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 cru operators.

Even more remarkably, and unlike virtually every other competitor, MSC has never engaged in any merg acquisition activity as it expanded its container line into the second-biggest in the world. At the same time Cruises is now the largest privately owned cruise line, with a €9bn ($10bn) construction programme unde 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 a energy activities of $35bn. Yet the Danish group, which is in the middle of a huge restructuring, has been business very much longer than MSC.

Ever since MSC founder Gianluigi Aponte set up his company nearly 50 years ago, he has been renowne knowing when to buy and sell ships in an industry where timing is critical. For many years, MSC's contain business relied solely on secondhand tonnage, with the Geneva-headquartered group not ordering any n 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 w 18 have already been delivered, with four more still to come. Also in the pipeline are a number of wide-be 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 ha 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, acknowle 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 busi when it comes to financial matters. But after one of the worst years the container shipping industry has ev experienced, with most lines including Maersk and CMA CGM ending 2016 in the red, Diego Aponte hints 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-eff operations out there".

But those costs have not been kept down through job cuts. One of MSC's proud boasts is that it has neve

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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 Apon

Between then and 2016, another grim year for container shipping, MSC has taken delivery of a new gene 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 industry where fixed cost is key, and where the Apontes stand out as very astute asset players, say those are familiar with MSC.

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

While Gianluigi Aponte remains very actively involved in the group as executive chairman, Diego Aponte 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 expectations, once the family decided to embark on a huge newbuilding programme. The fleet currently c of 13 ships, including the just-delivered 171,600 gt *MSC Meraviglia*, plus another 10 to be built between r 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 cer attended by France’s president Emmanuel Macron, Mr Aponte was adamant that MSC is not shifting its f from the volatile container trades to the more predictable passenger shipping business.

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

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"We have a responsibility for the 70,000 people in the group that depend on us, and we will continue to g 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 2026, is being underwritten by export credit guarantees from France and Italy, with MSC Cruises also contributing equity from its own cash flow.

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“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 easie 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, oth to say that cargo represents the bulk of revenues, although cruise and port operations are probably grow 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 likeliho 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 orga 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 slightly ahead of, the market. Both MSC and its 2M alliance partner Maersk have benefited from the colla Hanjin Shipping and concern about the viability of some other lines, which have persuaded cargo interest 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 exe who has done business with the line over the years told Lloyd’s List. That sentiment was echoed by anoth 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 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 tw

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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 manager 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 local port delays to more weighty issues, but throughout the business, this speed of response is regarded central to MSCs 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, 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 d

“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 to Côte d’Ivoire, where he had signed the new terminal concession, Mr Aponte also discounts the prospe 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 pa because of restocking and in part reflecting a stronger global economy, both of which are helping to abso 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 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 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 so 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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