

DNB Markets Shipping Team

Dry bulk panel

Moderator: Nicolay Dyvik

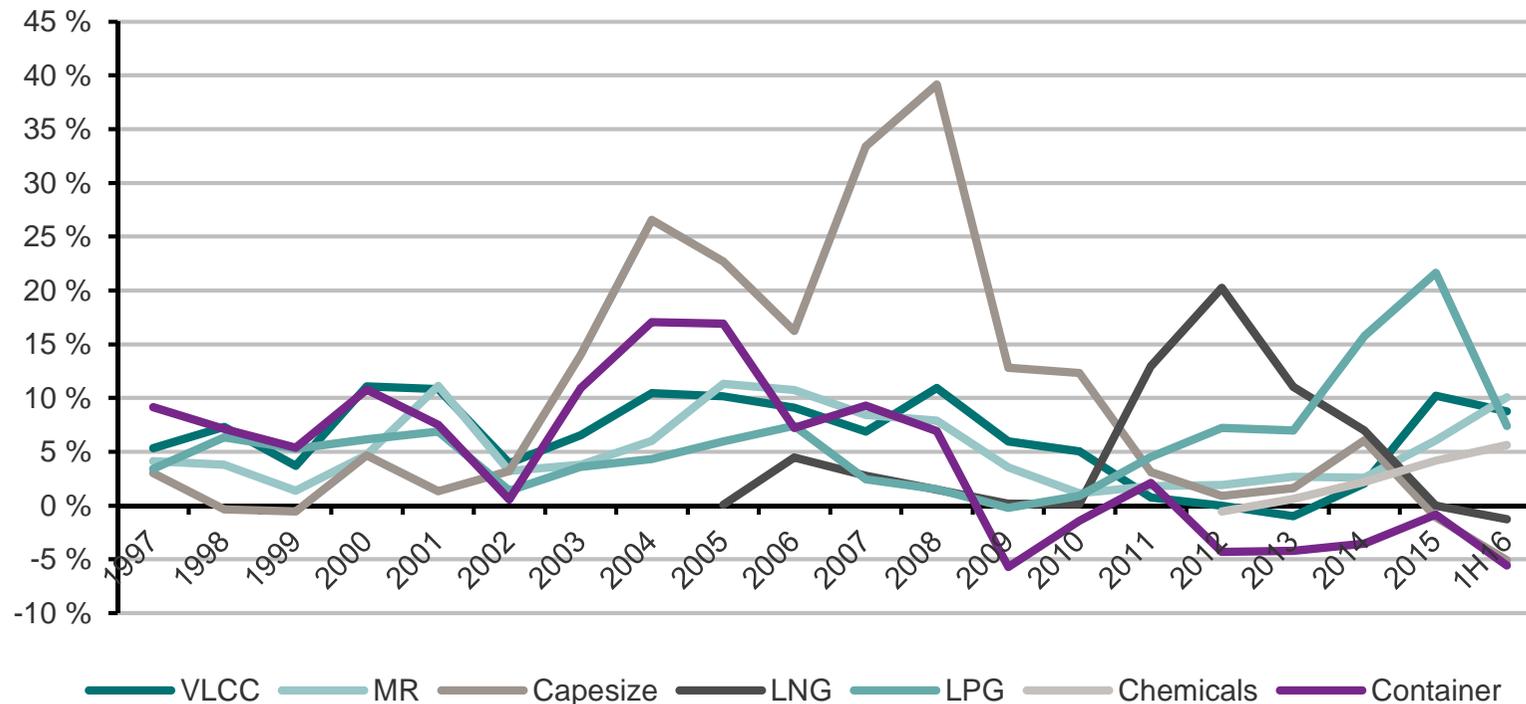
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Returns are volatile in shipping, hence why timing for investors (and owners) is key

The average ROCE earned by all segments during the period 1997- H1 2016 was 6.2%



ROCE given by:

$\frac{\text{EBIT (1yTCE earnings less OPEX and depreciation)}}{\text{Vessel value (yearly average newbuild price)}}$

Source: DNB Markets, Clarksons

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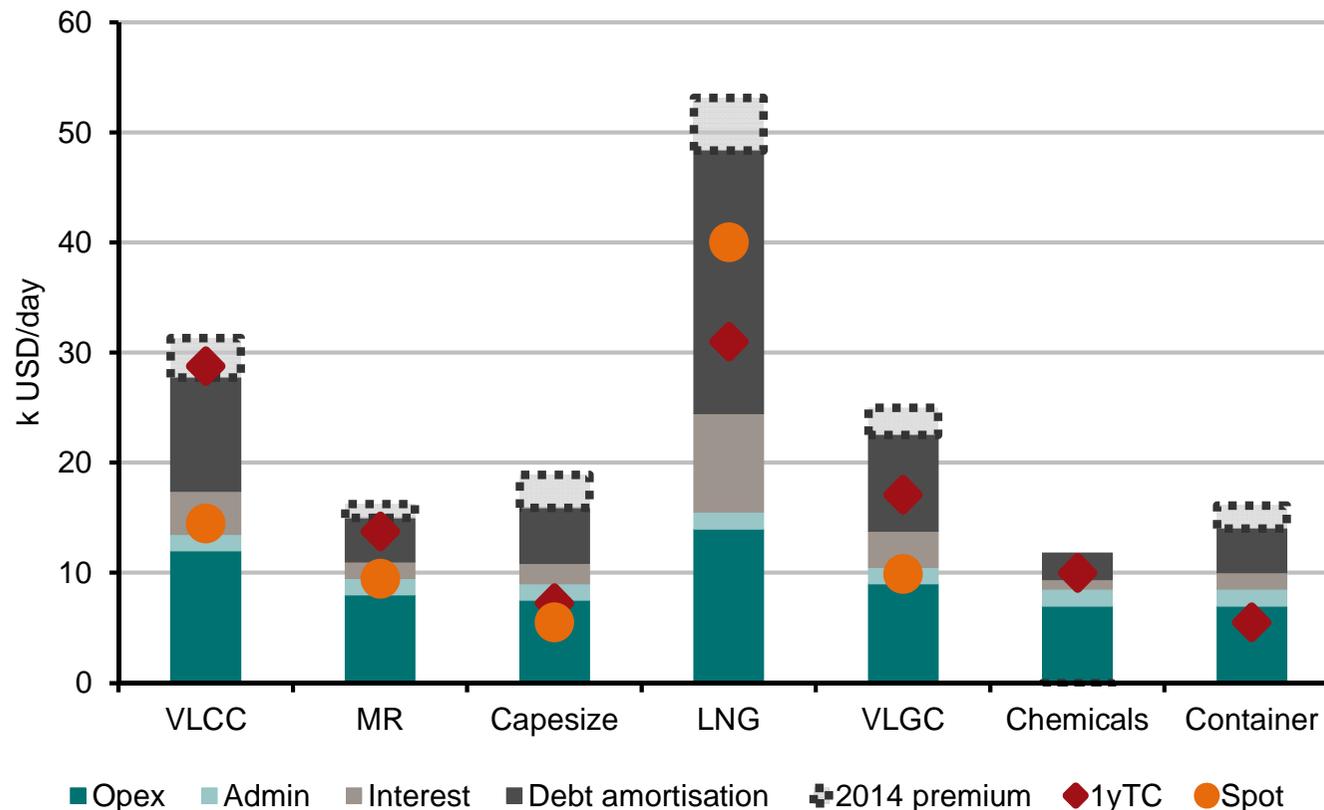
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All shipping segments suffer from rates below cash break even

- how to pick the right entry point as cash burn with risk of equity dilution could be painful?

'000 USD per day in costs and earnings



Assumptions:

- 65% leverage
- 2.5% interest rate
- 15 year amortisation profile
- Current newbuild vessel prices

The 2014 premium reflects actual costs related to vessels currently being delivered, i.e. higher vessel prices for all segments

