



1 November 2018

Busan Port International Passenger Terminal

Korean Container Shipping Market Forecasts

ALPHALINER 
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Déjà vu - has anything changed in the last 40 years?

A watershed year

There seems little doubt that the year will prove to be a crucial one for the container liner shipping industry and thus the box business at large, as the crisis of overcapacity which has slowly been gaining momentum on most of the world's key container trades over the past few years comes to a head. Difficult and uncomfortable decisions will have to be made as some of the most prestigious companies in the liner shipping industry struggle to stay afloat. And, although it will not necessarily be a case of the 'survival of the fittest', since many governments and other institutions will continue to prop up some of the less healthy carriers, it seems certain that the next 12 months will mark a turning point in the strategies, operations and corporate structures of many container shipping companies. This sense of destiny will be heightened by the fact that at the same time these operators will also have to come to terms with a changing regulatory order which will formally alter the time-honoured rules under which the liner industry has been conducted in many markets.

Recurring themes :

- **Overcapacity**
- **Shipping companies struggle to stay afloat**
- **Governments continue to support struggling lines**
- **Changing regulatory regimes**
 - 2020 Sulphur Cap
 - Ballast Water Management

True innovations remain elusive in container shipping

**Dan Ariely**

7 January 2013 · 🌐

Big data is like teenage sex: everyone talks about it, nobody really knows how to do it, everyone thinks everyone else is doing it, so everyone claims they are doing it...

Replace 'Big Data' with any of the latest innovation buzzwords in container shipping:-

- Digitization
- Blockchain
- Artificial Intelligence (AI)
- Predictive analytics
- Machine learning

Technology and innovations have so far failed to transform the shipping industry

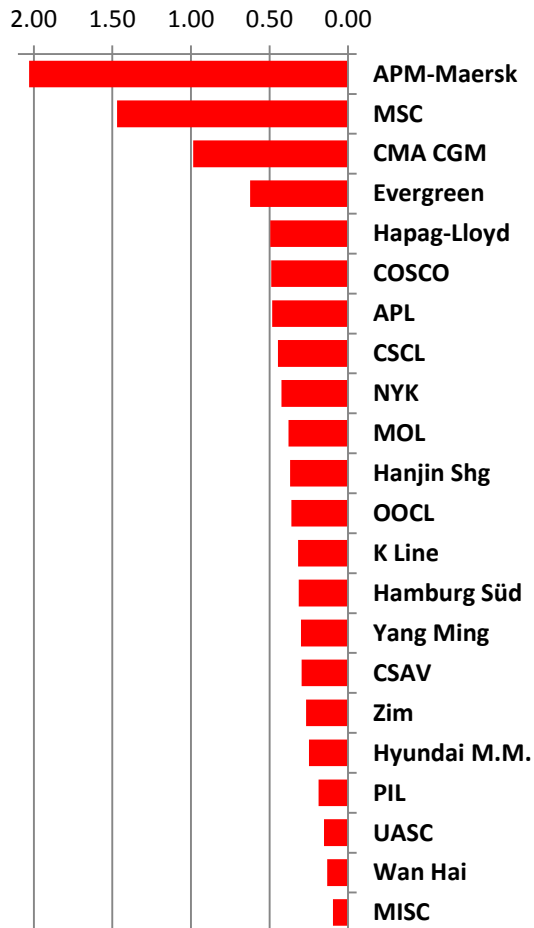
Industry consolidation – Last 10 years

From 2008

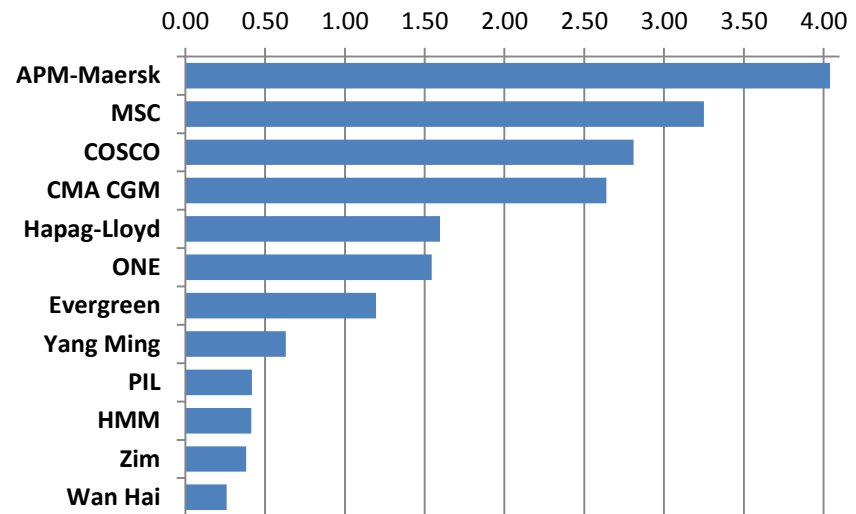


To 2018

Capacity Operated in TEU Millions (End 2008)



Capacity Operated in TEU Millions (Nov 2018)



What has changed?

- 'Global' carriers down from 22 to 12
- Scale of operations have increased by
 - 2.0 X (Maersk)
 - 2.2 X (MSC)
 - 2.7 X (CMA CGM)
 - 3.2 X (Hapag-Lloyd)
 - 5.7 X (COSCO)

