Singapore

Market Report 2016

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Singapore Straight

"We will propose strategies for a more vibrant and competitive Singapore IMC"

—BW chairman Andreas Sohmen-Pao

9

11

"APL's extensive global footprint will be a huge asset to us"

— Rodolphe Saadé, vice chairman of CMA CGM

"This overcapacity and lower rate environment is correcting naturally"

— Charles Maltby, chairman, Epic Gas

12

13

"Timely S&P asset management remains a core strategy"

— Michael Elwert, CEO, Elektrans

"We want to encourage creative ideas"

— Tan Chong Meng, group CEO of PSA International

15

18

"Swiber was a train wreck in slow motion"

— Venkatraman Sheshashayee, CEO of Miclyn Express Offshore

"We need to be on our toes because when you are number one there is only one place to go"

— Singapore Shipping Association president Esben Poulsson

21

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Lessons learned from London

It was, as Esben Poulsson pointed out at this year's Singapore Shipping Association (SSA) annual bash, back in 2002 that transport minister Khaw Boon Wan made a call for the Lion City to become 'London Plus'. Khaw was guest of honour at this year's SSA dinner – the first time he'd been back at the massive shipping gathering for 14 years.

Readers might recall that Singapore's maritime development strategy at the turn of the century called for the former British colony to model itself on London. In 2016, London looks small fry to mighty Singapore, a picture perfectly encapsulated, I would argue, with the Singapore Exchange's acquisition of the venerable Baltic Exchange, an exclusive first broken by *Splash* this May.

The latest Xinhua-Baltic Exchange Shipping Centre Development Index published in 2016 ranked Singapore as the top shipping centre among 43 global maritime hubs and it was also ranked first as the world's leading maritime capital in a Menon study last year.

Nevertheless, I am not alone in wondering whether Singapore has reached 'peak ownership'. At repeated exclusive roundtables we have organised with the island's top shipowners this year there is a growing feeling that Singapore has probably topped out in terms of the number of owners based here. Issues with costs and human resources dominate.

This year we've seen a number of offshore owners quit the Lion Republic, while Maersk Line has switched its Asia HQ from Singapore to Hong Kong, and Japan's Mitsui OSK Lines has canned its Singapore dry bulk subsidiary.

Has Singapore reached 'peak ownership'?

SSA's Poulsson is aware that the city must up its game once again to stay at the top. "The Singapore proposition is still there," he tells me on page 21, "but we need to be on our toes because when you are number one there is only one place to go."

In short, there is no room for complacency – just ask London!

Sam Chambers
Editor

Farewell to the flagship

The sale of Neptune Orient Lines to CMA CGM was one of many important news stories this year

Members of parliament earlier this year compared losing Neptune Orient Lines (NOL) and its containerline APL to waving goodbye to a child. Previous bosses of NOL include Goh Chok Tong, the republic's second prime minister after Lee Kuan Yew.

France's CMA CGM completed the $2.4bn takeover of the city-state's flagship carrier this year. Nicolas Sartini has been parachuted in from Marseille to become CEO of NOL, while Rodolphe Saadé, son of the CMA CGM founder, is now NOL's chairman. In September NOL was delisted from the Singapore Exchange.

"APL's extensive global footprint will be a huge asset to us as we take the business forward as part of the CMA CGM Group," Saadé commented on taking over the line.

High costs, the wrong business model, too small ships – these were all listed by the outgoing chief executive of NOL in a remarkably candid interview with the local *Straits Times* on how the line failed to handle the downturn.

Ng Yat Chung presided over the line from 2011 to June this year.

"In this environment of extreme overcapacity and severe freight rate erosion, competition is based on cost… Unfortunately, we haven't been able to cut costs fast enough to offset the collapse in freight rates," Ng told the newspaper.

NOL and its boxline subsidiary APL had historically built its business model as a premium service line, so its costs were always "significantly higher" than its competitors.

"But the world has changed. The market growth has slowed down, there is severe overcapacity, so we had to recognise that the business model needed change. We didn't have the right cost position in an industry that was becoming more and more commoditised."

Ng admitted NOL had been "a bit slow and reluctant to change".

"Compared with our competitors, we also didn't have the scale, which has become more important in this industry," added Ng.

"The largest part of the cost for a carrier like us comes from the terminal costs, trucking costs, fuel costs – all these, you get a significant advantage in getting a better rate when you have big volumes. So when freight rates are very low, every dollar of the cost advantage matters. Otherwise, you're hamstrung."

Ng said the decision to sell the Singaporean flagship, founded in the 1960s, was a very hard one. The company had explored buying out others, he said, without revealing names.

