Drewry
Maritime Advisors

Container terminal industry: weathering the storm

Maritime Silk Road, Ningbo

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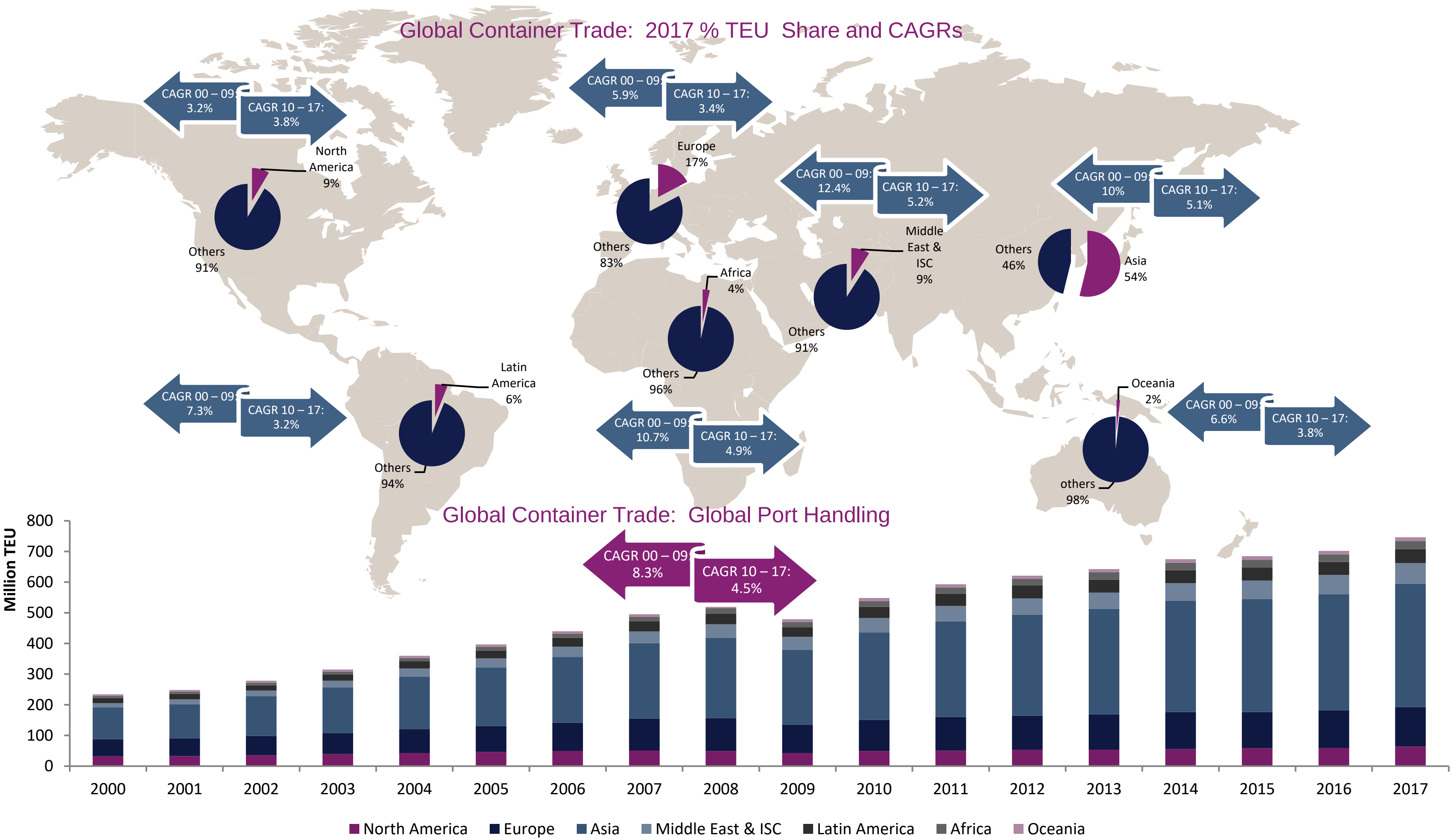
The Storm