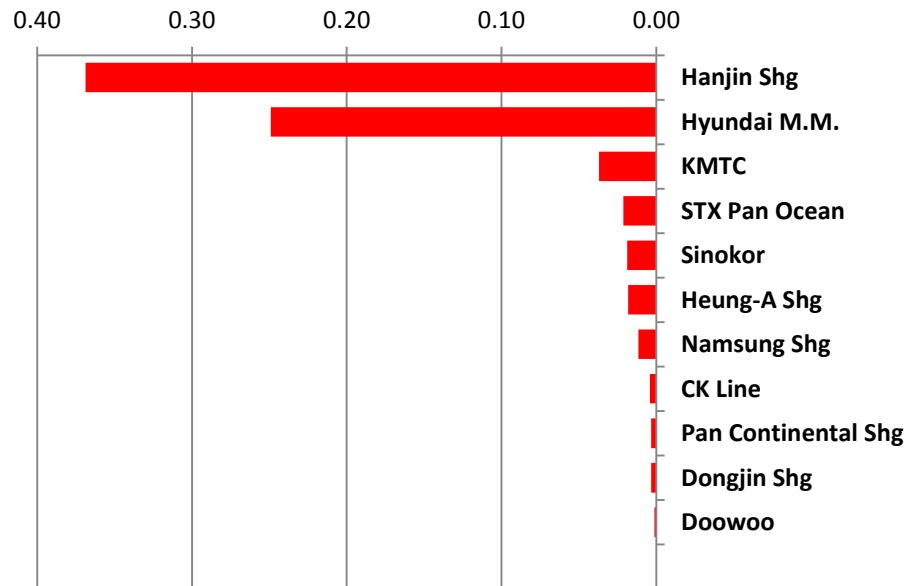
Korean consolidation – no progress made

From 2008

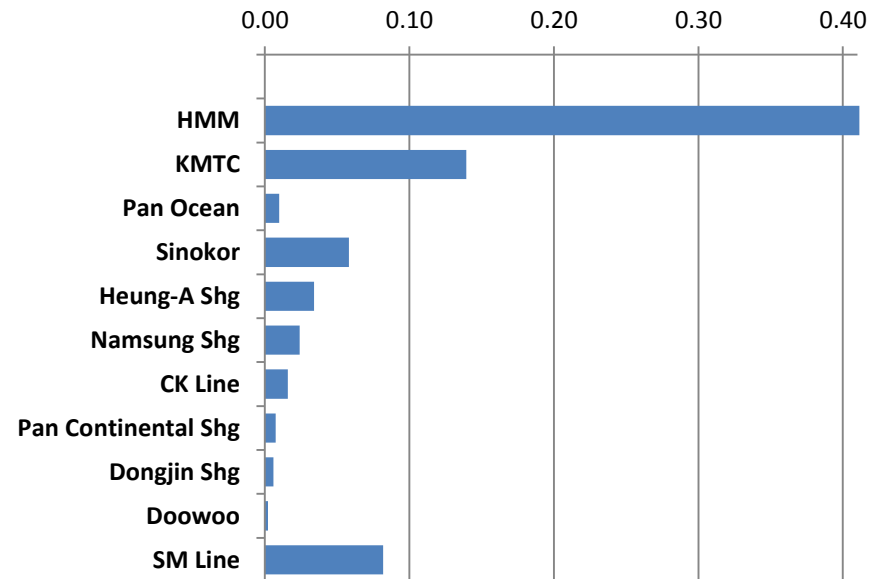


To 2018

Capacity Operated in TEU Millions (End 2008)



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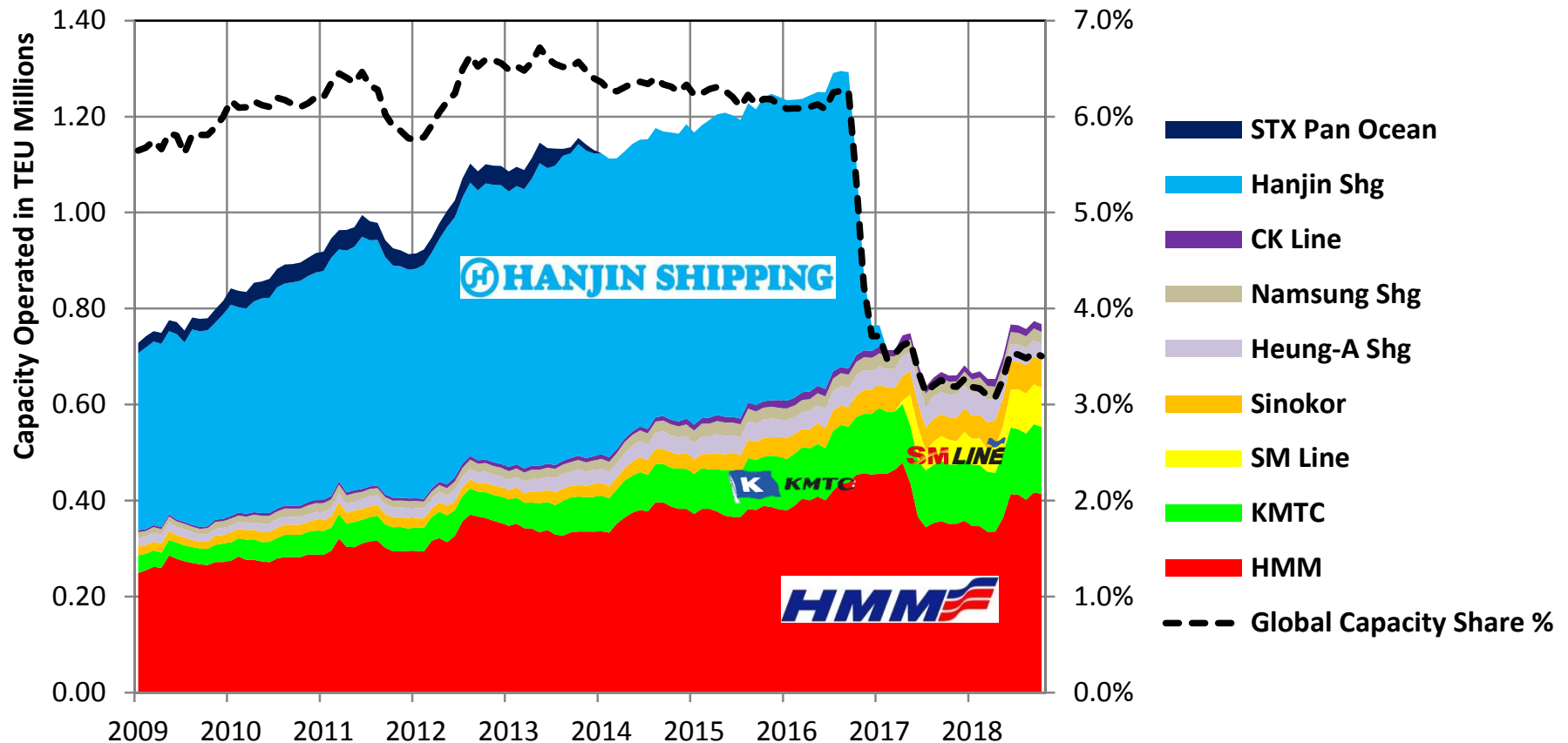


What has changed?

- Fragmented market unchanged (11 carriers remain – SM Line replaced Hanjin Shg/Pan Ocean replaced STX Pan Ocean). Only one carrier exited - Dongnama (C& Line) in 2008.
- Total capacity operated by Korean carriers increased by 7.6% between 2008 and 2018
- But global capacity increased by 78.8% in the same period
- Korean carriers share have fallen behind global average by factor of 10 X

Korean Shipping Lines' Global Capacity Share

- Global capacity share has dropped from 6.5% to 3.5%



No simple fixes to complex problems

- Korea's 100 Policy Tasks (Five-year Plan of the Moon Jae-In Administration)
 - Task 80 : To make the nation a maritime power through the joint development of the shipping and shipbuilding industries

Korean's five-year plan for the shipping industry is based on three major initiatives:

1. securing stable cargo bookings based on competitive services and freight,
2. constructing energy-efficient ships that operate at low costs, and
3. promoting stable management through continuous innovation.

But none of these initiatives address the fundamental problems that carriers face:

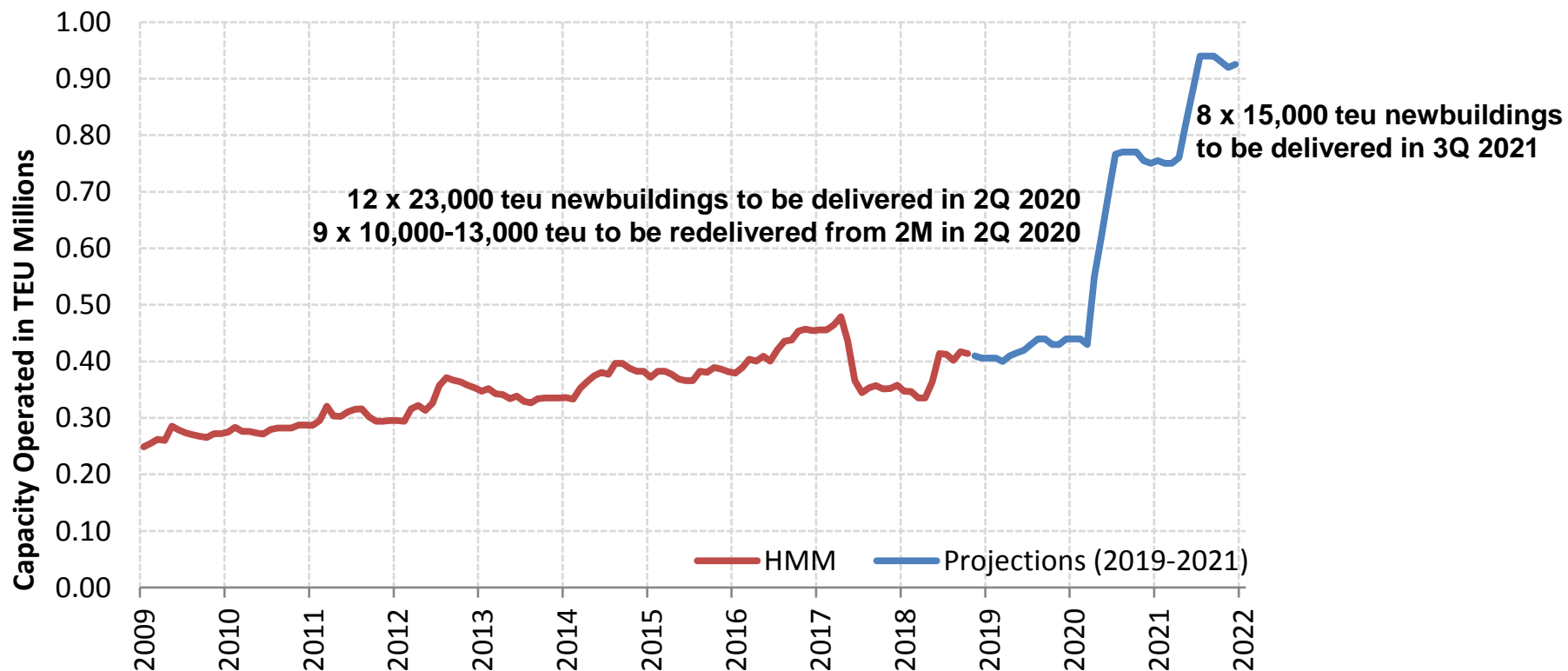
- Market fragmentation and excessive competition amongst Korean carriers
- Low operating margins
- Weak balance sheet and uncompetitive cost structure – especially HMM
- Over-supply of global containership fleet

When will Korean government support for shipping industry end?

HMM growth roadmap

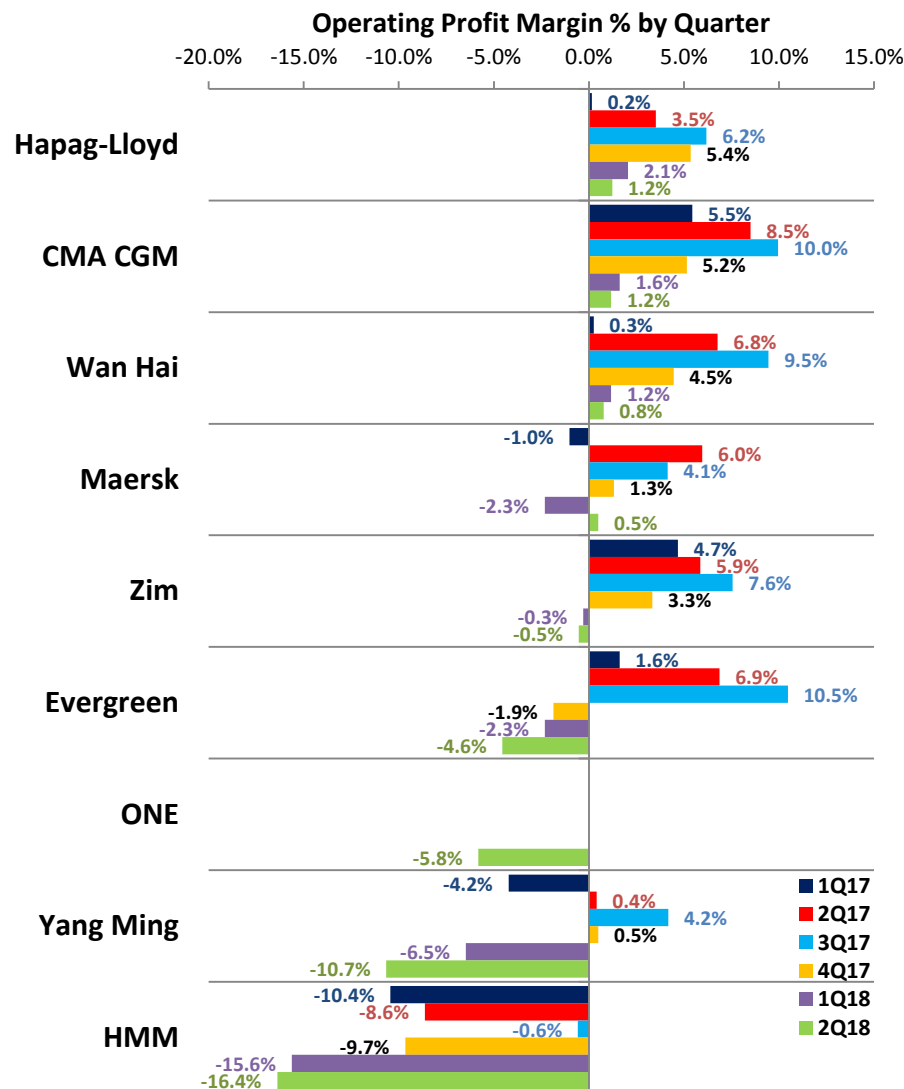
- HMM capacity operated is expected to reach 940,000 teu in 2021 from 415,000 teu
- 2020 environmental regulations described as “golden opportunity for HMM’s resurgence” – but rapid expansion carries significant risks

