Capital Link

Global Shipbuilding

3rd Annual Shipping & Marine Services Forum

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CRSL

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The Agenda For Today

1. Long cycles
2. Shipbuilding output
3. Regional output
4. Orders & capacity
5. Investment trends
6. Supply & demand

8 Wheel Shipyard – armed and dangerous!
Part 1 The Long Shipbuilding Cycles

• Shipbuilders compete in one of the world's most competitive markets
• It has a very volatile history
• Today we are approaching the peak of a 30 year cycle

Prices have fallen 25% in 5 years
Shipbuilding Cycles -1902-2010

Shipbuilding launches/deliveries

000 Gross Registered Tons

10/14/2010
The Investment Cycles Driving Output

Shipyards expand in the 1970s boom & the 2000s Boom

Orders 129.5 million dwt in 1973

Orders 249 million dwt in 2007

Million Dwt
Shipbuilding Cycle & Scrapping

Deliveries may reach 147 m dwt in 2010

Deliveries 61 m dwt in 1976

34 Year Cycle

Million Dwt

Scrapping

Deliveries


0 20 40 60 80 100 120 140 160
Shipbuilding – Estimated Deliveries

Million Dwt per month

Shows the deliveries by country

China
S Korea
Japan
Phillipines
Other

Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Part 2: Shipbuilding Output

Capacity up 150% since 2003
World shipbuilding reported orderbook

Orderbook shown on 1st Jan in year

More than trebled 2002-8

Million Deadweight

- LNG
- LPG
- MPP
- Cellular
- Combos
- Tankers
- Bulkers

0 100 200 300 400 500 600

Reported orderbook By Type

Orderbook on 1st Jan except 2010 which is July

- **Bulkers**
- **Tankers**
- **Combos**
- **Cellular**
- **MPP**
- **LPG**
- **LNG**

**Note:**

Million Deadweight
Shipyard Deliveries – Scenario
Seaborne imports 1950-2009, showing 3 delivery scenarios

Million Deadweight

Original scheduled orderbook
Deliveries
Demolition

Stage 1
Stage 2

Current estimate

0 20 40 60 80 100 120 140 160 180

Million Deadweight


29 33 38 37 24 41 46 46 50 55 62 70 75 80 89 92 117 157 59
Quarterly Shipbuilding Output

The graph shows deliveries per quarter in million CGT.

China P.R.  Japan  Korea  Europe  Others

Output doubled 2004-2010
Part 3: Regional Shipyard Output

We love shipbuilding (and our wives)
Shipbuilding Market Shares 1902-2010

% total ships launched

Source: Maritime Economics, Martin Stopford 2009
Regional Shipbuilding Output

Also: Korea overtakes Japan

Forecast

China 36%
Korea 32%
Japan 18%
Europe 9%
Shipbuilding Output - Decisive Growth

The graph shows deliveries per annum in million CGT.

- China
- Europe
- Japan
- S. Korea
- ROW

2010 figures are estimates.
China Shipbuilding Expanding

- In 2001 China produced 1.1 million CGT, about the same as the previous four years.
- In 2009 output reached 12 million CGT, putting China in the Big League.
- 30 million CGT of orders in 2007, but only 4.6 m CGT in 2009 and 7 m CGT so far this year.
Part 4 New Ship Prices

- After the shock in 2008 ordering is well down and prices have fallen about 23%
Newbuilding Prices – 25% Down

Price troughs probably give a rough indication of the underlying level of shipyard costs. 2003-8 shipyard prices above trend. Now back below trend.

Aframax tanker

Panamax bulker

Handy bulker
Newbuilding Prices Oct 2010

- This chart shows the current new price of a range of ships
- The key issue is “what’s cheap”?
New Prices as % 1990-10 Average

- Tankers and bulkers are both 10-15% over the 20 year new price trend
- LNG and container ships are both under trend (just)
Falling Prices Trigger Difficult Decisions

Source CRSL & Baltic Exchange
Tanker 5 Year Old Price % New

5 year old expected to be 75-80% of new price

High?
Bulkers 5 Year Old Price % New

5 year old as % newbuilding price

- Handymax
- Capesize
- Panamax

5 year old expected to be 70-80% of new price

Early 1980s recession

Very High?

Source CRSL & Baltic Exchange

Updated 22 Mar 09
Part 5 Investment Trends

1. Shipping investors
   Shall I order VLCCs?
   We only need $800MM Sir

2. Shipping Bankers

3. Shipbuilders
   We want to make loads of money building ships
   Why not build our own fleet?

4. Charterers
1. Between 2003 and 2008 the industry ordered $857 billion of new ships.

2. 50% of the orders were placed in 2007/8 when prices were at a peak.

3. The pace of investment slumped to $27 billion in 2009.
Investor Decision Makers - Orders by Country in $ Billion, Jan 2010

- The chart shows the orderbook in January 2010
- Europe accounted for 46%, Asia 34% and M. East 4%
- The big issue is how they will respond to the crisis and the interplay with the shipyards
The graph shows orders placed each month (3 month moving average)

Tanker & Bulk Carrier Orders

- **Tankers**
- **Bulkers**

### Graph Details
- **X-axis:** Jan-96 to Jan-10
- **Y-axis:** million dwt per month

The graph highlights the number of tanker and bulk carrier orders placed each month, with a 3-month moving average for smoothness and trend analysis.
Containership Orders

The graph shows orders placed each month (3 month moving average).

- **Annual rate of 5.5 million TEU**

- Liner companies started ordering in early 2003 and kept going until late 2008.

- Annual rate of 5.5 million TEU.
1. **Sea Trade**: 3-5% pa growth trend possible
2. **Globalization**: growing faster than ever – what are the limits?
3. **Shipyards capacity**: now delivering 10%+ of the fleet
4. **Demolition**: currently about 2.5% fleet
5. **Inflation**: boom is putting pressure on resources, especially oil & grain, causing inflation
6. **Energy**: oil supply problem, reinforced by environmental concern
7. **Record Boom**: pumped cash into the industry

Difficult decade ahead, but its not all bad news
Figure 8 World & China’s seaborne imports with scenarios
Latest figures suggest fleet growing very fast.

Figure 8 World fleet by ship type

World Merchant Fleet
Supply/Demand Balance Today

- **Phase 1**: Trade and fleet closely coordinated in the 1960s
- **Phase 2**: Massive dislocation in the 1970s and early 1980s
- **Phase 3**: Tight market from late 1990s
- **Phase 4**: Growing surplus in 2009 hidden by congestion, single hull phase out etc.
Shipping Supply/Demand Scenarios

- Fleet forecast assumes
  - 155 m dwt deliveries in 2010,
  - 139 m dwt in 2011 and
  - 98 m dwt in 2012 &
  - 53 m dwt scrap in 2010,
  - 31 m dwt in 2012
- Trade scenarios from earlier chart

Trade growth scenario will also determine how severe the recession is.
Conclusions

- We are approaching the peak of a 35 year shipbuilding capacity cycle
- The shipyards have doubled capacity since 2003 to 55 m CGT (was 25 M CGT)
- China is now the biggest shipbuilder with 36% market share of output
- Investment slumped 84% in 2009 but speeded up in first three quarters of 2010.
- Solid orderbook to 2013
- Deliveries growing roughly twice as fast as reasonable trade scenario
Disclaimer

“We must start out with the premise that forecasting is not a respectable human activity and not worthwhile beyond the shortest of periods”

Peter Drucker

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