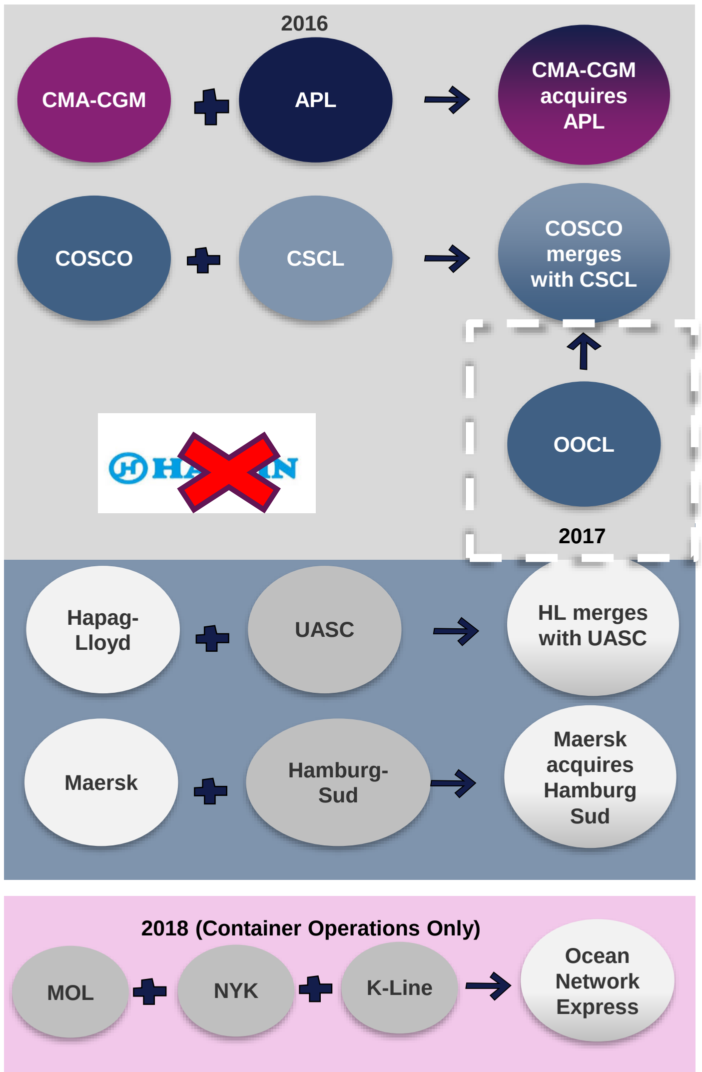
Global container trade: slower growth

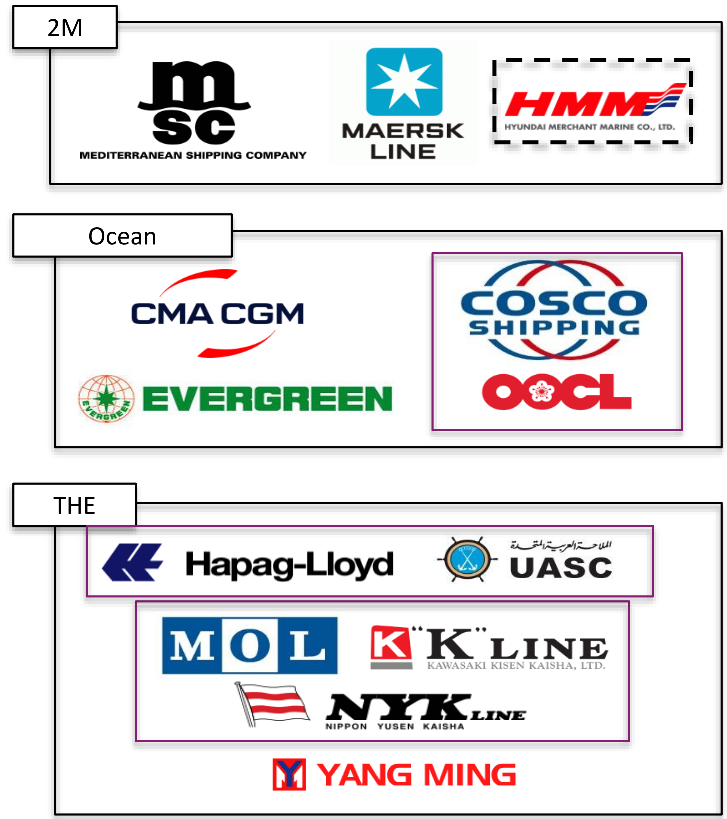
The global container trade has grown at a CAGR of 4.5% between 2010 – 2017, down from CAGR 8.3% 2000-09.



