Containerships

IMO 2020 drives ship demand

The year 2019 has been marked by the Sino-US trade war, economic uncertainties and the gearing-up of the IMO 2020 sulphur cap rule deadline. Global container throughput has slid from 5.2% in 2018 to 2.5% in 2019, based on Alphaliner assessments.
Subdued ordering activity

Despite the rebound in charter rates and low newbuilding prices, ordering activity was subdued with only 57 ships for 783,902 teu added to the global orderbook in 2019. This compares to 218’s had of 213 ships for 1,297 Mt. The orderbook to fleet ratio has therefore dropped to an historic low of 10.4 at the end of 2019.

The momentum does not end here as an additional factor comes into play: Higher fuel costs for ships not fitted with scrubbers will lead carriers to favour larger vessels and reduce speed to minimize the impact of fuel cost per container carried.

This will drive services consolidation at the expense of smaller vessels while speed reduction will spur tonnage demand. This consolidation trendactually started during the second half of 2019 with several services’ restructurings. The other side of the coin is less rosy and smaller tonnage will suffer. The excess of tonnage under 3,000 teu has become chronic, as reflected in the high number of spot ships. In contrast, the pool of spot ships above 5,000 teu has disappeared.

While large ships can now envisage healthy charter rates in 2020, smaller sizes could see their rates stagnate at current relatively depressed levels. In turn, the rate NOOs opting for scrubber retrofits for 1,000-4,000 teu vessels should reap the benefits of their strategy, especially if the spread between HSFO and VLSFO prices widens substantially.

Scrubbers take off

Despite an initial low enthusiasm to embrace scrubbers given the high costs involved, several carriers ramped up scrubber retrofit programs after having run their maths. With the VLSFO/HSFO spread reaching $300 at Singapore ($500 for US Gulf vs $385 for HSFO) by the beginning of the year, the scrubber-fitted ships enjoy a great competitive edge.

Interestingly, the price of LPG is comparable to the record levels observed for the standard FSO during the 2007 price hike, which prompted carriers to substantially slow down their ships. The slow steaming practice was however retained when the oil price crashed in a context of the financial crisis. The slow steaming remains widely applied today, with additional environmental concerns having also come into play.

Scrubber retrofits are launched mostly at the initiative of some carriers with a focus on large ships, whereas the majority of charter market tonnage owners remain reluctant to invest, with however a few exceptions such as MSC Group and Sonangol Container A/S.

MSC has launched in early 2019 a vast program of scrubber retrofit for ships of 2,000-30,000 teu, either owned or under long term bare-boat and lease agreements. MSC is also actively taking on the charter the few NOOs excluded with scrubbers. As much as one third of the scrubber fitted container tonnage was operated by MSC at the beginning of 2020.

Other carriers with substantial scrubber retrofit programs include Maersk, CMA CGM, Evergreen and MM. At the other end of the spectrum, ONE has a focus on large ships, whereas the majority of charter market tonnage owners remain reluctant to invest, with however a few exceptions such as MSC Group and Sonangol Container A/S.

The scrubber take-up rate in the smaller size segments remains marginal. Most of the scrubber-fitted ships under 3,000 teu are newbuildings. The smaller sizes remain affected by a chronic overcapacity that is expected to worsen in 2020. Retrofitting small charter market ships with scrubbers could then benefit their owners as a mean to secure employment for their ships.

Reefers concerns

High VLSFO costs will also increase the competitive edge of containerships with higher reefer capacity against conventional reefer cargo vessels. Operators of conventional reefer tonnage might struggle to meet ends on some reefer rates (reefer cargo vessels have high electric loads relative to their size). Operators and owners of high reefer capacity containerships will certainly have an incentive to retrofit them with scrubbers. Burning VLSFO to power reefer bays is costly. Using scrubbers in order to power them with FSO will bring reefer unit costs levels difficult to match with reefer cargo vessels.

This would widen the gap between the two categories of vessels, which could drive freight traders to negotiate better terms with containership operators at the expense of reefer cargo tonnage owners. Such a trend is not new as it started in the 1970s, but the VLSFO costs will likely accelerate it.

Scrubber rate formulas

Non-Operating Owners (NOOs) that have launched scrubber retrofit programs propose to charterers two alternatives to replace the retrofit costs and the related operational costs.

One of them is to negotiate a fixed premium on top of the market charter rate. The other one is to share the fuel savings between the charterers and the owners, termed as “savings sharing mechanism” or “fuel profit sharing.”