HMM operated capacity evolution : 2009-2021



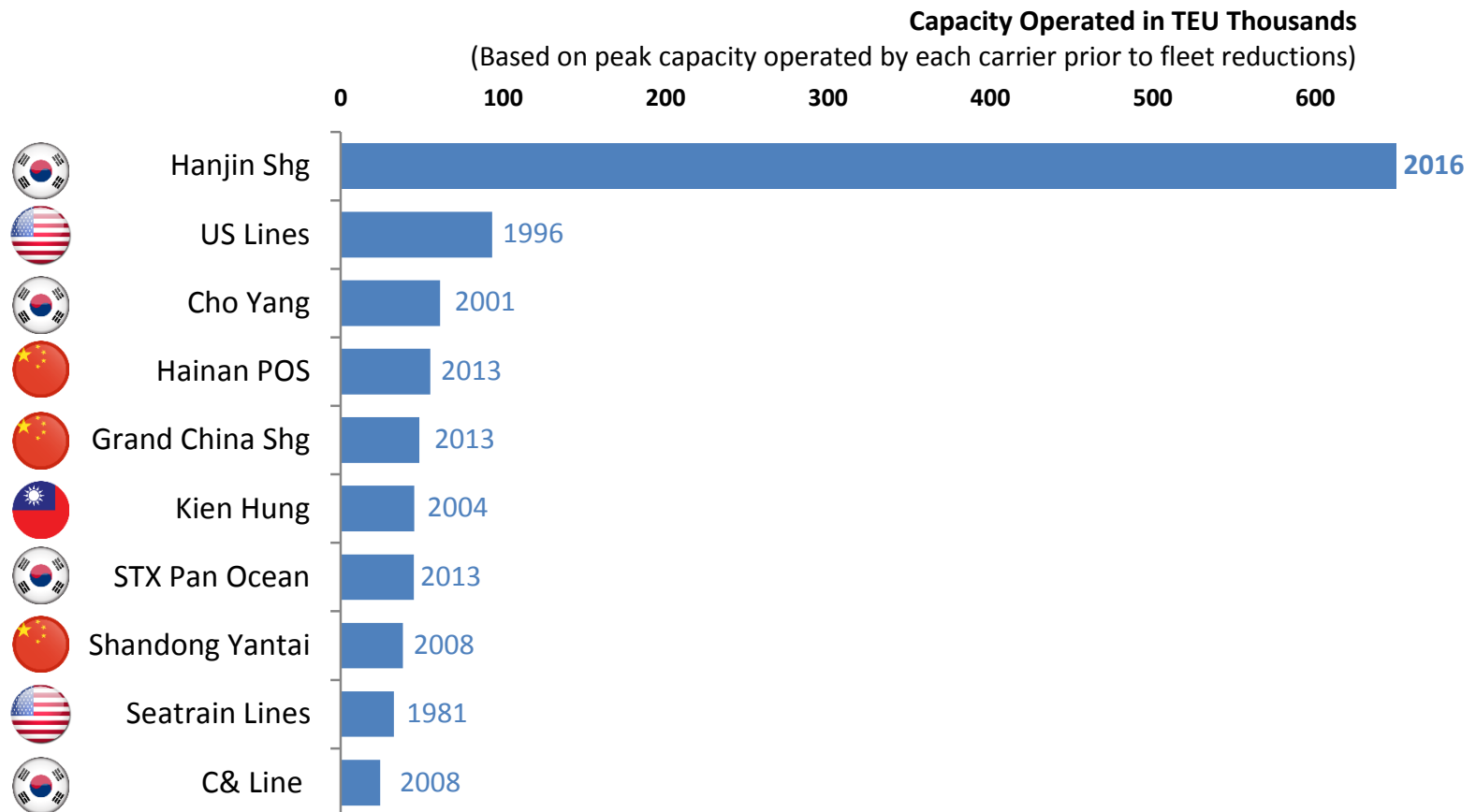
Korean carriers have consistently under-performed

- HMM operating margins the lowest amongst all main carriers since 2016
- Current HMM structure is set up to fail
- Future roadmap for HMM still unclear
 - 2M/HMM – an unequal partnership
 - New alliance partnership after 2020 still to be confirmed
 - 2018 cost saving initiatives have not achieved desired results
- A complete restructuring of HMM is required – recapitalisation and removal of toxic assets together with onerous contracts



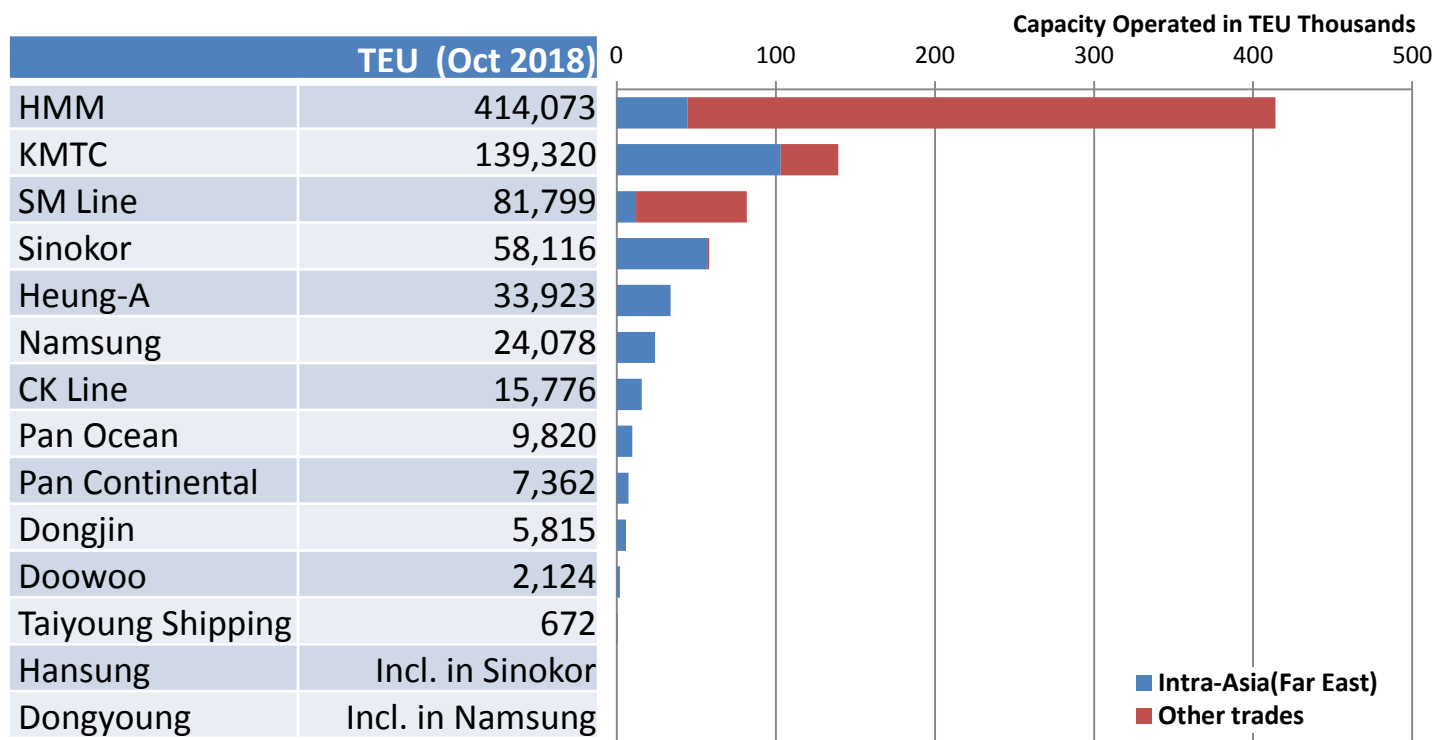
Lessons learnt from past bankruptcies

- 4 of the 10 largest bankruptcies in container shipping involved Korean companies
 - Financially overstretched
 - Over-expansion