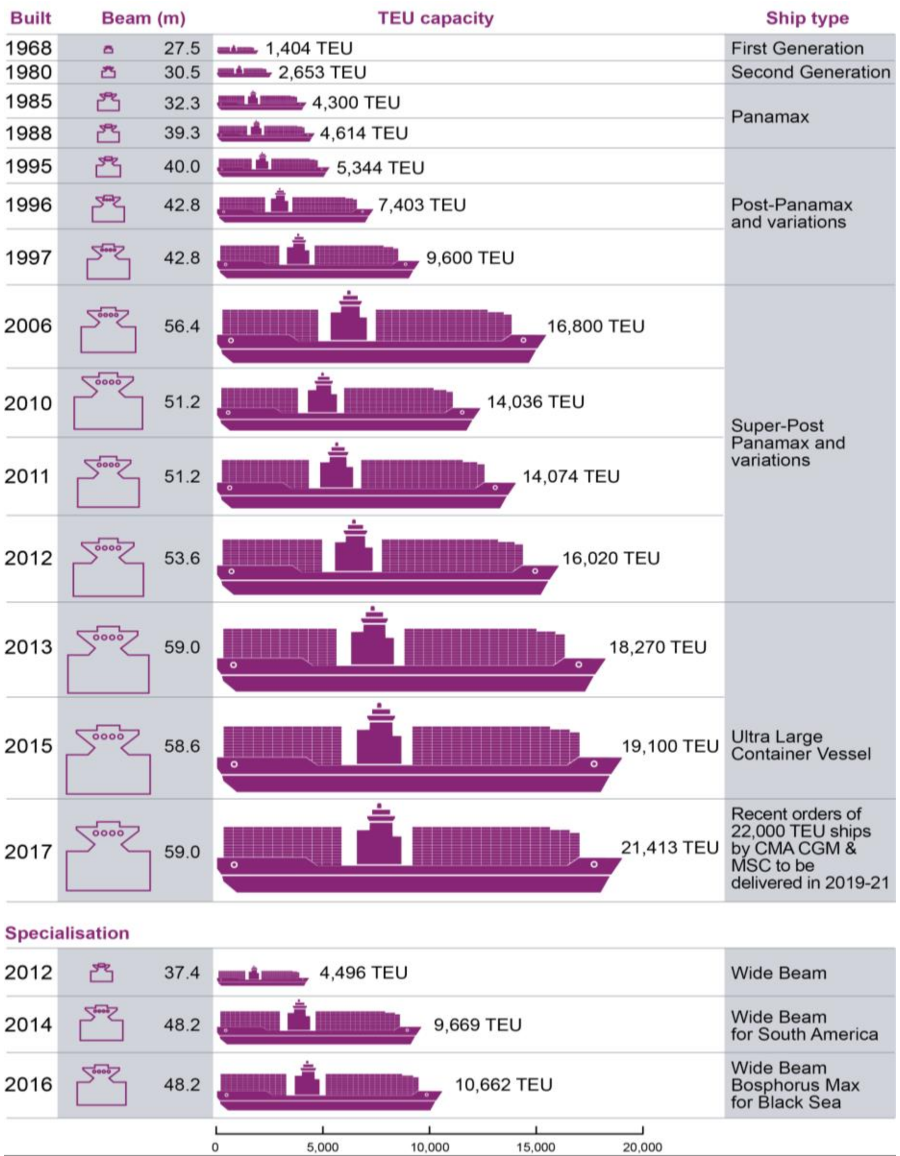
Source: Drewry

Concentrating customer base





Containership sizes double on most trades



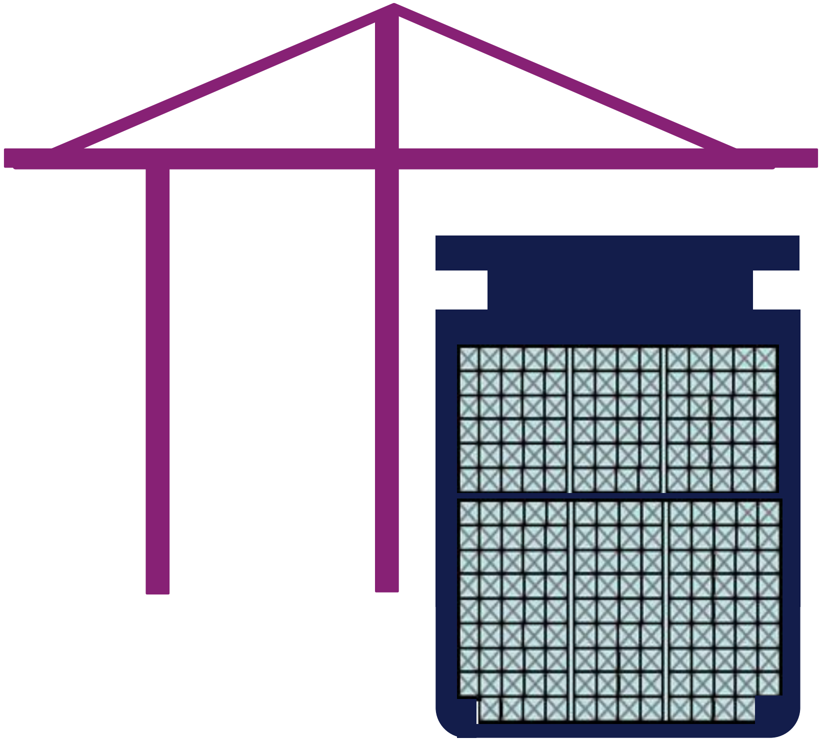
Source : Drewry Maritime Research

Evolution of average ship sizes on major trade routes

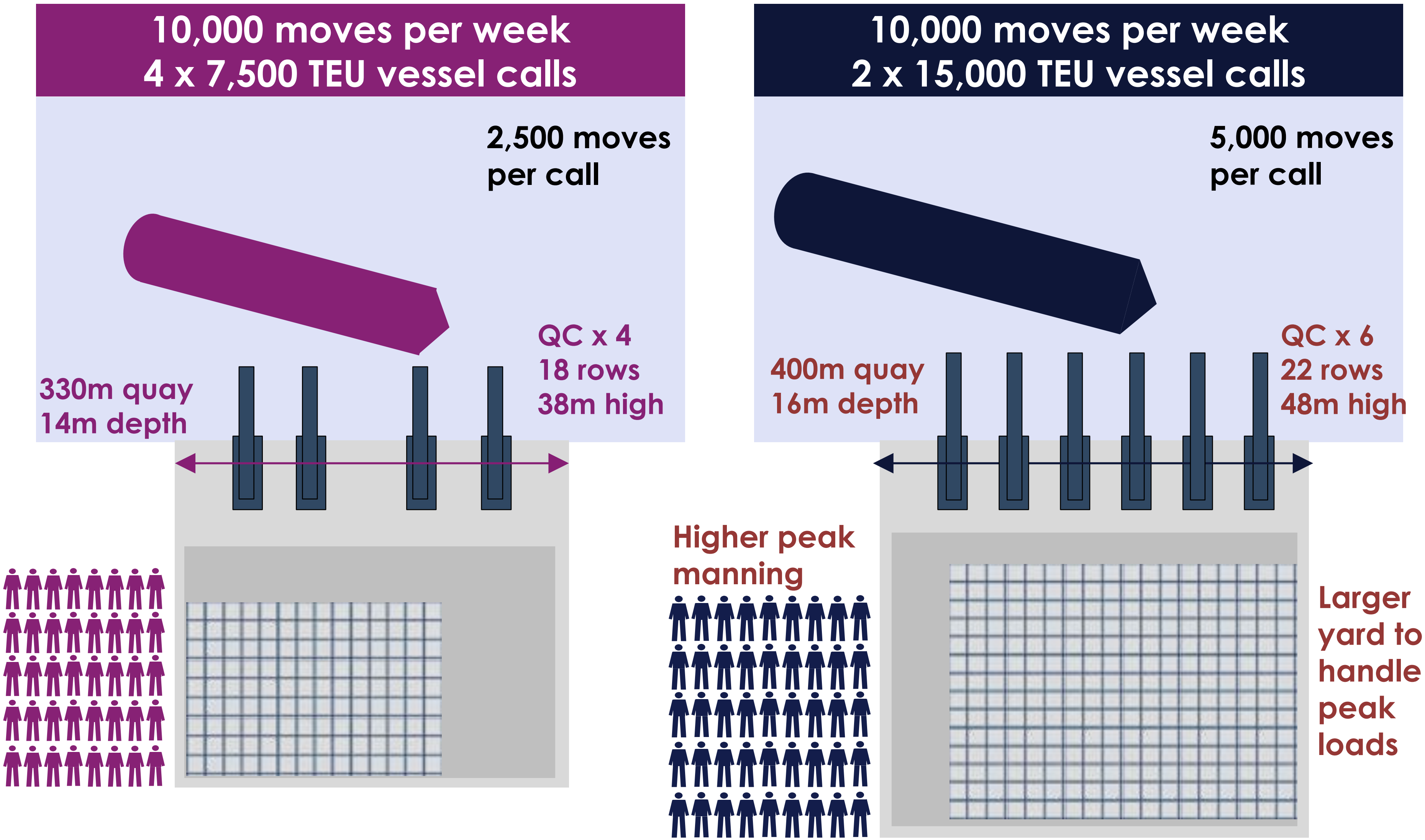
Trade Route (TEU)	1Q09	1Q12	1Q15	1Q18
Far East/N Europe	7,779	9,552	12,235	15,291
Far East/Mediterranean (direct)	5,488	6,848	8,625	10,998
Transpacific headhaul	5,079	5,869	6,740	7,828
Transatlantic headhaul	3,609	3,872	4,458	4,703
ECSA/Far East	5,074	3,240	8,314	9,236
WCSA/F East	5,100	2,681	7,207	7,751
Eur/S Africa	3,301	3,116	7,657	8,096
Far East/S Africa (direct)	5,255	3,651	7,061	5,068
Eur/W Africa (direct)	1,965	1,636	2,578	2,965
Far East/W Africa (Direct)	2,755	2,220	4,846	5,490
Asia/Mid-East and South Asia (direct)	2,926	3,692	5,594	5,409

Capex is rising to accommodate larger vessels

- **More cranes**
- **Larger cranes (outreach and height)**
- **Longer and deeper berths**
- **Deeper approach channels**
- **Greater air draft**
- **Larger or more densely stacked yard**



Larger ships drive up opex



The Storm


Softening of demand growth rates
Vessel upsizing: cost pressure
Concentration of volume: risk
Weak carrier profitability: pressure on price
Pressure on margins and returns

