

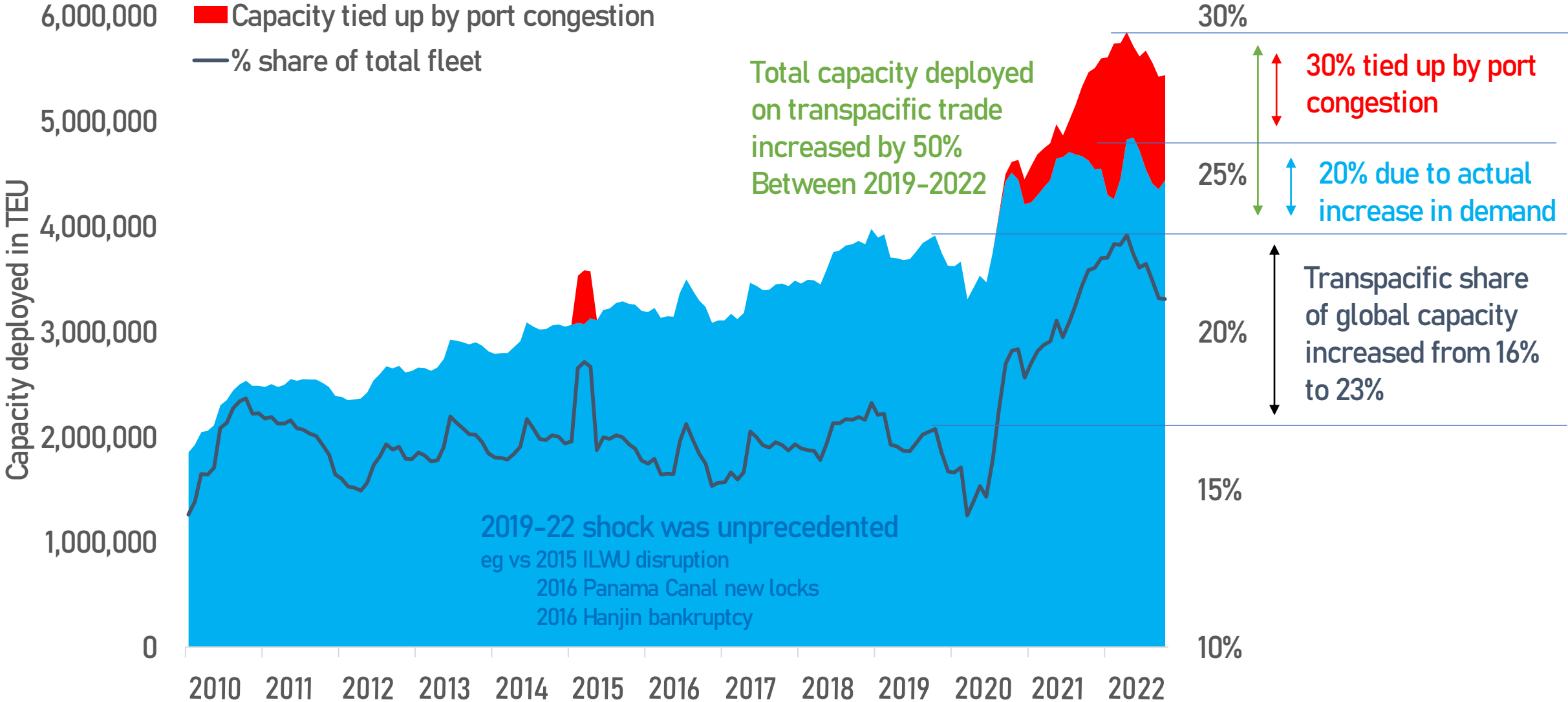
Container Shipping After the Boom

Busan International Port Conference
4 November 2022



Unwinding on the Transpacific has begun

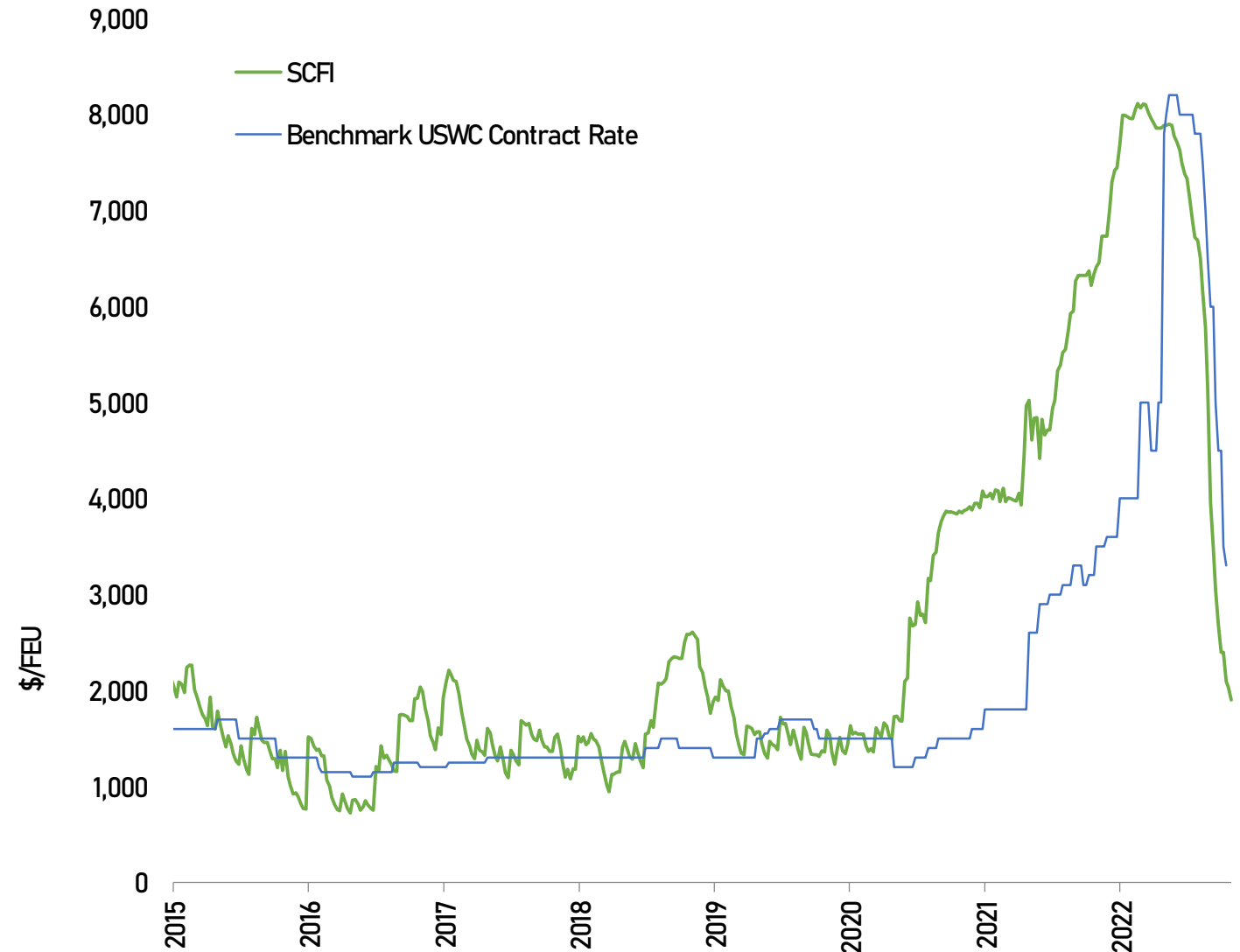
Capacity deployed on Transpacific trade 2010-2022