Source: DNB Markets, Clarksons

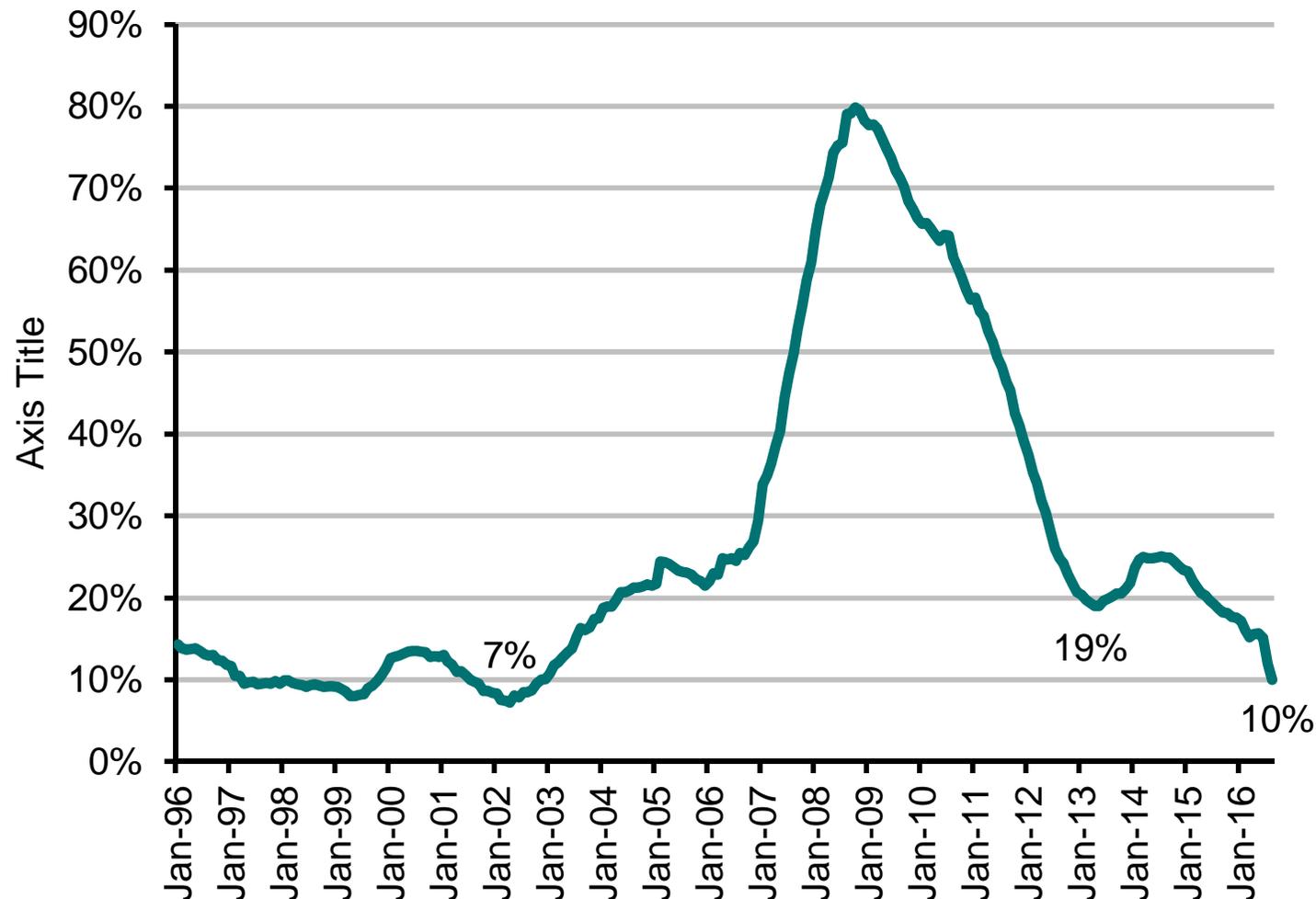
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Dry bulk orderbook to fleet ratio stands now at 10% (DNB estimate)

- Several generalists that looks at shipping often say that supply is key when deciding the time to invest as demand is easier to get wrong?



Source: DNB Markets, Clarksons

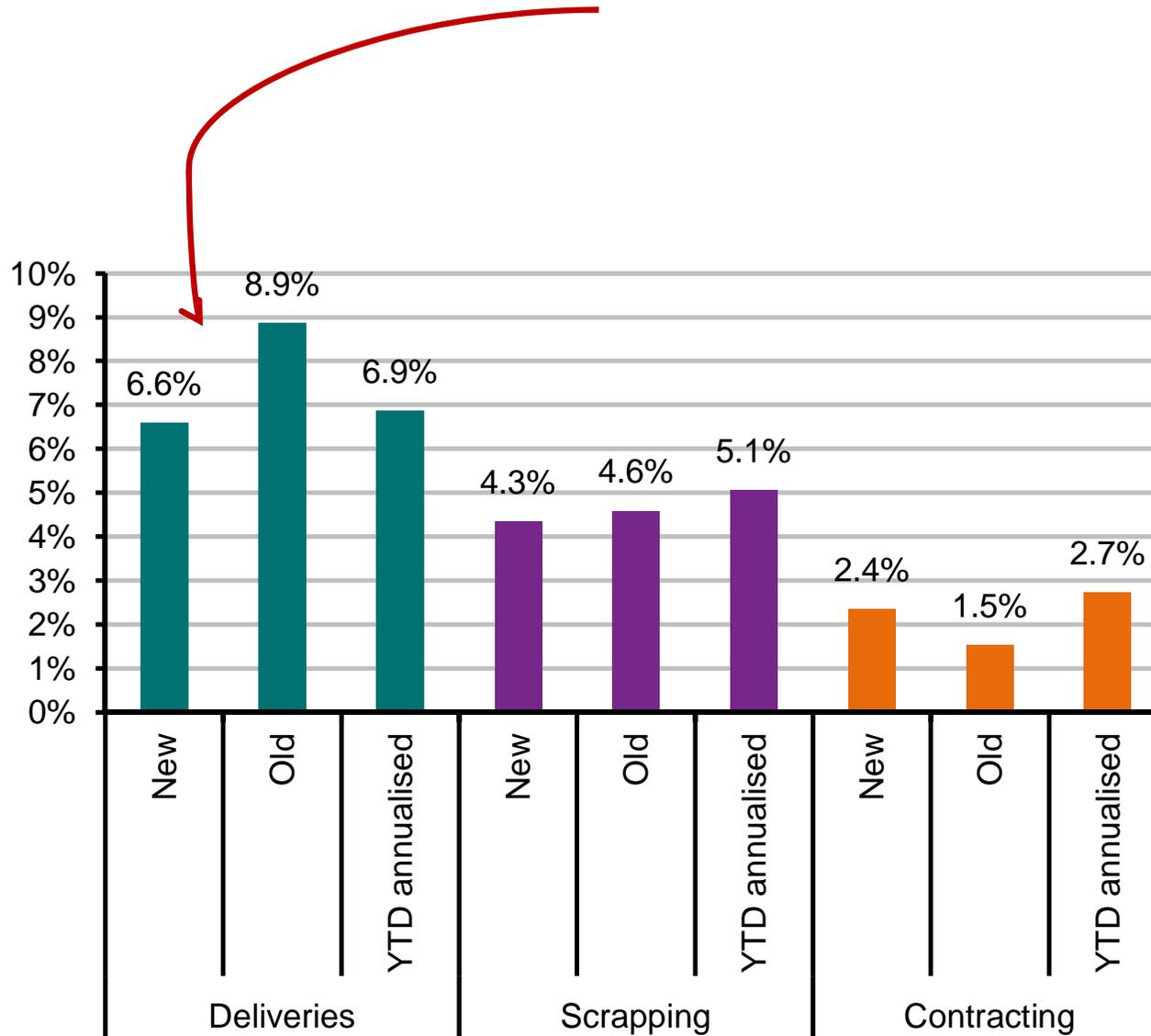
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Dry bulk supply side

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DNB Markets 2016 supply estimate revisions since January

- 2016 deliveries likely to come inn 2.3% points lower compared to our January forecast



Source: DNB Markets, Clarksons

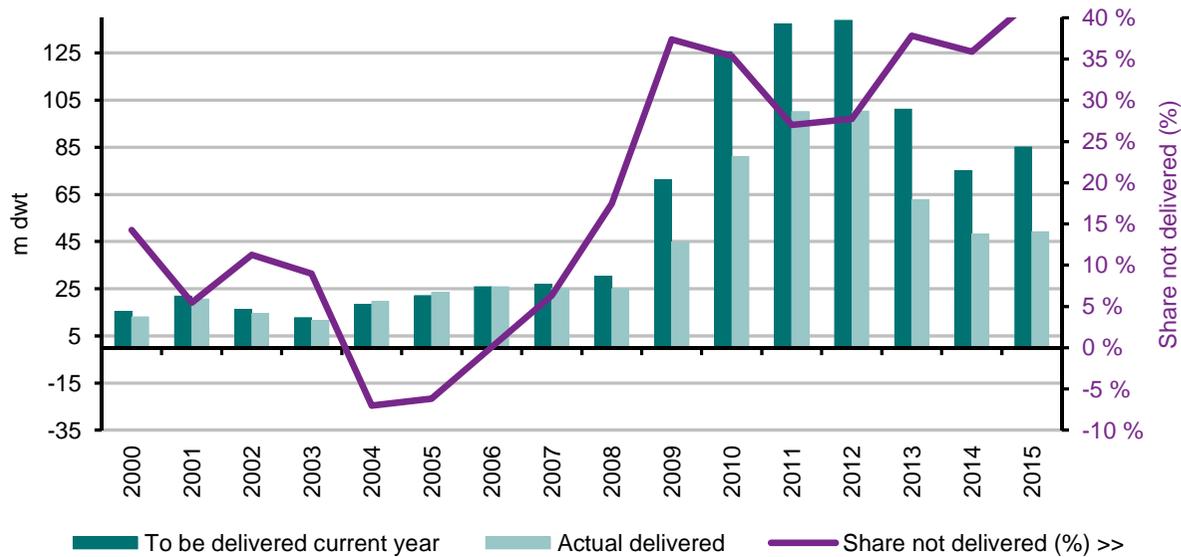
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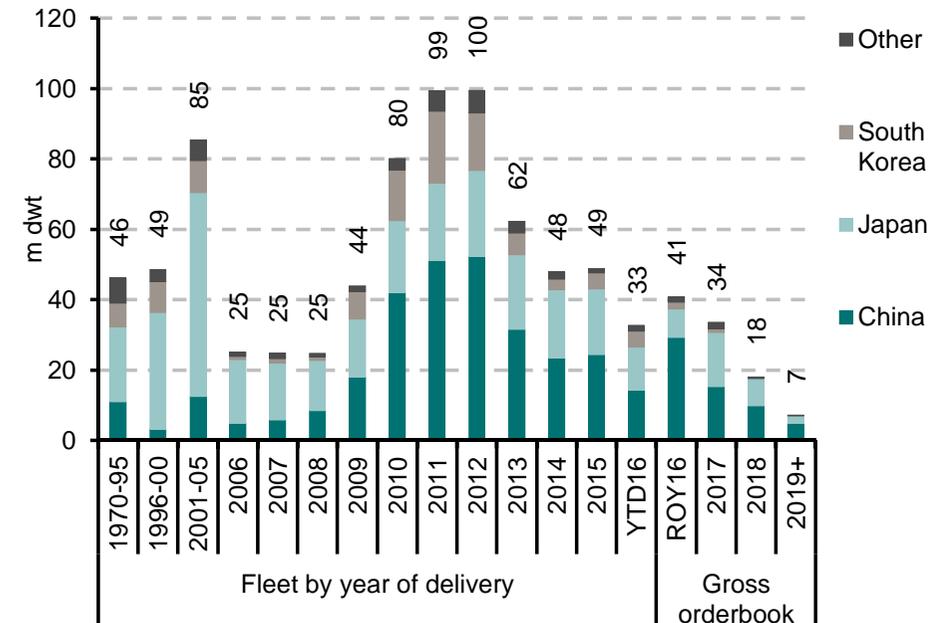
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Slippage in the dry bulk order book in 2010–2015 averaged 34% and slippage YTD (incl. July) is estimated at 40% - how flexible are the yards?