The owner proposes to capture 70% to 90% of the savings that the charterer obtains at a given bunkering port. The final sharing ratio is an element of the negotiation and a ceiling rate can be imposed by the charterer to cap owner’s benefit in case of an excessive VLSFO/HSFO spread.

While the fixed premium approach is straightforward, the profit-sharing solution implies a close follow up of VLSFO and HSFO prices every time the ship takes bunker. This latter alternative is considered cumbersome by certain charterers.

Will scrubber retrofits take off for small ships?

Only a small share of the existing ships under 4,000 teu have been retrofitted with scrubbers so far, with many of them carried out at the initiative of carriers. The traditional non-operating owners of charter market tonnage (NOOs) control a large share of the lower size fleet and they are in clear retreat on newbuilding investments.

NOOs could consider scrubber retrofits in order to improve the employment prospects of their ships. Many of these owners focus on ships of 1,000-4,000 teu. Retrofitting such ships at a cost of US $1-3 M each would reap benefits in our opinion. It would give owners a competitive edge without the need to invest in scrubber- fitted newbuildings.

This is especially true for the smaller size segments, struggling to find employment in a charter market that has been negatively impacted by structural changes in the composition of the fleet and by a muted demand. As of January 2020, only 17 existing ships have been retrofitted worldwide in the 1,000-3,000 teu range. This leaves much more opportunities, should the financial difficulties faced by many owners be overcome.

Furthermore, scrubber makers provide compact scrubbers for 1,000-1,500 teu ships that are simpler and quicker to install than on larger, powerful ships. Typical retrofit time takes 3-4 weeks, against 5-8 weeks (or more) for 4,000+ teu vessels. The scrubbing towers are much less intrusive in small ships than in large ships due to the ship configurations and the much lesser volumes of exhaust gases to wash.
Outlook for 2020
The preparations of the IMO 2020 sulfur cap rule had a substantial impact on the supply of large ships. Carriers who embarked on SOX scrubber retrofit programs that immobilized enough ships of over 8,000 teu to mop up all the oversupply of ships over 5,000 teu, used as substitutes in the interim.

The Alphaliner Charter Index has grown by 45% in 2020. This healthy growth was however not broad-based. The larger ships segment did much better than the smaller sizes. While the charter rates for 4,000-9,000 teu vessels remained almost flat, rates for 1,000-3,000 teu size segment went up by only 12%. The accompanying graph illustrates this evolution.

VLCs 8,000-11,000 teu
2019 review
Daily charter rates have almost doubled for conventional 8,000-9,000 teu vessels in 2019 with average rates ranging from $16,000 per day at the beginning of the year to reach $30,000 at mid-year, steady throughout the second half of the year. Rates rose again in January 2020 before dipping slightly in February to reach $26,000 in March for 12 months periods. Higher rates of $27,000-29,000 were also recorded for longer periods (over 18 months).

The high specifications units of 6,500-7,200 teu performed quite well along the year, with rates going from $15,000 in January to $26,000 in August for 12 months periods. The high rates were mainly explained by the high specs and the high reefer capacity, doubling the VLCS supply. Services consolidation that could have negative impact on the smaller sizes remained confined to feeder services. The large ships in the Caribean and Central America sectors commanding a $11,000 premium. The rates for standard units of 1,100-1,500 teu such as the "CV 1100" remained stuck in the $6,100-6,800 range.

2020 outlook
The oversupply observed during the first two months of 2019 receded to manageable levels, with the number of spot ships averaging only three units from April to December. The charter rates reflected the supply trend, standing at $8,000-9,000 during the first quarter and oscillating between $9,500 and $12,500 for the remaining of the year.

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The fleet

The containership fleet stood at 5,337 cellular ships aggregating 23.23 Mteu at 1st January 2020 and is expected to reach 24.05 Mteu by the end of the year, for a projected growth of 3.5%.

Fleet growth will mainly be driven by the planned deliveries of 1.1 Mteu in new ships in 2020, although the coronavirus crisis will bring some slippage.

Scrappings and other deletions are expected to reach 300,000 teu in 2020, an increase from the 207,500 teu recorded in 2019. While the scrapping rate is expected to remain slow in the first half of the year, the pace should pick up in the second half.