Freight rates in free fall as capacity utilization falls

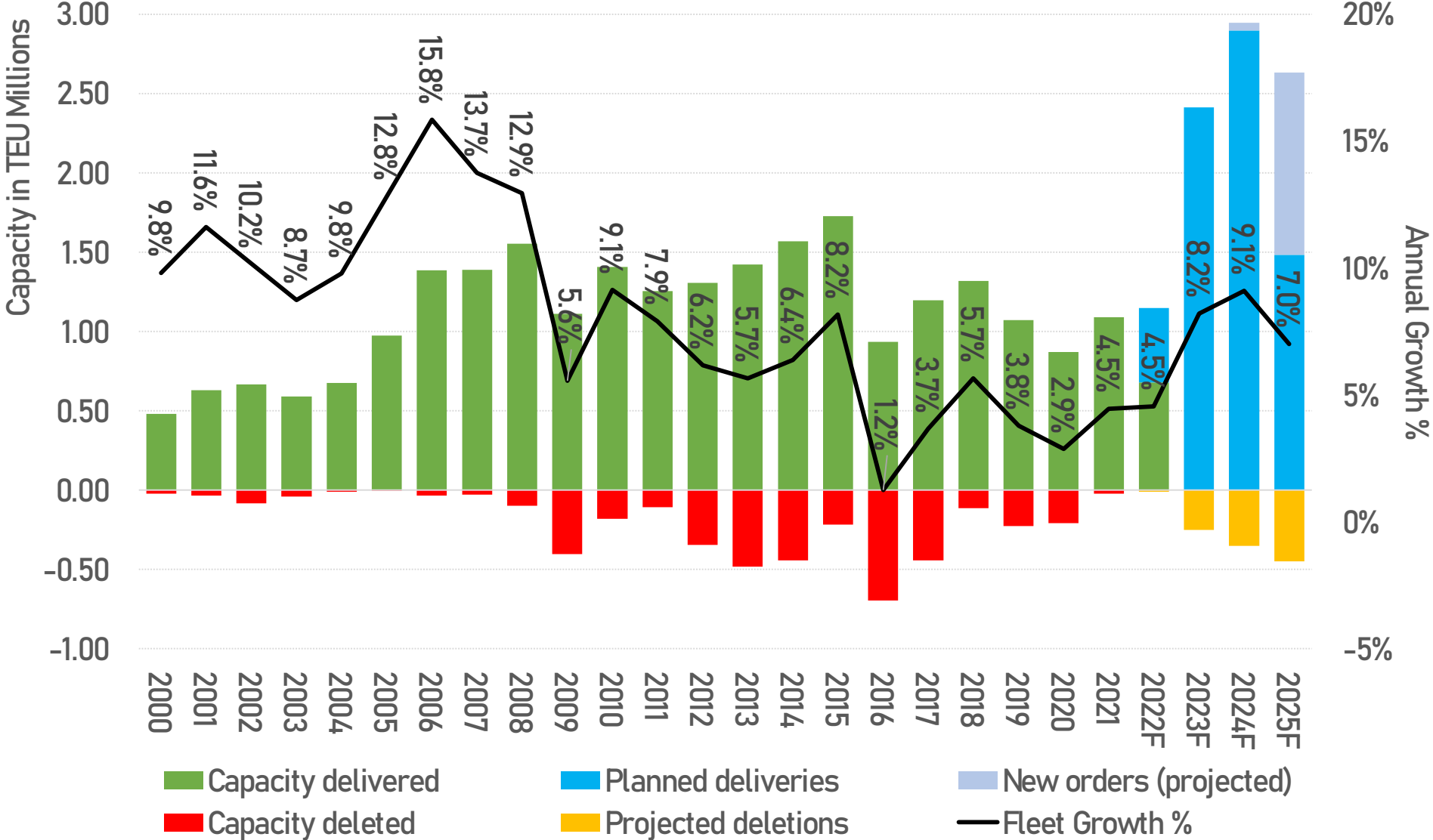
- Spot rate correction accelerates once it falls below contract rates
 - Contract carriers losing volumes to spot carriers have triggered further rate response
- Contract rate renegotiations are inevitable – current rates indefensible
- Race to the bottom – capacity adjustments are coming too little, too late.
- Blanked sailings ineffective in face of structural demand reduction
- No reason why floor rate will be higher than historical rate.
eg USWC rate already at \$1,500/feu
- Rebound unlikely without either a demand side or supply side catalyst

