Container Shipping Outlook

Alan Murphy
CEO and Co-Founder
SeaIntel Maritime Analysis

October 7th, 2016
FIATA World Congress
Container Shipping Analysts

- Founded January 1st, 2011
- Fully independent, private company with no interests from brokers, banks or others.
- 12 Analysts, Developers & Consultants in Copenhagen and Hong Kong.
- Management Team with combined 35 years of experience in Container Shipping

Core values:
- Integrity
- Methodology
- Assumptions
- Data Quality

Major Milestones:
- 800+ Research & Analysis articles published since March 2011
- 5,000+ citations in Industry Press (Lloyd’s List, JoC, etc.)
- Official Knowledge Partner of the Global Institute of Logistics
- World’s most comprehensive database on Carrier Reliability
- Curriculum provider at the World Maritime University
- Curriculum provider at the Blue MBA at Copenhagen Business School
SeaIntel subscription reports

SeaIntel Sunday Spotlight (SSS) - Weekly

- Weekly report on relevant container market analysis
- Quantitative insights into important market drivers
- Regular topics include: Supply/Demand, deployment patterns, freight rate analysis, environmental issues, reliability, and much more

Global Liner Performance (GLP) report - Monthly

- World’s largest study of carrier on-time performance
- Report covering 65+ carriers, 300+ distinct carrier services/loops, 300+ ports, across 34 trade lanes
- 116 pages including global carrier performance Top20 and niche operators, benchmarking alliances and detailed trade performance

Tradelane Capacity Outlook (TCO) report - Weekly

- 12-week future outlook on container space supply
- Most accurate and updated capacity deployment figures for 23 trade lanes between Asia, Europe, North and South America
- Based on actual vessel schedules of individual named vessels on all services in the trade lanes

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Points to cover

1. Long-Term trends in container shipping

2. Medium-Term trends (2009-2016)
   - Overcapacity, falling freight rates and carrier losses
   - Service disruptions, blank sailings and Schedule Reliability

   - New Mega-Alliances (April 2017)
   - We gotta have a talk about Hanjin
   - A tale of a shipping line bankruptcy (not Hanjin)
Long-Term trends in container shipping
Mega-vessels & cascading

- Super-mega-vessels can only be deployed on Asia-Europe
- Smaller vessels cascaded to Transpacific and beyond
- Shorter trades use less vessels, exacerbating the over-supply
- Carriers have been very good to “hide” the capacity
Until 2009, there seemed to be no limits!
Medium-Term trends: Overcapacity, falling freight rates and carrier losses
Gap in Supply/Demand opened in 2009

- Financial crisis opened up an unprecedented Supply/Demand gap
- “Prisoners’ Dilemma” led carriers to order more and increasingly larger vessels (on-going)
- Slot- and especially fuel-cost advantage of mega-vessels through scale efficiencies
- You either have your own mega-vessels or you’re out (of east-west trades)
Freight rates have been falling in all trades
Freight rate volatility is through the roof

Asia-N.Europe Spot Rates and Announced Increases

Rate data based on SCFI from Shanghai Shipping Exchange

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Carriers’ P&L per Transported TEU

P&L per TEU, 2009-2015

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FIATA World Congress – October 2016
- 2015 was the worst year since 2009 in terms of over-capacity, tanking freight rates, weak demand, price wars and rate erosions, etc.
- How on Earth did these carriers end up with a combined profit of 2.7 bn USD for 2015?
- (answer to follow...)
Medium-Term trends: Service disruptions, blank sailings and Schedule Reliability
Visualizing service launches and suspensions I

Active services in Asia-North Europe

Total services

New/closed services

Total services

New Services
Closed services

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FIATA World Congress – October 2016
# Visualizing service launches and suspensions I

## Active services in Asia-North Europe

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Visualizing service launches and suspensions III
Visualizing service launches and suspensions IV

Active services in Asia-USWC
Visualizing blanks sailings I

Active services in Asia-North Europe

Service
FAL5/ASB (inactive)
FAL5/AEC2 (inactive)
FAL8/SAK (inactive)
Loop A (Inactive)
Loop C (Inactive)
JEK / EU-1 (Inactive)
Loop B (Inactive)
CEE (inactive)
se5 (inactive)
se1 (inactive)
ae1
ae2
ae6
fa7
fa6
a7
ae7
NvF15/CES
ae2/AXI 11/FAL 12/AEC6
ae2/FAL 11/FAL 12/AEC4
ne6/AEC9/AEX 5
loop1
loop6
loop7/FAL 7
loop5
loop8 (inactive)
ne4 (inactive)
ae2 (inactive)
ne3/AEX 16/AEC3
ne7/AEC4/AEX 12/FAL 12
FAL2/AEC8/AEX 7/NERA1/CNF
FAL2/AEC9/AEX C/NERA2/CNF
AEC/Albatros/ML file SVC 431
AE5/Silk
A6/Loon
A5/Amber
FAL1/AEC1/AEX 8/NCE
FAL1/AEC7/AEX 3
AE1/Shipun
AE2/Swan
FAL21/NERA1/CNF
Visualizing blanks sailings II

Active services in Asia-USWC
Global Reliability Developments

Global developments
In August global schedule reliability continued on its positive trend and improved slightly by 0.5 percentage points from 84.9% in July to 85.4% in August, outperforming the historical levels of August recorded in the last years. The performance of August showed Y/Y increase of 4.0 percentage points compared to 81.4% seen in August last year. In addition, on-time performance was based on 12,687 vessel arrivals in August 2016.

