Year-end projections: Bulker earnings

Capes forecast to double yearly earnings as China again drives demand

This is how it feels when you stop bleeding cash.

According to our second annual survey of analysts on forecast earnings, all bulker segments will post significant growth in charter hires this year. More importantly, this year’s earnings will be comfortably above operating expenses — thus most owners have enjoyed positive operating cash flows, even though they are not yet making net profits.

Therefore, newbuilding deliveries have mostly been on time this year because owners are no longer afraid of losing cash by putting their ships on the water. At the same time, financing constraints and industry discipline are limiting newbuilding orders.

The net result is that the total orderbook size has shrunk to 623 vessels with 64m dwt, or 7.9% of existing fleet capacity, as of early October, according to Clarksons data. That is close to the lowest ratio on record. A very positive development, indeed, because oversupply will likely disappear as the number of newbuilding deliveries continues to fall in the coming quarters.

These developments are not without worries, though.

This year’s market recovery is driven by the strong growth of China’s coal and iron ore imports. However, the country’s needs for those two types of commodities may be lower than usual this winter owing to Beijing's environmental drive to encourage gas-linked power generation and cap steel production in some provinces. Once again, owners will live and die by the world’s largest seaborne dry bulk trading nation.
The full version of this report, available here, contains forecasts of 2017 earnings from leading banks, brokerages and consultancies. Next week, we will publish our 2018 outlook.

Capesize

It is the capesize segment once again leading the dry bulk recovery. Average earnings this year will almost double the 2016 level, based on our survey.

The recovery has been driven by China's efforts in cutting the numbers of domestic polluting steel mills and closing iron ore and coal mines with low efficiency. The net results of those measures have turned out to be favourable for dry bulk shipping.

Despite the closure of some outdated steel-making capacity, China has been producing more steel this year, with healthy domestic demand driven by infrastructure needs. According to the World Steel Association, Chinese crude steel production was up 6.3% year on year at 638.7m tonnes in January-September.

Analysts point out China has needed to import more high grade iron ore to produce high quality steel. Most iron ore trades are on capes and because Brazil's Vale is raising output, tonne-mile demand continues to enjoy healthy growth. Clarksons estimates iron ore-related tonne-mile growth will reach 5% in 2017, versus 4% last year.

There are some near-term headwinds, with China's environmental policy expected to curb coal and iron ore imports. But at least oversupply will continue to ease: according to Maritime Strategies International, the global capesize fleet will grow by only 0.1% in the fourth quarter.

Panamax

The panamax segment, having been a laggard for much of this decade, has been a pleasant surprise this year.

Chinese coal imports are still experiencing healthy levels of growth owing to the reduction of domestic output from mines with high levels of pollution and the demand displayed by steel mills and power plants. But the revival of US exports owing to lower domestic demand and favourable international pricing is particularly bullish for panamaxes, with European nations taking about half of those cargoes.

According to the Energy Information Administration, the US is due to export 72m short tonnes of thermal and coking coal this year, up from 61m tonnes in 2016. MSI expects exports of US coking coal to reach 45.2m tonnes, up 21.7% year on year.

Another supporting factor is China continuing to raise imports of soyabean, partly because of strong demand for oilseeds. The US Department of Agriculture expects Chinese imports of soyabean to reach 93.5m tonnes in the 2016/2017 harvest season, another record high, before rising further in the 2017/2018 season.

“As the seasonal trade shifts from South America to the US, a strong US soyabean crop should continue to drive continued volume growth [from October],” JP Morgan said in a note.

Supramax

Generally considered to be the most flexible type of bulkers, supramaxes have had a decent if unspectacular year.

While Indonesian coal exports and healthy global grain trades continue to be supporting factors, steel exports from China have been lacklustre owing to domestic demand and overseas tariffs.

The world's largest steel-producing nation exported 59.6m tonnes in the first nine months of 2017, down 29.8% on year. In percentage terms, Clarksons predicts exports to India, the US and the European Union to show the largest falls this year.

However, there could be support from India, where the Supreme Court has prohibited industrial use of petcoke and furnace oil in national capital regions on environmental concerns.