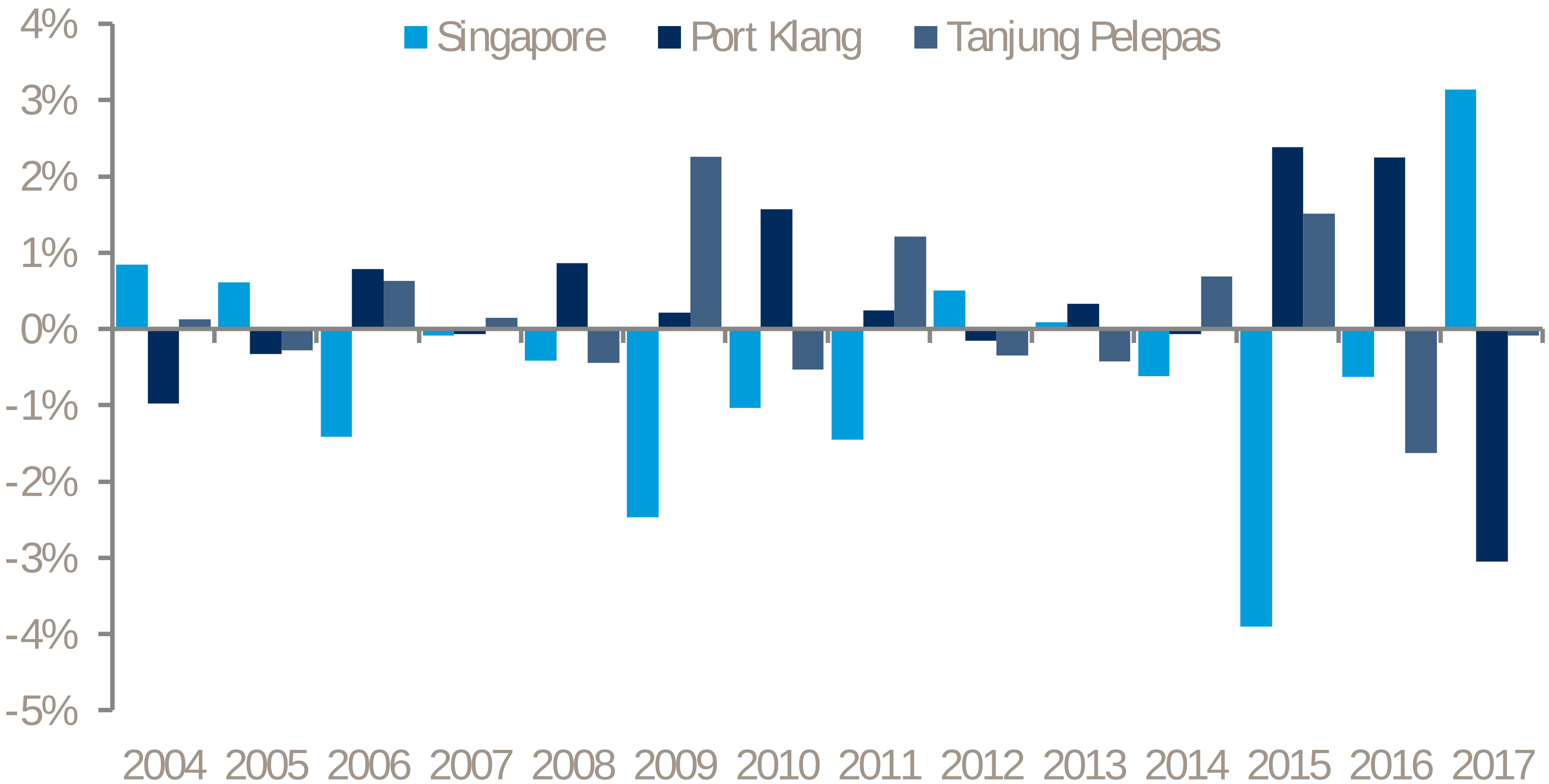
Weathering the storm

Weathering the storm

Weathering the storm

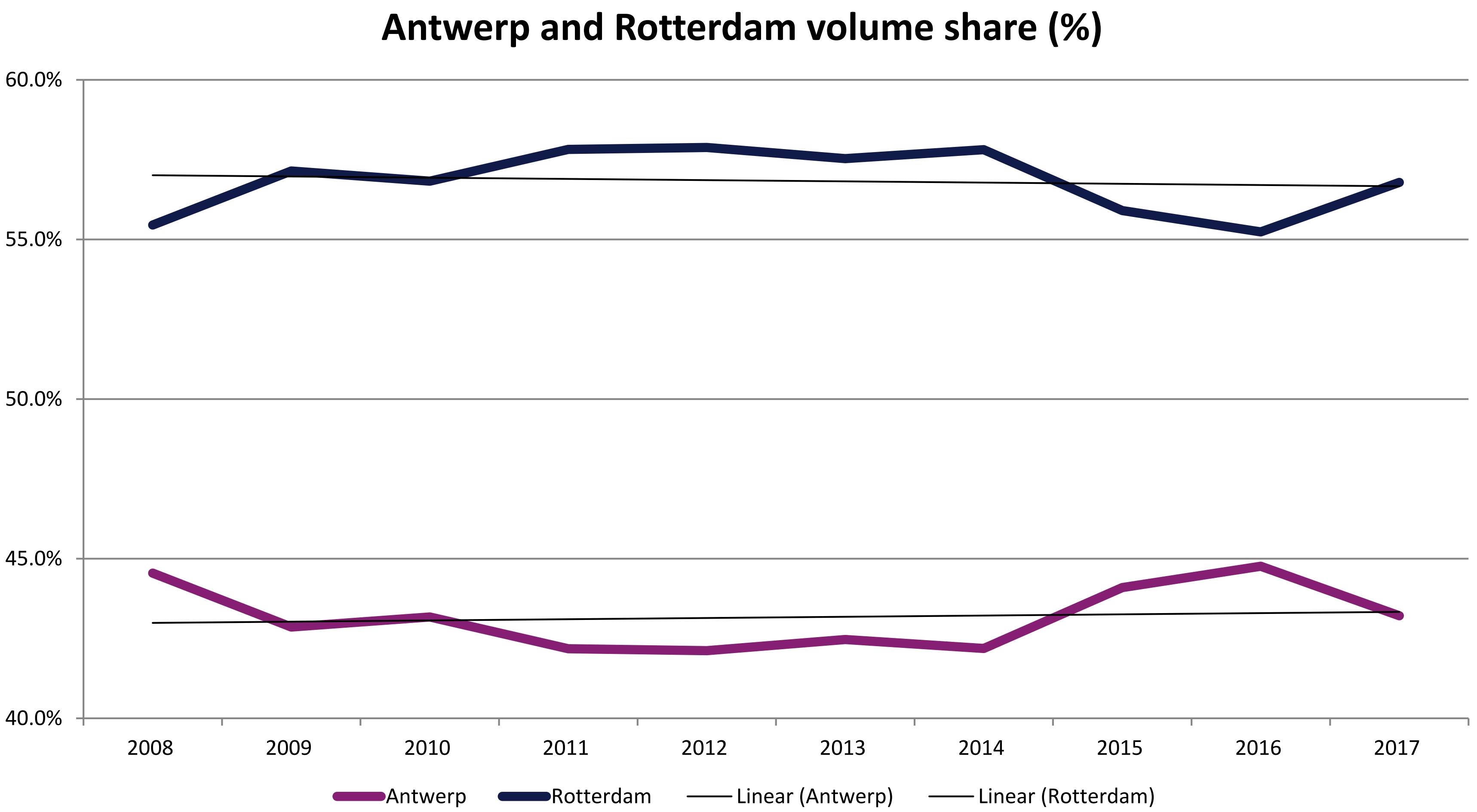
Concentration increases risk

