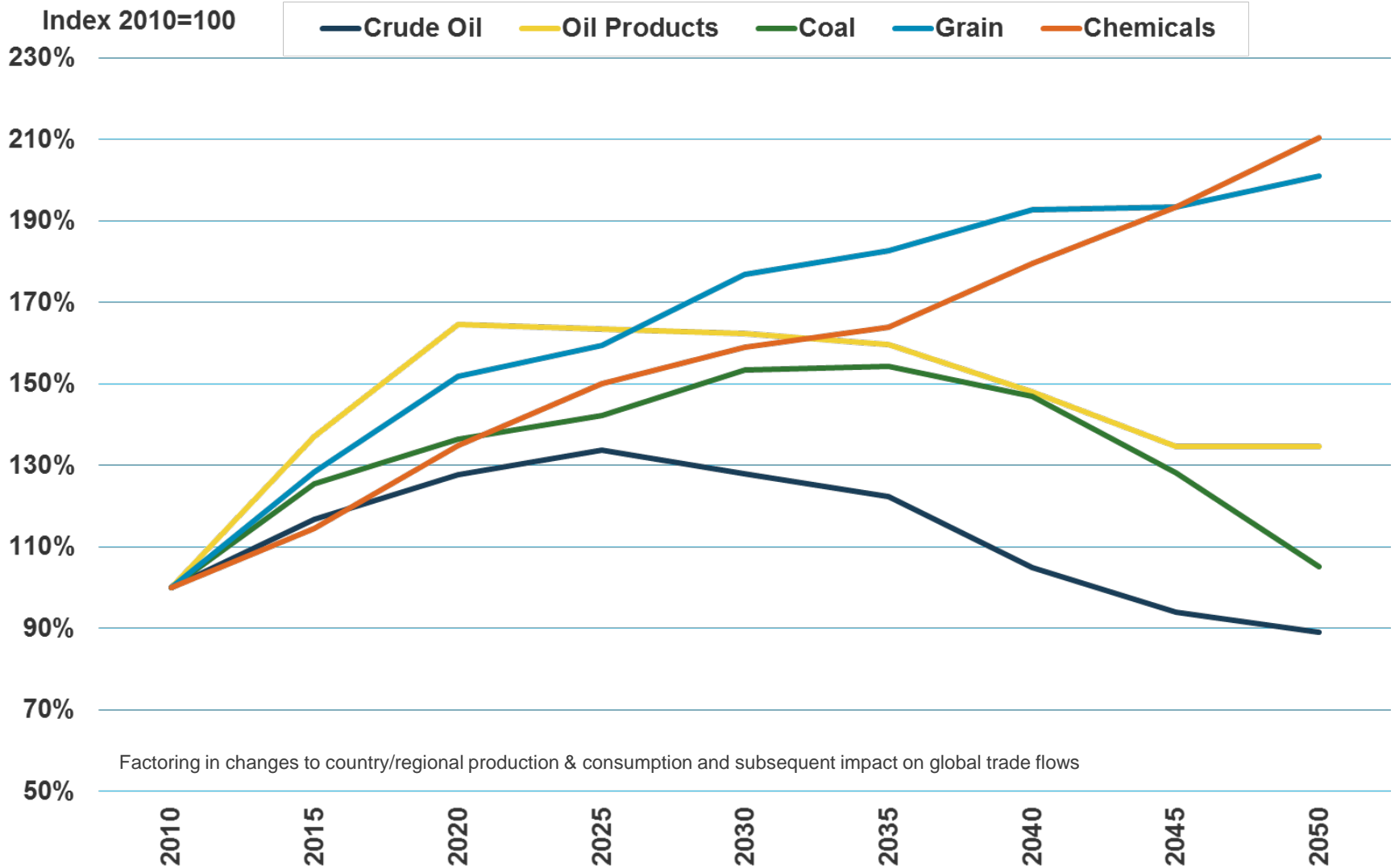


Longer Term Survival or Elephant in the Room

Riches or Ruin



Decarbonisation Extreme Scenario – Impact on Shipping Demand





Which Way Are We Heading?

Riches or Ruin



- 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.



