

Diego Aponte puts fleet costs centre stage in MSC's remarkable success story

HOW do they do it?

That question has been asked time and again over the years as the Aponte family built up Mediterranean Shipping Co from a single-ship operation back in 1970 to one of the world's largest containership and cruise operators.

Even more remarkably, and unlike virtually every other competitor, MSC has never engaged in any merger or acquisition activity as it expanded its container line into the second-biggest in the world. At the same time, MSC Cruises is now the largest privately owned cruise line, with a €9bn (\$10bn) construction programme under way that will include four of the biggest cruiseships ever built.

Throw into the mix a sizeable portfolio of ports and terminals, to which a €460m investment in a 35-year concession to develop a new container terminal in Côte d'Ivoire has just been added, plus other ship and property assets, and MSC Group's annual turnover is now around \$26bn.

[Sidebar#LL108594]That compares with AP Moller-Maersk's total revenues in 2016 from shipping, ports and energy activities of \$35bn. Yet the Danish group, which is in the middle of a huge restructuring, has been in business very much longer than MSC.

Ever since MSC founder Gianluigi Aponte set up his company nearly 50 years ago, he has been renowned for knowing when to buy and sell ships in an industry where timing is critical. For many years, MSC's container business relied solely on secondhand tonnage, with the Geneva-headquartered group not ordering any new ships until 1996 when the 3,300 teu *MSC Rafaela* and *MSC Alexa* were contracted.

Now, of course, MSC has a large fleet of modern vessels including its Oscar-class 20,000 teu series, of which 18 have already been delivered, with four more still to come. Also in the pipeline are a number of wide-beam 8,800 teu and 11,500 teu vessels.

But it seems clear that knowing exactly when to purchase ships is still key to MSC's success, just as it has been over the decades.

"MSC's tonnage sourcing is very efficient," said one industry source. "That keeps capital costs low."

Gianluigi Aponte's son Diego, who was appointed group president and chief executive in 2014, acknowledges as much when discussing the dire state of container trades in recent years.

In the black

MSC has never divulged any profit or loss numbers, and remains among the most tight-lipped in the business when it comes to financial matters. But after one of the worst years the container shipping industry has ever experienced, with most lines including Maersk and CMA CGM ending 2016 in the red, Diego Aponte hints that MSC probably performed better than most.

"As a group, we made money," he says. As for the container business, "we have one of the most cost-efficient operations out there".

But those costs have not been kept down through job cuts. One of MSC's proud boasts is that it has never

off staff in order to save money.

“Even in the worst period we have lived through during 2009, we did not sack one person,” says Mr Aponte. Between then and 2016, another grim year for container shipping, MSC has taken delivery of a new generation of much more efficient ships that enabled the line to create economies of scale, “which helped a lot”.

Acquiring secondhand tonnage at the right price can also make a big difference to a carrier’s bottom line in an industry where fixed cost is key, and where the Apontes stand out as very astute asset players, say those who are familiar with MSC.

Even when prices are already at distressed levels, MSC will still drive a hard bargain, according to brokers in container shipping, “every penny counts”.

While Gianluigi Aponte remains very actively involved in the group as executive chairman, Diego Aponte is in charge of cargo operations, his sister Alexa Aponte-Vago is chief financial officer, and her husband Pierfrancesco Vago is executive chairman of MSC Cruises.



Naming MSC Meraviglia: Gianluigi Aponte arriving on stage

This is a completely self-sustained business, which after years of struggling, is now profitable with returns in line with market expectations, once the family decided to embark on a huge newbuilding programme. The fleet currently consists of 13 ships, including the just-delivered 171,600 gt *MSC Meraviglia*, plus another 10 to be built between now and 2026. The order for four 200,000 gt LNG-powered cruiseships, each able to take a record 6,850 passengers, was confirmed at the beginning of June.

Cargo is core

Speaking on board the \$900m *MSC Meraviglia* just before the formal handover from STX France at a ceremony attended by France’s president Emmanuel Macron, Mr Aponte was adamant that MSC is not shifting its focus from the volatile container trades to the more predictable passenger shipping business.

The group's core business remains cargo operations, he insists.

"We have a responsibility for the 70,000 people in the group that depend on us, and we will continue to grow this segment," he says.

Nevertheless, "it is true that the cruise business is becoming more and more important for the group. The volatility that we experience in the container trades does not exist in the cruise business and that gives a strength to the family and the group."