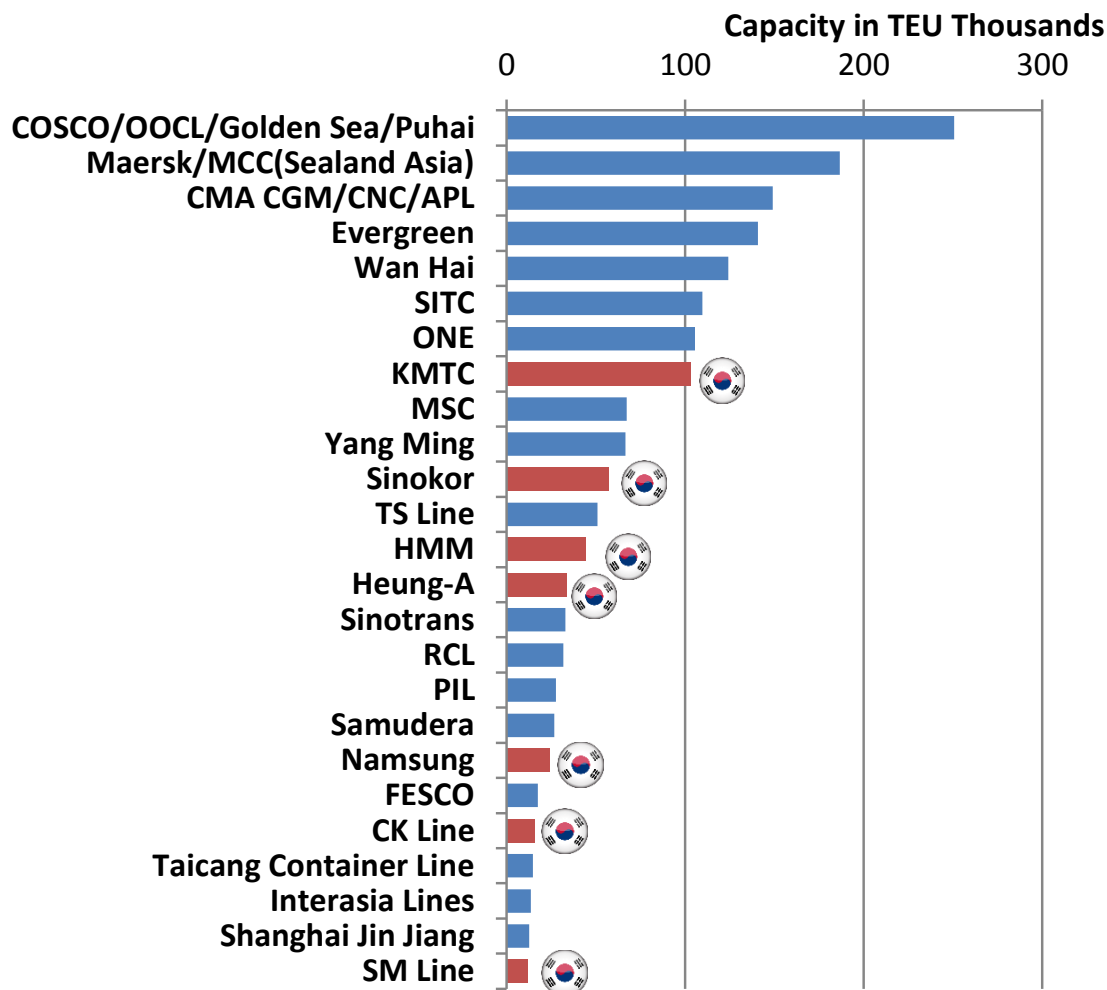
Korea Shipping Partnership failed to address key challenges

- 14 carriers (or 12 carriers if affiliated carriers are excluded)
- Only 3 limited rounds of service rationalisations , all in the intra-Asia routes
 - Nov 2017 (Busan-Hakata/Moji service)
 - Jan 2018 (Korea-Thailand & Korea-Indonesia)
 - Mar 2018 (Korea-North Vietnam)



Korean Intra-Asia carriers remains highly fragmented

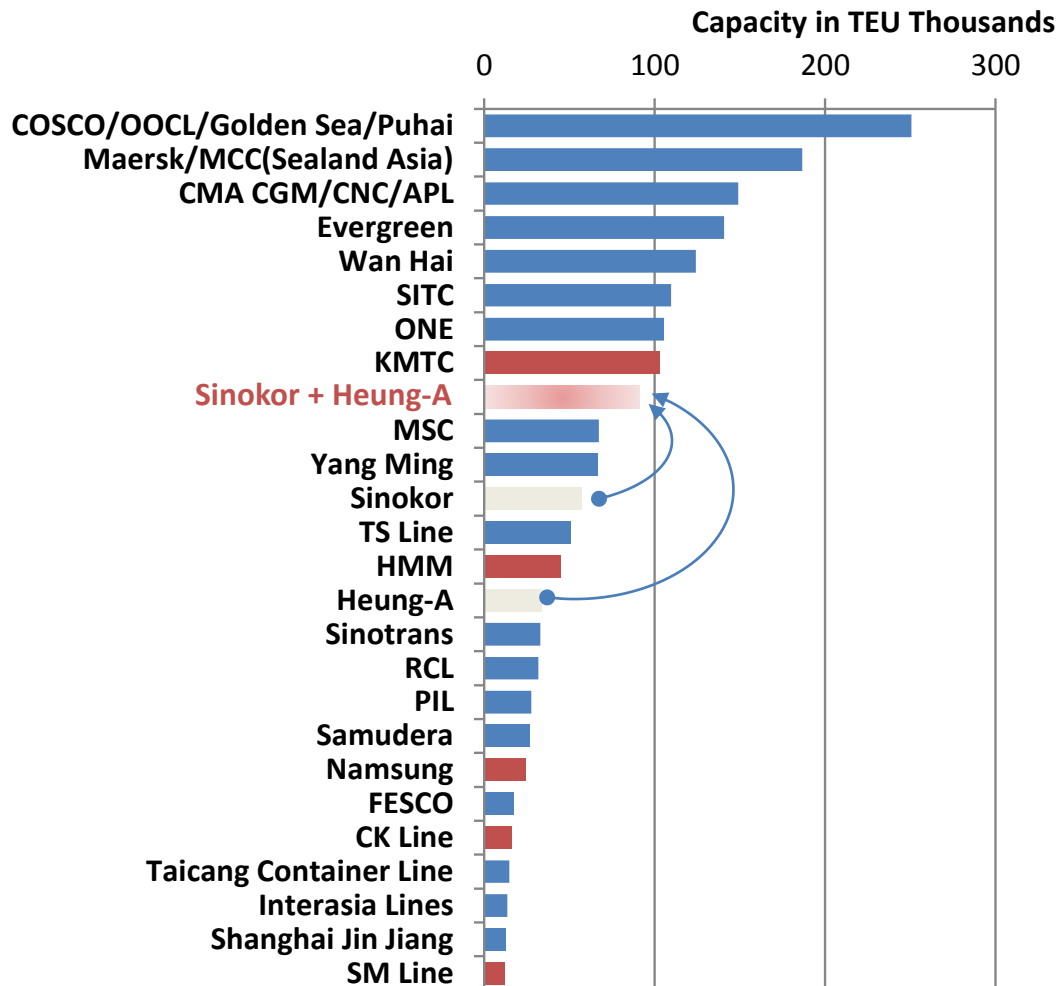
- 7 of the Top 25 carriers in Intra-Asia (Far East) trades are Korean but none have the scale to dominate the market



Country		No. of carriers (Top 25)
S. Korea		7
China		5
Taiwan		5
Denmark		1
France		1
Japan		1
Switzerland		1
Thailand		1
Singapore		1
Indonesia		1
Russia		1

Sinokor & Heung-A merger insufficient

- The combined intra-Asia capacity of Sinokor & Heung-A is still insufficient to give it a strong position in the market



Japanese ONE model for the Sinokor/Heung-A merger is flawed

- Overly long window (20 months) for integration of business
- Uncertainty remains on financial health
- Lack of clear leadership in merger process
- Mismatch of strengths and route overlaps
- Limited synergy savings

But consolidation in itself will not deliver dividends

- Predictions that consolidation will bring about market stability have proved to be premature



South China Morning Post

22 November 2016

Consolidation will bring stability to liner shipping industry, says Maersk China boss



25 July 2017

“Increasing liner concentration give carriers much more control over market and an end to era of low freight rates ...”