Share of order book not delivered (%)



Dry bulk fleet and order book by shipyard country (mdwt)



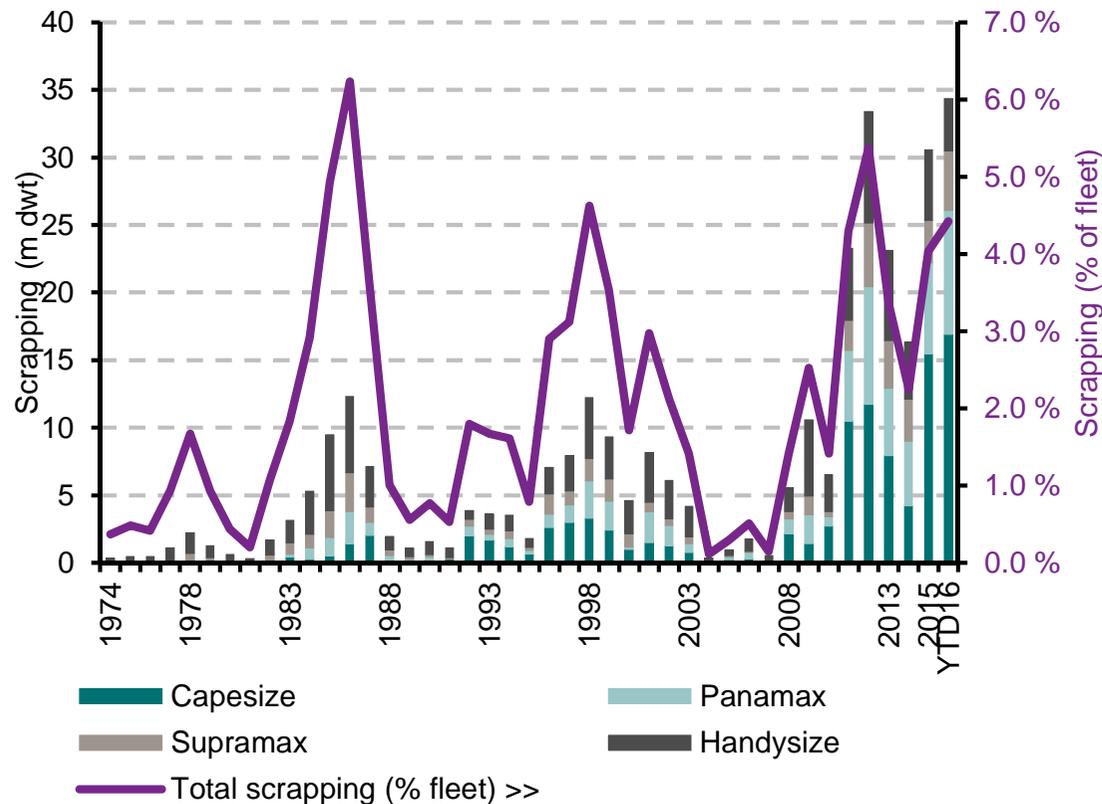
Source: DNB Markets, Clarksons

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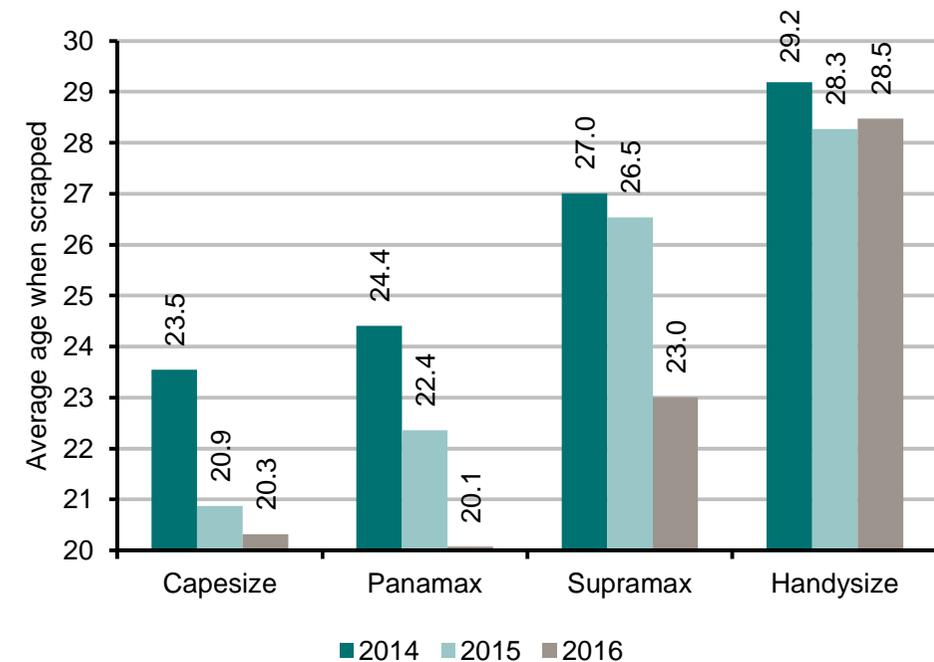
YTD 2016 (including July) dry bulk scrapping of 22.9m dwt equates to 5% of the fleet (annualised)

- We expect 4.1% scrapping in 2016, 2.6% in 2017, and 2.4% in 2018
- Average age of scrapped ships has declined significantly during 2016

Historical scrapping, by size and total as % of fleet



Average age of scrapped vessels



Source: DNB Markets, Clarksons

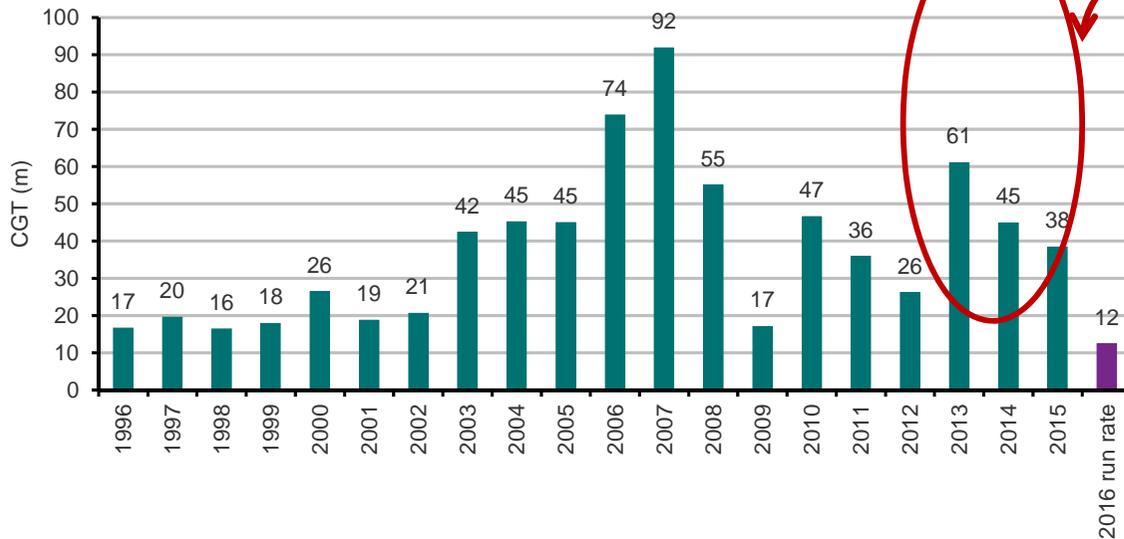
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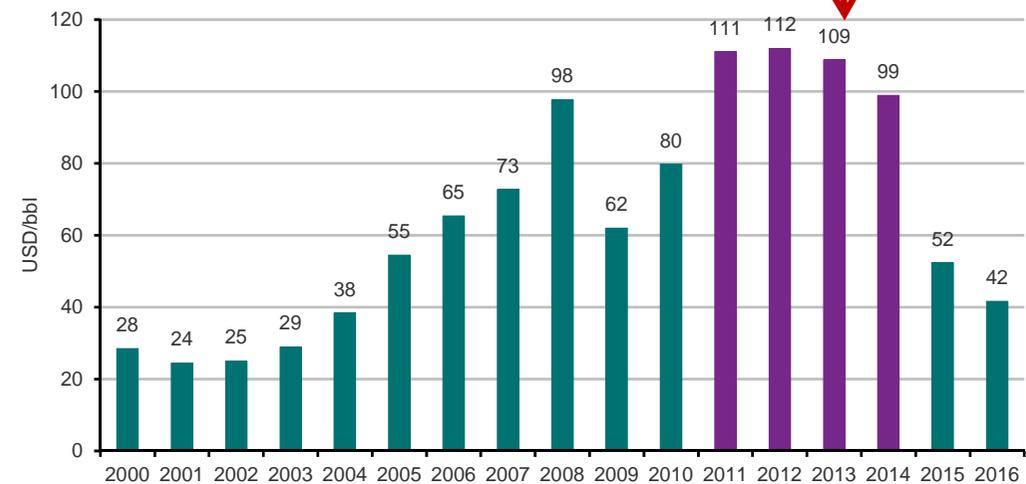
2013-2015 ECO vessel ordering boom a one-off in shipping history due to high oil price – not likely to be repeated?