Change in market share: SE Asian transhipment hubs, 2004-17



Weathering the storm

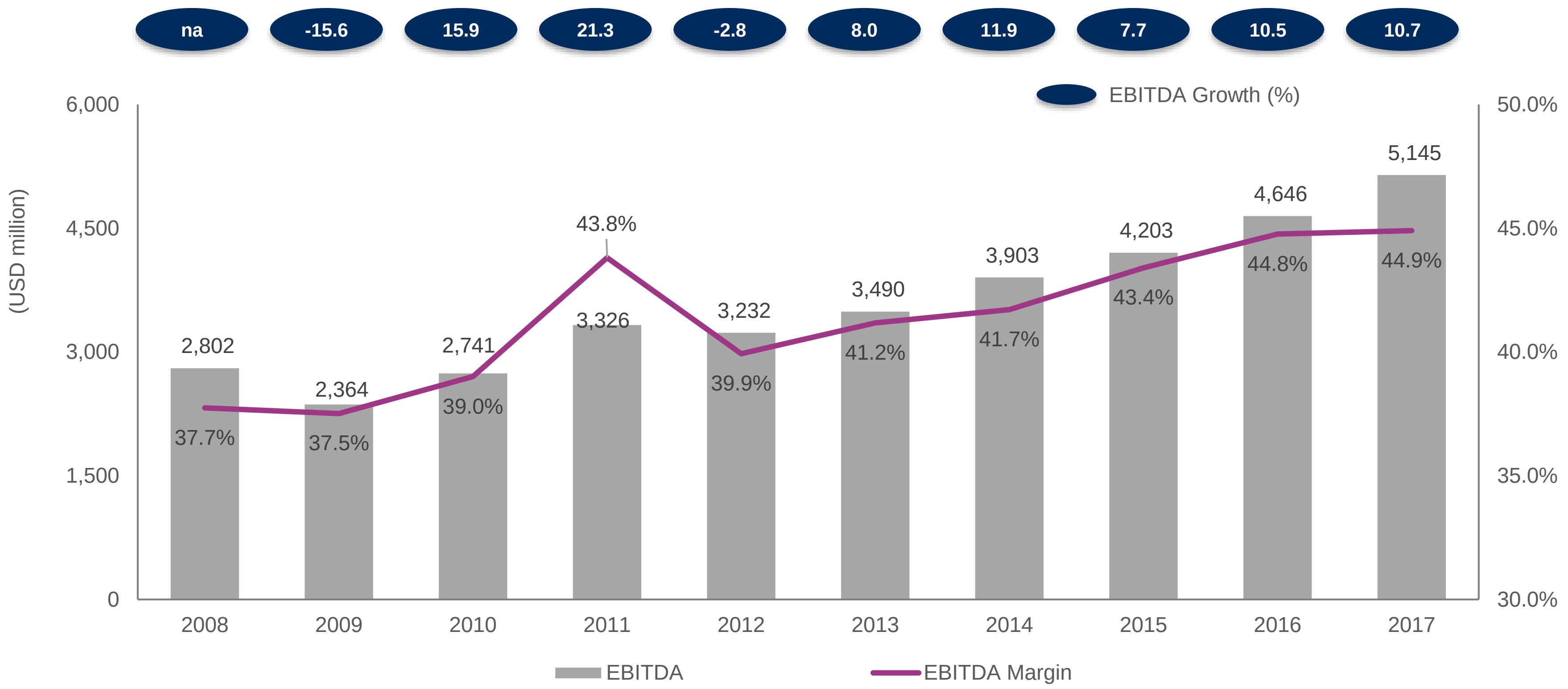
Concentration increases risk



Weathering the storm

EBITDA margins sustained