Busy at BW

The diverse BW Group has had a very busy year across its many business strands. It formed BW Dry Cargo in April, pursuing a quick build up of bulkers in the 50,000 dwt to 85,000 dwt range. The new division is headed by Nordic Bulk Carriers founder Christian Bonfils and has already amassed a double-digit sized fleet in a very short amount of time.

Elsewhere, BW LPG spent much of the year building up its stake in Norway's Aurora LPG and as we went to print the Aurora board had approved BW's takeover offer, cementing the company's position as the undisputed largest VLGC operator in the world.

BW's chairman Andreas Sohmen-Pao was inaugurated this January as the new chairman of the Singapore Maritime Foundation.

Cape crusader

Rubbing shoulders with the likes of John Angelicoussis and Eyal Offer in terms of dry bulk acquisitions this year has been Singapore-based Chinese outfit Winning Shipping. According to online pricing platform VesselsValue.com Winning has been among the top three bulker buyers in 2016 – a regular source of S&P news stories on Splash.

China's rapacious demand for raw materials is seeing ever-longer dry bulk journeys crisscrossing the globe. No capesize trip is longer these days than from Guinea in West Africa to the People's Republic. Winning is making the running in this niche trade. The Chinese-backed company has mining and shipping interests, and is very much in charge of its entire supply chain.

The Winning current fleet is weighted in favour of capesizes, but also includes supramaxes, a post-panamax and a couple of newcastlemaxes. The company also has a couple of transhippers, four floating cranes, 12 tugs and eight barges.

Bosco Lau Chi Wah, vice president and CEO of Winning Logistics Services, explains how the company focuses on taking bauxite from West Africa to China and then project/general cargoes from China back to West Africa.

"This two-way trade route will contribute the world's longest tonne-miles capesize haul," Lau says.

The group's in-house bauxite from its Guinea mine will increase production, and export, from the current capacity of 10m tonnes a year to 30m tonnes a year within the next two years. "This translates to full employment of 40 capesize vessels for one way trade, and the required capacity will be doubled if every ship is employed in two-way trade," Lau says.

Distressed hunter

Like BW and Winning, Singaporean handysize bulk owner Pioneer Marine is gearing up to buy up distressed assets. The line's founder is adamant that the time is ripe to pick up bargain hulls.

Pankaj Khanna, Pioneer's CEO, commented, that having been able to cancel the majority of its newbuild plans, the company would seek "opportunistic acquisitions".

Khanna founded Pioneer Marine four years ago, having served for many leading shipowners including George Economou.

Another Singapore bulker player has been snapping up distressed assets of late. China Navigation in November moved to take on four 38,800 dwt handysize newbuildings. The ships were originally ordered by German bulker outfit Bertling. The vessels have now been sold by the yard, Huanghai Shipbuilding, for a price brokers tell Splash is around $15.4m each.

Not all bulk plays worked out this year however. 2016 was, after all, the year where the Baltic Dry Index slipped below 300 points. Mercator Lines (Singapore) (MLS) exited dry bulk this year as one of the more high profile casualties of the downturn. The Singapore-listed arm of the Indian owner – weighed down with debts of more than $165m – had a fleet of 12 panamaxes and kamsarmaxes when it called it a day in January. Bankruptcy judges ended up selling the defunct dry bulk division for a nominal S$3 ($2.16).

LPG under pressure

While admitting rates are foul at the moment, Charles Maltby, chairman and ceo of Epic Gas, is adamant the company is looking at the markets from a long term perspective, hence now is a good time to snap up cheap new tonnage with an eye on rates improving in the pressurised LPG sector next year.

Maltby joined the Chris Buttery backed gas vehicle in 2014. He had been with Pacific Basin in the UK prior to his Singapore switch.

Epic Gas is the only owner operator focusing purely on the pressurised LPG sector with a fleet of 3,500 to 11,000 cu m vessels, the full spectrum of vessels in the sector.

After it merged with Pantheon in 2012 it controlled a fleet of 22 pressurised LPG vessels, and over the intervening years it has placed orders for 13 owned and four bareboat chartered new vessels, a total of 129,900 cu m, at Japanese yards. Some 79% of this newbuild capacity is for vessels of 7,200 cu m or larger. Two ships have still to deliver by which point Epic will have a fleet of 43 ships totalling 277,400 cu m, representing about 17% of the global fleet.

"The scale of the fleet is important," Maltby argues, "as it enables us to globally deliver a flexible, long term business model to our customers, through time charter, COA, voyage charter relationships, at both fixed and floating rates."

Epic Gas anticipates further fleet growth in the future.

Pressurised LPG vessels are typically involved in the movement of LPG (propane and butane) over the last mile into smaller ports within developing economies. Within Epic Gas about 75% of its volumes are LPG, whilst the balance are petrochemicals such as propylene, butadiene and VCM.

