Ro-Ro

The Boomerang

At the end of 2020 signs of cautious optimism were notable in the market through increased demand for tonnage, except for UK/Continent trade which was still strong ahead of the 31 December 2020 British exit from the European Union. The optimism increased across the market in 1Q21. As the year advanced, multiple Covid vaccines were rolled out and demand for ships increased with volumes surging to keep up with the increased demand from consumers, and amid the need for inventory replenishment which were languishing at low levels. These factors led to a dramatic improvement in the market, with the sector bouncing back earlier than expected, similarly to the trajectory of a boomerang.

SCANDIA SEAWAYS
The last unit of a series of 6 sisters each with a capacity of 6,700 LM over 5 decks, delivered in December 2021 by China Merchants Jinling in Jiangsu, China to the DFDS A/S, which are operating her on the North Continent.

Photo: courtesy DFDS Group.

AFTER LOCKDOWN CAME APPETITE FOR CONSUMPTION

Q420 was very strong for UK/Continent trades due to Brexit-induced stock building and was stronger than pre-Covid 4Q19. In 1Q21, this trade slowed and the congestion in ports eased. This congestion was driven by a lack of truck drivers and supply chain bottlenecks. At the same time the rest of the market followed suit with good volume increases in the Mediterranean Sea and Baltic Sea trades with UK/Continent trades stabilizing at good levels.

As a result of the long periods of lockdown in 2020, companies had exhausted their inventories due to related uncertainties. In Q2 it became clear that demand was rising rapidly, with some trade volumes up as much as 50% compared with April 2020, which was very poor as it was in the midst of the first lockdown. In general, volumes were up by around 30%, in part due to stock building and in part fuelled by consumers' appetite for purchasing goods after the persistent lockdowns in 2020. Indeed, consumer confidence was back and fuelled by the efficient rollout of Covid vaccinations.

The new routes which opened during the second half of 2020 between France, Belgium, Spain, and Ireland to bypass UK as a transit point were shown to be a success. These new routes, and the increased capacities of some existing routes were established mainly so driver-accompanied trailers from the aforementioned countries could bypass the UK as stricter import regulations were introduced following Brexit. These routes are operated with Ropax vessels, but also pure RORO routes were started, and capacity increased on existing routes was successful as well. Stena Line announced that they would start a new service between Hanko, Finland and Nynäshamn, Sweden in February 2022. The service will start with URD which is a 1,600 lane meter Ropax vessel with capacity for 186 passengers. In May 2022, a second Ropax ship will be deployed on the service. Rederi AB Gotland started a route from Rostock to Nynäshamn in September with their Ropax vessel Drotten of 1,800 lane meters and 1,500 pax.

In the Baltic Sea and in the Mediterranean Sea the freight volumes were well above their 2020 figures. The Baltic Sea market stabilized while the Mediterranean Sea volumes became steadily stronger from 2Q21, especially on the Turkey to Italy and Turkey to Libya corridors. There was also increased activity from Mediterranean Europe to North Africa.

The tonnage situation became steadily tighter as volumes continued to increase in Q3 and Q4 as well. It became clear by mid-2021 that the market would end up tight and rates consequently rose. Operators withdrew ships they had for sale or for charter, and by the beginning of Q3 these same operators started chartering in ships in order to cover the increased volumes. By the end of the year, there were very few ships available in the market, especially in the 2000+ LM segment. The 2021 RORO freight volumes were about 4-6 percent above pre-Covid 2019 volumes depending on the trades which explains the high demand for ships in the second half of 2021.

__Picture: FAUSTINE__, 5,400 LM with 4 RORO decks and 4 hoistable car decks delivered in October 2021 by Hyundai Mipo Dockyard (HMD) in South Korea to CLdN Group, who are operating her in North Continent. Faustine and the last ship to be delivered are dual fuel fitted. Photo: courtesy CLdN Group.

Charter market

Chartering activity followed the upward trend which began in 4Q20. By the end of 2021, it was up more than 15% compared with the previous year, where two thirds of the fixtures were done in the 2nd half of the year. In 2021, the activity was more evenly spread throughout the year with activity peaking in Q3 and partly Q4.

The periods fixed became longer, and rates continued to rise significantly throughout the year. Fixtures done for shorter periods with options for extension had up to 25% higher optional rates than the initial firm period rates, suggesting that the market believed in the future. Most optional periods were declared by charterers and as the market was rising the optional rates were not renegotiated. In 2Q and 3Q, as cargo volumes continued to increase, the periods became longer as charterers became confident in the market and realized the importance of securing tonnage to cover the increased cargo volumes. Consequently, rates increased as tonnage became scarce with owners requesting longer periods of up to 3-4 years at healthy rates, which charterers had to often accommodate to secure tonnage.