Industry EBITDA and EBITDA Margins[1]

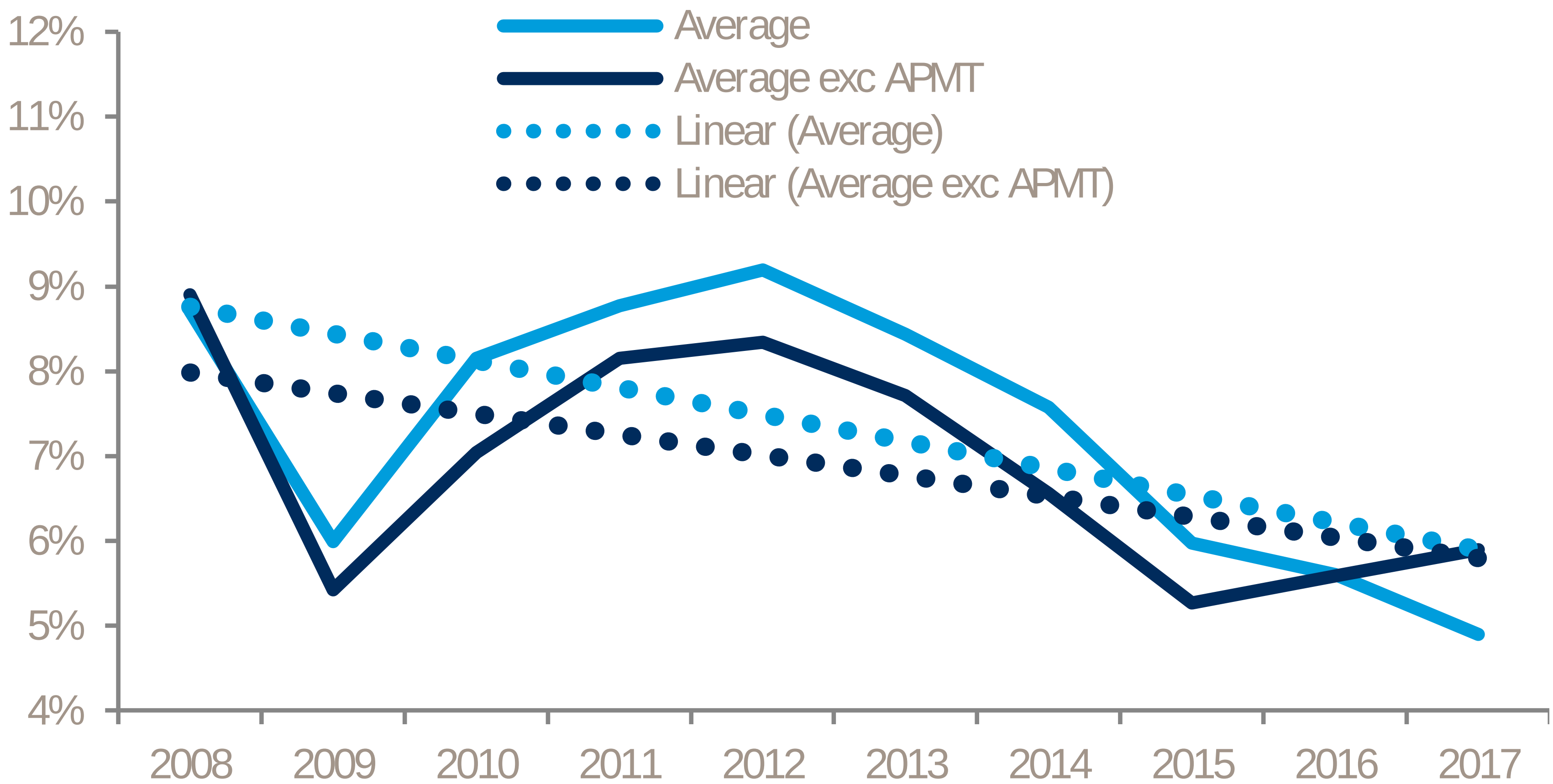


Source: Bloomberg, DMFR
Note: (1) Includes Cosco Shipping Ports, CMPH, DP World, ICTSI and HHLA