“The demise of Hanjin has changed the commercial landscape and the pricing discipline of the carriers”

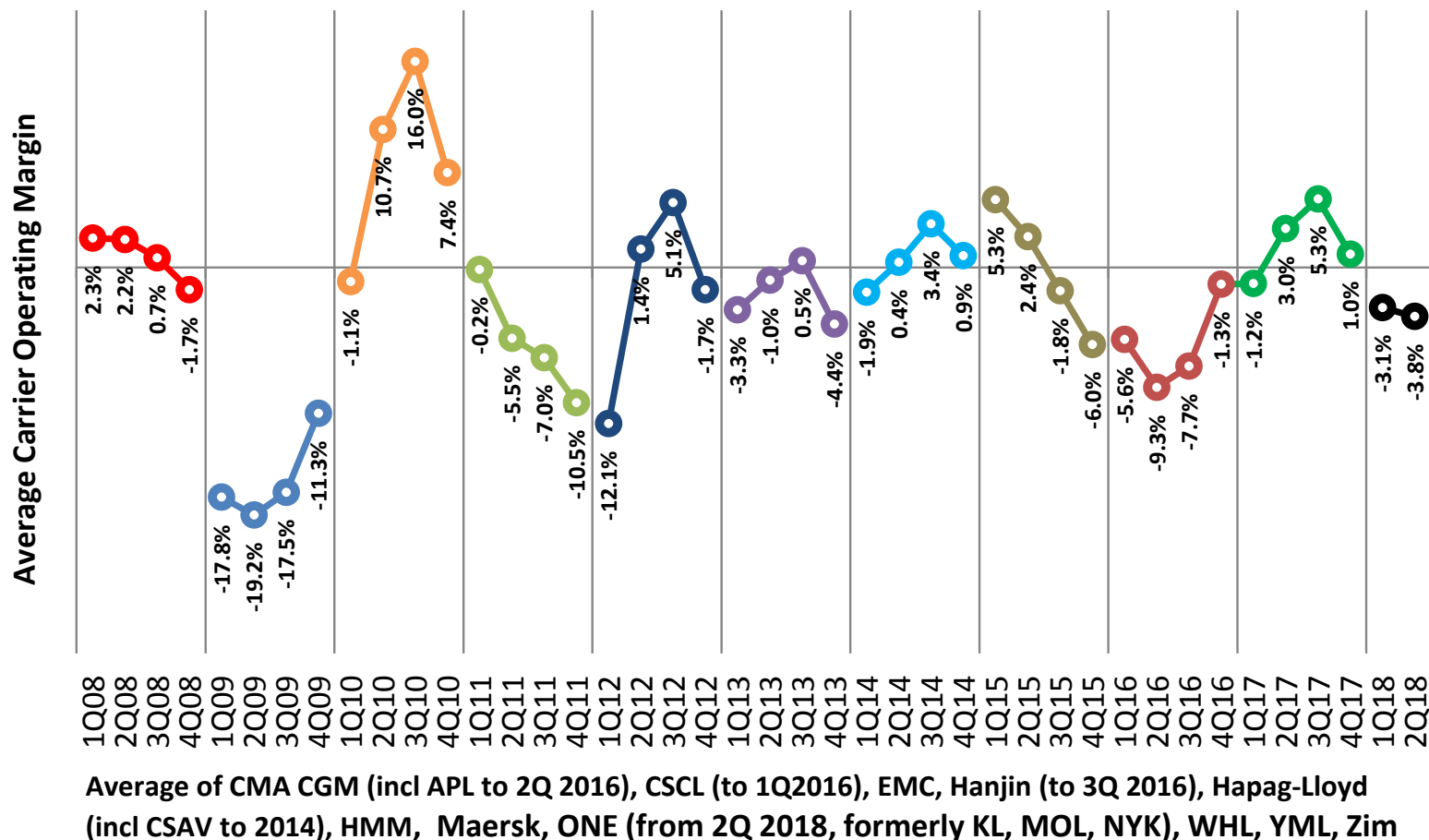
Market concentration correlates with industry profitability ...

McKinsey&Company

October 2017

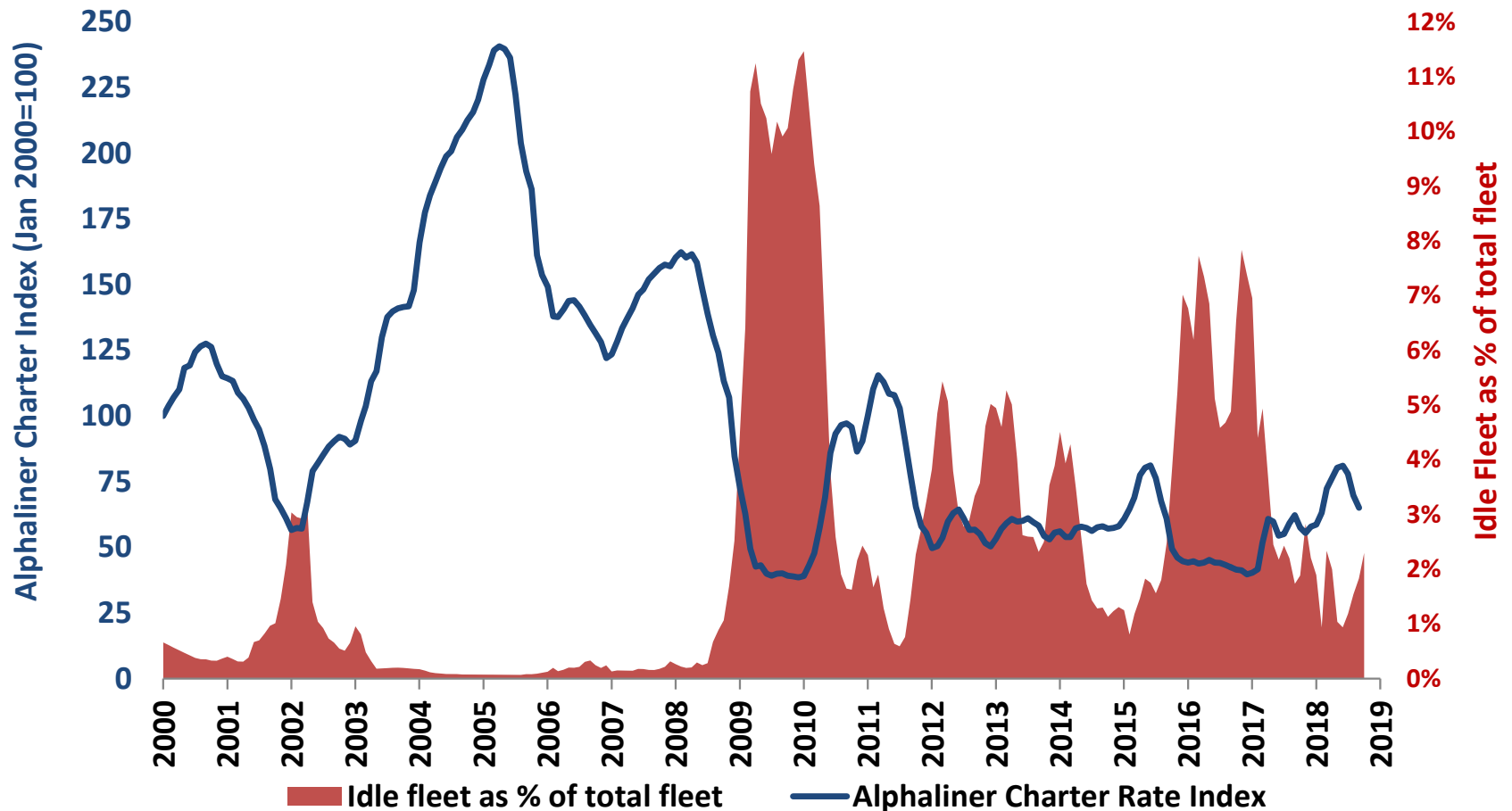
Competition will continue to curb carriers' earnings

