

Ship Recycling: Residual Values



March 25, 2010

Capital Link - New York 2010

Who is a Cash Buyer

- Within the ship recycling industry, companies such as GMS are called CASH BUYERS.
- A “Cash Buyer” purchases a vessel for “Cash” from an owner and re-sells it to a recycling yard.
- Cash Buyers are the “middlemen” in the sale of ships for recycling.
- Cash Buyers are NOT brokers. Unlike brokers they take TITLE to the ship.

Why do Sellers use a Cash Buyer?

- 1. Distribution:** A ship owner in any part of the world has immediate access to all the potential major ship recycling yards of the world. Negotiations have to be conducted with limited number of buyers (cash) rather than a multitude of ship recycling yards in several different countries (1 vs 300)
- 2. Industry knowledge**
 - Country specific (India, Bangladesh, Pakistan, China, Turkey)
 - Ship Recyclers (about 300)
 - Government Regulations
- 3. Maximization of Asset Value**

Why do Sellers use a Cash Buyer (cont'd)

4. Risk Minimization

- Price changes, currency fluctuations, sudden legislative items (supreme court – India, cartel – Bangladesh)

5. Speed of transaction

6. Logistics and Delivery

- As is vs. Delivered

7. Favorable Jurisdiction

8. Repeat relationship

9. Fair margins (value for money)

Why ship-recyclers use Cash Buyers?

1. **Wide Inventory to chose from**
2. **Financing** (sight vs. usance LC, acceptance of LC)
3. **Ease of delivery** (local regulations)
4. **Detailed understanding of Buyer needs** (type of ships, LDT, Banking, etc.)
5. **Local representation**
6. **Repeat relationship**
7. **Market Forecasting**

What happened?

**Only when the tide goes out do
you discover who's been
swimming naked**

(Warren Buffett)

What **was** being recycled?



What **is** being recycled?



What **is** being recycled?



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What else has changed?

SELLERS

- Small 1-2 ships owners to large often stock-listed companies
 - Gradual shift from
 - Last cent
 - Beat last done
 - To
 - Some movement towards environmentally safe and responsible ship recycling..... Norwegian and Japanese companies.
- Tankers, Containers and PCCs

What else has changed?

BUYERS

- Very Competitive
 - Highly speculative
 - Offers are ahead of market
- Maturity of players (Cash Buyers & recyclers)
 - Strong movement towards environmentally safe and responsible ship recycling from Chinese and Indian yards

What else has changed?

Macro environment

- Supply..... Record levels
 - From 300 to 900 ships
 - USD 1 to 2 billion annual turnover
- Demand....Expansion
- Capacity has expanded in all major markets
- Greater regulation/intervention
- Media exposure
- Environmentally safe and responsible recycling (ESRSR)

