



SHIPPING MARKETS AT A GLANCE - WHAT TO EXPECT

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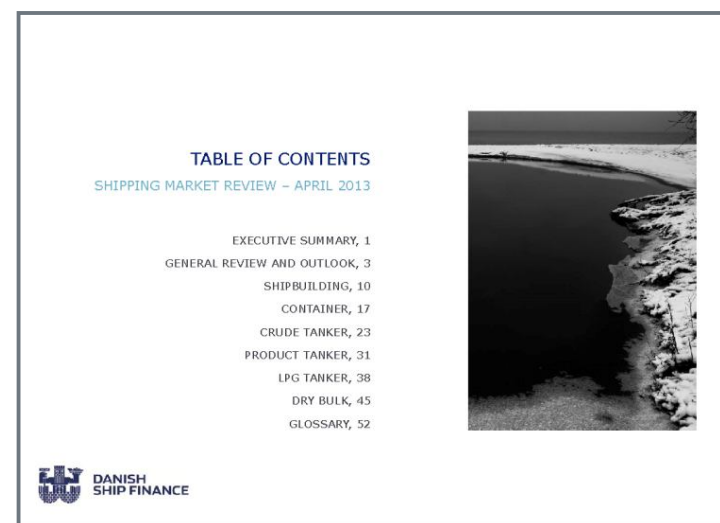
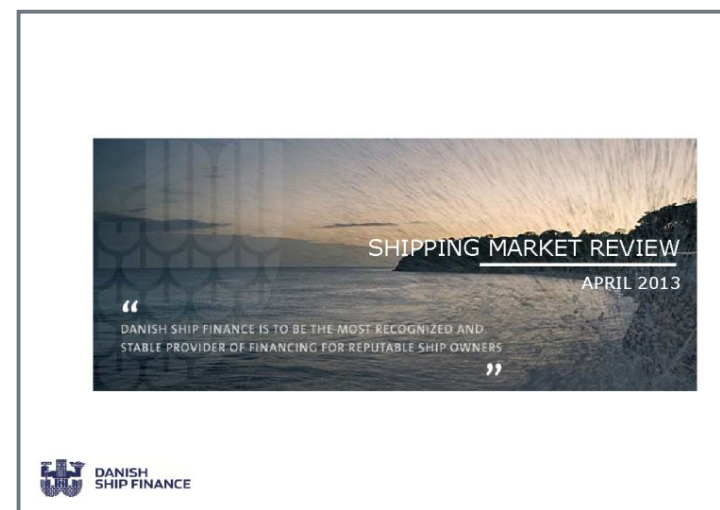
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OUR BI-ANNUAL SHIPPING MARKET REVIEW

THE NEXT EDITION WILL BE PUBLISHED IN MAY, 2014

- Publicly available at www.shipfinance.dk
- More than 1,500 subscribers
- More than 2,000 downloads
- The report covers:
 - General review and outlook
 - Shipbuilding
 - Container
 - Crude Tanker
 - Product Tanker
 - LPG Tanker
 - Dry Bulk



AGENDA

- Shipping markets at a glance – what to expect
- Ship value dynamics – are we past the bottom?
- Outlook for global shipping markets



SHIPPING MARKETS AT A GLANCE - THE CURRENT SITUATION



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SHIPPING MARKETS AT A GLANCE – THE CURRENT SITUATION

KEY TAKEAWAYS

- Market fundamentals are generally improving
- Freight rates, secondhand values and newbuilding prices seem to have bottomed out and are currently on a rising trend
- But uncertainty persists, since obvious scrapping candidates are rare, investors continue to place new orders and the improved balance between supply and demand is highly dependent on slow steaming.



