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# Liner market financial performance and implications

12th July, 2019

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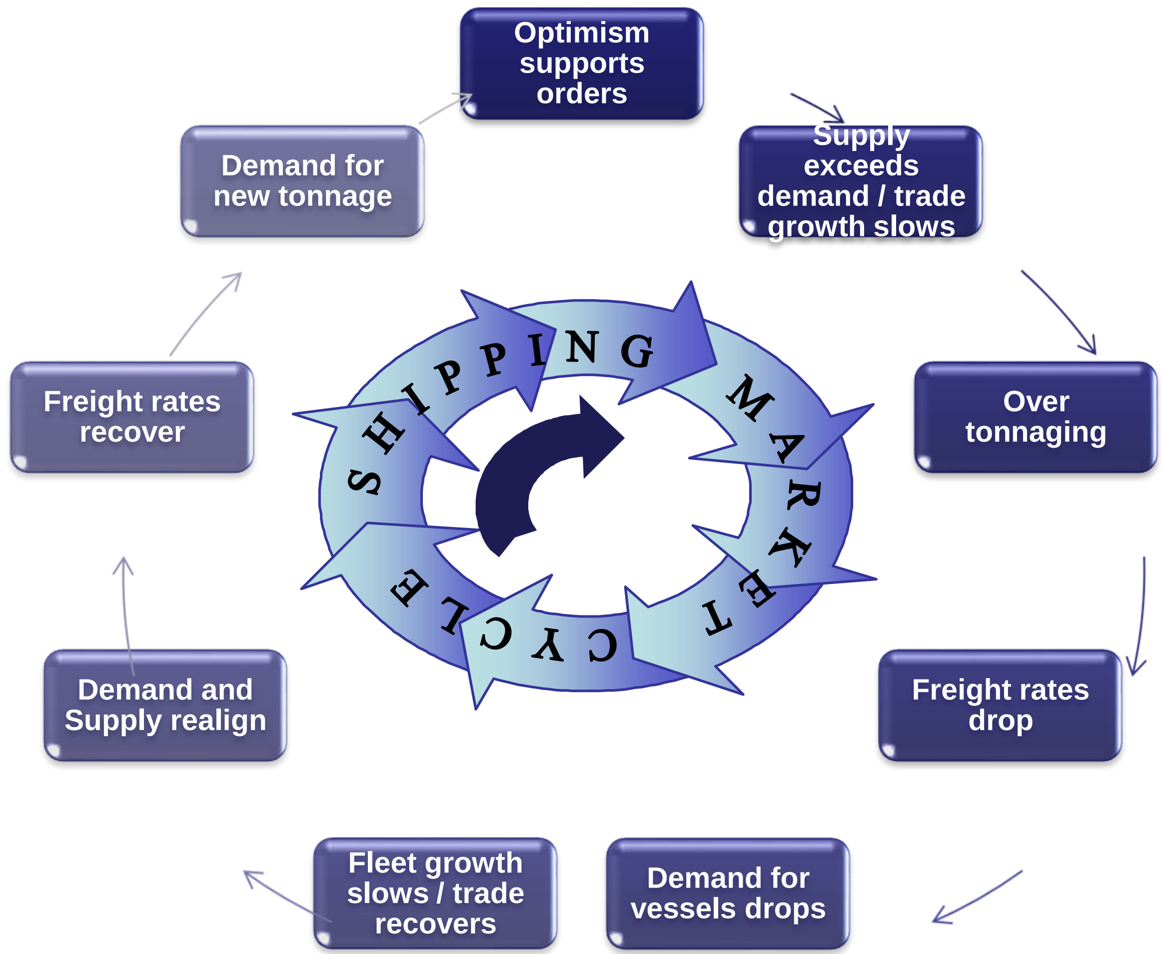
# Liner industry fundamentals

# Shipping cycle

**Shipping is a cyclical industry, driven by the balance of vessel supply and demand in its various sectors. Vessel supply is driven by owner cash flows and short run rate outlook**



