GDSA WEEKLY SECONDHAND / DEMOLITION / NEW BUILDING MARKET ANALYSIS

Week Ending: 10th February 2012 (Week 6, Report No: 6/12)

(Given in good faith but without guarantee)

This week ended with hot demolition activity, strong offshore newbuilding business and record lows of secondhand purchasing activity since the beginning of the year. The highest activity has been recorded for a second consecutive week in the demolition market, with 22 vessels in total reported to have been sent for disposal, due to the historical lows of the BDI that encouraged owners for intense vessel removals.

Overall, 28 transactions reported worldwide in the secondhand and demolition market, down by 28% week on week due to a 66% lower secondhand purchasing activity. At similar week in 2011, the total S&P activity was standing 61% higher than the current levels, when 45 transactions had been reported and secondhand ship purchasing activity was 21% lower than the ordering business. The demolition activity is standing 16% higher than the ordering business in terms of volume of transactions and 225% up in terms of total deadweight, while secondhand purchasing activity is 69% lower than newbuilding momentum with subdued ordering interest for bulk carriers and tankers.

SECONDHAND MARKET

The buying momentum for secondhand units showed very weak sentiment after the historical lows of the BDI last week, however asset prices are still pushed downwards and investors will soon emerge in the market with stronger appetite.

Overall, 6 vessels reported to have changed hands this week at a total invested capital in the region of US$ 27,5 mil, 2 transactions reported at an undisclosed sale price, with bulk carriers grasping 66% share of the S&P activity. In terms of the reported number of transactions, the S&P activity is down by 66% from previous week activity, and down by 36% comparable with previous year's weekly S&P activity when 31 vessels induced buyers' interest at a total invested capital of about $732 million with tankers holding 55% of the total volume of S&P activity. In terms of invested capital, the bulk carrier sector attracted 46% of the total amount of money invested with the secondhand purchasing momentum being 43% and 86% lower in the bulk carrier and tanker segment respectively from previous weekly levels.

NEWBUILDING MARKET

The newbuilding business remains stagnant with offshore and LNG segments attracting investors' focus that are seeking for newbuilt vessel to diversify their core business and adjust in new market fundamentals. No fresh activity has been reported this week either in the bulk carrier or tanker segment with subdued sentiment in the freight markets discoursing owners' decision for new investment plans. South Korean yards with market expertise in the construction of more specialized units will be again the beneficiaries for the year 2012, while consolidation in Japan and China's Shipbuilding industry is likely to be the key issue in the coming months as a solution to the dried out of newbuilding business and the slide in newbuilding prices.

Overall, the week closed with 19 fresh orders reported worldwide at a total deadweight of 235,200 tons, posting a 90% week-on-week increase due to 75% stronger business for offshore units. This week's total newbuilding business is down by 51% from similar week's closing in 2011, when 39 fresh orders had been reported with bulk carriers, tankers and containers grasping 44%, 18% and 26% share respectively of the total ordering activity. In terms of invested capital, the total amount of money invested is estimated at region $1,5 billion with 9 transactions reported at an undisclosed contract price. The most overweight segment appears to be the offshore segment with 14 fresh new orders by attracting 72% of the total invested capital.

In the **bulk carrier** segment, an Indian utility and mining group, Haryana based Lanco Infratech, is considering a series of 15 or more kamsarmaxes, between 80,000dwt and 85,000dwt, to build its fleet so as to have greater control over its cargoes and reduce its dependence on chartered vessels. The owner is already approaching yards in China and South Korea that are more competitive on newbuilding prices offered. The order is said to be placed by autumn with deliveries in mid 2014.

In the **gas tanker** segment, Norway's Hoegh LNG declared its option for a third floating storage and regasification unit of 170,000 cu.m at South Korea's Hyundai Heavy Industries for a price region $250 mil with delivery in June 2014. There are options for three more, the original two were ordered last year. The booming LNG sentiment encouraged the owner to add one more unit after securing firm contracts to employ the similar vessels ordered last year. Höegh LNG and Perusahan Gas Negara finalised a deal on 25 January to employ the first vessel off Belawan in North Sumatra. Earlier the same week, Höegh said it had won a tender offer to deploy the second FSRU newbuilding, in a project in Klaipeda, Lithuania. CEO Sveinung Stohle said with the two earlier-contracted vessels now employed, a third one was ordered to follow the company's strategy to grow its footprint in what it believes is a growth segment. Höegh placed 22.6M new shares with investors for 53 kroner ($9.09) per share and lifted about 1.2Bn kroner in fresh equity for financing its third newbuilding, the company said in a separate statement. Furthermore, Russian shipowner Sovcomflot is going to exercise its options for two LNG units of 170,200 cbm ice class 1C tri fuel at STX Offshore and Shipbuilding with delivery at the end of 2014 and early 2015.