SHIPPING MARKETS AT A GLANCE – THE CURRENT SITUATION

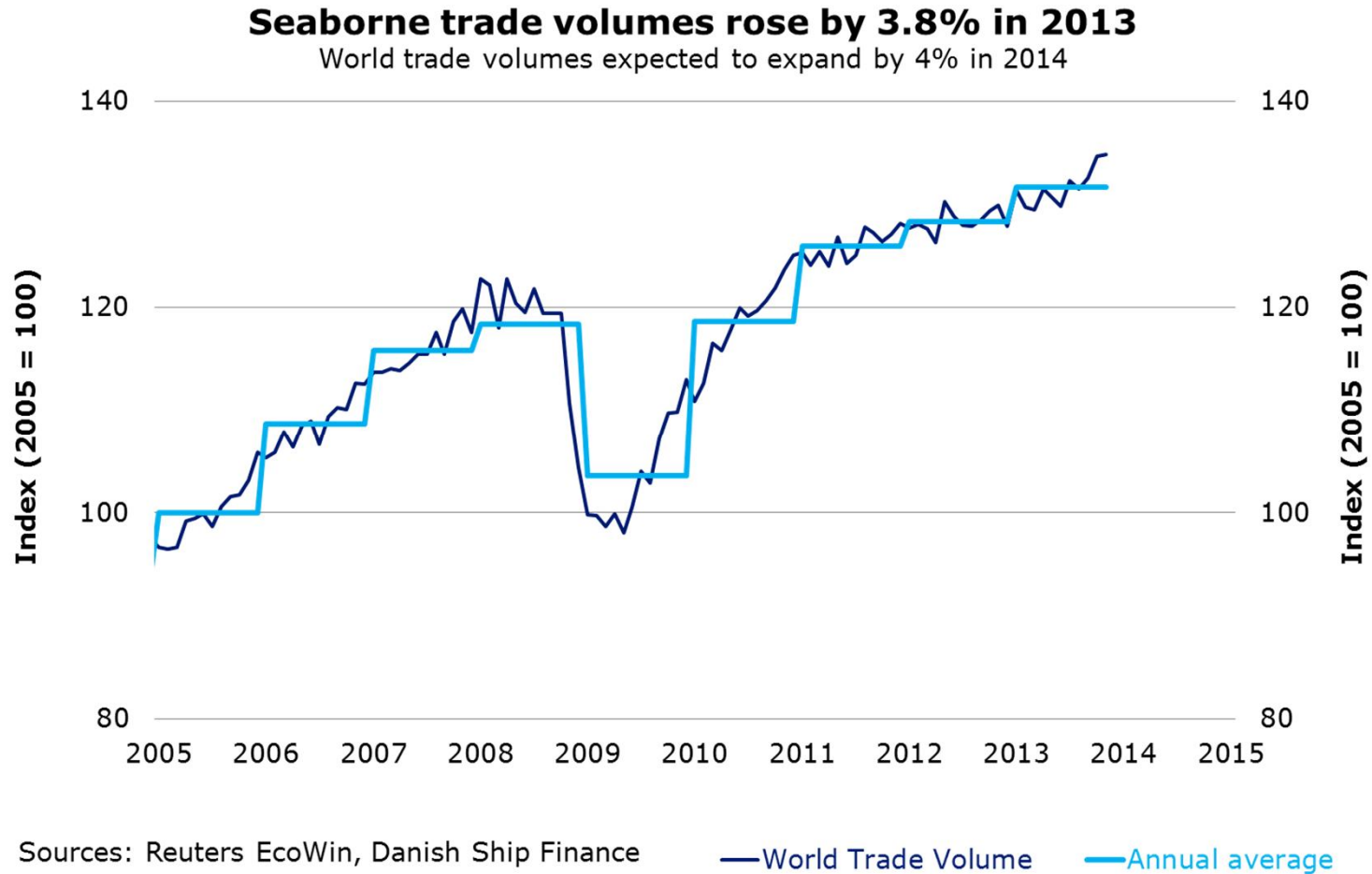
WE SHOULD NOT CONFUSE OUR SELF!

- The shipping industry is both **volatile** and **cyclical**
- We can see extremely sharp spikes in spot rate but still be on a structural declining trend
- We cannot know if a freight rate spike – even lasting long enough to lift secondhand values – per se means that the industry is on a rising trend

Let us take a look at the fundamentals...