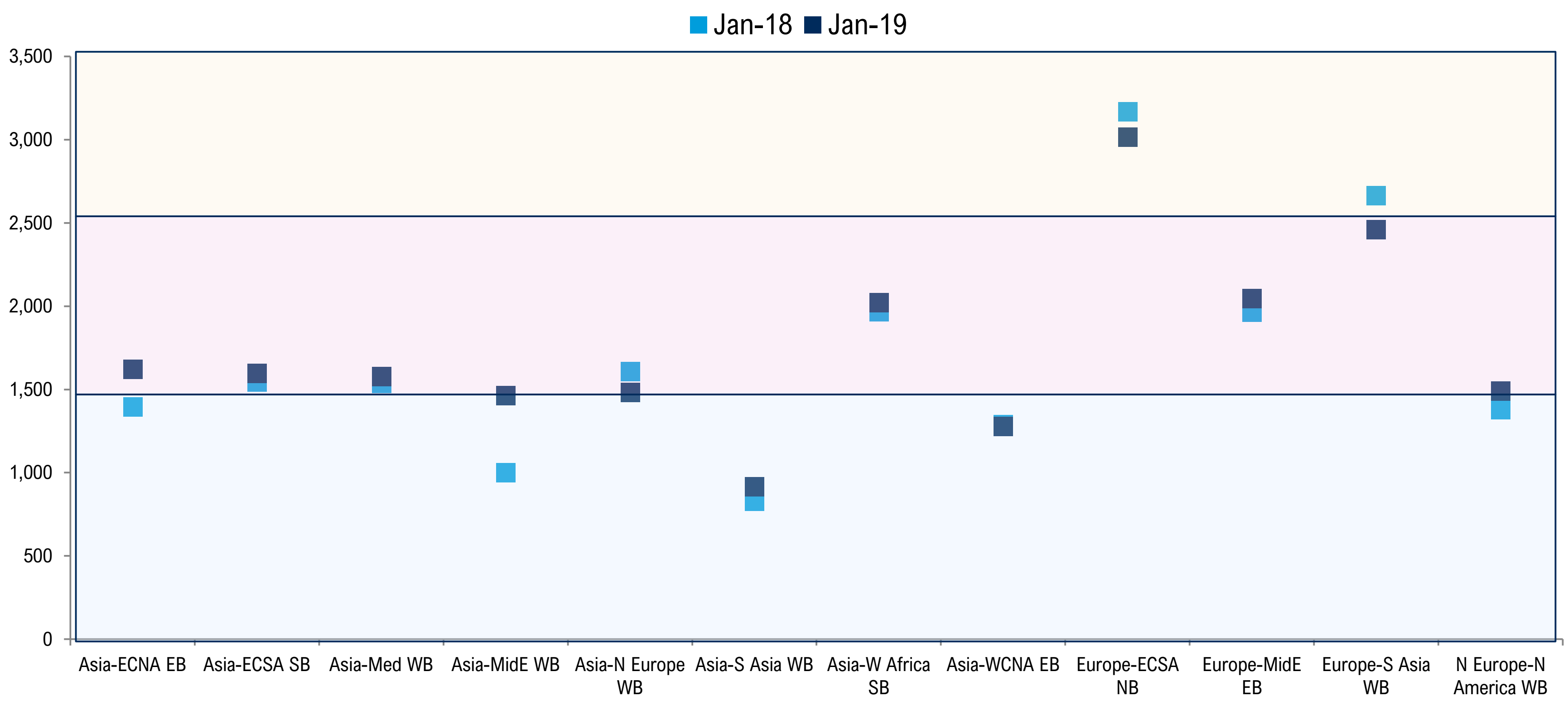
# Liner fundamentals

**The liner industry in its present state cannot make sustainable profits**

| Factor | Effect | Comments |
|---|---|---|
| Economies of scale | Structural overcapacity | Lines always build bigger vessels to exploit economies of scale. This leads to continual overcapacity |
| Perishability | Push for short-run contribution – rate erosion | Unused capacity cannot be stored. Lines cut rates in order to boost utilisation |
| High operational gearing | Push for short-run contribution – rate erosion | Lines' networks represent a high fixed cost burden. The logical response is to maximise utilisation |
| Commoditised service offering | Limited differentiation of product; price competition | Price is the principal competitive weapon |
| Fragmented industry | No coordination of capacity development, intense competition | Too many carriers and no dominant carriers to establish market stability |
| Inelastic demand curve | Falling rates have a limited effect on demand | Seafreight is a negligible element in the landed cost of manufactured goods and makes no difference to end market demand |