SCFI Shanghai to US West Coast vs Benchmark Contract Rate



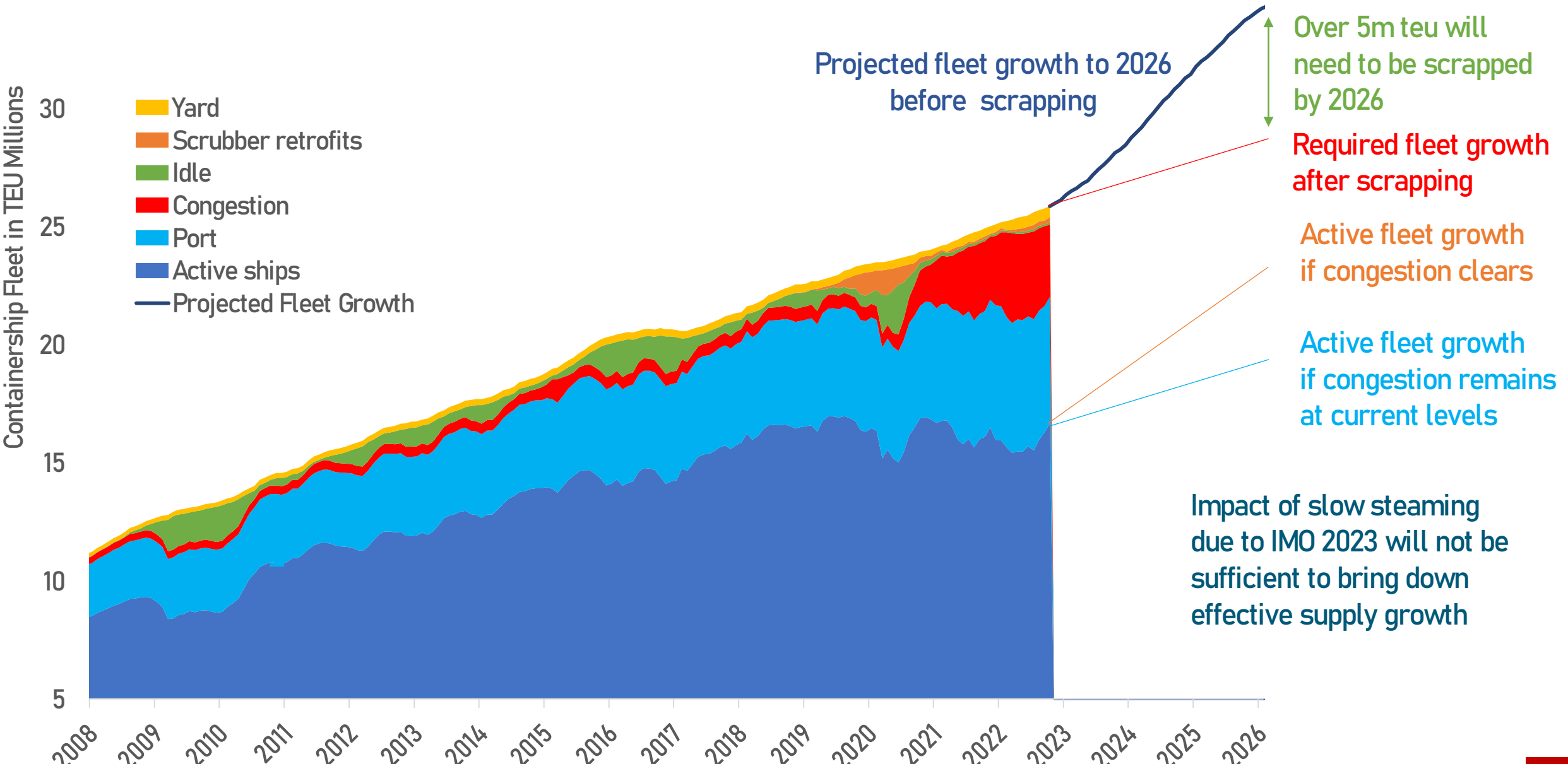
Supply-Demand imbalance set to widen

Containership Fleet Growth : 2000-2025F



- More ship orders still to come
- Order cancellation & deferral risk is low
- Scrapping activity not expected to surge
- Fed overtightening & European energy crisis will hurt demand growth
- Re-stocking unlikely to drive sustainable demand recovery

Significant challenges ahead from capacity overhang

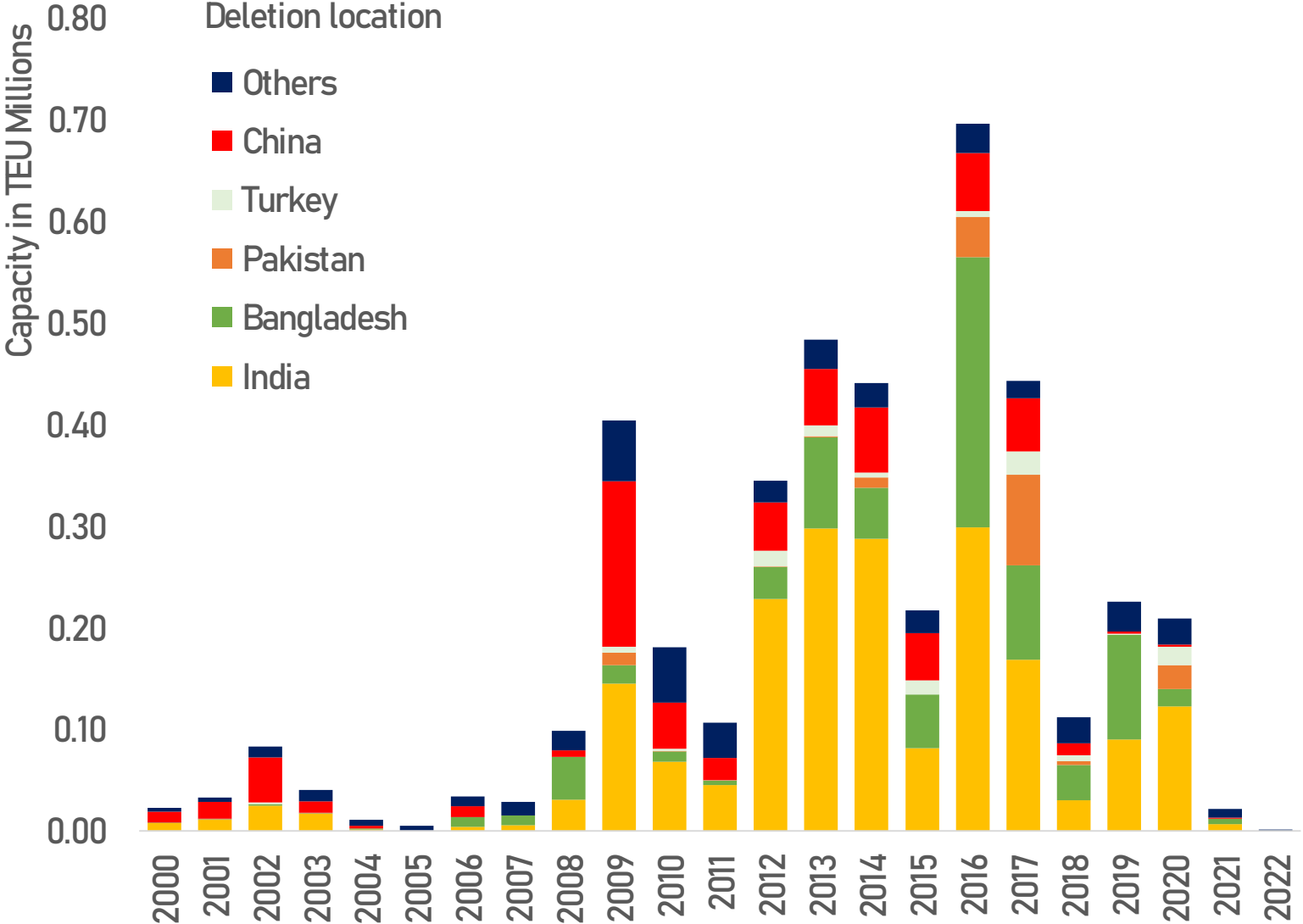


Insufficient scrapyards capacity to remove surplus ships

Containership Deletions : 2000-2022

Historical maximum annual scrapping 0.7m teu
vs
Required scrap rate of 1.7m teu a year

Expectation of a surge in scrapping in 2023 is unwarranted



From the scrap heap – Old ships are being refurbished

August 2020
Sold for scrap \$6m



Maersk S-class ships (13 units built 1997-2000)
Originally 8,160 teu upgraded to 9,640 teu in 2011/2012