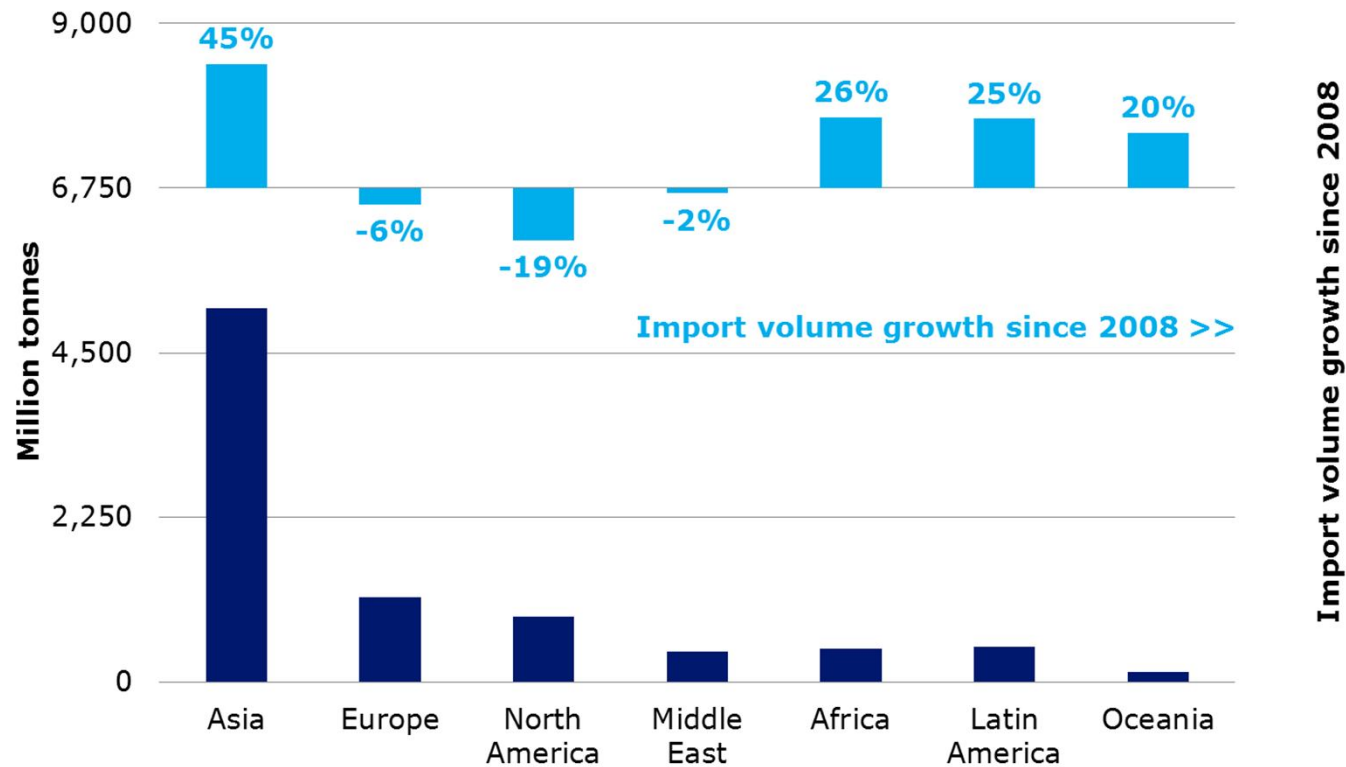


SEABORNE DEMAND INCREASED BY 18% BETWEEN 2008 AND 2013



ASIA CONTRIBUTED TWO-THIRDS OF GDP CREATION DURING 2008-2013 - AND ALMOST THE ENTIRE GROWTH IN TRANSPORT VOLUMES

Growth in seaborne import volumes driven by Asia
European and North American import volumes remain low

