

Investment Opportunities in Ship Recycling



Investment Opportunities in Ship Recycling - Topics

1. Situation Analysis and Opportunities
2. How do participate

Situation Analysis and Opportunities

- Supply
- Demand (Capacity)
- Industry Profile
 - Size
 - Virgin Territory (Financial Vacuum)
 - Risks

Opportunities: Supply What is being recycled

Vessel Types	2008	2009	Change (%)	2010	Change (%)
MPP/GC	29	176	507%	128	-27%
Asp+Bitu	3			2	
Bulkers	103	262	154%	123	-53%
Chem&Oil	41	71	73%	117	65%
Containers	60	198	230%	82	-59%
Cruise	5	6	20%	3	-50%
FSO/FPSO	5	6	20%	11	83%
LNG	4			2	
LPG	20	28	40%	24	-14%
OBO	3	10	233%	0	-100%
Other	23	22	-4%	53	141%
Pax (Ferries)		2		24	1100%
PCC	24	112	367%	32	-71%
Products	21	34	62%	62	82%
Reefers	31	33	6%	35	6%
RORO	9	52	478%	66	27%
Tankers	35	59	69%	75	27%
Total	416	1071	157%	839	
Dry (Bulk + GC)	64	235	267%	546	132%
Wet (Chem+Product+Dirty)	130	384	195%	293	-24%

Supply: UL/VLs

Fleet Profile of World UL/VLCC Fleet									
No.Vessels (end)	2008	2009	2010	Jan-11	Orderbook Delivery Schedule			Expected Scrapping (20 yrs or >20)	Net Addition/Deletion to fleet
Fleet Totals	461	506	548	557	2011	78	43%	22	56
Deliveries	39	54	55	9	2012	61	34%	7	54
Scrappings	8	9	13	0	2013+	42	23%	19	23
Contractings	76	19	50	0	Total	181	100%	48	133
Orderbook	230	195	190	181	% Fleet	32.50%			
DWT (M) Tons (end)	2008	2009	2010	Jan-11	Orderbook Delivery Schedule			Expected Scrapping (20 yrs or >20)	Net Addition/Deletion to fleet
Fleet Totals	137,995,414	152,351,683	165,792,743	168,553,752	2011	24,215,647.00	43%	5,905,428.00	18,310,219
Deliveries	12154148	16,709,840	16,894,317	2,761,009.00	2012	19,364,342.00	34%	1,995,071.00	17,369,271
Scrappings	774,724	2,353,571	3,453,257	-	2013+	13,293,156.00	23%	5,619,573.00	7,673,583
Contractings	23,816,446	6,077,052	15,921,000	-	Total	56,873,145.00	100%	13,520,072.00	43,353,073.00
Orderbook	71,240,259	60,607,471	59,634,154	56,873,145	% Fleet	33.74%			

	Avg.YoB	Avg.Age	Ships
Average age of demolition in 2008	1985	23	3
Average age of demolition in 2009	1989	20	9
Average age of demolition in 2010	1990	20	13
Weighted Average		20	25

Supply: Capes

Profile of World Capesize Fleet									
No.Vessels (end)	2008	2009	2010	Jan-11	Orderbook Delivery Schedule			Expected Scrapping (23 yrs or >23)	Net Addition/Deletion to fleet
Fleet Totals	862	965	1158	1189	2011	298	47%	111	187
Deliveries	44	111	211	36	2012	231	37%	19	212
Scrappings	14	8	18	5	2013+	103	16%	46	57
Contractings	212	77	123	9	Total	632	100%	176	456
Orderbook	781	747	659	632	% Fleet	53.15%			
DWT (M) Tons (end)	2008	2009	2010	Jan-11	Orderbook Delivery Schedule			Expected Scrapping (23 yrs or >23)	Net Addition/Deletion to fleet
Fleet Totals	153,322,646	172,866,381	208,366,186	213,903,085	2011	56,835,224.00	46%	19,222,786.00	37,612,438
Deliveries	8,624,578.00	20,987,005	38,082,105	6,348,561.00	2012	46,073,810.00	37%	3,695,668.00	42,378,142
Scrappings	2,157,823	1,443,270	2,582,300	811,662	2013+	20,264,600.00	16%	8,053,272.00	12,211,328
Contractings	41,348,696	17,294,407	23,003,958	1,687,000	Total	123,173,634.00	100%	30,971,726.00	92,201,908.00
Orderbook	146,811,940	143,119,342	128,041,195	123,379,634	% Fleet	57.68%			