SINE MAERSK (1998-2020)
scrapped in Aug 2020 for \$6m

It still holds the record for the largest containership ever scrapped

August 2022
Refurbished value >\$90m
at the market peak



MSC bought 4 sisterships in 2021

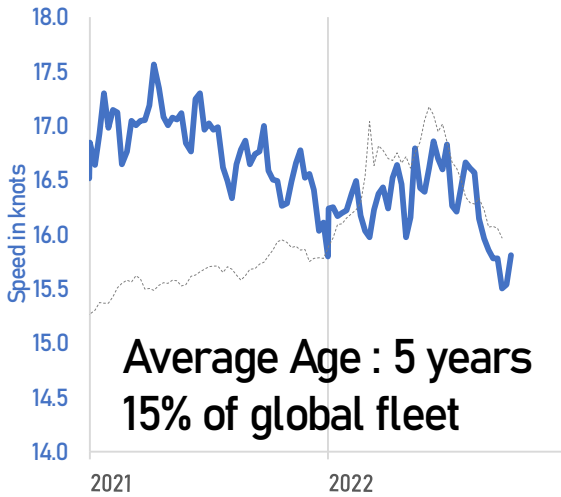
(AOTEA MAERSK->MSC ABY, SOFIE MAERSK->MSC VILDA, SOROE MAERSK->MSC ELLEN, SUSAN MAERSK->MSC FIE)

These 23-24 years old ships will get a full 3 month retrofit in 2022 for:

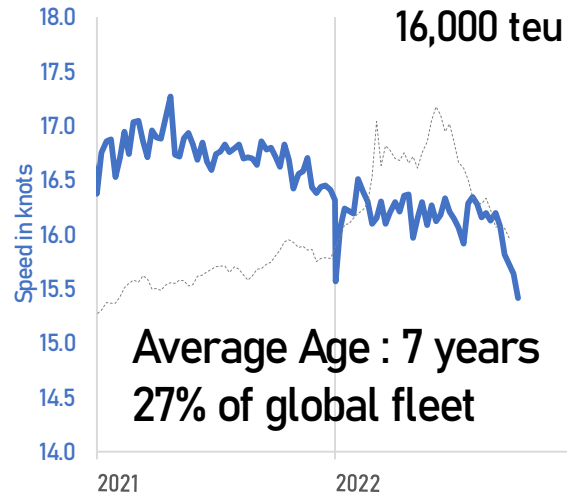
- Scrubber installation
- New propeller
- Thruster replacement
- Bow optimisation
- Silicone recoating

IMO 2023 will not clear out surplus capacity

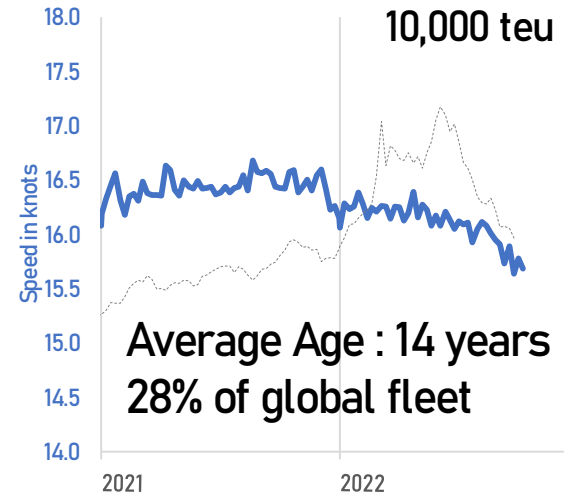
VLCS/ULCS: >16,000 teu



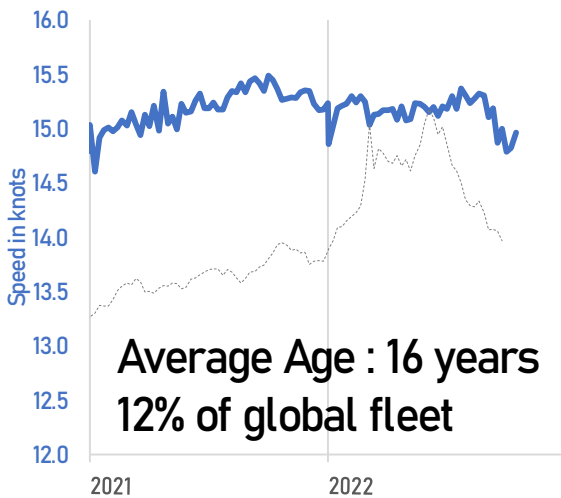
New Panamax (Large) : 10,000-16,000 teu



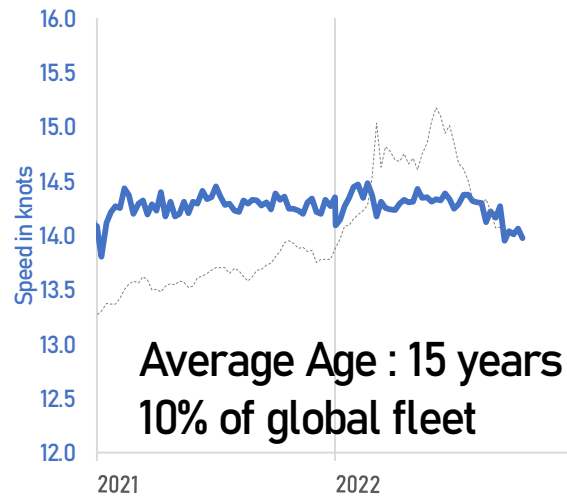
New Panamax (Small) : 5,300-10,000 teu



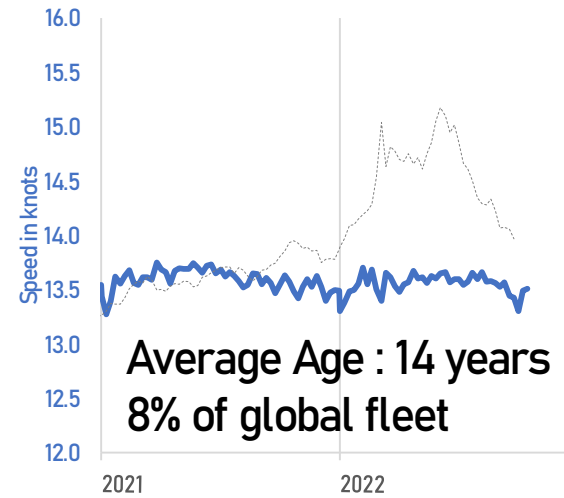
Panamax (4,000-5,300 teu)



Intermediate (2,000-4,000 teu)



Small (650-2,000 teu)