Crude Oil Tanker



Chemical Tanker



Multi Purpose



Product Oil Tanker



LPG Carrier



Containership



Dry Bulk Carrier



LNG Carrier



PCC/PCTC

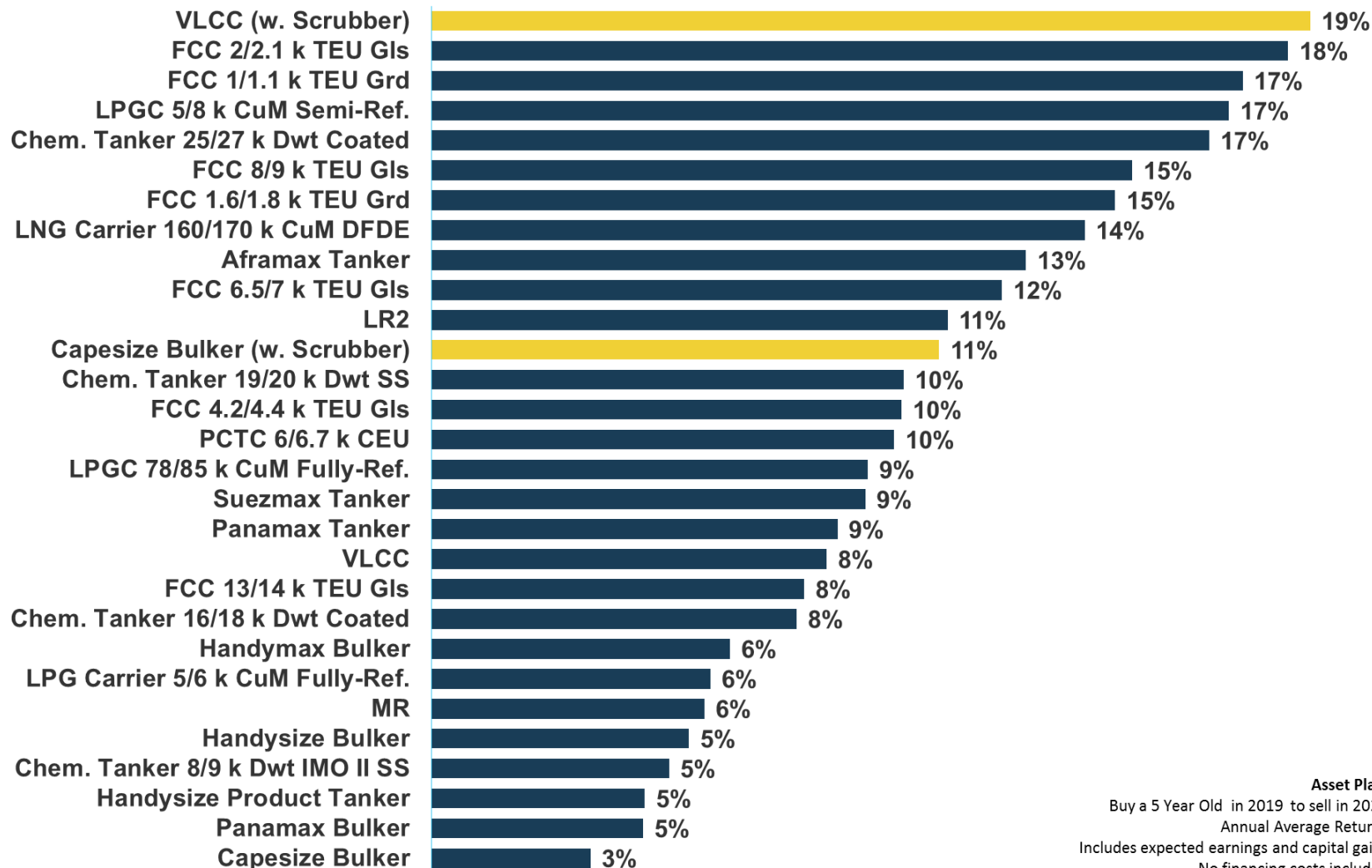


AHTS

www.msilt.com/fmv



PSV



Asset Play:
 Buy a 5 Year Old in 2019 to sell in 2022
 Annual Average Returns
 Includes expected earnings and capital gains
 No financing costs included



Thank You For Listening

Riches or Ruin



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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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