The unprecedented investment in new cruiseships, that will boost the group's workforce to over 100,000 by 2026, is being underwritten by export credit guarantees from France and Italy, with MSC Cruises also contributing equity from its own cash flow.

It is true that the cruise business is becoming more and more important for the group. The volatility that we experience in the container trades does not exist in the cruise business and that gives a lot of strength to the family and the group

"The beauty of this business is that once you have the know-how, a good product, and a good brand, the banks will follow you, and with all the vessels backed by export credit guarantees, it becomes much easier for commercial banks to finance [the ships] as they do not have to put them on their balance sheets," says D. Aponte.

MSC does not give a breakdown of how much each division contributes to the \$26bn group turnover, other than to say that cargo represents the bulk of revenues, although cruise and port operations are probably growing faster at the moment.

But with MSC's boxship fleet capacity put at just over 3m teu by Alphaliner, compared with Maersk's 3.3m and CMA CGM's intake of 2.3m teu after absorbing APL, the Geneva-headquartered line remains firmly ensconced at number two in the world.

Organic growth

Uniquely, that position has been achieved organically, with Mr Aponte once again discounting the likelihood of MSC ever buying another carrier.

"We have thought about it, but then immediately rejected it, because we do not think MSC is geared to absorbing another company. We have our own strategy, our own philosophy, and always developed organically and that has worked well for us, so we will not participate in industry consolidation."

Instead, MSC is buying ships, of which there are many available at attractive prices, in order to grow with the market slightly ahead of, the market. Both MSC and its 2M alliance partner Maersk have benefited from the collapse of Hanjin Shipping and concern about the viability of some other lines, which have persuaded cargo interests to switch their business to financially solid carriers.

Although MSC does not release any financial data, it has a rock-solid reputation in the industry for settling bills on time.

While the Apontes are regarded as tough negotiators, MSC "has never missed a payment", one chief executive who has done business with the line over the years told Lloyd's List. That sentiment was echoed by another company boss who knows MSC well.

And it is that sort of first-hand experience that helps to cement MSC's standing, even if it keeps its books closed. So too has the 2M partnership with Maersk, a line that aims to be best-in-class and, in the opinion of some industry insiders, has by default forced MSC to operate its services more punctually.

Mr Aponte is in no doubt that the already-established 2M alliance benefited both Maersk and MSC as two

new vessel-sharing agreements, Ocean Alliance and The Alliance, phased in their services a few weeks with a certain amount of inevitable disruption.

But what has also helped MSC stay ahead of the pack, say senior industry sources, are the top management meetings held each Saturday morning, where decisions can be taken almost immediately on matters that take other lines several weeks to consider. These may range from service schedule changes in response to local port delays to more weighty issues, but throughout the business, this speed of response is regarded as central to MSC's success.

Global footprint

Despite an unparalleled round of consolidation in the container shipping industry over the past 18 months, Aponte thinks there could still be more to come.

"Unless you are truly global, it is very difficult to survive, and for those that do not have a global footprint, they will have to do something, either through consortia or the merger and acquisition avenue," he says,

Neither does he think it is possible to just concentrate on certain trades, as some lines such as Zim are doing.

"I don't believe in niches any more. Niches are gone with the wind."

These days, survival is all about global scale, he maintains.

Talking exclusively to Lloyd's List at the STX France shipyard in Saint Nazaire the day after a quick round-trip to Côte d'Ivoire, where he had signed the new terminal concession, Mr Aponte also discounts the prospect of an IPO to bring in new investors.

"For the time being, this is off the radar," he says. The goal is to remain a family-owned group as long as possible "so that we can control our destiny".

Mr Aponte also thinks the container trades have hit rock bottom, with cargo volumes now picking up, in part because of restocking and in part reflecting a stronger global economy, both of which are helping to absorb excess tonnage.

Another positive for the industry, if not for those companies that have failed to survive the long-drawn-out container shipping crisis, is the demise of Germany's KG system, which flooded the market with too many ships built on a speculative basis rather than in response to cargo demand.

"We are still very far from where we should be," Mr Aponte acknowledges. "But there is light at the end of the tunnel."

There are, of course, still threats that could derail the nascent recovery including another bank collapse, resurgence of protectionism, or a currency crisis.

But shipping can also be remarkably resilient in the face of adversity or new business challenges.

Whether it is digitalisation, emission controls, new fuels, competition rules, changing trade patterns, or some other outside influence that requires a response, "MSC is a company that always adapts to change", says Aponte.