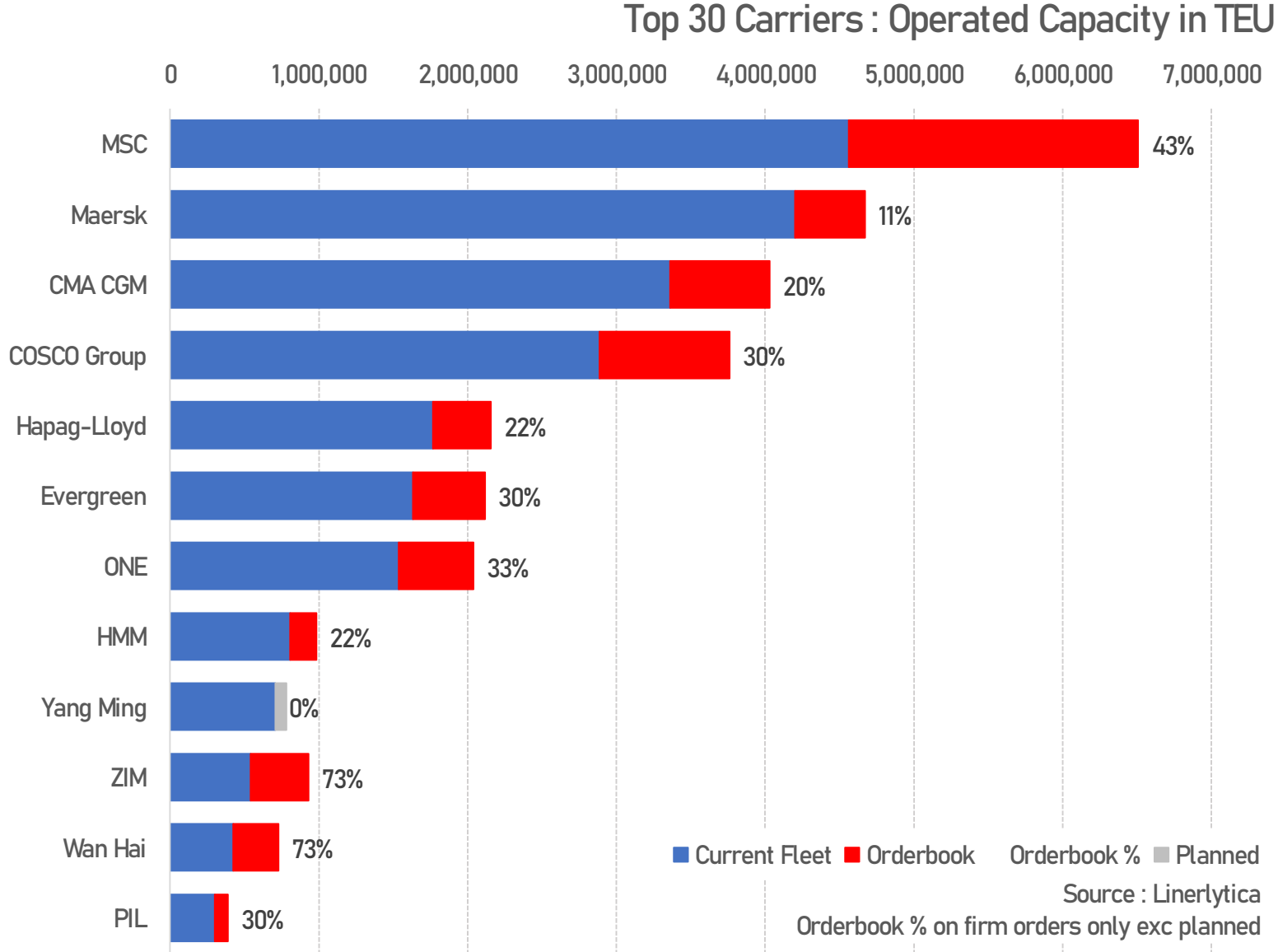


- Speed reductions can only be applied 60% of the time
- Limited room for vessel speed reductions of more than 1-2 knots
- Newer ships will not require major speed adjustments
- Ships with CII grade D have 3 years to take corrective actions
- Impact on effective fleet supply expected to be less than 5%