Indian industrial firms will need to import nearly twice as much volume of thermal coal to replace petcoke, according to an India-based analyst. This could boost imports from the US and South Africa.

Handies

Handysize earnings are increasing this year on the back of expanding minor bulk trades, even though these gains lag behind other segments.

Global seaborne bauxite, alumina and nickel ore trades are all expected to increase this year, in part owing to stronger Chinese imports, according to Clarksons forecasts.
On the supply side, net fleet growth will stay limited owing to a small orderbook and negligible newbuilding orders. As of early November, the total orderbook of 35,000 dwt ships or smaller consisted of 46 units, with 1.2m dwt, or 1.8% of the existing fleet, data from Lloyd’s List Intelligence showed.

**NEWS**

**Follow the Money: European shipowners could relocate to Asia as finance moves east**

EUROPEAN shipowners could move their operations to Asia to be closer to the money men as new sources of finance emerge, industry leaders are warning.

Several speakers at the recent European Maritime Law Organisation conference in Hamburg expressed concern at the prospect of a further erosion of Europe’s maritime industries as traditional sources of finance are eclipsed by lenders in China and Japan in particular, private equity, and other providers of capital.

Maritime cities such as Hamburg, which has thrived in the past on the close personal contacts between shipowners and their bankers, could be particularly hard hit, now that German ship finance institutions have lost their pre-eminence and have become relatively minor players.

That is the view of German Shipowners’ Association managing director Martin Kröger, who told the conference that a successful maritime hub needed shipowners and ship finance banks to be in close proximity to each other so that the two sides could meet face to face when necessary.

With HSH Nordbank no longer number one in the world for ship finance and about to be privatised after its government rescue, and others withdrawing from this sector or scaling right back, that has weakened the whole maritime cluster, he said.

“You no longer have your banker a short distance away so that you can meet up for coffee,” he explained. “This is a complete mindset change.”

**Salvage union calls for rethink on firefighting equipment**

THE International Salvage Union has called for a rethink of firefighting equipment on board vessels following a spate of fires on ro-ro passenger ferries and large containerships.

It is backing a push by the International Union of Marine Insurance for improvements in detection, protection and firefighting capability as well as cargo declaration on board vessels. According to IUMI, firefighting capabilities on board many vessels remains insufficient.

The frequency of fires on board ro-ro passenger vessels is increasing. An IUMI report published in February found more than 1% of ro-ro vessels experience a fire on board each year, twice that of fires on most other vessel types.

**OPINION**

**The other side of ship finance**

MARINE Money’s seminar in New York on Tuesday ushered shipowners to a new, or dare we say alternative, direction for their funding needs.

On the retreat is traditional debt and, surprisingly, common equity. On the rise is everything that sits in the pecking order between bank debt and shareholders’ equity, or what is commonly referred to as alternative finance.

Alternative finance may be the flavour of the month, but it must prove that it has staying power as a
viable source of capital, argues our US correspondent Lambros Papaeeconomou. The key lies in how these new products are priced and whether they make sense for borrowers as much as they do for the capital providers.

Back to the future

WILL data scientists, scruffy looking oiks wearing trainers but without neckties, take over the shipping world? Should traditional shipbrokers fear for their ‘disintermediation’, with manipulators of Big Data producing software that will enable a five-year-old to fix a product tanker with half a dozen keystrokes on his dad’s smartphone?

The human judgement and experience required of mariners throughout the ages is unlikely to be rendered superfluous by the dramatic digital shake-up taking place in the shipping industry, argues Michael Grey.

MARKETS

Digitalisation will expose poor box line performance

RELIABILITY is still not a sufficiently high priority for container lines, but emerging technologies will expose poor box line performance and force carriers to up their game, according to online freight forwarder iContainers.

The company believes shipping carriers will “only prioritise improving their schedule reliability in a perfect world”. Recent analysis by SeaIntel on the on-time performance of carriers in the third quarter of 2017 revealed a slight increase of 0.2% from the second quarter to 74.7%. But despite the modest increase, this is still more than 10 percentage points below third-quarter 2016 performance.

Low vessel utilisation blamed for slipping freight rates

CONTAINER line claims that vessels were full during the recently concluded peak season were wide of the mark, according to SeaIntel, which predicts “a rather challenging freight rate environment” in the fourth quarter.