N.B.: Starting from September 2015, we have introduced a new feature to measure vessel arrival delays. Importantly, the chart below to the right shows the average delay based ONLY on the vessels that are recorded as being late.

The global average delay for LATE vessel arrivals showed a slight deterioration for the third consecutive month, increasing slightly by 0.06 days from 3.24 days in July to 3.30 days in August, yet still the average delays were 0.21 days lower compared to the delays recorded in the same period of last year.

Global schedule reliability

Global - Avg. delay for LATE vessel arrivals

<table>
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<tr>
<th>Global</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
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<td>Schedule Reliability</td>
<td>2015</td>
<td>67.2%</td>
<td>71.9%</td>
<td>69.8%</td>
<td>72.5%</td>
<td>78.1%</td>
<td>78.7%</td>
<td>75.6%</td>
<td>81.4%</td>
<td>85.8%</td>
<td>84.2%</td>
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<td></td>
<td>2016</td>
<td>79.2%</td>
<td>76.7%</td>
<td>79.9%</td>
<td>83.4%</td>
<td>85.5%</td>
<td>85.9%</td>
<td>84.9%</td>
<td>85.4%</td>
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<tr>
<td>Change</td>
<td></td>
<td>11.9%</td>
<td>4.9%</td>
<td>10.1%</td>
<td>10.9%</td>
<td>7.4%</td>
<td>7.2%</td>
<td>9.2%</td>
<td>4.0%</td>
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<td>Avg. delay of LATE vessels</td>
<td>2015</td>
<td>5.47</td>
<td>5.33</td>
<td>4.84</td>
<td>4.22</td>
<td>4.09</td>
<td>3.65</td>
<td>3.43</td>
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<td>3.28</td>
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<td>3.19</td>
<td>3.00</td>
<td>3.01</td>
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<td>3.24</td>
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<td>-2.33</td>
<td>-1.82</td>
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<td>-1.17</td>
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<td>-0.22</td>
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Short-term developments: New Mega-Alliances
Alliances are not a new thing...

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<td>The New World Alliance</td>
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<td>Hapag-Lloyd (Germany)</td>
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... They just controlled much less capacity

![Graph showing TEU fleet sizes for different shipping lines.]


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**On 1/1/2005, Alliance carriers controlled:**
- **GA**: 1,102,197 TEU 12.2%
- **CKYH**: 935,611 TEU 10.3%
- **NWA**: 669,478 TEU 7.3%
- **TOTAL**: 2,707,286 TEU 29.8%

**On 1/1/2010, Alliance carriers controlled:**
- **GA**: 1,260,410 TEU 8.9%
- **CKYH**: 1,580,713 TEU 11.2%
- **NWA**: 1,231,738 TEU 8.7%
- **TOTAL**: 2,707,286 TEU 28.8%

**On 1/1/2016, Alliance carriers controlled:**
- **2M**: 5,727,298 TEU 28.1%
- **G6**: 3,596,654 TEU 17.6%
- **CKYHE**: 3,359,328 TEU 16.5%
- **O3**: 2,891,174 TEU 14.2%
- **TOTAL**: 15,574,454 TEU 76.4%

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So... What are the new (2017) alliances?

There are currently four alliances:

- **2M**: Maersk Line and MSC, the two largest carriers. Announced in 2014 following the rejection of P3 alliance by Chinese regulators. Launched 2015-Q1.

- **CKYHE**: An “old” alliance (Estb. 1996 as Sino-Japan Alliance). Purely Asian alliance, expanded with Evergreen in February 2014, as response to P3.


- **Ocean Three**: A “new” alliance, the “leftovers” without an alliance: CMA CGM, CSCL and UASC

With CMA CGM’s acquisition of APL and the merger of the Chinese state-owned carriers COSCO and CSCL, the fate of three of the alliances was shaky. We now have three alliances to come into effect in 2017:

- **2M**: HMM may possibly join...

- **Ocean Alliance**: Number 3-5 + OOCL, APL to join

- **“THE Alliance”**: the remaining six-to-eight carriers. Hapag-Lloyd and UASC are in merger talks, and UASC is expected to join once complete. HMM may join if they do not join 2M
Estimated Alliance Market Shares in AE/TP

- Based on the deployment of current services, and swapping between existing alliances
- A massive amount of assumptions makes the estimates very uncertain
- Vessel deliveries until April 2017 will likely shift Market Shares
We gotta have a talk about Hanjin
So what happened to Hanjin?
So what happened to Hanjin?

Fig. C4: Hanjin, HMM & Industry - Operating Profit/EBIT

Fig C6: Gearing (Total Debt / Equity)
What of the Hanjin fleet?