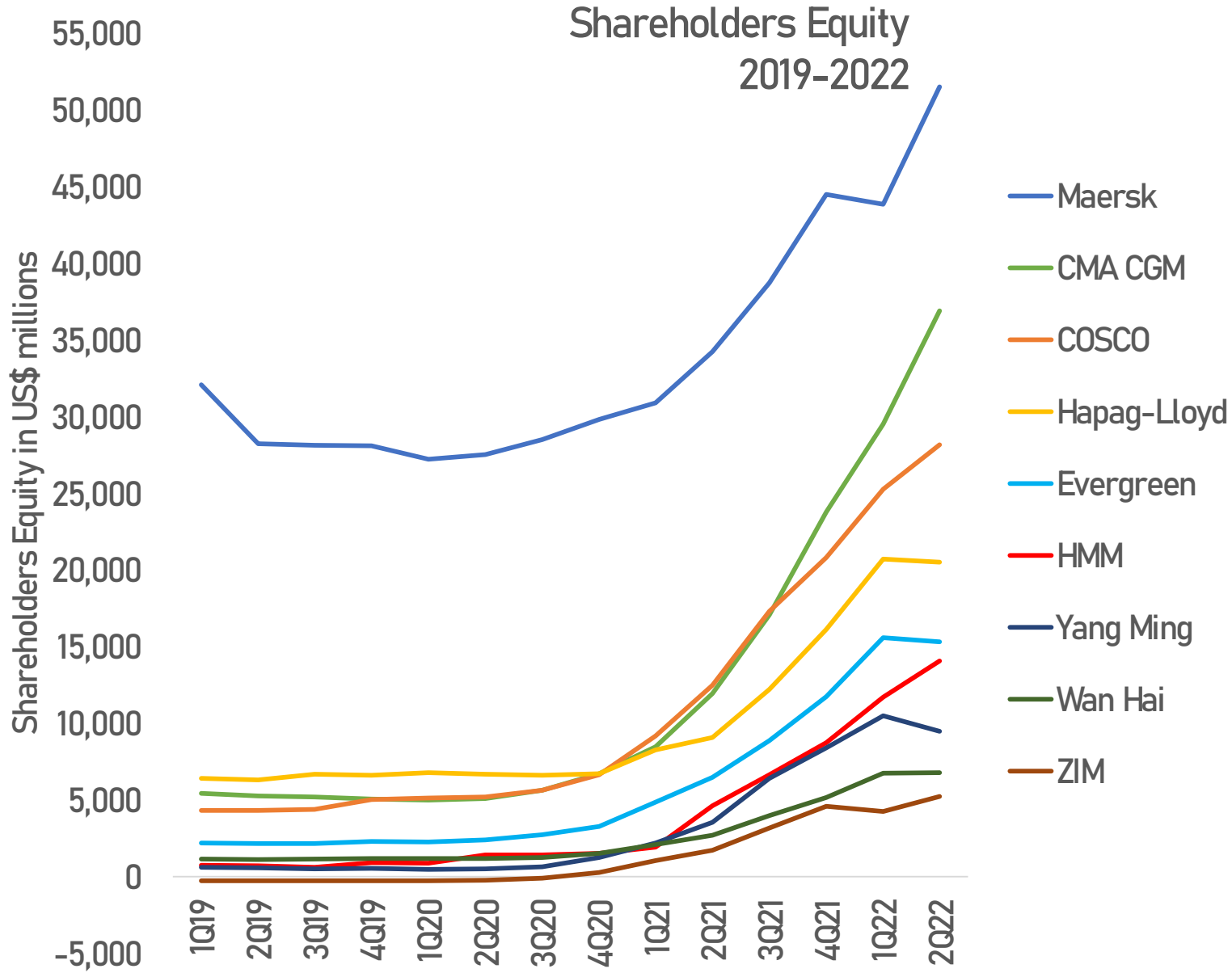
Carrier discipline remains a myth

All of the main carriers are aiming to grow market share

And all of them now have the balance sheet to fight a destructive price war



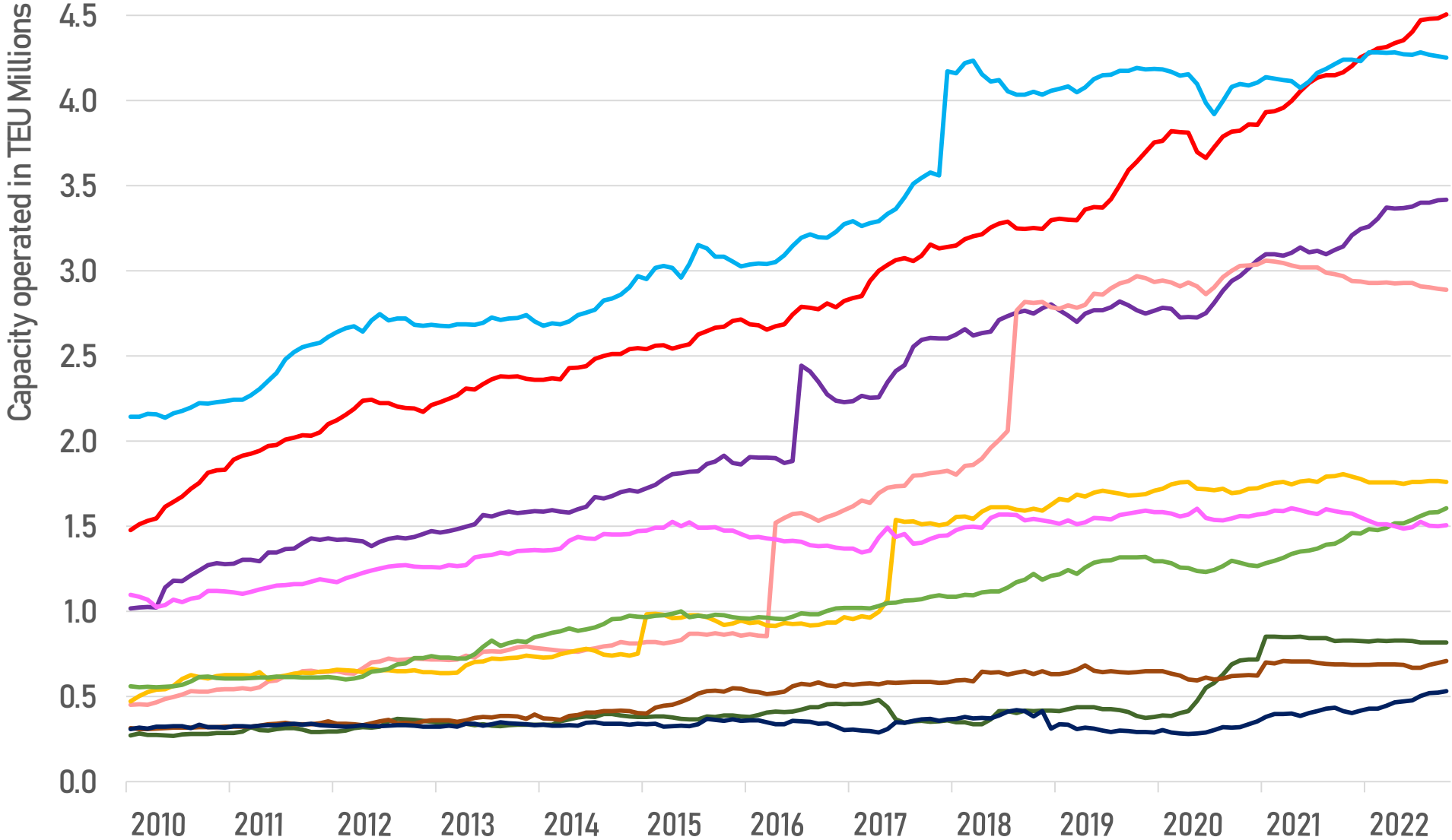
Divergent carrier strategies → Battle for market share



- Political agenda in play for **COSCO/HMM/YM/PIL**
Moral Hazard + Implications on growth, pricing, shipyard selection/ship orders
- Independent players **MSC/CMA CGM**
Pursue growth as over-riding objective
- Losing the plot **Maersk**
Integrator strategy not paying off
- Playing catch up **Hapag-Lloyd/ONE**
Regaining lost share
- Independent Asian carriers **Evergreen/Wan Hai/SITC**
Don't expect them to follow conventions
- Upstart **Zim**
To pay price for aggressive expansion

Discipline vs orderbook pressure/growth aspirations

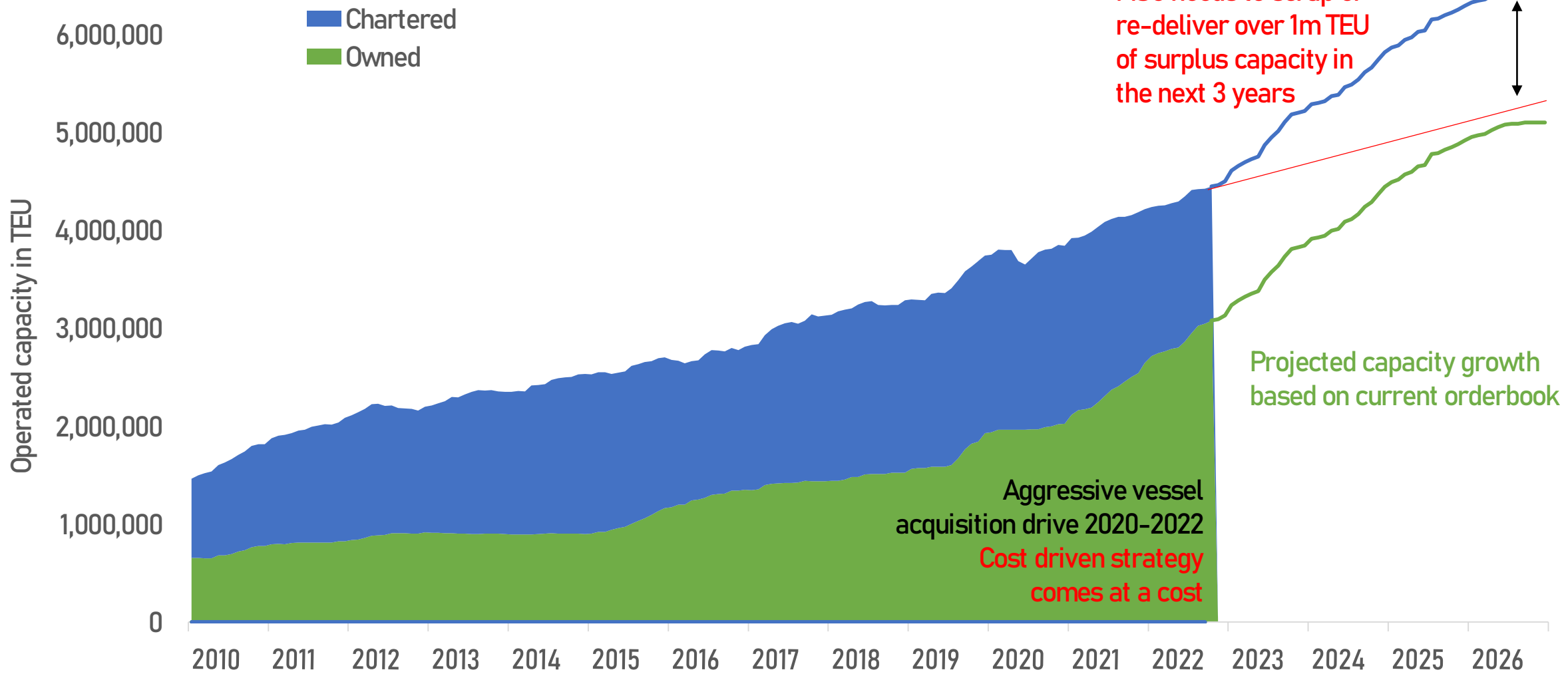
Top 10 Carriers : Evolution of Capacity Operated 2010-2022