In the LPG segment, Hyundai Heavy Industries has won a LPG contract by Pertamina of Indonesia for a unit of 84,000cbm, with an option for one more, for delivery in the second half of 2013. The newbuilding cost of the unit is said to be at $77 mil due to higher specifications than the average design requested by the owner. In addition, partners of Unigas pool are under discussions to place and order for three plus three LPG ethylene carriers of 12,000cbm at a price between $38,5mil and $40mil each. The three partners, Othello Shipping, Schulte and Sloman Neptune, are expected initially to sign up for one vessel each with potential South Korean yards, Daewoo Shipbuilding & Marine Engineering and STX Offshore and Shipbuilding. A final decision will be concluded within the next two or three months.

In the **container** segment, the Hamburg-based company Peter Dohle has concluded an order for one 4,800 teu unit, with an option for one more, at Jinling Shipyard, for delivery in the first quarter of 2014. Sources reveal that the owner placed the order prior to the Chinese New Year last month at a cost believed to be $55 mil each. The yard is said to be the first time that builds such large units as it has only previously built boxships up to 1,100 TEU.

In the **offshore** segment, notable order has been revealed by Singapore's Sembcorp Marine, the world's second biggest rig builder, for a drill ship contract of $739mil in its Brazilian yard Estaleiro Jurong Aracruz for delivery before 2q 2015. The ship will be based on Jurong Shipyard's proprietary Jurong Espadon design, which was developed with Norway-based consultant LMG Marin. The design has a 40m-wide main deck, a large moonpool for enhanced drilling, as well as Dynamic Positioning class 3 capabilities and Azimuth thrusters for improved operability. It is capable of operating at 3,000m water depth and drilling to depths of 12,200m, with accommodation for 180 crew. Sembcorp Marine CEO Wong Weng Sun said: "This is a very significant milestone as this order not only represents the first drillship that our group is building for Brazil, but it is also the first project secured by our new shipyard in Aracruz." The contract is set to contribute to Sembcorp Marine's earnings in FY2013-15. It could achieve S$52M ($41.7M) net profit over FY2013-15. In addition, Russia's Sovcomflot is preparing to order up to three seismic vessels as a step to diversify from its core tanker business. The company's boss stated that the company will order two firm units at a cost of $200 mil at Russia's state owned United Shipbuilding Corporation.

DEMOLITION MARKET

In the demolition market, the Bangladesh ship recycling industry seems to narrow its gap with its rivals, India and Pakistan, but the import tax issue remains a problem for Chittagong scrap buyers in winning stronger business. India remains in the first rankings by offering the highest level of rates, with some units fetching this week very good levels due to sufficient amount of bunkers. Pakistan is still not so active player even the competitive price levels offered compared with India, while China has returned in the game after the Chinese New Year festivities with softer rates.

The week ended with 22 vessels reported to have been headed to the scrap yards of total deadweight 764,174 tons. In terms of the reported number of transactions, the demolition activity has been marked with a 5% week-on-week increase, with doubled demolition activity in the bulk carrier segment from previous week, whereas there has been a 31% decline regarding the total deadweight sent for scrap due to 86% lower tanker scrapping business. In terms of scrap rates, the highest scrap rate has been achieved this week in the reefer by India for two units built 1993/1994 with lightweight of 5,288tons at $575/ldt. Bulk carriers have grasped the lion share of this week's total demotion activity, 55%, with India winning 50% of the activity. At a similar week in 2011, demolition activity was down by 36% from the current levels, in terms of the reported number of transactions, 14 vessels had been reported for scrap of total deadweight 451,744 tons with bulk carriers grasping 43% of the total number of vessels sent for disposal. China and Pakistan had been offering $450/ldt for dry and $485-$495/ldt for wet cargo, while Bangladesh market had been inactive from the demolition scene.

GREEK PRESENCE

Greek investors are holding a very conservative strategy towards newbuilding business since the beginning of the year amid the uncertain worldwide economic and freight market sentiment. In the secondhand market, there were no signs of Greek purchases this week.