The outlook for 2022 is also optimistic on the basis of the continued scarcity of tonnage with major operators even holding on to their smaller and vintage tonnage.

Sale and purchase activity

Sale and purchase volumes were also considerably higher in 2021, up from only 8 units sold in 2020 as 21 ships changed hands. In 2019 there were 18 transactions.

The average age of the ships sold was 27.5 years and the average size was just above 1,590 LM. In 2020 the ships' average was barely above 20 years old, but only 1,250 lane meters. Indeed, average size was boosted by several transactions including the Acacia Seaways (ex Meleq) 4,076 lane meter and Pol Stella (ex Hatche) 3,663 lane meters and a number of ships between 2,000 – 2,500 lane meters. The Acacia Seaways – built 2017 – and the Pol Stella – built 2009 – were the most substantial deals in terms of price with the latter rumored sold for EUR 25,5 million. There has been no reported or rumored price for Acacia Seaways, but we believe this was done on par with the valuations of the ship at low EUR 40's million.

Smaller units of up to 1,200 lane meters were sold between EUR 2-4 million depending on age.

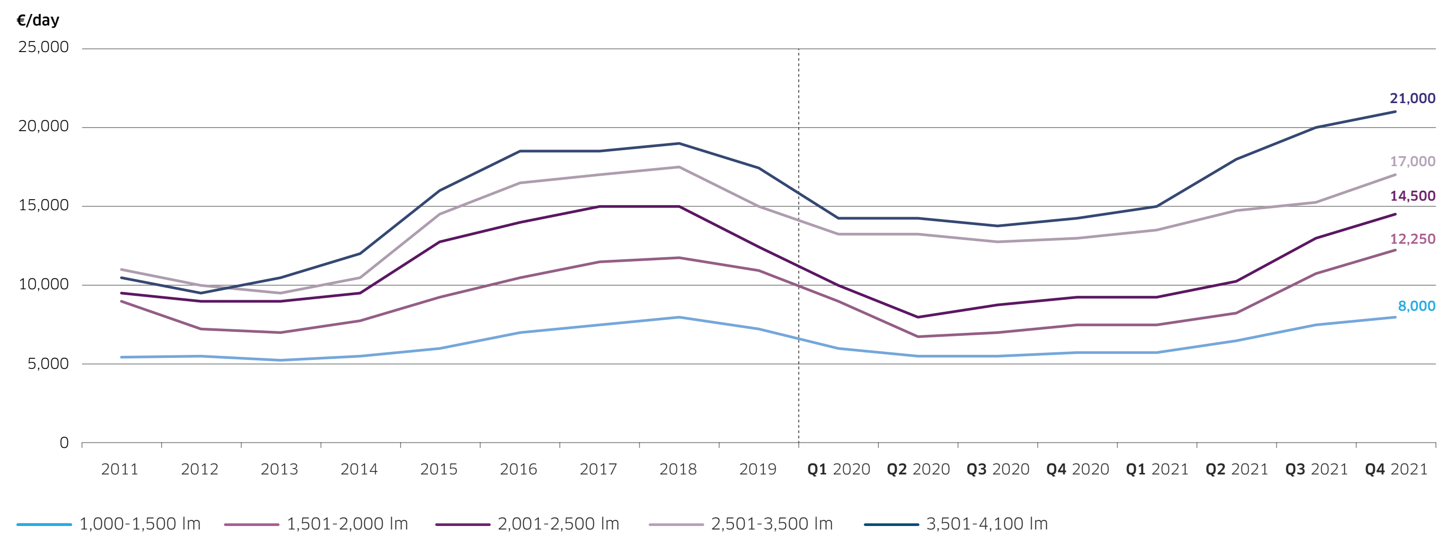
The work horses of 2,000-2,500 lane meters built between 1983 and 1990 were sold for between EUR 3.5-5 million depending on age. For the younger ships, the prices were between EUR 8 - 10 million.

Today there are very few ships available for sale in any segment as operators withdrew the ships they had for sale in 2Q as they were needed to cope with the increased cargo volumes.

We expect the second hand market of ROROs to remain firm even though there are a number of newbuildings to come in 2022.

21 second hands sales were concluded in 2021 vs 8 in 2020

Average Charter Rates from 2011 to 2021 (non-scrubber equipped ships)



THE FLEET

Newbuilding deliveries in 2021

There were 10 ships delivered to the RORO fleet in 2021 amounting to roughly 50,500 lane meters. Mainly big ships, but not a significant number. In 2020 there were only 7 ships delivered with a total capacity 32,200 lane meters.