Carrier	Orderbook %
MSC	43%
Maersk	11%
CMA CGM	20%
COSCO Group	20%/30%
Hapag-Lloyd	23%
Evergreen	32%
ONE	34%
HMM	22%
Yang Ming	0%/11%
ZIM	81%

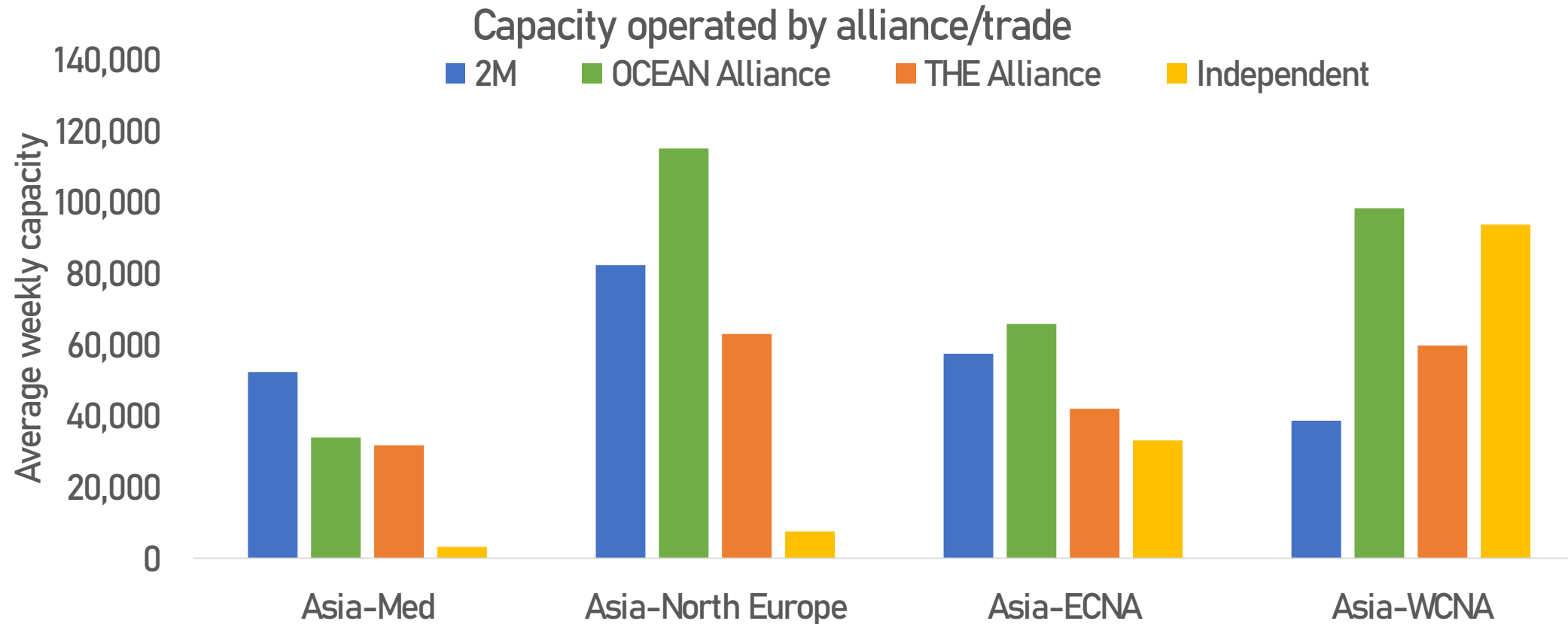
MSC in market share grab mode

MSC : Capacity Operated 2010-2022



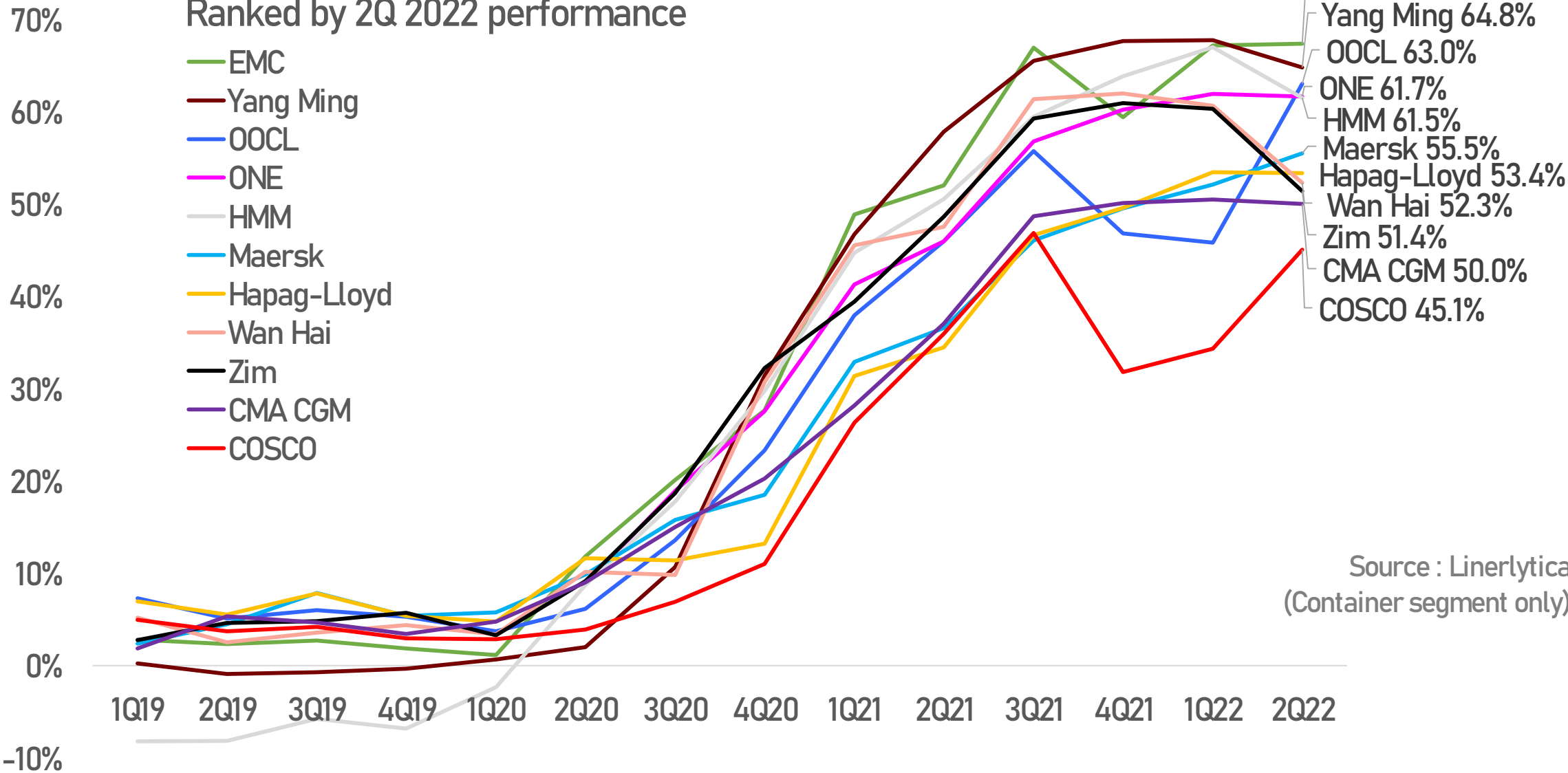
Implications on Alliance arrangements

Alliance	Date formed	Duration	Earliest termination	Notice period
2M	Nov 2014	10 years	Oct 2024	2 years
OCEAN Alliance	Apr 2017	10 years	Apr 2024	1 year