World contracting down 70% YOY (run-rate) and at its lowest level in more than 20 years (nominal volume)



Ordering of ECO-vessels

The oil price boom caused the ordering boom



Source: DNB Markets, Clarksons

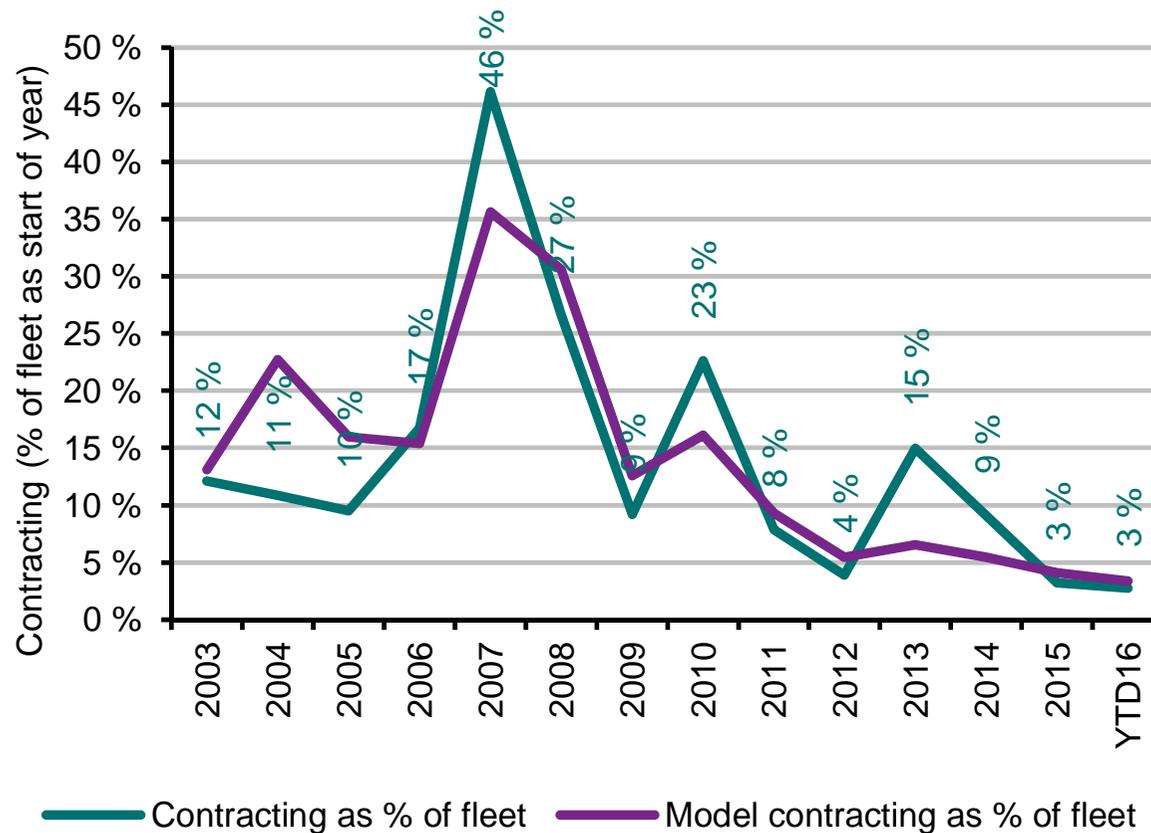
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We expect new orders of 2.3% of the fleet for 2016, 1.7% in 2017, and 1.8% in 2018

Historical and model contracting as % of fleet



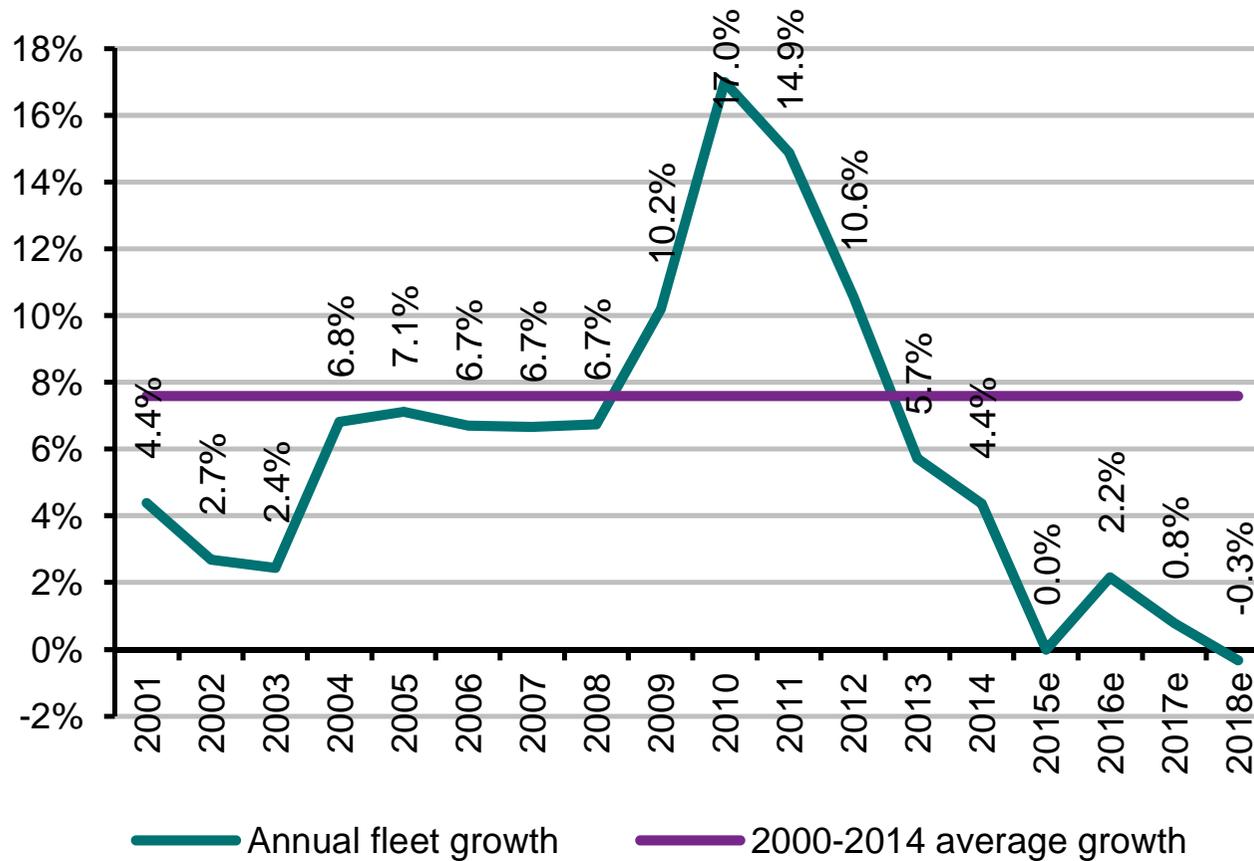
Source: DNB Markets, Clarksons

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DNB Markets fleet growth estimates (%)



Source: DNB Markets, Clarksons

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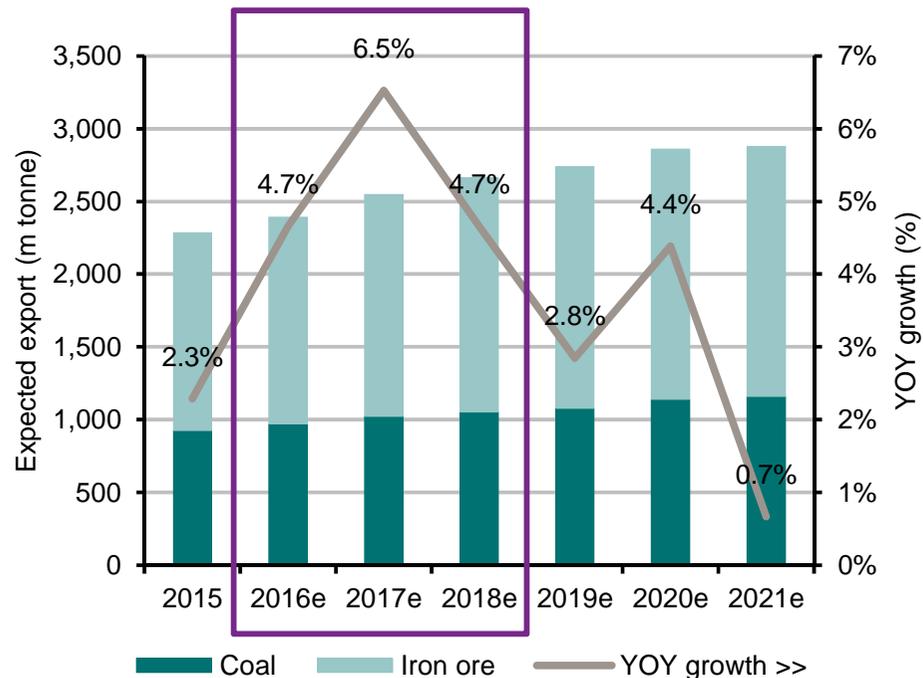
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Dry bulk demand side