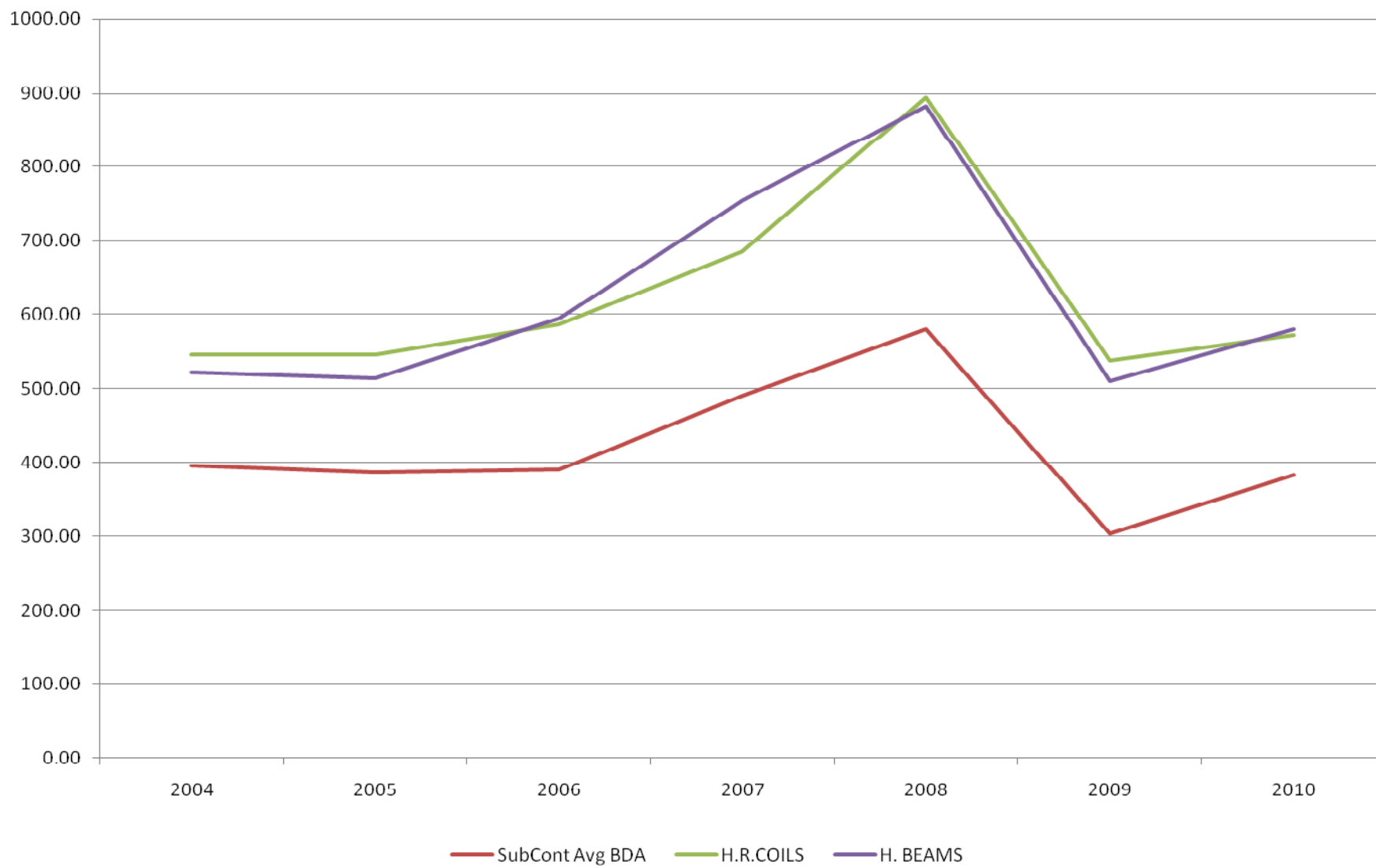
Residual Values

- Significant inventory or “old” ships
- Values/Yo-Yo since Q4 2008
 - Loss of asset values by 75%...40%
 - VLCC: USD 30mill - USD 7.5 mill – USD 15mill
 - Volatility: 10% in a week!
- Fall in values?
 - Supply
 - Regulations
 - Steel demand & price

What affects residual values?

- Supply and Demand
- Regulations
- Steel prices

Steel Prices and BDA



Residual values – Tool(s)

- BDA
- GMS

Residual values – Tool(s)

BDA

Baltic Exchange Demolition Assessments

Date: 8 December 2008

Vessel Type	Description	Size mt	Unit	Average in \$ / LTLD	Movement
D/TKR_CHINA	Del China (15/30 days)	15000-25000	\$/ltd	228.333	15.000
D/TKR_SUBCON	Del Subcontinent (15/30 days)	15000-25000	\$/ltd	303.333	5.833
C/TKR_CHINA	Del China (15/30 days)	6000-10000	\$/ltd	224.167	16.667
C/TKR_SUBCON	Del Subcontinent (15/30 days)	6000-10000	\$/ltd	296.667	10.000
B/C_CHINA	Del China (15/30 days)	7000-12000	\$/ltd	210.000	13.333
B/C_SUBCON	Del Subcontinent (15/30 days)	7000-12000	\$/ltd	265.000	2.500