The effective growth of the active fleet currently stands at just 0.1% on a year-on-year basis. This is significantly lower than the total fleet growth of 4.8%, reflecting the large number of inactive ships. Ships under retrofit and queuing at anchorages are retrofitted accounted together some 75% of the 1.4 Mteu of inactive tonnage.

Alphaliner - 2018-2019 - Cellular ships - Essential figures

<table>
<thead>
<tr>
<th>Operator</th>
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Note: The existing chartered fleet takes into account ships chartered out by non-operating owners to operators. Thus it does not take into account 73 ships for 119,099 teu which are normally owned by an owner-operator but chartered out to another operator either for operational reasons (operational exchanges within alliances or partnerships) or because they are surplus to their owners’ requirements.

Alphaliner Top 25 Operators as of 31st December 2019

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Alphaliner - Cellular fleet as of 31st December 2019

- The cellular fleet counts 5,337 ships of 23.23 million teu - of which 55.7% is chartered from non-operating owners.
- The cellular fleet represents 98.4% of the total capacity deployed on liner trades in teu terms.
- Total capacity active on the liner trades is 6,149 ships of 23.61 million teu and 285.6 million dwt.

- The orderbook counts 349 ships of 2.42 million teu representing 10.4% of the existing fleet (firm orders only).
- The orderbook includes 147 ships for 0.94 million teu with charter status representing 38.8% of the total orderbook.

 Prix: MAT GULF 23,716 teu, delivered in 2019 by Samsung M, owned by China Merchants Bank, chartered to and operated by MAT. Photo: Christian Costa
SECOND HAND MARKET

A two-speed context

Second-hand assets’ prices evolution in 2019 was fully correlated with a two-tier chartering market and relaxed events (Sino-US trade war, IMO 2020 and scrubber retrofit wave, low newbuilding deliveries).

The over Panamax size up to VLCS enjoyed increased activity accompanied by an average 14% increase in assets values. In contrast, second-hand transactions for smaller units (up to and including panamax) hardly reached the half number of 2018 with prices down by 5% on average. Distinction must be made between medium large units down to panamax which prices increased by 10-15% and the 1,700-1,100 teu which prices decreased by circa 10% and by even 25% for some older units.

2019 Key numbers

• 189 vessels were sold for further trading (last 800,000 teu or 3.5% of the total containership fleet at the end of 2019)
• 114 vessels were deleted including 105 units sold for demolition (197,858 teu) against 66 units/111,233 teu in 2018, 147 units in 2017 and 192 units in 2016.
• Average demolition age: 23 years old (24 years old in 2018)

We identified the top 6 companies who together purchased 36 units in 2019, representing 18% of the total number of transactions.

Pudong Loading Newowner in 2019 with 8x over-panamax/VLCS for an amount of about $50 million against 7 years bowel back to back.

Sinokor with 5 vessels incl. 4 baby panamax. Estimated total investment $55 million.

Sea Consortium with 5 vessels including 4 over-panamax purchased from Hammonia Reederei. Estimated total investment $115 million.

SECOND HAND MARKET

Analysis of 2019 transactions by size

Market activity was lower with a 32% decrease for the number of transactions compared to 2018. The activity contrast amongst size segments is reflected in below table.

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<th>Size</th>
<th>N° of transactions 2019 vs 2018</th>
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<td>Panamax</td>
<td>103 vs 202</td>
<td>-50%</td>
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<tr>
<td>Panamax SDR</td>
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<td>-22%</td>
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<tr>
<td>Panamax NDR</td>
<td>53 (mix) vs 37</td>
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This segment mainly involves refinancing operations which are not entirely disseminated via the usual network of market reports. It is therefore extremely difficult to obtain accurate figures or details of these. The 53 transactions reported clearly constitute a much higher figure than in 2018 and we know that a significant number of such transactions actually took place later in 2019 to estimate up to circa US $ 3 billion the total amount invested with Chinese lessors spending circa 2.5 billion. The balance of players was essentially Seacon, Japanese P&O, European and US leasing houses in Container sizes/breakbulk (UCL transactions).

Ships over 10,000 teu: 22 Sales (15 in 2018)

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Seacor Corp with 6 units purchased from China Merchant Leasing (9,000-10,000 teu) for an estimated total investment of $380 million. Contship Management with 7 vessels of 1,100-1,300 teu for an estimated total investment of $40 million.