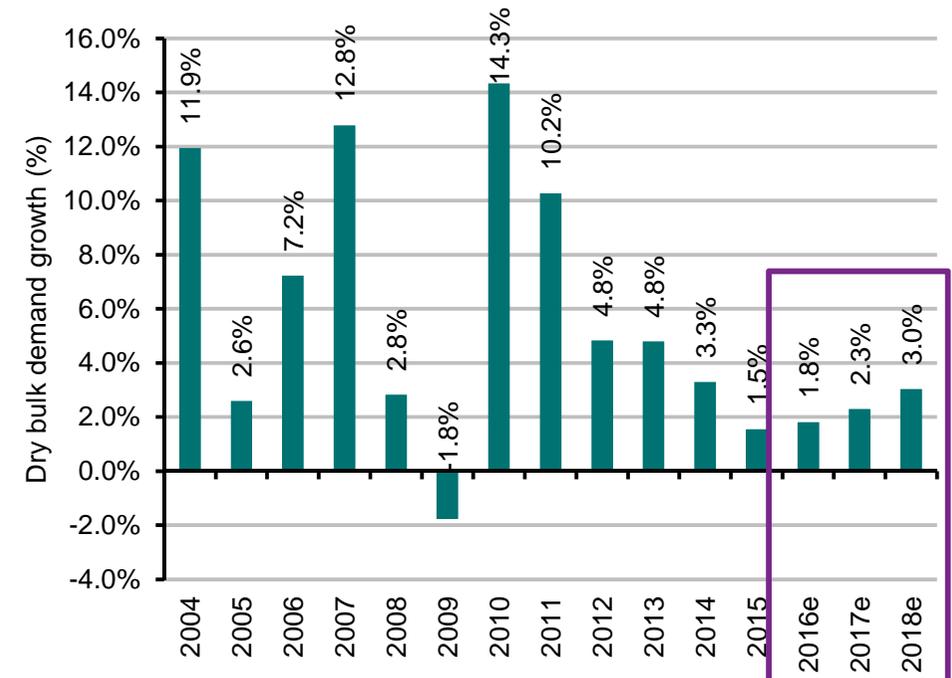
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The respondents to our annual iron ore- and coal survey expect 5–6% annual export growth in 2016–2018e which is more than we expect...

Expected export growth of 5-6% annually from our survey respondents...



...is higher than the 2-3% dry bulk demand growth we expect.



Source: DNB Markets, Clarksons

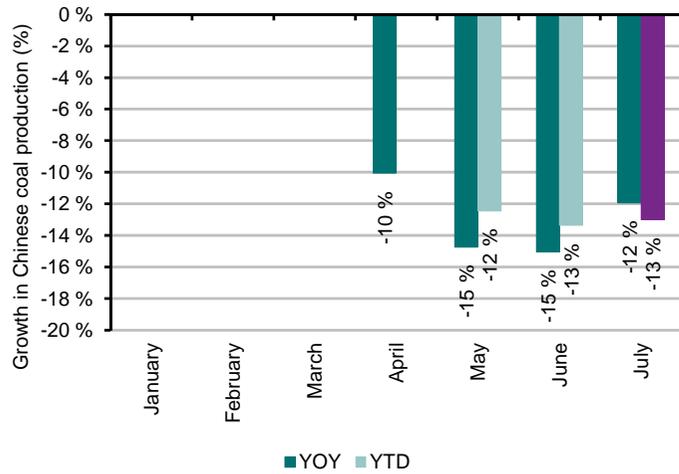
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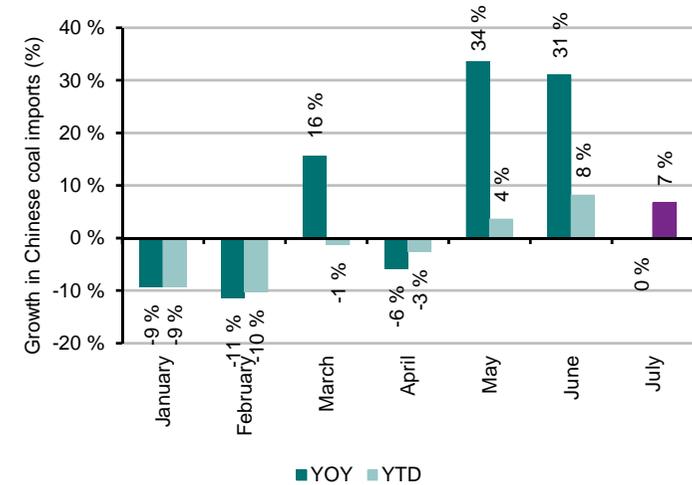
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... but if domestic declines in Chinese mining continue, a significant positive to dry bulk, our survey respondents can supply the commodities needed.

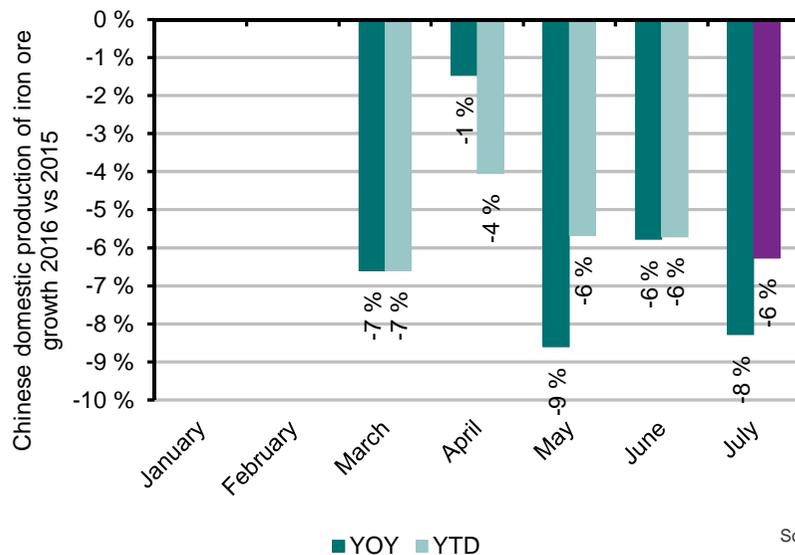
Chinese coal production down 13% YTD...



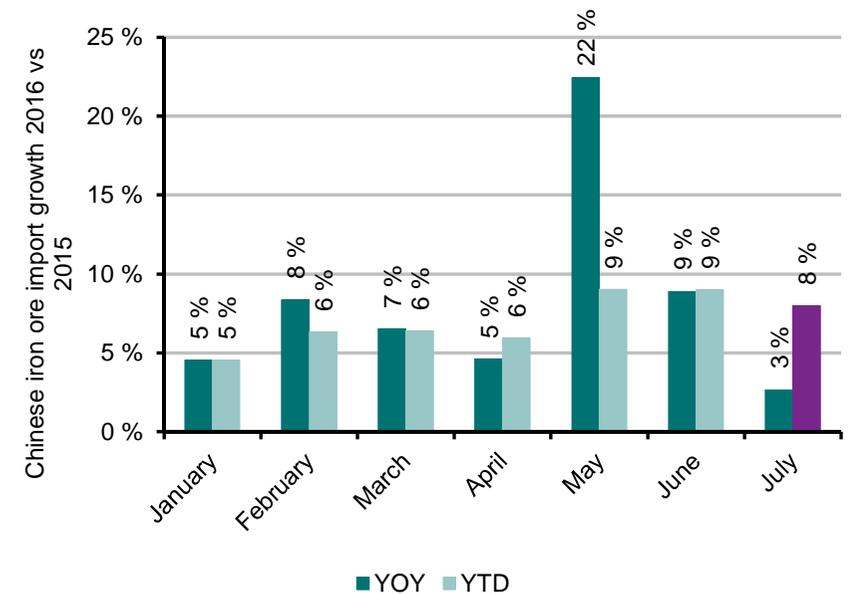
...while imports are up 7%.



Chinese iron ore production down 6% YTD...