# Market concentration

**Consolidation has stalled; large trades still in fragmented state**




Notes: Based on effective capacity, treating subsidiaries as part of the parent i.e. APL is included within CMA CGM; No accounting for slot charter agreements; Treats all recent M&A as complete so Hamburg-Sud included with Maersk, OOCL in Cosco and the three Japensese carriers K Line, MOL and NYK in ONE

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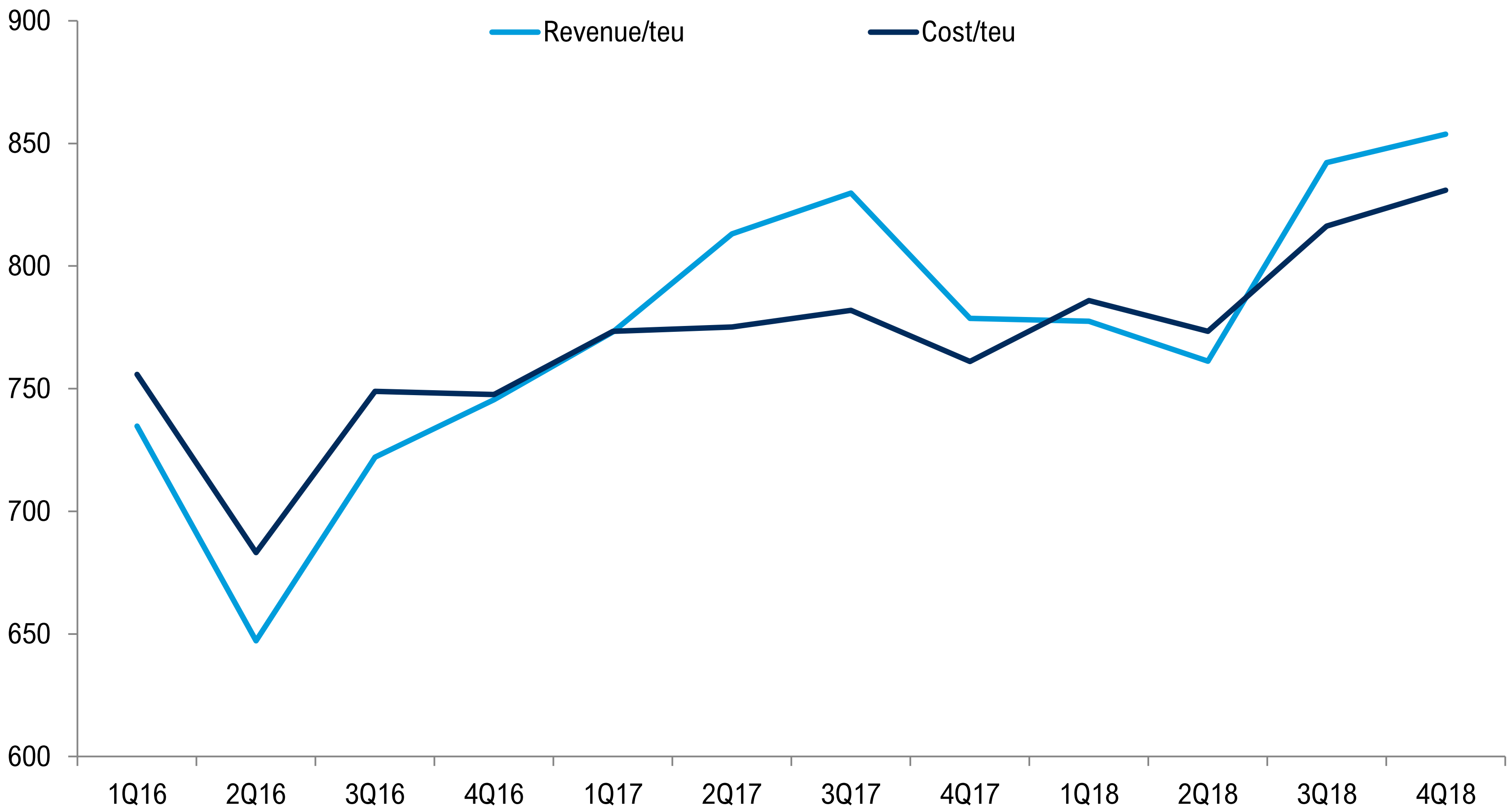
# Financial performance