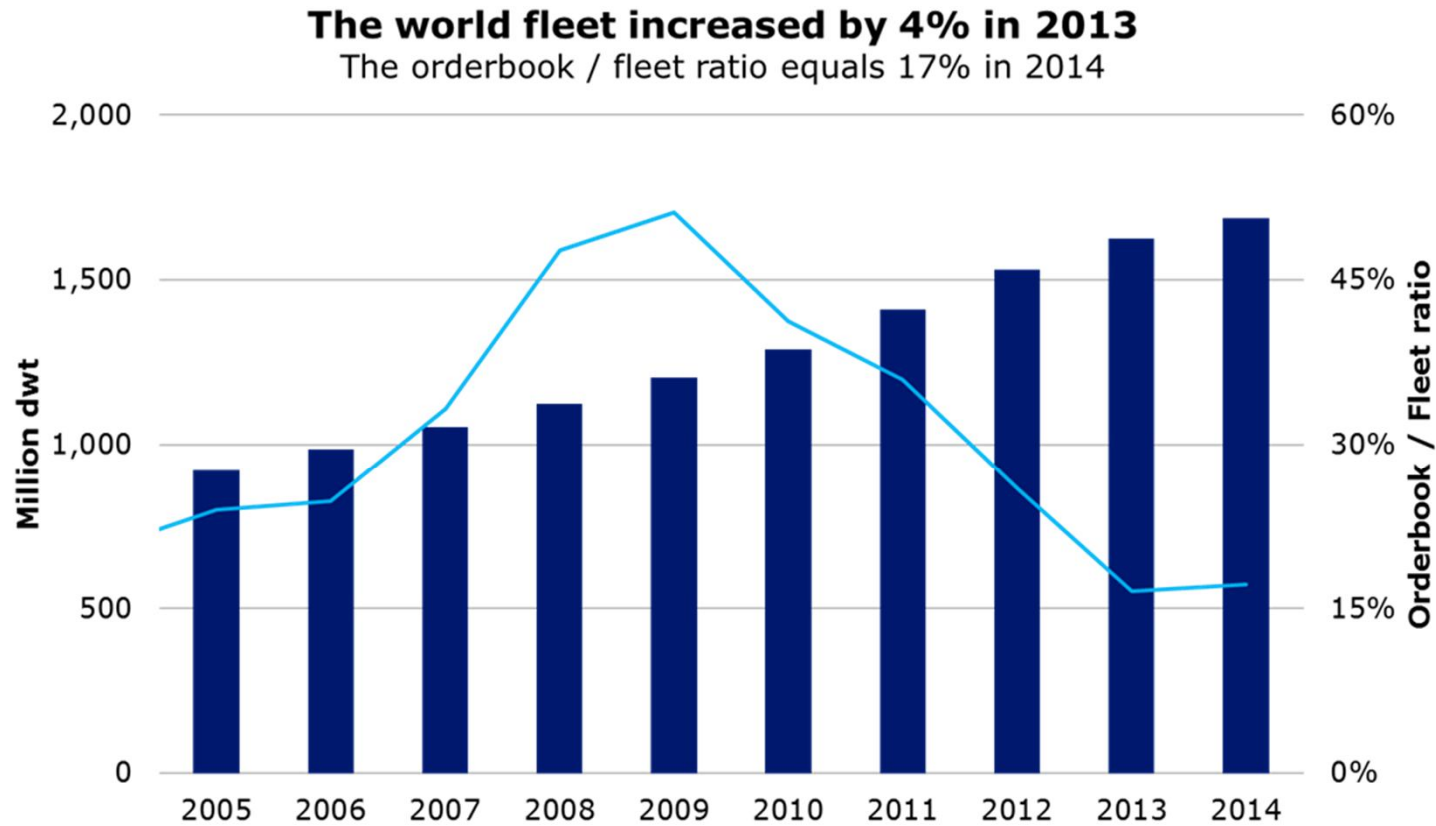


Sources: IHS Global Insight, Danish Ship Finance

■ Import volumes 2013



WORLD FLEET INCREASED BY 44% BETWEEN 2008 AND 2013



Sources: Clarksons, Danish Ship Finance