And that is the advantage of having a close-knit, hands-on family at the helm.

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by Helen Kelly

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Agreement will not hinder any board-approved mergers or deals

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NYK will have the largest stake in the new carrier, with 38%, while MOL and K Line will each have 31%.

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Shaw: This honour would not have been possible without the help and support of my colleagues both past and present.

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In the same bit of sea

by Michael Grey



The cause of the collision should not be difficult to determine, assuming that both vessels had a working vessel data recorder.

Source: US Navy via AP

indicating that more than one compartment was breached, with the pictures showing a pronounced starboard list. There has clearly been smart damage control on board the warship to contain the flooding, although this would be practised regularly by the highly trained crew of a front-line warship. It would appear that all of the seven missing US Navy seafarers have been found dead in the severely damaged ship, with its commanding officer badly injured. Both ships made port reasonably promptly after the emergency was declared.

Reports in the immediate aftermath of the collision commented with some surprise at the contrasting sizes of the two ships, although the warship was a medium-sized vessel and the 2008-built Philippines flag containership was, at 2,858 teu, what might be described as a medium-sized vessel working Asian regional trades, on the Asia Container Express service. It was also noted that a powerful warship was probably more manoeuvrable than the larger container vessel, although the latter has a 25-knot service speed.

As with every collision involving modern vessels, the first question which is always asked will be how on earth two ships, especially one fitted with some of the most sophisticated radar equipment available, could end up sharing the same bit of sea.

AMID all the larger tragedies in recent days, the fatal collision between the US warship *USS Fitzgerald* and the containership *ACX Crystal*, 56 miles off the Japanese coast, has been widely covered in the international press.

Pictures of the damage to *USS Fitzgerald* indicate that the bow of the containership hit the warship almost beneath the starboard side of the bridge, substantially crushing the lightly-built superstructure. The bulbous bow also inflicted grievous damage beneath the warship's waterline, reports a pronounced starboard list.

The contrast between the manning on board the two vessels could not be greater. The bridge watch on the warship would have involved at least one officer of the watch supported by radar technicians, navigator, several ratings and a working operations room. At 0230, when the collision occurred, the containership, with a crew of 20, could probably count on a single officer of the watch and hopefully a lookout, on a routine passage.

And as always, even suggesting actual causation at this early stage will be premature, but should not be difficult to determine, assuming that both vessels had a working vessel data recorder, with the data actually saved and available for playback. We can only guess at the sequence of events, or the circumstances surrounding the scenario as the two ships approached one another. These are notoriously busy waters, with the commercial traffic often complicated by great fleets of fishing boats, which are not there to make for any watchkeeper's peace of mind, and tend to wear their fishing signals even when tied up in port.

Basic failure

Ships collide less often than they did, before those on board had the benefit of good, reliable radar. But even the briefest analysis of contemporary collisions reveals that the causes of them have rarely been anything other than a basic failure to keep a good look-out, obey the prescribed rules for the avoidance of collision and operate at a sensible speed. Of these three, it is possible the last that is most generally ignored, in an age where precision is demanded and any excuse for not arriving on time is unwelcome.

Perhaps the need to save fuel and reduce costs in a profit-free sector has resulted in ships not operating at their maximum designed speed, but there is nothing unusual, in congested waters, to see ships blasting along at high speed. In fog in the English Channel, heavy traffic in the Singapore and Malacca Straits or the congested, fishing boat-infested eastern waters, stories of containerships rushing along at an injudicious speed are legion. Most of the time they get away with it, sometimes they come unstuck.

Deepsea pilots boarding containerships inbound for European ports are not infrequently handed a pilot card instructing them to keep the engines at full revolutions until a few miles off the Rotterdam approaches, regardless of visibility. There is also a lot of information that is entirely wrong about the "difficulties" of using the ship's engines at anything other than slower, manoeuvring revolutions. Hence people will do almost anything rather than slow down, effectively removing one useful prescribed strategy for avoiding a close quarters situation.

But we shouldn't, at this stage, even hint that one ship was guiltier than the other in their violent meeting. It takes two ships to collide and the rules clearly prescribe the action to be taken in the event that the "give way" ship fails in its obligations.

People say that the rules ought to be simplified so that both ships, in all circumstances, are required to take action and the "stand on" vessel no longer has this obligation until its own action becomes inevitable. But that, as previous debates on this subject have shown, opens up a whole extra dimension for fierce professional argument and we shouldn't go there. It will take a bit of time, but the causes of this sad collision will be identified.

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