<table>
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<tr>
<th>Owned vessels</th>
<th>Owned capacity</th>
<th>% of Capacity</th>
<th>Owned Avg. Age</th>
<th>Chartered vessels</th>
<th>Chartered capacity</th>
<th>% of Capacity</th>
<th>Chartered Avg. Age</th>
<th>Charter % Vessels</th>
<th>Charter % Capacity</th>
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<td>19%</td>
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<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>5,000-6,000</td>
<td>2</td>
<td>4%</td>
<td>18,5</td>
<td>2</td>
<td>11.504</td>
<td>4%</td>
<td>15,5</td>
<td>50%</td>
<td>52%</td>
</tr>
<tr>
<td>6,000-7,000</td>
<td>8</td>
<td>19%</td>
<td>9,1</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>7,000-8,000</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>5</td>
<td>37.355</td>
<td>14%</td>
<td>11,0</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>8,000-9,000</td>
<td>5</td>
<td>16%</td>
<td>5,2</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>9,000-10,000</td>
<td>5</td>
<td>18%</td>
<td>5,2</td>
<td>4</td>
<td>36.040</td>
<td>13%</td>
<td>0,5</td>
<td>44%</td>
<td>42%</td>
</tr>
<tr>
<td>10,000-11,000</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>10</td>
<td>101.042</td>
<td>37%</td>
<td>2,7</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>11,000-12,000</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>12,000-13,000</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>-</td>
<td>0%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>13,000-14,000</td>
<td>5</td>
<td>24%</td>
<td>3,6</td>
<td>4</td>
<td>52.408</td>
<td>19%</td>
<td>3,5</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>100%</td>
<td>7,2</td>
<td>52</td>
<td>332.670</td>
<td>121%</td>
<td>5,2</td>
<td>58%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Not a lot of interesting vessels in Hanjin’s owned fleet:
- 5 x 13,000 TEU & 10 x 8,000-10,000 TEU, all reasonably young vessels
- Rest are old Panamax vessels, and should in a perfect world head for scrapping

The chartered fleet is more interesting, and most vessels should find new charters:
- 4 x 13,000 TEU & 14 x 9,000-11,000 TEU and quite young.
- The smaller vessels are still quite young and could move to Asia-ISC or Intra-Asia
The fate of the Hanjin fleet

Hanjin Vessels: Size vs. Age vs. Ownership

Vessel Age

Chartered
Owned

TEU Size

0 2,000 4,000 6,000 8,000 10,000 12,000 14,000

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FIATA World Congress – October 2016
- Peter Döhle may have the largest TEU exposure, but they are young 13,000 TEU vessels that should not be difficult to put out on new charter.
- Seaspan, CGI and Ciner all have young vessels of average 8,700-10,100 TEU
- Danaos have a mix of young 10,100 TEU and 4,000 TEU vessels
- Conti have six 10-15 year old 5,752-7,471 TEU that are going to be challenging
Exposure to Hanjin vessels

Hanjin vessels account for 5-8% of capacity on the main East/West trade lanes

<table>
<thead>
<tr>
<th>Weekly Trade lane Capacity</th>
<th>Asia-USWC</th>
<th>Asia-USEC</th>
<th>Asi-Neur</th>
<th>Asia-MED</th>
<th>MED-USEC</th>
<th>Asia-ISC</th>
<th>Asia-OCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hanjin share of CKYHE</td>
<td>32.5%</td>
<td>20.6%</td>
<td>19.1%</td>
<td>24.5%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Hanjin share of total</td>
<td>7.7%</td>
<td>6.2%</td>
<td>5.3%</td>
<td>6.4%</td>
<td>2.9%</td>
<td>3.8%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

- 29 carriers exposed to services with Hanjin vessels
- Hanjin vessels deployed on 20 different services
Hanjin needs to be viewed in a larger context

Disappearances in top-20 Jan 2015-present day

Capacity (TEU)

- 500,000
- 1,000,000
- 1,500,000
- 2,000,000
- 2,500,000
- 3,000,000

Vanishing in top-20 Jan 2015-present day

Disappearances in top-20 Jan 2000 - Dec 2014

Capacity (TEU)

- 700,000
- 600,000
- 500,000
- 400,000
- 300,000
- 200,000
- 100,000

Vanishing in top-20 Jan 2000 - Dec 2014

Disappearances in top-20 Jan 1997 - Dec 1999

Capacity (TEU)

- 250,000
- 200,000
- 150,000
- 100,000
- 50,000

Vanishing in top-20 Jan 1997 - Dec 1999

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A tale of a shipping line bankruptcy (not Hanjin)
The Containership Company - TCC

- Launched a weekly service in 2010
- Single TP service: Taicang to LA
- 3,000 TEU/Weekly
- Went bankrupt on April 8, 2011
- Creditors have sought liquidated damages for non-fulfillment of MQC, and have sued 75 shippers
- Total claim of 23 Million USD
- Half of the cases have been settled out of court
- US Court has ruled that service contracts are indeed “contracts”
- If Hanjin creditors file for liquidated damages, potential 40-300 Million USD Claim just on TP
Thank you!

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