THE Alliance	Apr 2017	10 years	Apr 2027	1 year



Mixed carrier performance – with room to drop

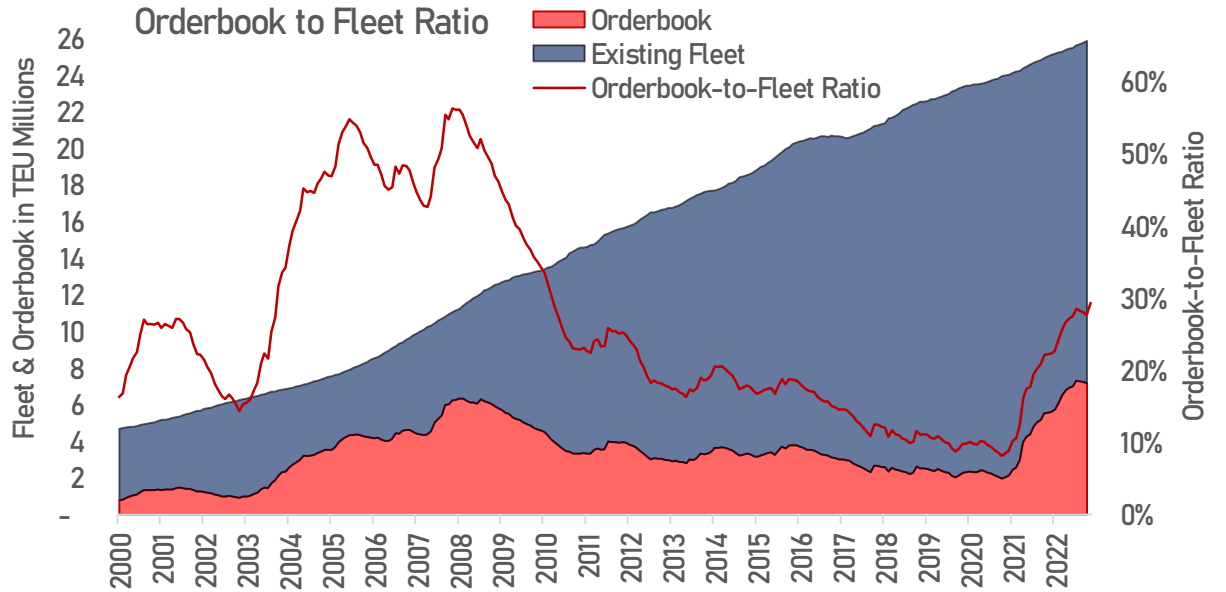
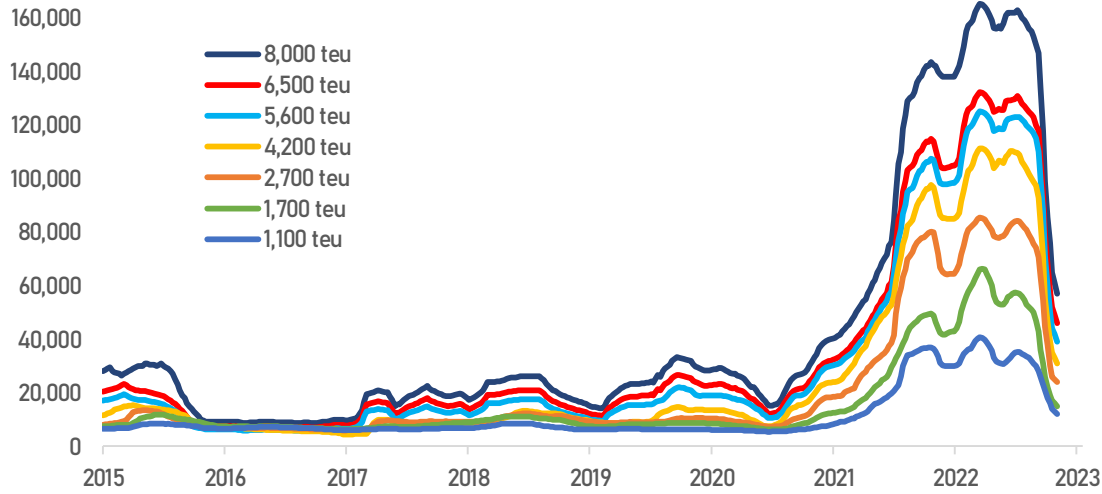
EBIT margin comparison
Ranked by 2Q 2022 performance



Source : Linerlytica
(Container segment only)

Opportunity cost for idling capacity is too high

Containership charter rates \$/day
(based on 12 month fixtures)



Secondhand containership prices (US\$ m)