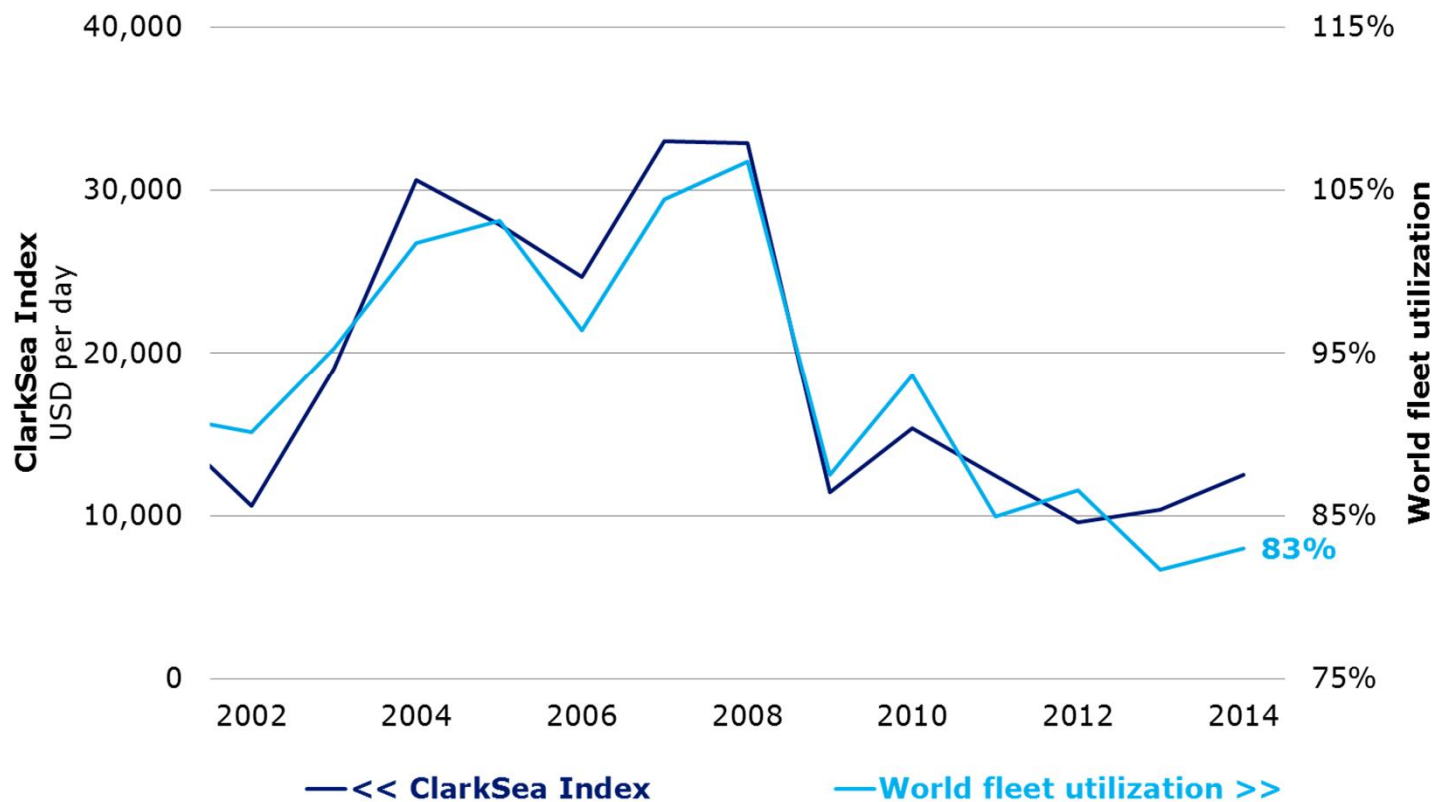
■ World Fleet — Orderbook / Fleet



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ONLY 83% OF THE WORLD FLEET IS CURRENTLY IN DEMAND - AFTER ADJUSTING FOR SLOW STEAMING AND TRAVEL DISTANCES

