

GDSA WEEKLY SECONDHAND / DEMOLITION / NEW BUILDING MARKET ANALYSIS

Week Ending: 24th February 2012 (Week 8, Report No: 8/12)

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A record high newbuilding activity came to light this week for a first time since the beginning of the year due to robust offshore business with secondhand purchasing momentum also fetching very high levels due to strong container purchases. The demolition activity has fallen to record low levels since January with bulk carriers still being in the frontline as popular scrap candidates. The highest activity has been recorded in the newbuilding market with 52 new contracts with the demolition activity standing 78% lower than ordering business.

Overall, 38 transactions reported worldwide in the secondhand and demolition market, up by 8.5% week on week with a 50% higher secondhand buying momentum. At similar week in 2011, the total S&P activity was standing 11% lower than the current levels, when 24 transactions had been reported and secondhand ship purchasing activity was 70% lower than the ordering business.

SECONDHAND MARKET

Dry bulk carriers continue to be on the focus of potential buyers amid the sharp slide of the BDI with containers grabbing for the first time the lion share of the total secondhand purchasing activity this week.

Overall, 28 vessels reported to have changed hands this week at a total invested capital in the region of US\$ 196,4 mil, 5 transactions reported at an undisclosed sale price, with bulk carriers grasping 22% and containers 55.5% share of the S&P activity. Notable sale reported in the crude tanker segment for a suezmax tanker of 150,581dwt built 2004 Japan for \$33,5 mil on subjects, in June 2010 a suezmax tanker of 159,996dwt built 2005 Japan had been reported sold for \$61mil.

In terms of the reported number of transactions, the S&P activity is up by 55% from previous week activity due to high container purchases not seen again for a long time, and up by 65% comparable with previous year's weekly S&P activity when 17 vessels induced buyers' interest at a total invested capital of about \$297,65 million with bulk carriers and tankers holding 39% of the total volume of S&P activity. In terms of invested capital, the container segment appears the most overweight by attracting 42.5% of the total invested capital with bulk carriers and tankers to follow with 27% and 28% share respectively.

NEWBUILDING MARKET

Fresh offshore contracting activity again monopolized newbuilding business with some worries that the surge in orders will harm the supply-demand balance, but the key driver for a strong offshore support vessel market is the sustained E&P spending by the refineries. According to STX OSV chief Roy Reite with oil trading at above \$100 per barrel the cost of crude oil production is adequately covered, spurring oil explorers to venture to deep waters and harsher environments. A greater number of offshore support vessels will be required to support oil rigs out at sea, resulting in long term fixtures for platform supply vessels and anchor handling tug supply vessels in the active North Sea market.

At the current slump of freight market along with the glut of new ships, the volume of newbuilding contracts remains subdued in the dry bulk carrier and tanker segments with LNG carriers being the second preferable choice, after offshore support vessels, for newbuilding investors.

Overall, the week closed with a record high of 52 fresh orders reported worldwide at a total deadweight of 1,032,640 tons, posting a 189 % week-on-week increase from a 700% boost in the offshore contracting activity. This week's total newbuilding business is in close parity with similar week's closing in 2011, when 58 fresh orders had been reported with bulk carriers and containers grasping 43% and 24% share respectively of the total ordering activity, whereas now bulk carriers are holding only 15% of the newbuilding business with offshore units being in the frontline with a 46% share. In terms of invested capital, the total amount of money invested is estimated at region \$1,55 billion with 75% of the total number of orders being reported at an undisclosed contract price.



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In terms of invested capital, the most overweight segment appears to be the offshore by holding 53% share of the total amount invested for newbuilding units.