- Average operating margins of container carriers (2008-2018) was -2.1%

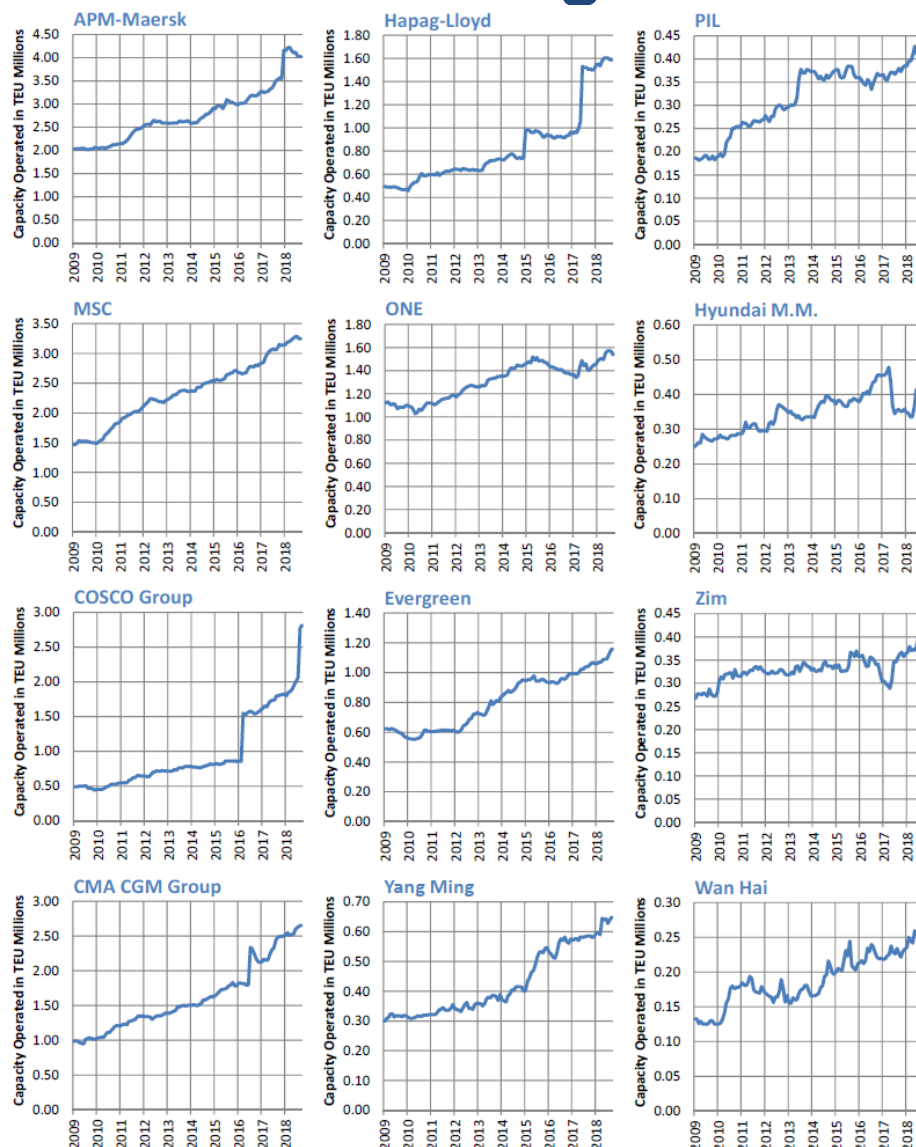


2019 will remain challenging with supply overhang to persist

- Supply-Demand imbalance not expected to be cleared, with idle capacity of >750,000 teu expected to be carried over to 2019



Carriers still chasing market share - Top 12 carriers 6.5%

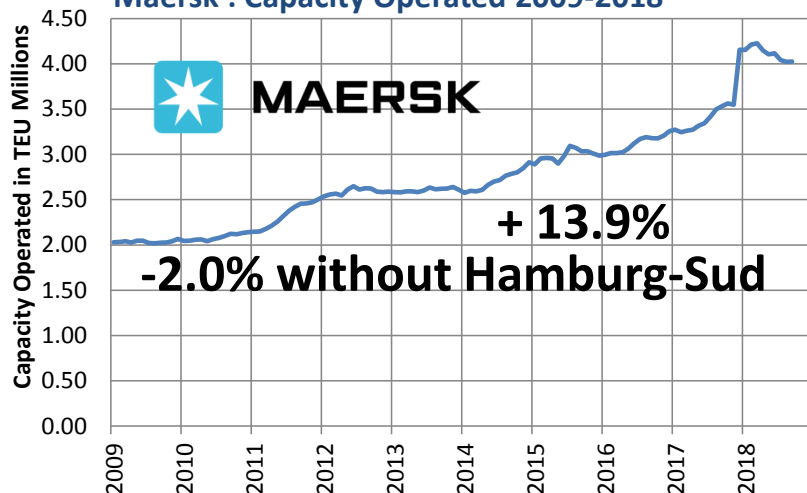


No.	Operator	%
1	APM-Maersk	13.9%
2	MSC	5.2%
3	COSCO Group	56.3%
4	CMA CGM Group	6.8%
5	Hapag-Lloyd	5.3%
6	ONE	9.2%
7	Evergreen	10.8%
8	Yang Ming	10.8%
9	PIL	14.0%
10	Hyundai M.M.	10.5%
11	Zim	16.7%
12	Wan Hai	15.0%

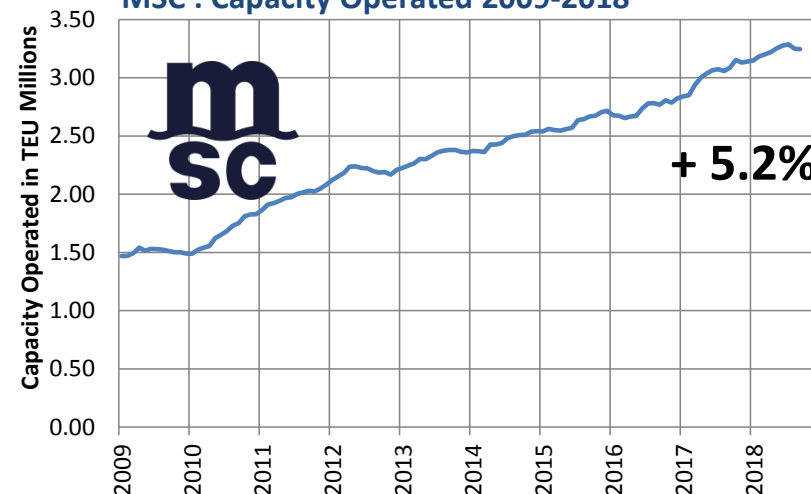
Average growth 6.5% (Sep 2018 vs Sep 2017) after adjustment for OOCL and Hamburg Sud capacity prior to their acquisition by COSCO and Maersk