Analysing the historical impact of capacity utilisation on freight rates in Asia-Europe and transpacific eastbound trades in its latest report, the analyst said the slump in freight rates seen in recent months was easy to explain, despite carriers reporting full vessels and healthy demand growth of 10% year on year.

“Vessels were simply not full,” said the report. “2017 utilisation on the transpacific only breached 90% in September 2017, and only marginally so, and with healthy demand growth the only logical explanation is excess capacity.”

NEWS IN BRIEF

Scorpio Tankers held back by weak spot earnings and merger costs

SCORPIO Tankers, the world’s largest product tanker operator, posted worse on-year net results for the third quarter, with weaker spot earnings and costs related to merging with Navig8 Product Tankers.

Nevertheless, Scorpio’s eternally optimistic president Robert Bugbee remains confident regarding future earnings prospects with one of the youngest, most fuel-efficient fleets in the industry. In particular, Mr Bugbee was keen to talk up the increasing employment opportunities for LR2s, which have been increasingly in demand in European, West African and US Gulf trades as well as their bread-and-butter runs from the Middle East to East Asia.

Teekay LNG Partners starts multigas carrier pool

TEEKAY LNG Partners has
started a new liquefied natural gas carrier pool which will be comprised of ethylene-capable liquefied petroleum gas and small-scale liquefied natural gas carriers.

Known as the Teekay Multigas Pool, it will include the partnership’s seven directly-owned ethylene-capable LNG carriers with some of the vessels capable of carrying out small-scale LNG shipping.

It expects the fleet to reach up to 12 vessels by the end of the year, including third-party partner ships.

The seven directly-owned vessels were formerly part of the IM Skaugen-operated Norgas Carriers Pool. They will be transferred to the new pool with immediate effect.

Höegh LNG to transfer remaining FSRU stake to Höegh LNG Partners

NEW York-listed Höegh LNG Holdings has inked a deal to sell its 49% remaining stake in a holding company for a floating storage and regasification unit, Höegh Grace, to its master limited partnership.

As part of the deal, Höegh LNG Partners will acquire the stake in Höegh Columbia Holding from its parent for a purchase price of $172.5m less $86.6m in debt related to the FSRU which will be outstanding at the close of the deal.

Hyundai Mipo Dockyard offloads 85% stake in securities firm for $409m

HYUNDAI Mipo Dockyard has opted to offload its shareholding in a securities firm to adhere to regulations pertaining after the reorganisation of the entire Hyundai Heavy Industries Group.

The deal will see South Korea’s HMD sell its roughly 85% stake, or 342.4m shares, in Hi Investment & Securities to an unnamed party for Won450bn ($409m), it said in a statement, with the sum comprising roughly 19.9% of the shipbuilder’s total equity capital of Won2.3trn.

HMD plans to complete the transaction by end-March next year.

Ocean Rig posts third-quarter net loss on impairment charges

NASDAQ-listed Ocean Rig UDW has swung to a $234m net loss in the three months ended September 30 this year compared with $38.9m net income in the year-ago period owing to impairment losses related to its restructuring procedures.

During the period, the George Economou-led firm incurred non-cash losses of $1bn related to book value impairments on its drilling units and non-cash losses of $204.6m related to shares issued to stakeholders as part of the restructuring deal.

These non-cash losses, though, were partly offset by a $1.1bn net reorganisation gain also attributable to the restructuring measures.

For classified notices please view the next page.
Book your table today

Will you be in the room when we announce the best of the region’s maritime achievements?

When: 28th November
Time: 6.30pm
Where: Palazzo Versace Hotel, Dubai

Join the most influential people in maritime including our finalists; judges; sponsors in Dubai for this glittering, annual event. Whether you are a finalist, entertaining clients or rewarding your hardworking staff enjoy an exclusive evening of entertainment, networking and catching up with industry peers.

Find out more about our networking and hospitality packages, simply contact us today:

Table bookings:
Robbi Tamme:
E: robbi.tamme@informa.com
T: +44 (0)20 7017 4954

Join us to celebrate lloydslist.com/samea_awards_book_your_table