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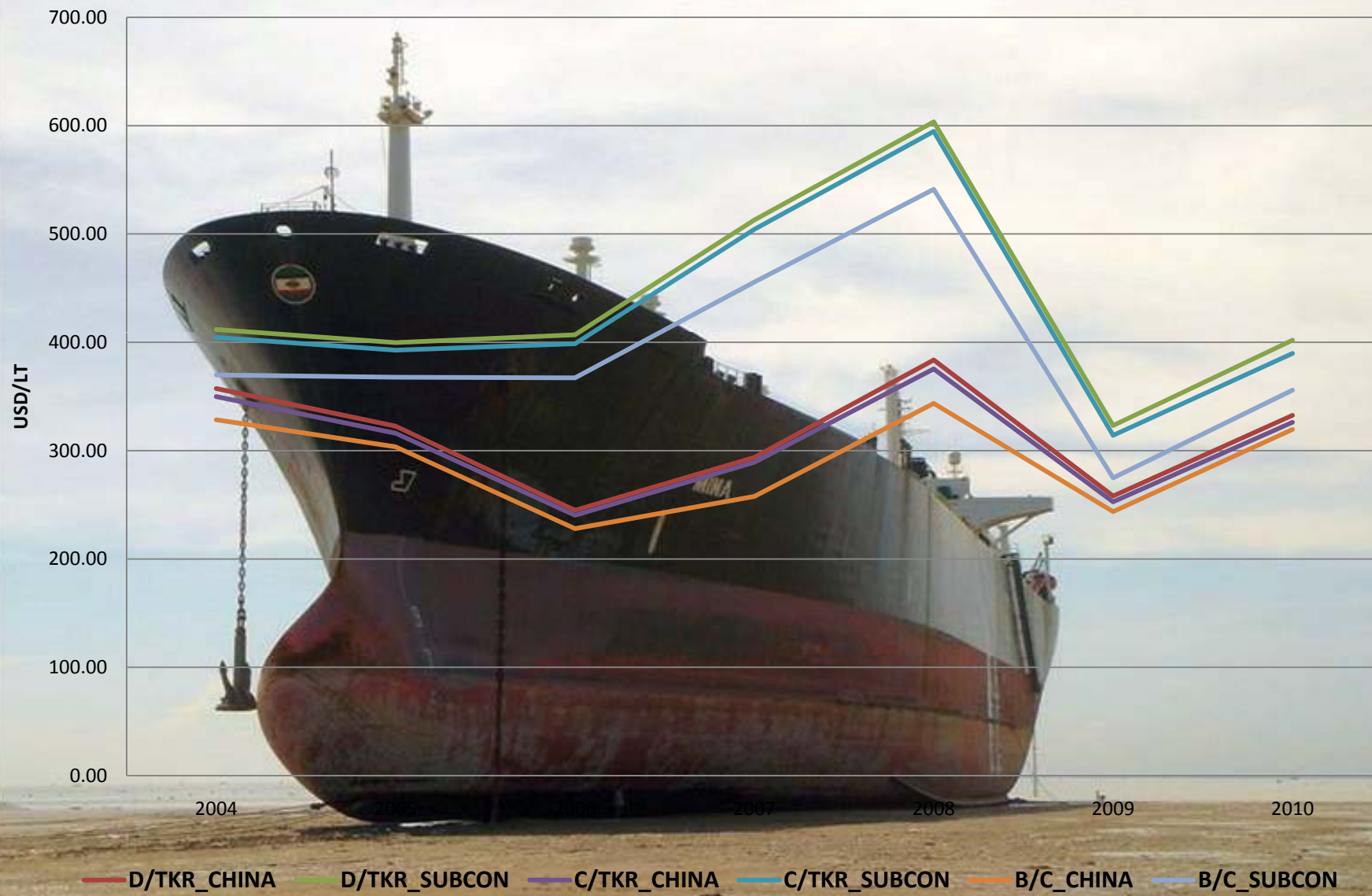
Residual values – Tool(s)

GMS

For week eleven of 2010, GMS demo rankings are highlighted below:

Demo Ranking	Country	Market Sentiment	GEN CARGO Prices	TANKER Prices
1	Bangladesh	Bullish	USD 400/lit 1dt	USD 435/lit 1dt
2	Pakistan	Stable	USD 395/lit 1dt	USD 430/lit 1dt
3	India	Stable	USD 385/lit 1dt	USD 420/lit 1dt
4	China	Bullish	USD 350/lit 1dt	USD 360/lit 1dt

Baltic Demolition Assessments (BDA)



Road Ahead

- **ESRSR**
 - Worker Safety + Green Ship Recycling
 - Adoption of IMO's Hong Kong Convention
 - Implication to Indian subcontinent
- **Perceptions/Green Ship recycling**
 - USA/Japan/Europe vs. Indian subcont
 - NGOs
- **Supply**
- **Steel prices**

IMO Convention

- **What is the Hong Kong CONVENTION?**
 - Most comprehensive & consequential
 - Key items:
 - Inventory of Hazardous Materials
 - Ship Recycling Plan: Identification, Removal and Disposal of Hazardous Materials
 - Worker Safety at Yards

Hong Kong Convention

- **Impact on sellers**
 - Costs, Accountability & Responsibility
 - Where to recycle
 - Effect on residual values

Hong Kong Convention

■ Opportunities

- Convergence of interests
 - IGOs, NGOs (not all), Owners, Buyers, Ship Recyclers, Class societies
- Raises the bar for the industry
- Inclusive NOT Exclusive
- Funds & Programs
 - World Bank, ILO, Basel, Owners' Assoc

Potential Threats

- Grossly misrepresented
- Unsophisticated industry groups
- Lack of industry participation
- Progress by sticks... few carrots
- Unexpected events... GP list
- Loss of asset values

Is this an option?



Or this?



Or this?



Closing Thought

- A healthy, vibrant ship recycling industry,
 - Is good for the environment
 - Steel from ship vs Iron Ore
 - Old ships at sea... accidents
 - Abandonment
 - For the shipping industry
 - Outlet for safe disposal of old/unsafe environmentally unfriendly vessels
 - Improves Residual values
 - Creates employment for about 300,000 people
 - Essential for growth of local economies

THANK YOU