However, while global LPG trade grew

by 9.8% last year, rates for pressurised LPG have been bouncing along at record lows – often below opex levels – for the smaller pressurised vessels due to overcapacity within the sector, driven primarily by record newbuild deliveries in 2014 and 2015.

The low rates have translated into tough financial times for the sector.

In addition, the evolving petrochemical demand in China as domestic PDH plants come on line to produce propylene has led to volatile demand for propylene imports, typically on pressurised LPG vessels.

"This overcapacity and lower rate environment is correcting naturally," Maltby says optimistically, "and has assisted in reducing newbuild ordering, and also led to scrapping of about 2% of the fleet each year."

With demand growth for LPG remaining robust, and vessel newbuild supply already reducing, and reducing significantly to below 4.4% in 2017, Maltby says he anticipates a "steady recovery" in rate levels.

New era for Elektrans

Watch out for India's Elektrans Group as it makes plenty of moves in the tanker sector in the coming couple of years. With former Thome man Captain Michael Elwert installed as group CEO this April, the Singapore-headquartered firm is gearing up for significant expansion.

"Currently, Elektrans Group is with its partners, expanding its tanker fleet as and when we come across the right assets at the right price," Elwert tells *Splash*.

The aim is to pursue younger tonnage and to mix the fleet up more between Indian-flagged and other registries.

Moreover, other sectors could be entered, Elwert says.

"The focus of the company is to strengthen its presence in the tanker segment, yet we will keep our options open, scout and consider possible ventures into other ship type segments when time is right and we can harvest opportunities which could complement our portfolio long-term," he says, stressing: "Timely S&P asset management remains a core strategy."

Possible strategic partnerships with other shipowners are also on the cards.

Cautious Aurora

"This is the right time for consolidation and/or acquisition of secondhand or distressed assets."

That's the view of Kenny Rogers who heads up IMC's chemical tanker subsidiary, Aurora Tankers.

Although he believes pricing will continue to drop further newbuilds in the chemical tanker sector are not a good thing now as they will continue to erode freight rates and dampen the recovery time from the present over tonnage.

Aurora's fleet today consists of 20 chemical tankers with one more to deliver in January next year.

"The chemical tanker sector is presently challenged due to seasonal impacts and the effects of overtonnage," Rogers observes. There has been a significant rise in tonnage supply which Rogers says is always a "downward driver" of freight rates.

"Traditionally," he notes, "the chemical tanker sector has been very disciplined when it came to building tonnage, however many new investors have entered the sector that fundamentally do not understand the market."

Concluding, Rogers warns: "Shipping in effect has entered a second downturn before the post-Lehman Brothers downturn was over. Only experienced and motivated management will keep owners afloat in these turbulent times."

Contrasting Japanese plays

Japanese shipping giants Nippon Yusen Kaisha (NYK) and Mitsui OSK Lines (MOL) took different tacks in Singapore this year, the former expanding and the latter canning a subsidiary.

NYK agreed to team with Weathernews and Kozo Keikaku Engineering to establish a new company, Symphony Creative Solutions (SCS) in Singapore. SCS is being created to develop and market next-generation solutions in the shipping and logistics fields.

MOL, meanwhile, performed a considerable volte face over its plans for Singapore. For a number of years the Lion City had been MOL's home from home, with considerable business shifting from Tokyo to the Southeast Asian republic under a concerted decentralisation plan. This has now come to an end.

MOL's four-year-old dry bulk shipping subsidiary in Singapore, MOL Bulk Carriers (MOLBC) was axed this year, its functions returning to Tokyo as part of sweeping dry bulk restructuring at the giant line. MOLB was involved in spot handymax trades.

Meanwhile, Kawaski Kisen Kaisha (K Line) is going on a different Singapore dry bulk path to compatriot MOL. K Line announced plans earlier this year to set a Panamax Fleet Allocation Center at its Singapore-based subsidiary, K Line Pte Ltd (KLPL) to manage the time charters of the group's 50-odd panamax and post-pananax fleet.

Lost shipping trusts

2016 marked the year that Singapore's flirtation with shipping trusts came to a shuddering halt with both Rickmers Maritime Trust and First Ship Lease Trust (FSL) coming under enormous pressure.

On November 22 the trustee-manager of Rickmers Maritime warned that the trust could struggle to continue as a going concern as a default on an interest payment looms. Rickmers Maritime is also in default under terms of the agreements of bank loans extended to the shipping trust and its subsidiaries.

Meanwhile, there has been a noticeable exodus of directors at struggling FSL, ostensibly over the appointment this September of a new CFO.