DFDS took delivery of Scandia Seaways, the last of the series of 6 large ROROs of 6,700 LM built at Jinling Shipyard. Fitted with 5 decks for 450 trailers and one hoistable car deck in the lower hold, they are equipped with cold ironing for land power while at berth.

Grimaldi took delivery of four of their GG5G series out of total 9 ships, also being constructed at Jinling Shipyard. These ships are 7,800 lane meters and have an intake of 500 trailers on 5 decks.

CLdN Group took delivery of Faustine, their fifth of a series of 6 x 5,400 lane meter ROROs. Faustine and the last ship in the series, Seraphine, have been fitted with dual fuel LNG propulsion.

There were four ships delivered from Japanese shipyards to domestic Japanese operators. These ships are between 1,440 – 2,500 lane meters with quarter stern ramps.

New deliveries in 2021 were still relatively low with 10 units.

Orderbook and new orders

10 new orders were placed in 2021, up from only 2 in 2020. In 2019 the tally was 14 new orders.

Three new orders were placed in Japan for domestic trade with capacities between 1,500-2,800 lane meters and with quarter stern ramps. SeaRoad Shipping of Australia ordered a large RORO vessel of 4,227 lane meters at Flensburger. Hyundai Mipo Dockyard landed 6 firm orders from Grimaldi for deep sea con-ro ships with 4,700 lane meters, with car decks and 2,000 teu intake. These ships will be 250m loa and 38m beam and will trade in the Atlantic.

The orderbook was reduced to a total of 27 ships in 2021 totalling 114,500 lane meters. This is down from 34 ships for 130,800 lane meters in 2020, which itself was down 12.5% in lane meter capacity from 2019.

For 2022 there are 19 ships scheduled for delivery with approximated 79,000 lane meters with an average capacity of close to 4,200 lane meters. For 2023 there are six ships scheduled for delivery with a total of 25,500 lane meters and in 2024 there are only 2 ships to be delivered for 9,400 lane meters.

It is worth noting that the order book basically consists of larger ships above 4,000 lane meters. There are only 6 ships of 500-600 lane meters, of which, 3 will go on long term contracts to paper producer UPM-Kymene in the Baltic Sea and 3 ships are 1,200 – 2,350 lane meters for Japanese domestic trade. The order book is down to a level we have not seen in several years.

Recycling activity

Just like last year only 10 ships were sold for recycling. However, the total lane meter capacity was up almost 24% y-o-y to 17,350 thereby averaging 1,735 lane meters per ship. The average age of the ships in 2021 was 33.4 years which was higher than the average in 2020 of 29 years. The reason for the relatively low average age in 2020 can be explained by the fact that Japanese operated ships were being sold for recycling while in 2021, no Japanese operated ships were recycled. Japanese operated ships tend to have a shorter life span than others and are replaced after about 20 years. There are approximately 75 ships that are 30 years or older and approximately 44 ships that are 35 years or older which are all future recycling candidates with over 1,000 lane meters. Furthermore, there are only 15 ships of 35 years or older that are above 2,000 lane meters.

Based on the above figures we forecast that over the coming years recycling will remain on par with 2021 in terms of number of ships. Meanwhile, these ships should be lower in terms of capacity.

FORECAST

We expect tonnage to remain tight in 2022, particularly in the 1,000-2,000 LM and 2,000-3,000 LM segments. This assumption reflects relatively few new buildings being delivered and expectations that cargo volume levels will stay relatively strong with no sharp drops. Although new buildings will come and might free up tonnage from operators, the influx might not be sufficient to cope with cargo flows if volumes maintain their present levels.

There is one joker, which we shall not forget and that is the relatively large and increasing order book of ropax vessels which have started to be delivered. Many of these ships have capacity of between 3,000-4,500 lane meters and will replace some RORO tonnage currently being used on certain trade routes to cope with cargo volumes while waiting for the ropax new buildings to be delivered.

In general, we expect a strong market, but not necessarily with as high a volume of transactions as in 2021.

10 new orders were placed in 2021 compared with 2 in 2020 and 14 in 2019

__Picture: AURA SEAWAYS__, The first of two large RoPax ships with capacities of 4500 LM over 4 decks and additional car decks, 600 passengers and 250 cabins, delivered December 2021 from Guangzhou Shipyard International (GSI), China to DFDS A/S, which are operating her between Karlshamn, Sweden and Klaipeda, Lithuania. Photo: courtesyDFDS Group.