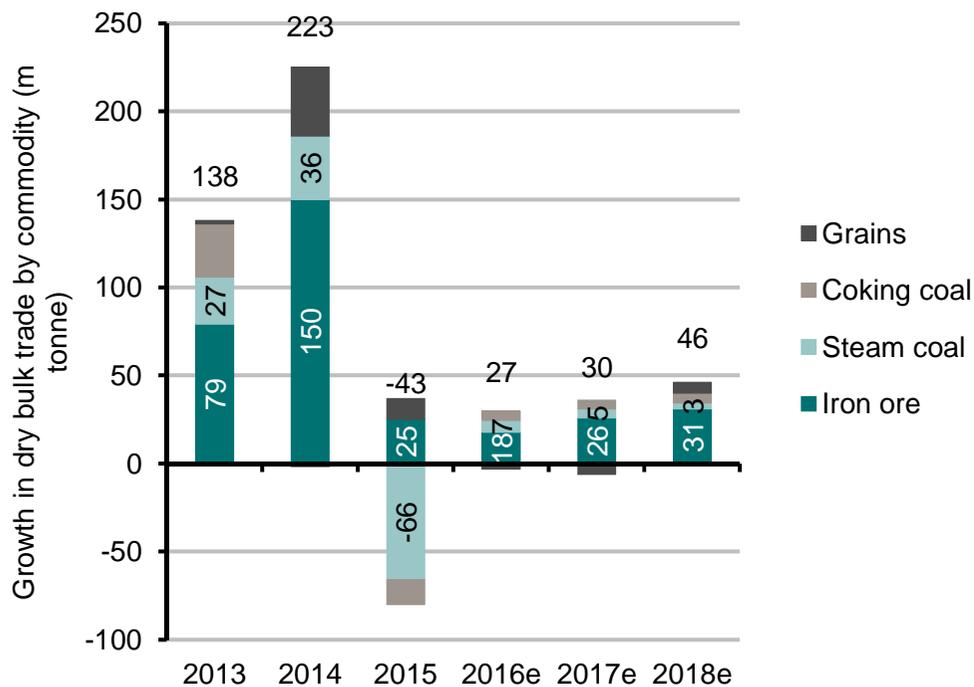
...while imports are up 8%.



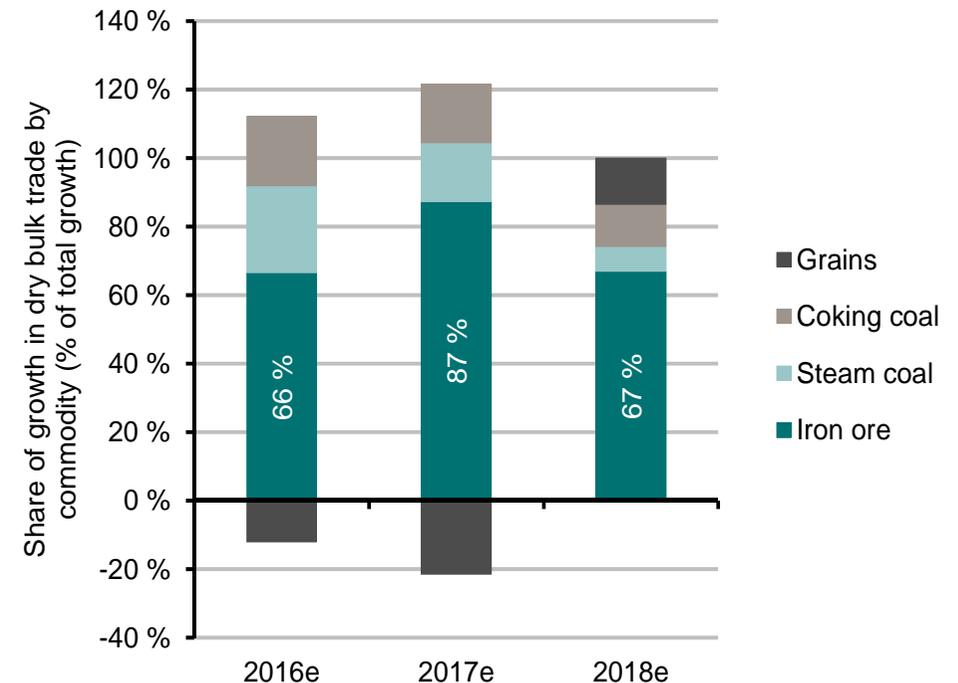
Investors often ask us if dry bulk demand is up for a structural decline or if we will see demand growth in the years ahead

- some fear a repeat of 2015 coal trade, how should we think about that?

Annual growth in dry bulk trade by commodity (m tonne)



Share of total growth by within major commodities



Source: DNB Markets, Clarksons

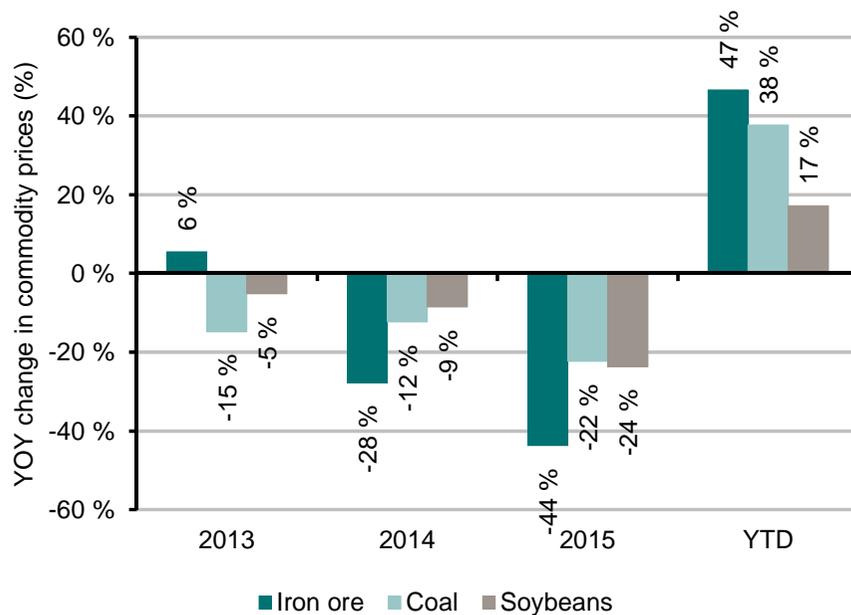
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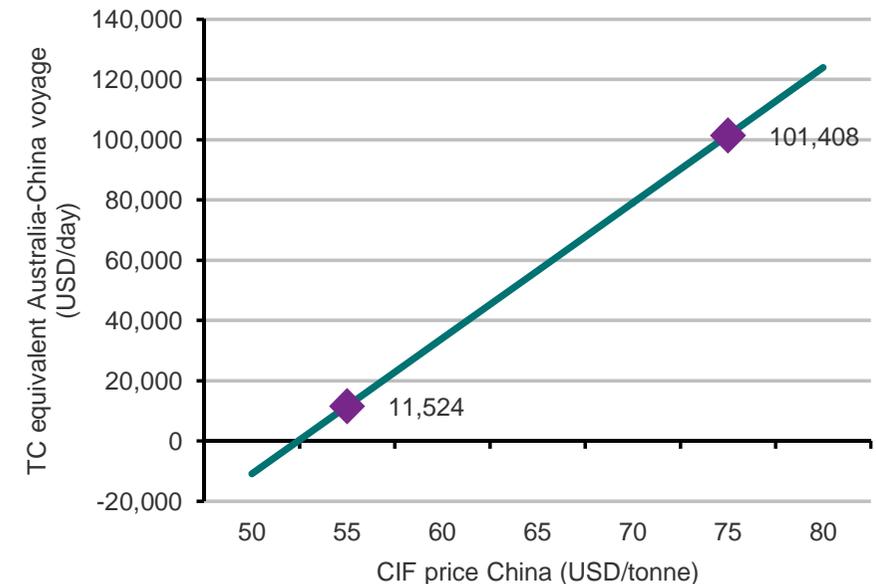
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Increasing commodity prices, for the first time in years, imply wider geographical arbitrages...

Prices for the main dry bulk commodities is up 15-50% YTD...



...which makes all the difference in the world wrt willingness to pay for transportation services



Chinese prices was USD55/tonne in January and now stands at USD75/tonne. Calculation assumes cash-cost at USD50/tonne FOB in Australia

Source: DNB Markets, Clarksons

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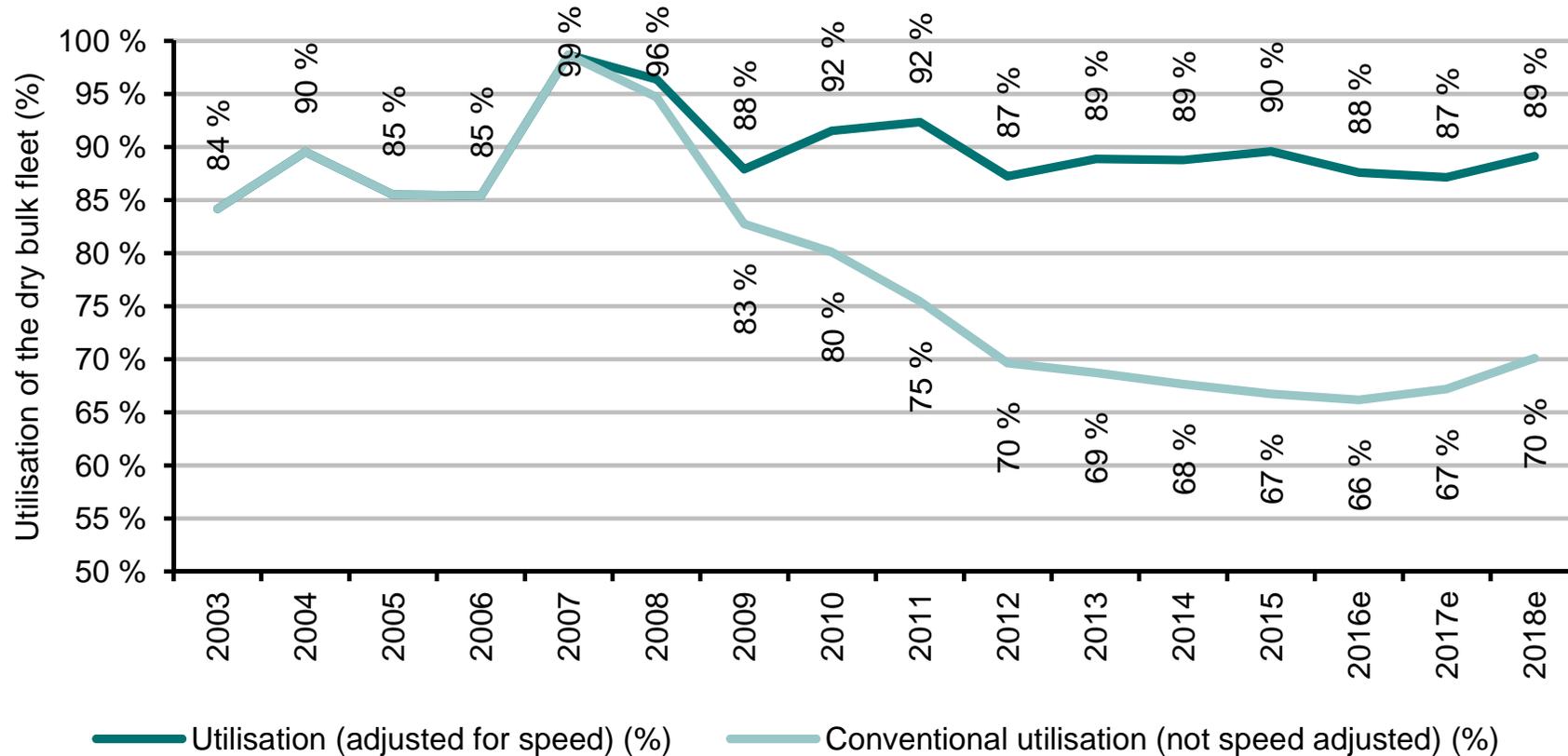
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Dry bulk, utilization, asset values and rates