Euroscat Ltd. with 8 units including 4 x 4,200 teu ships built 2008-2009 purchased from Synergyholdings Ltd for $40 million ex-lic. They purchased the other 4 units (2x1,700 teu Wenchong type, built 2001-2007 + 1,500 teu built 1997 + 1x1,500 teu built 2007) from the Prias Family, in a combined Cash + Shares deal.

Total amount of transactions: $1.22 billion.

Average age of units sold: 10 years old. Here also, only leasing houses and non-operating owners acted in this segment. 

Representative deals:
• 3x1,500 teu built 2010-2011 for $100 million ex-lic by KAMCO to International Far Eastern Leasing Co.
• 3x7,800 teu built 2004 for $46.2 million ex-lic by Zulubor GmbH to Global Ship Lease.

Panamax, 3,000-5,100 teu: 37 sales (47 in 2018)

Total amount of transactions: about $140 million.

Average age of units built 10-16 years old.

Most of the deals in 2018 were signed before the summer and activity nearly stopped from September onwards, essentially because of the charter market instability. Essentially a consequence of scrubber retrofitting over two-panamax. Charter rates nearly doubled between January and October 2019, passing from $8,000 per day to $15 per day at highest, softening down to $13,500 in December. This situation created some appetite amongst buyers but this could not be totally satisfied due to a clear lack of sellers’ willingness to accept low prices. Buyers appreciated that the high rates prevailing then were purely conjunctural and that it was prudent not to overlook for the available units.

Representative deals:
• 4x5,250 teu built 2008-2009 by Samsung sold by Synergy Holdings to Euros for $40 million ex-lic.
• 4x2,228 teu built 2010 by Zhejiang sold by Ottsman to Costamare for $40 million ex-lic.

Most active buyers this year have been Sea Consortium, Euroseas, Sinokor, Celuis, and Bonasia.

2,000-3,000 teu: 13 sales (49 in 2018)

Total amount of transactions: about $135 million.

Average age of units sold: 13 years old but this figure is not representative as it includes a 2x2,500 teu built 2016 in a refinancing deal by decree for $27 million per unit. Without these 2 ships, the average age would be closer to 16 years old.

With 106 units on order (15% of this fleet segment), the orderbook for this size is by far the largest in number of ships, along with the Neo Panamax size (47 units on order but 13% of the fleet segment). This huge number is quite logical as it follows a very long period without orders. Of the 675 existing and 1,700-3,000 teu 98 vessels are older than 20 years, with a growing dislocation and lot of uncertainty over their future given to new environmental regulations.

No existing unit in this segment is scrubber fitted. The 5% special survey’s cost (that would include Ballast Water Treatment Systems, higher maintenance (costs) is such that it is not worth the investment. Most of these ships will have even harder times in front of modern units which will mostly be ECO, scrubber fitted or dual-fuel propulsion, with Ballast Water Treatment Systems installed, structurally adapted to high cube containers and with higher reefer capacity. This explains the lack of enthusiasm from owners for the older second-hand units.

Total amount transactions: about $328 million. Average age of units sold 13.6 years old.

In this segment, assets’ values decreased by 10% to 20% depending on vessels’ vintage and specifications. Logically, modern units presenting attractive features like high reefer plugs capacity and Singapore dimensions remained relatively popular with stiffer prices. Nevertheless, the flexed size suffered the most in 2019 in terms of asset value and market activity.

This poor activity was mainly due to the uncertain consequences of the IMO 2020 regulations. Operating and non-operating owners are not enthusiastic with the idea of installing expensive scrubbers on second-hand feeders, especially with most of the older design ships in that size that are not Ballingkmax and suffer from high fuel consumption.

These are certainly reasons that drove an increase in ordering activity with an orderbook standing by end 2019 at 98 units between 1,000-2,000 teu, some 8% of the existing fleet.

Most significant deals:
Contship Management: 9 units purchased from various German sellers for a total amount close to $60 million.
SITC spent more than $30 million purchasing 4 units (1x1,700 teu + 3x1,100 teu exclusively Japan and Korea built.

Panamax, 1,000-1,999 teu: 67 sales (68 in 2018)

Total amount of transactions: about $328 million. Average age of units sold 15.5 years old.

After 3 years of stable activity, the number of transactions decreased substantially whilst prices decreased by an average of 10% but was significantly greater number of such transactions actually took place later in 2019 to estimate up to circa US $ 3 billion.

This size generally serves domestic trades, with buyers mainly located in Asia or the Middle East.

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