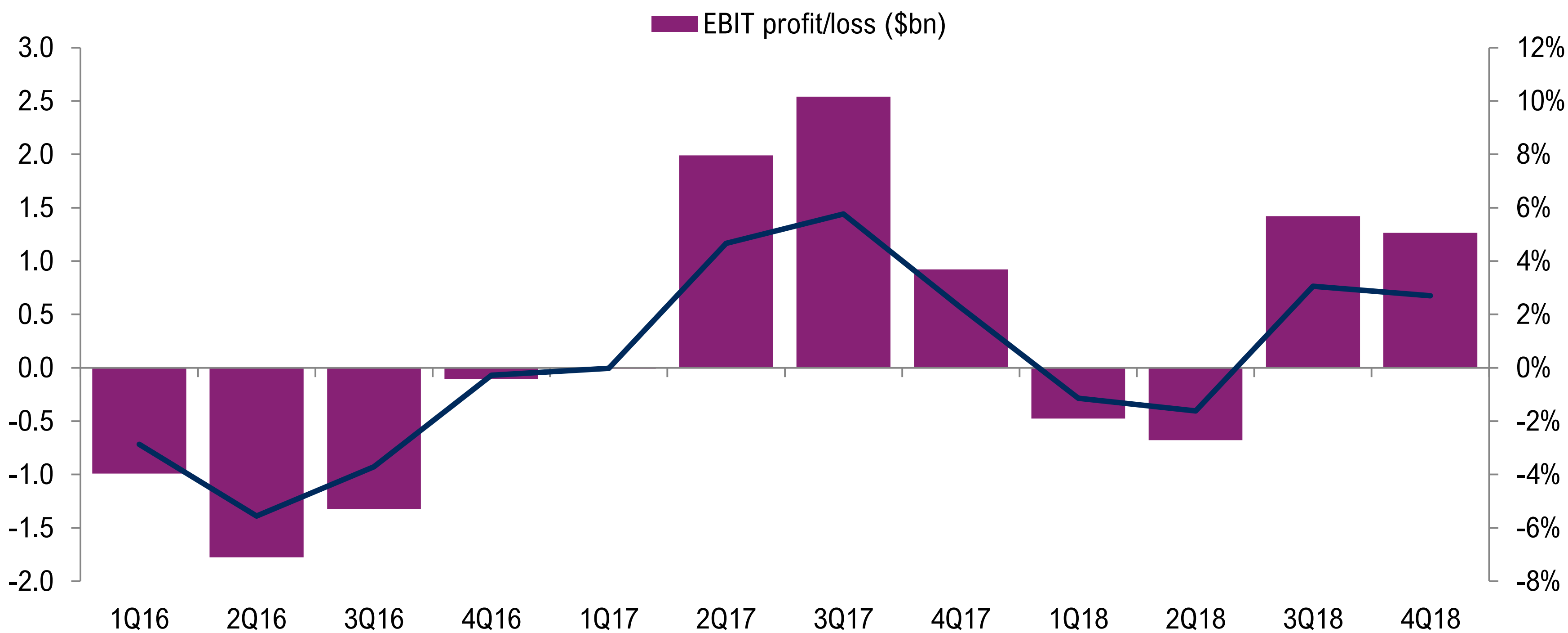
# Liner margins

**No room for error**



# Earnings

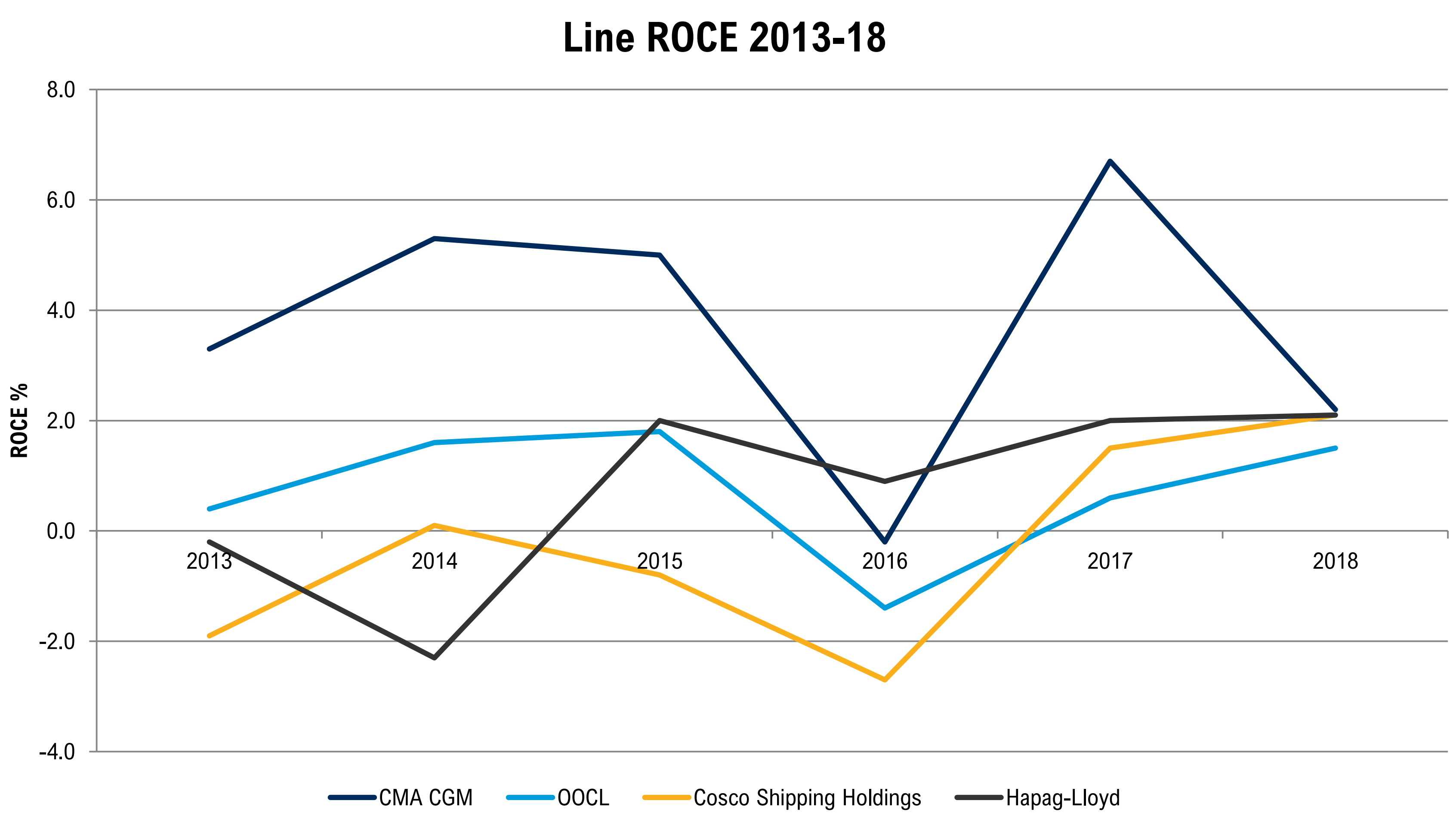
**Margins remain low and volatile**




Note: EBIT margins based on average of sample carriers after currency conversion to US dollars when necessary. Sample consists of APL - excluded post 4Q15; CMA CGM; Evergreen Marine Corp; Hanjin Shipping (container) - excluded post 2Q16; Hapag-Lloyd; HMM (container unit only); Maersk Line - excluded post - 4Q17; Matson (ocean transportation); Regional Container Lines; Samudera Container Lines; Wan Hai; Yang Ming; Zim; MOL (containerships), NYK (liner) and K-line (containerships) - excluded post 1Q18