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DNB Markets dry bulk utilisation forecasts (%)



Source: DNB Markets, Clarksons

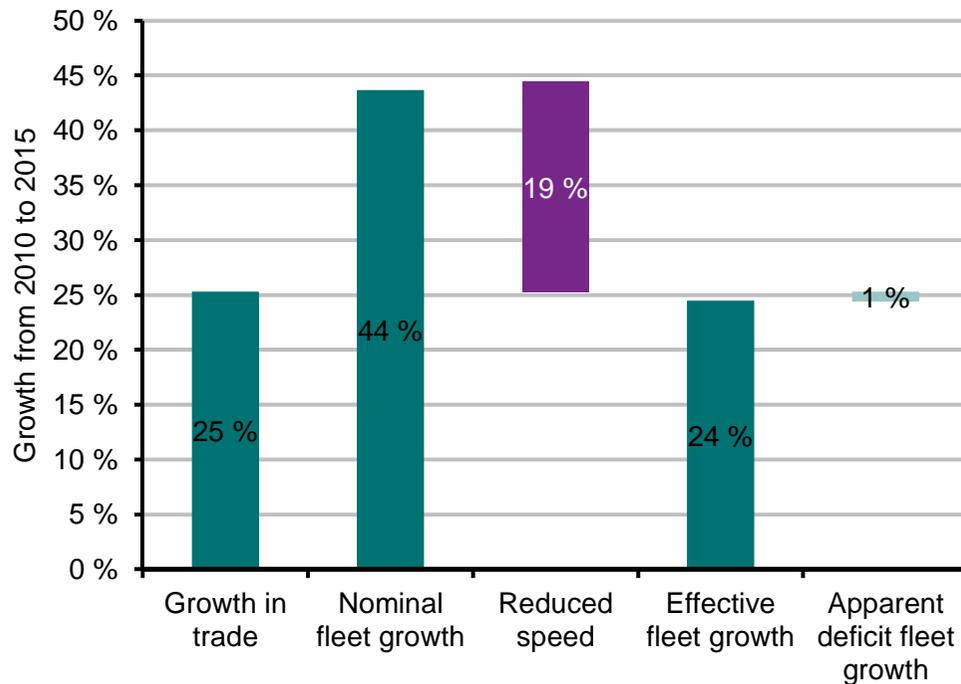
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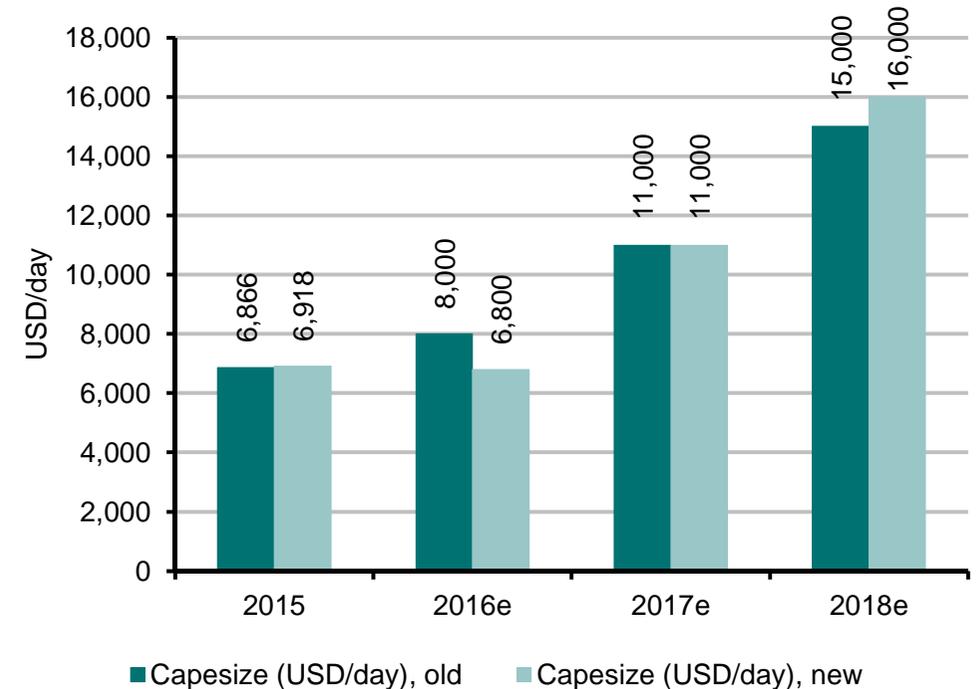
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We argue dry bulk is not-that-over-supplied-market due to historical speed reductions is what is needed for meaningful improvements in dry bulk earnings.

We reiterate our belief that the dry bulk market is not massively over-supplied when speed is accounted for



And we continue to expect a gradual recovery



Source: DNB Markets, Clarksons

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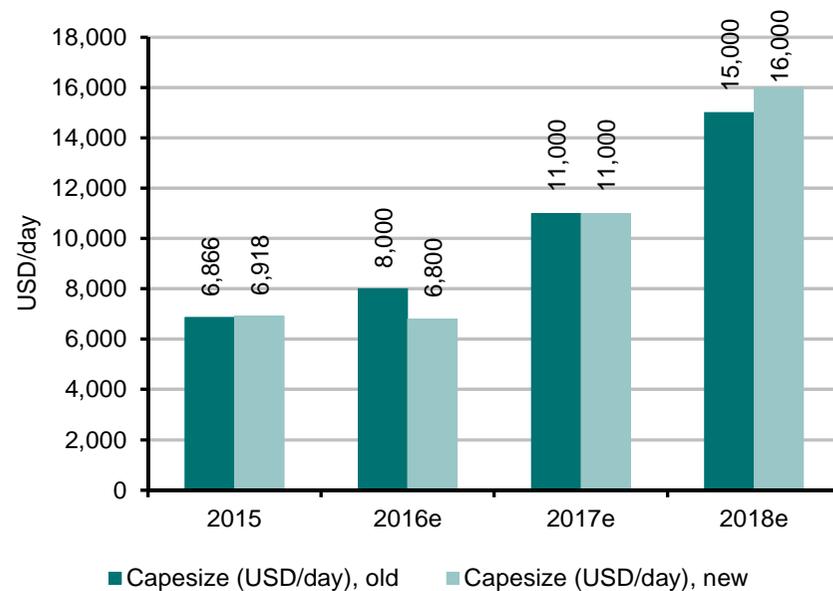
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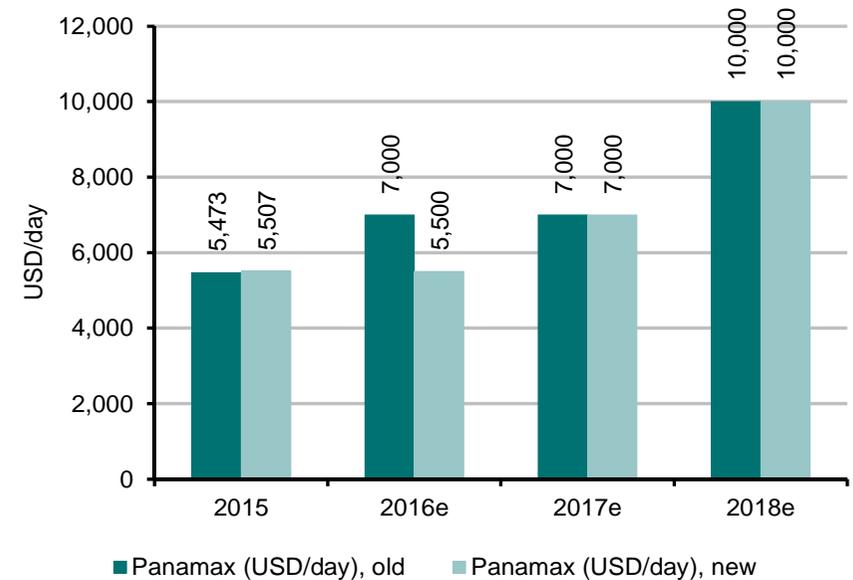
DNB Markets 9 September dry bulk rate forecast changes

- 2016 dry bulk rates developed in line with our January expectations, what next?