In the **bulk carrier** segment, Yangzijiang Shipbuilding has secured shipbuilding contracts for seven units at an aggregate contract value of \$206,2 million since January 2012. Ren Yuanlin, executive chairman of the Singapore listed yard, said that the new contracts secured comprise of 4 units of 82,000 dwt bulk carriers, 2 units of 95,000 dwt and 1 unit of 47,500 dwt without revealing the name of contractors for delivery 2013-2015. Furthermore, the Hong based owned company Crown Ship, established by China's Sinopacific Shipbuilding to control ships for its own account to bid the dearth of newbuilding business, has placed 6 units of 63,500 dwt with delivery 2013-2014. Sinopacific builder hopes to resell the units to other owner.

In the **tanker** segment, China Merchants Energy Shipping is planning to expand its fleet by order 10 VLCC units despite the sluggish freight market status. Li Jian Hong, chairman of China Merchants, believes that the time is right to raise their competitiveness through fleet expansion by taking advantage the lower newbuilding prices. China Merchants is working to raise RMB5,56bn (\$882,5mil) to purchase the 10 VLCC newbuildings. In the MR product segment, US based ship-owner has booked two 52,000dwt units in South Korea's SPP Shipbuilding with delivery in the first half of 2014 at a total value of \$73 mil. The contracted MR tanker units can ship 2,000 ton more than existing 50,000 dwt tankers, while they are designed eco friendly with fuel consumption being reduced by about 20%. The order follows a confirmed announced deal from the Greek player Navios Acquisition for the placement of three MR product tankers at an undisclosed Korean yard for a total price of \$106,5mil for delivery in the second, third and fourth quarter of 2014. Furthermore, Scorpio Tankers has exercised its option for a 52,000 dwt unit in Hyundai Mipo for \$37,4mil with delivery August 2013.

In the **gas tanker** segment, Stena Bulk of Sweden is planning to expand its LNG fleet from an existing three by planning an order of four more LNG carrier newbuildings at a value of \$200 mil each with South Korean shipbuilders, Daewoo Shipbuilding and Marine Engineering and Samsung Heavy Industries based on the positive LNG prospects. The units' size will range between 160,000-174,000 cu.m for delivery in 2014-2015.

DEMOLITION MARKET

In the demolition market, scrap price levels continue to be soft as supply of tonnage for disposal is surpassing demand under the current sluggish freight market with owners be more than willing to remove their vintage capacity from their fleet. Scrap prices in the Indian subcontinent region for dry units are in the mid / high \$400/ldt and excess \$500/ldt for wet units, while levels in China are still below \$450/ldt. Few deals are reported in the Bangladesh with India still leading the game. Even Bangladesh has opened the market is still very delicate from prompt and timely deliveries as new regulations and paperwork put obstacles in the strength of the major shiprecycling industry.

The week ended with 11 vessels reported to have been headed to the scrap yards of total deadweight 665,973 tons. In terms of the reported number of transactions, the demolition activity has been marked with a 35% week-on-decline due to 50% lower scrapping removals for bulk carriers, tankers and liners, whereas there has been a 47% fall regarding the total deadweight sent for scrap. In terms of scrap rates, the highest scrap rate has been achieved this week in the container segment by India for a 12,861 ldt unit built 1983 at \$502/ldt with sufficient fuel for voyage. Bulk carriers have grasped the lion share of this week's total demotion activity, 55%, with India winning 54% and Bangladesh 18% 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, 7 vessels had been reported for scrap of total deadweight 562,242 tons with bulk carriers grasping 72% of the total number of vessels sent for disposal. India and Pakistan had been offering \$455-\$465/ldt for dry and \$485-\$495/ldt for wet cargo, while Bangladesh market had been inactive from the demolition scene.

GREEK PRESENCE

In the secondhand market, Greek have bought a handysize dry bulk carrier unit of 32,260 dwt built 1999 Japan for \$10,5 mil. In the newbuilding market Greek owners have made their presence in the tanker and gas tanker segment. Greek player Navios Acquisition announced the placement of three MR product tankers at an undisclosed Korean yard for a total price of \$106,5mil for delivery in the second, third and fourth quarter of 2014 and Dynagas two LNG units of about 155,000 cu.m in Hyundai of South Korea at a price of \$200 mil each.