	Avg.YoB	Avg.Age	Ships
Average age of demolition in 2008	1981	27	14
Average age of demolition in 2009	1983	26	8
Average age of demolition in 2010	1982	28	18
Average age of demolition in 2011	1982	28	8
Weighted Average		23	48

Supply

- **Next 3 years will be busy**
 - Order books
 - Poor freight rates
 - Legislation
 - Selective charterers
- **Capes: In 2009 less than 1% of the fleet capacity was recycled. In 2010 about 1.5%. In 2011, we expect this figure to be in excess 3.5%**

Opportunities: Supply

- About 30 mill DWT of tonnage is expected to be recycled this year.
- 2011-2013 are expected to be busy years/
- Due to substantial increase in the number of vessels that are available for recycling (*1200*) coupled with an increase in ship prices, Cash (investment) requirements have increased significantly.

Opportunities – Demand (Capacity)

- Demand exceeds Supply
- Capacity
 - 2010: 26.6/6.88 mill DWT/LDT
 - 2009: 28.2/8.1 mill DWT/LDT
 - 1983: 33.3/7.1 mill DWT/LDT
 - 1985: 42.6/9.0 mill DWT/LDT (HISTORICAL HIGH)
 - About 14.4/1 mill LDT > 2009)

Demand: Where it is done

- Indian subcontinent
 - India (180)
 - Bangladesh (80)
 - Pakistan (50 of 125)
- China (20)
- Turkey (25)

Note: all figures are approximates

- These 5 countries recycle more than 90% of the world's fleet

Industry Volume (\$)

- With an average transaction value in excess of US\$ 4 mill/per vessel, the industry turnover for this year is estimated to be about **US\$ 5.0 Billion.**

Opportunities – Vacuum

- Banks, the only source of funds. But,
 - Absence of:
 - Major Banks
 - Limited availability of cash flow
 - Other Financial institutions
 - Financial instruments
 - Understanding of the trade
 - Traditional ship financing tools (mortgage based) are ineffective
- Bottom line: Lack of funds

Investment Vehicles - Options

1. Equity routes

- a. Public Listing, Private Placements through VCs and PEs, Joint Ventures, etc.

2. Debt routes

- a. Investment Funds, Banks, Bonds, Private lenders, etc.

3. Mezzanine routes

- a. Investment Funds with a debt and/or equity component

- We believe debt based instruments; especially INVESTMENT FUNDS, are the ideal tools for this trade.

Ship Recycling Fund

- Ship Recycling Fund of US\$ 200 Million can be deployed profitably.
- Gross annual return of 15% can be targeted.
- Open or close-ended
- Fund could also venture in the market of Scrap Futures via arbitrage and hedging

Risks

■ Liquidity Risk:

- With an average inventory turnover of 35 days, the liquidity risks are low.
- Demand exceeds Supply

■ Value risk:

- The price of a vessel is almost equal to the value of the steel in it, thus leaving minimal scope for value depreciation of the asset... limited downside
- Correlated to/hedged against steel prices

■ Credit risk:

- Since confirmed sources of payments (e.g. LCs), credit risk is low.

How do I participate - Players

- Ship owners
- Ship brokers (500+)
- Cash Buyers (5+)
- Ship Recycling Yards (300+)

Cash Buyers

- Cash Buyers are not brokers.
- Cash Buyers are TRADERS. They buy vessels on cash basis from ship owners and resell to ship recycling yards world wide on Letters of Credit.
- Cash Buyers take delivery of vessels on both "delivered" and "as is where is" terms.
- IMO's Hong Kong Convention on Ship Recycling will consider Cash Buyers as OWNERS of vessels.

Closing Thought

- Combination of macro and micro factors make this the perfect time to invest in ship recycling.
- Hidden (ignored) “pillar” of shipping
- Industry is recession proof.
- Recycling old ships is good for the environment and for the safety of the crew.
- IMO's Hong Kong Convention has established guidelines for the safe and responsible recycling of ships. Most nations have started abiding by these guidelines. Green processes are emerging.
- Maturity of players with strong record
- **Time to act is – NOW!!!**

Thank you!