Estimate revisions, Capesize rates



Estimate revisions, Panamax rates



Source: DNB Markets, Clarksons

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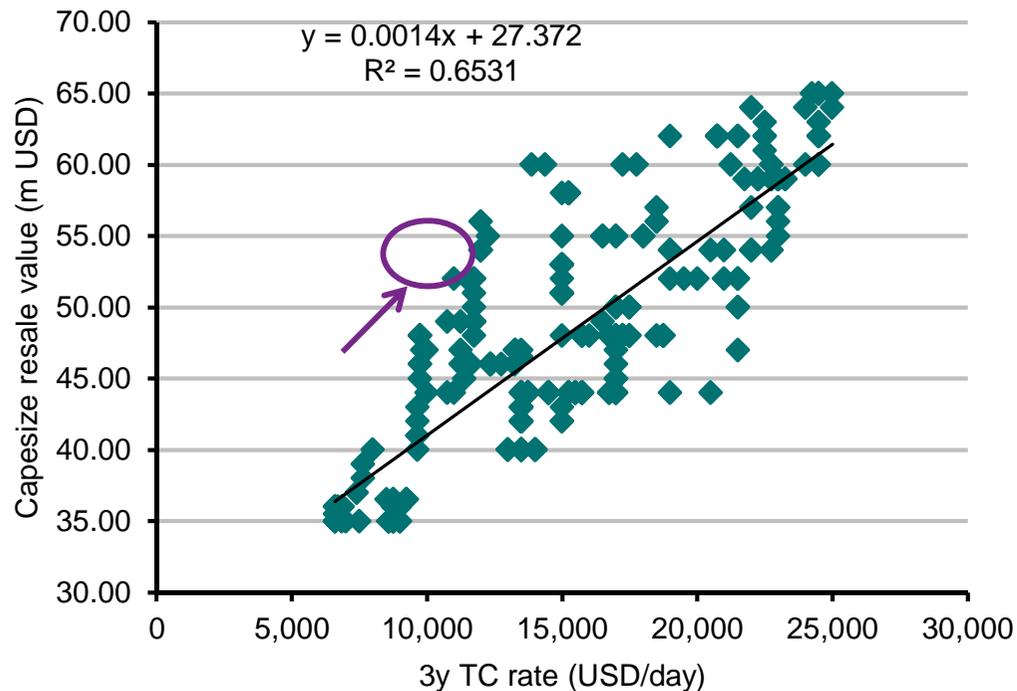
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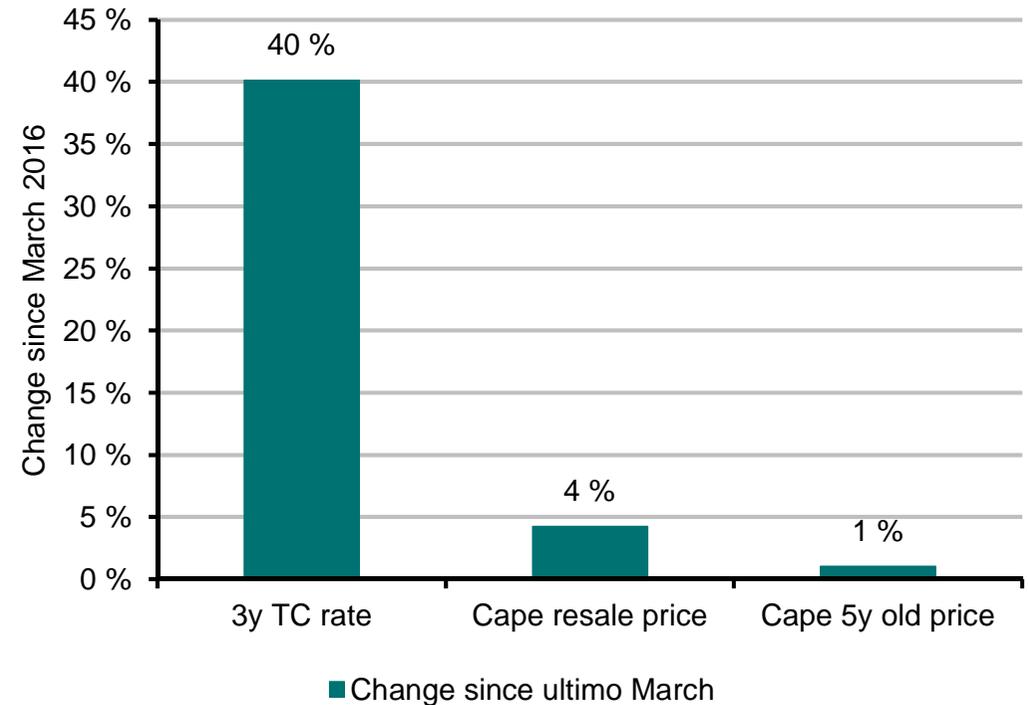
3 year capesize TCE rate up 40% since March, but resale price up only 4%?

- DNB Markets: "Recovery in earnings should also come with a recovery in asset prices; the Capesize resale can easily appreciate to USD44-45m (up ~20% from USD36-37m today)"

Asset prices are still considerably lower than the bottom in 2013...



...and a ketchup-effect can now easily materialise



Source: DNB Markets, Clarksons

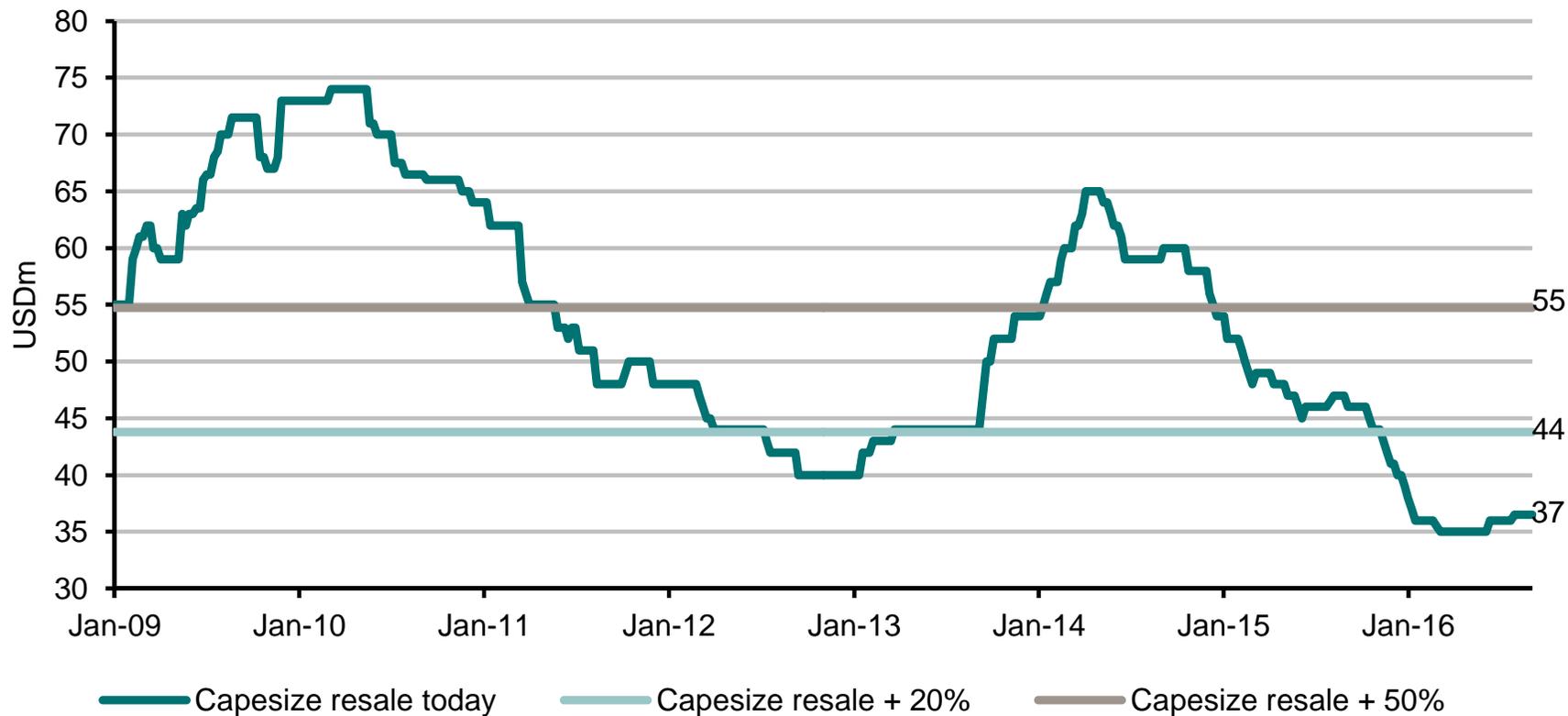
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Dry bulk asset values at an absolute low point – how much could values increase?

- Capesize resale (newbuild just delivered from shipyard) is valued today at USD37m
- DNB Markets forecasts that one year forward a capesize resale could go up by + 20% (30% on average as older tonnage goes up more)
- If values goes up 50% than we are almost back the levels we saw during the peaks of 2014



Source: DNB Markets, Clarksons

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