Weathering the storm

Returns going down

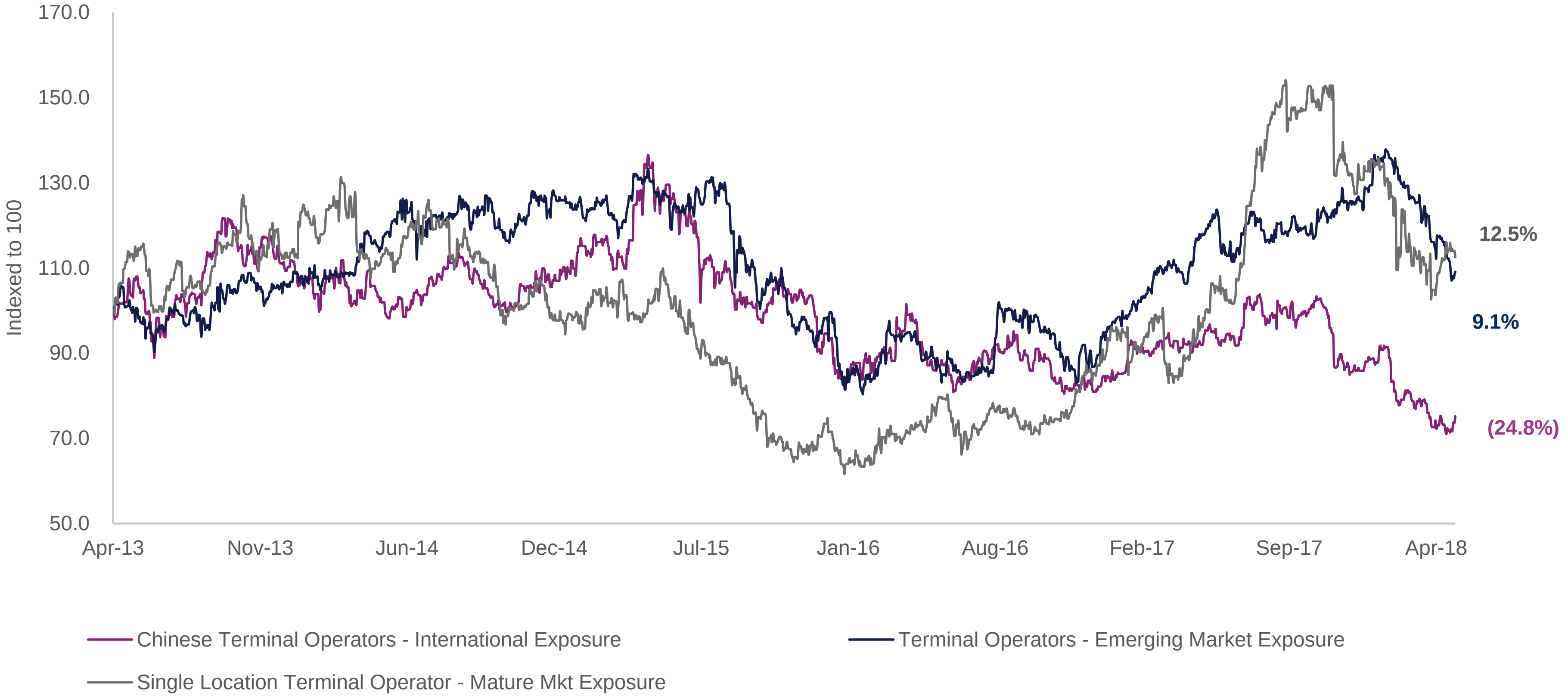
Sample Port Operators: Return On Invested Capital (ROIC), 2008-17



Weathering the storm

Share prices peaked in the third quarter of 2017; have declined substantially since

5 year share price development



Note: (1) Chinese Multi-location Terminal Operators includes Cosco and CMPH; Multi-location Terminal Operators – Emerging Mkt Exposure include DPW and ICTSI; Single Location Terminal Operator – Mature Mkt Exposure include HHLA

Weathering the storm

Still afloat

- Growth better than feared
- Margins sustained: rates and opex managed for now
- Returns down
- Concentration of carrier market remains a key risk:
  - Volume and share volatility
  - Price pressure

Strategies

Strategies

Ports and terminal industry needs to balance market power of large alliances. Port authorities need to ensure true costs of ULCVs are met by lines

Liner affiliation

- Hybrid category terminal operators are increasing in prominence
- More JV agreements for terminals between non-liner affiliated terminal operators and shipping lines
- Affiliated lines try to steer volume to owned terminals
- Alliance politics is complex

Consolidation and port and terminal alliances

- Alliances between ports
- Focus on filling existing capacity rather than building new terminals
- Terminal operator M&A/consolidation
- Creation of terminal alliances within ports
- Diversification by terminal operators

Port authorities

- Avoid beggar my neighbour competition
- Ensure true cost of accommodating ULCVs is met by the lines
- Getting closer to end users
- Catalysing hinterland connectivity

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