Top 4 carriers – different approaches to growth (last 12 months)

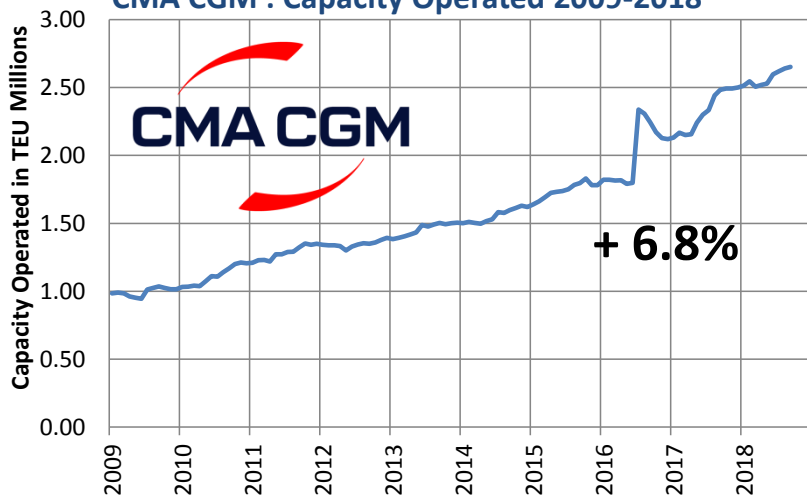
Maersk : Capacity Operated 2009-2018



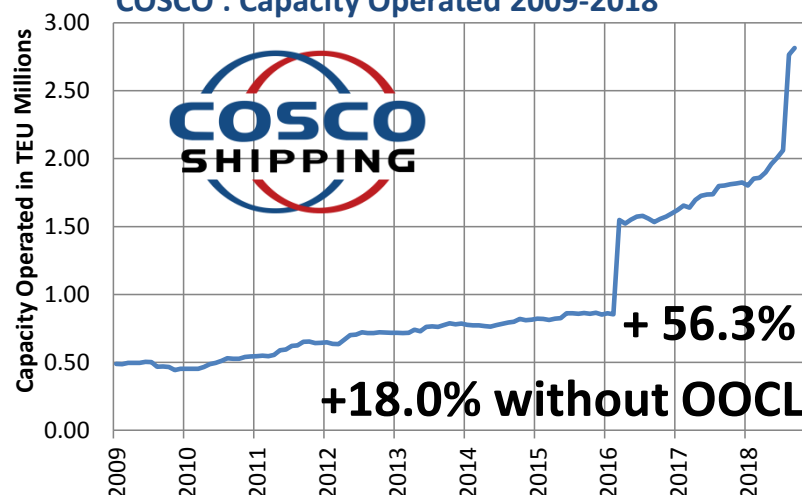
MSC : Capacity Operated 2009-2018



CMA CGM : Capacity Operated 2009-2018



COSCO : Capacity Operated 2009-2018



COSCO - most aggressive growth

COSCO SHIPPING

Deliveries in 2018

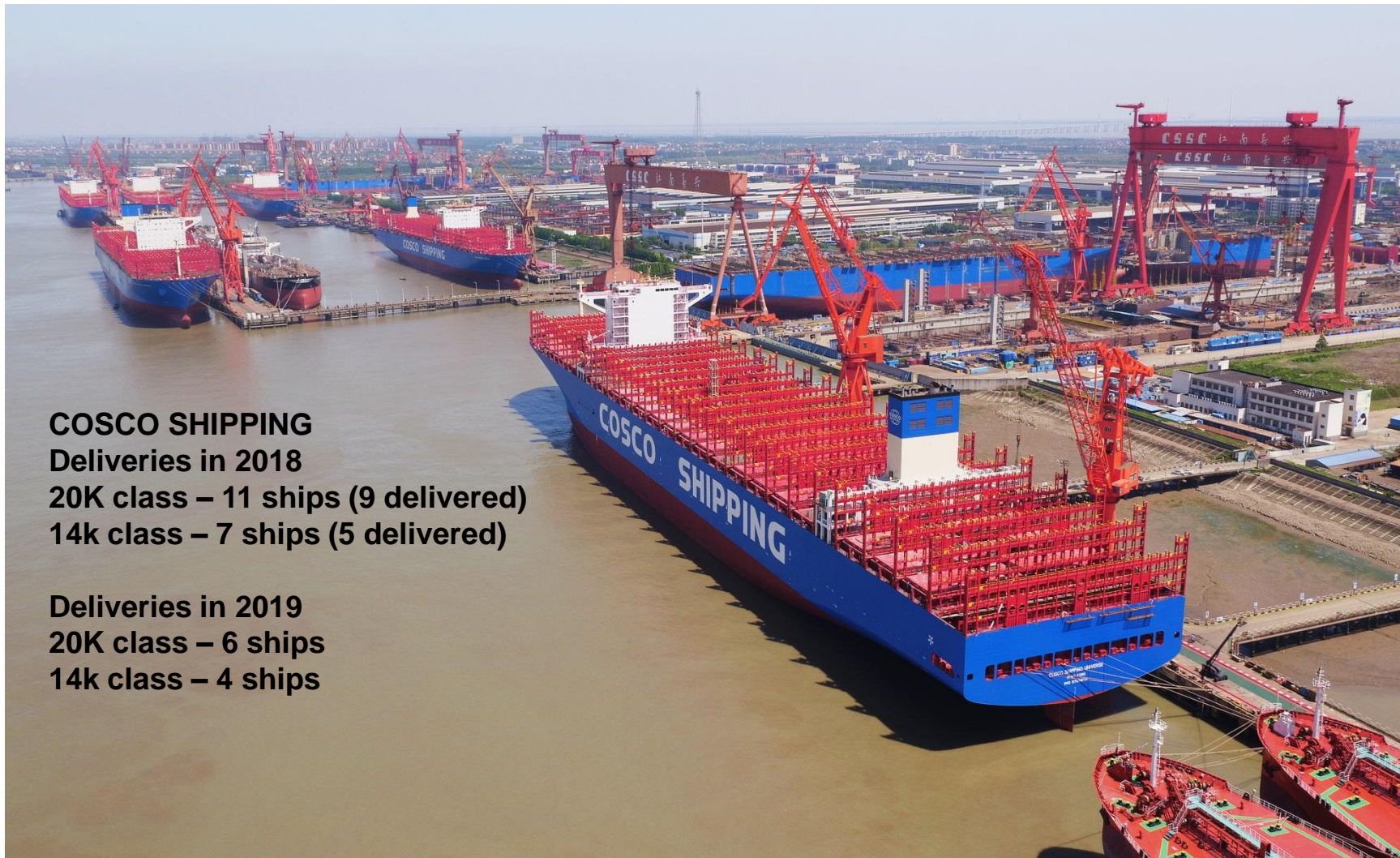
20K class – 11 ships (9 delivered)

14k class – 7 ships (5 delivered)

Deliveries in 2019

20K class – 6 ships

14k class – 4 ships



End

Please send any queries to hjtan@liner-research.com

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