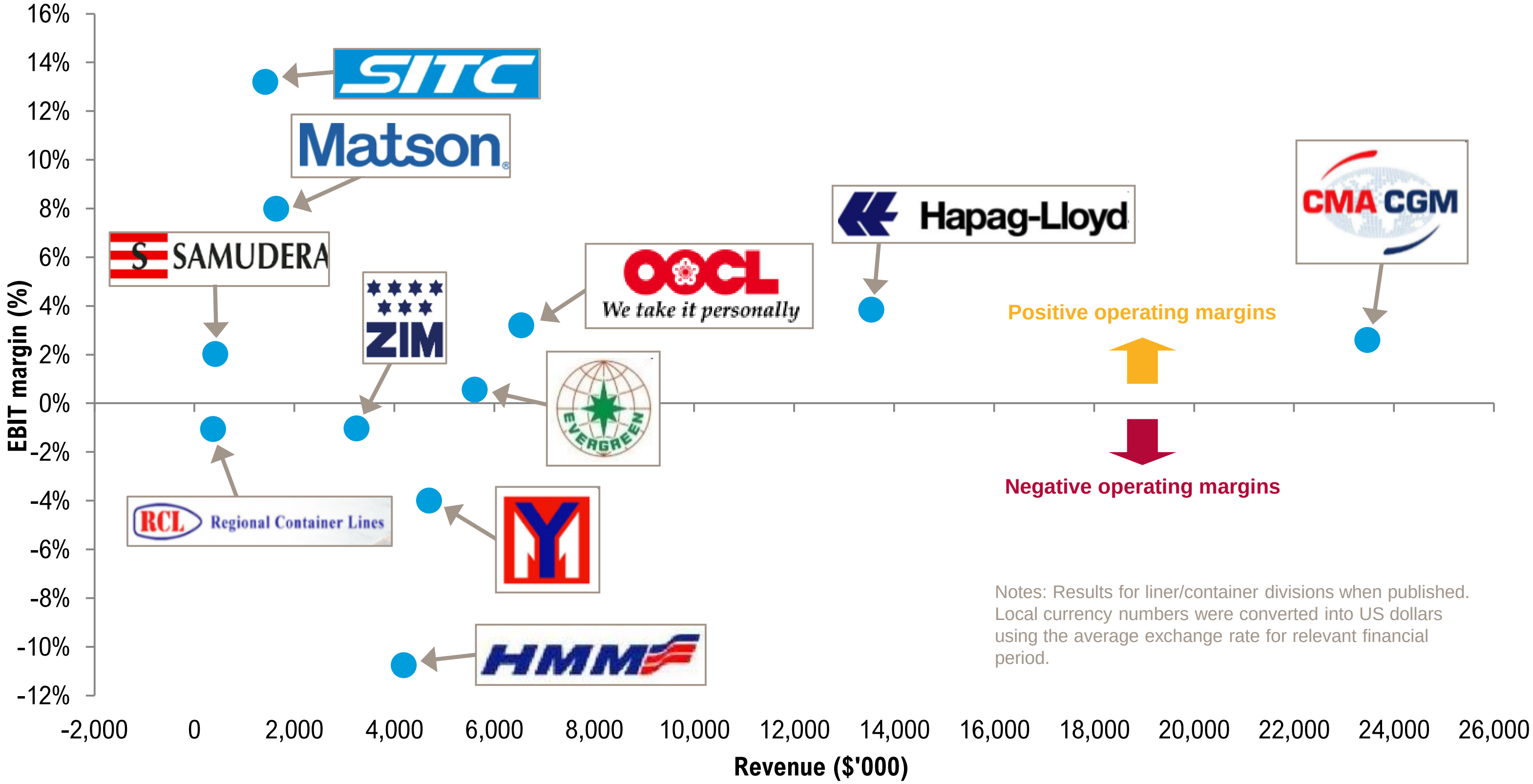
# Liner returns: squeeze continues

**ROCE remains low and volatile**



# Performance by line

**Wide variations**



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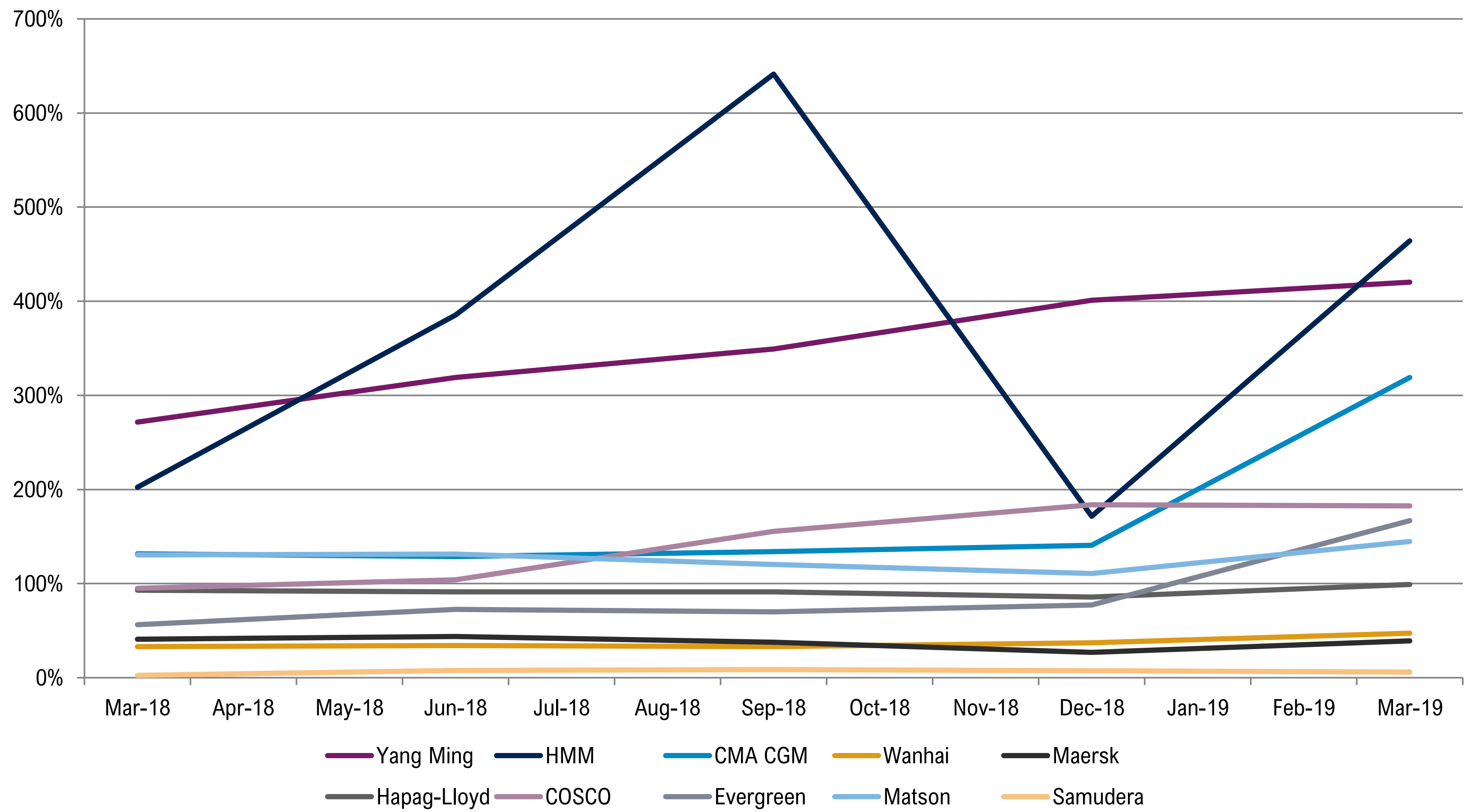
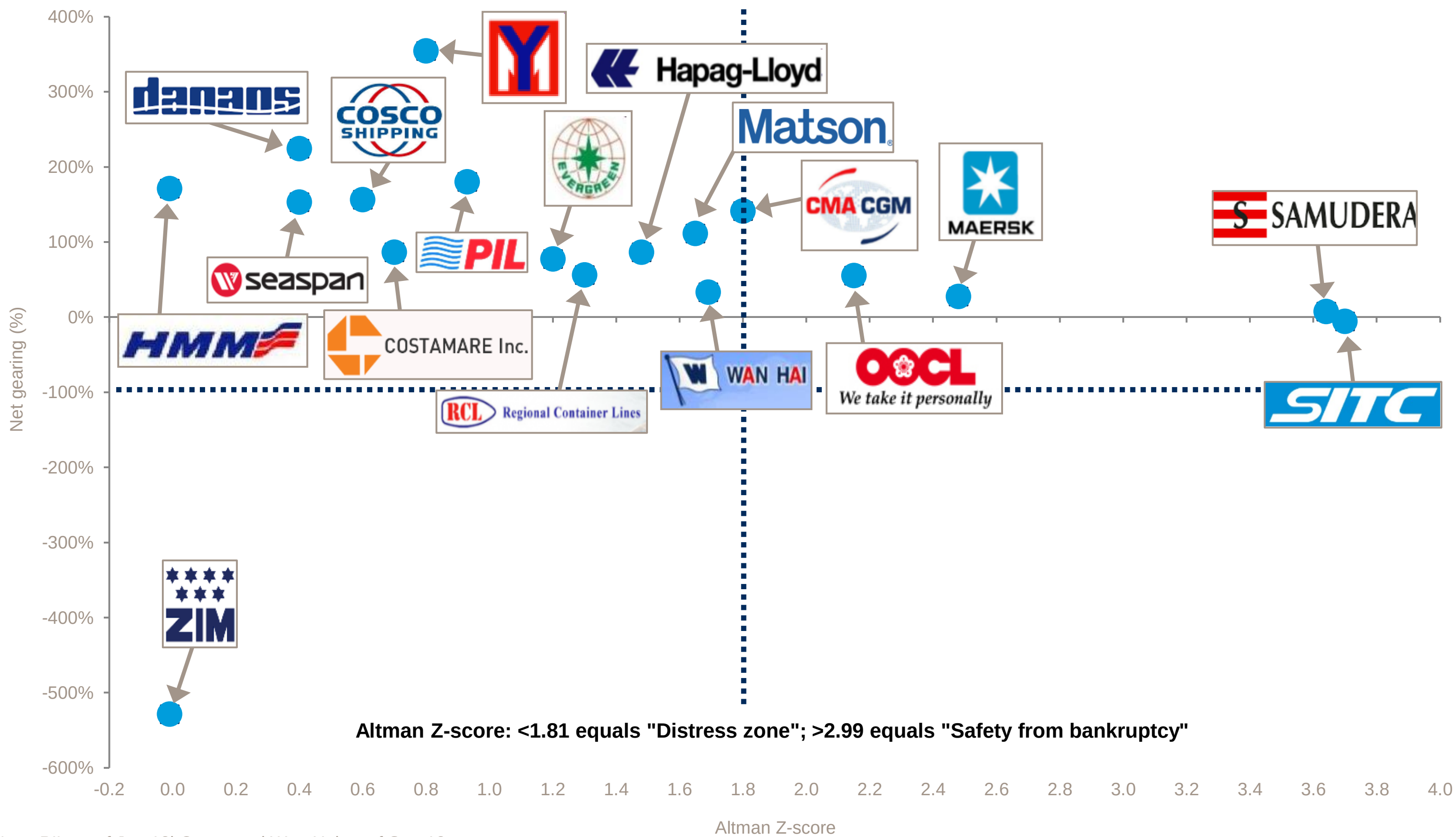
# Balance sheets and Z-scores

# Gearing

**Up across the board. HMM, Yang Ming and CMACGM now very high.**



# Gearing and Altman Z-score




Note: PIL as of Jun-18l Cosco and Wan Hai as of Sep-18

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# 04

# Implications

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# Implications

- State support will be needed for a number of major players; without it, failure is likely
- Most balance sheets are too weak to fund large new investment in vessels or acquisitions
- Arms race for larger vessels should slow down
- Mergers probably the only route to further consolidation