Utilisation of the world fleet remains low



Sources: Clarksons, Danish Ship Finance



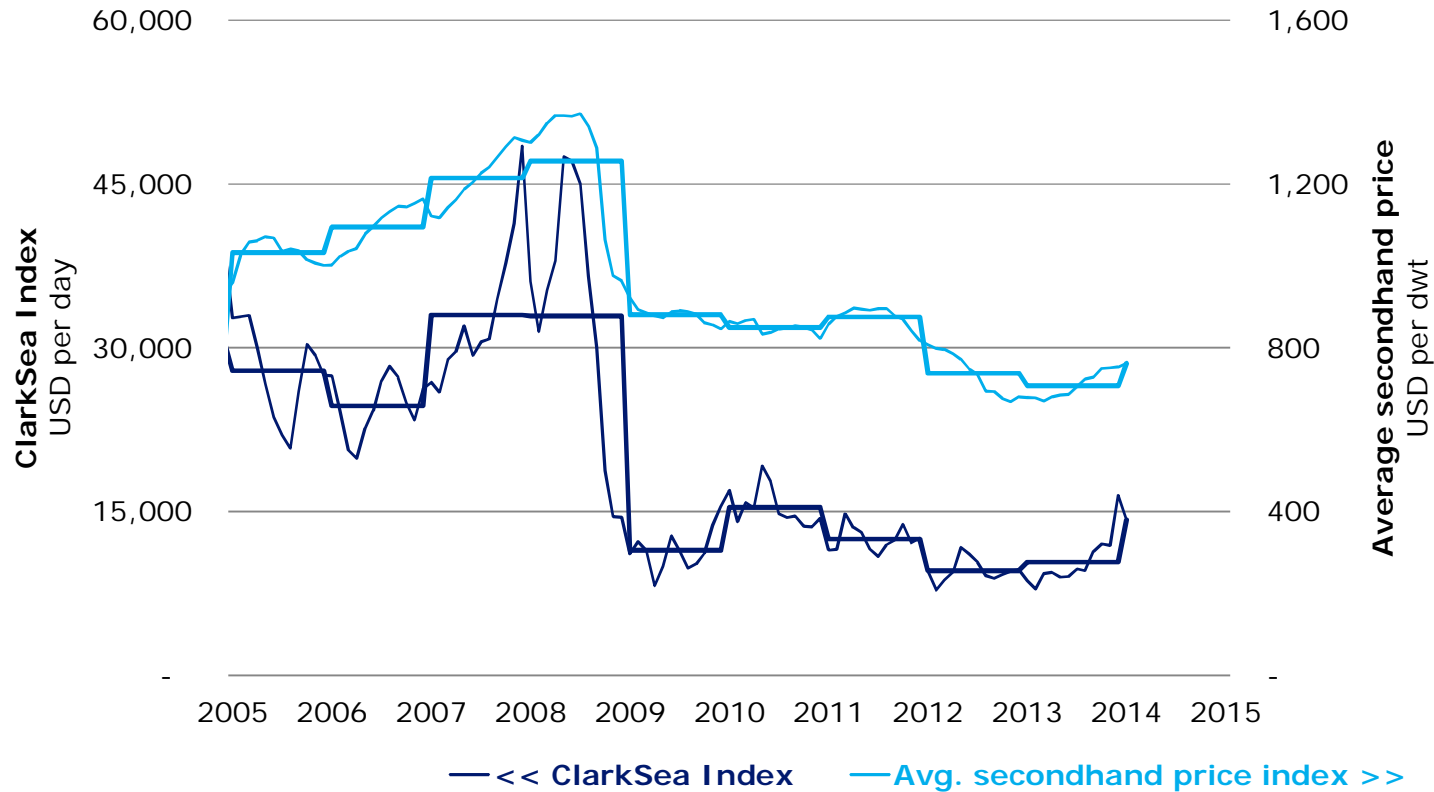
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FREIGHT RATES CAME DOWN BY 70% FROM 2008 TO 2013

– AND SECONDHAND VALUES CAME DOWN BY 40%

The average secondhand price increased 11% in 2013

ClarkSea Index increased strongly during 2H2013

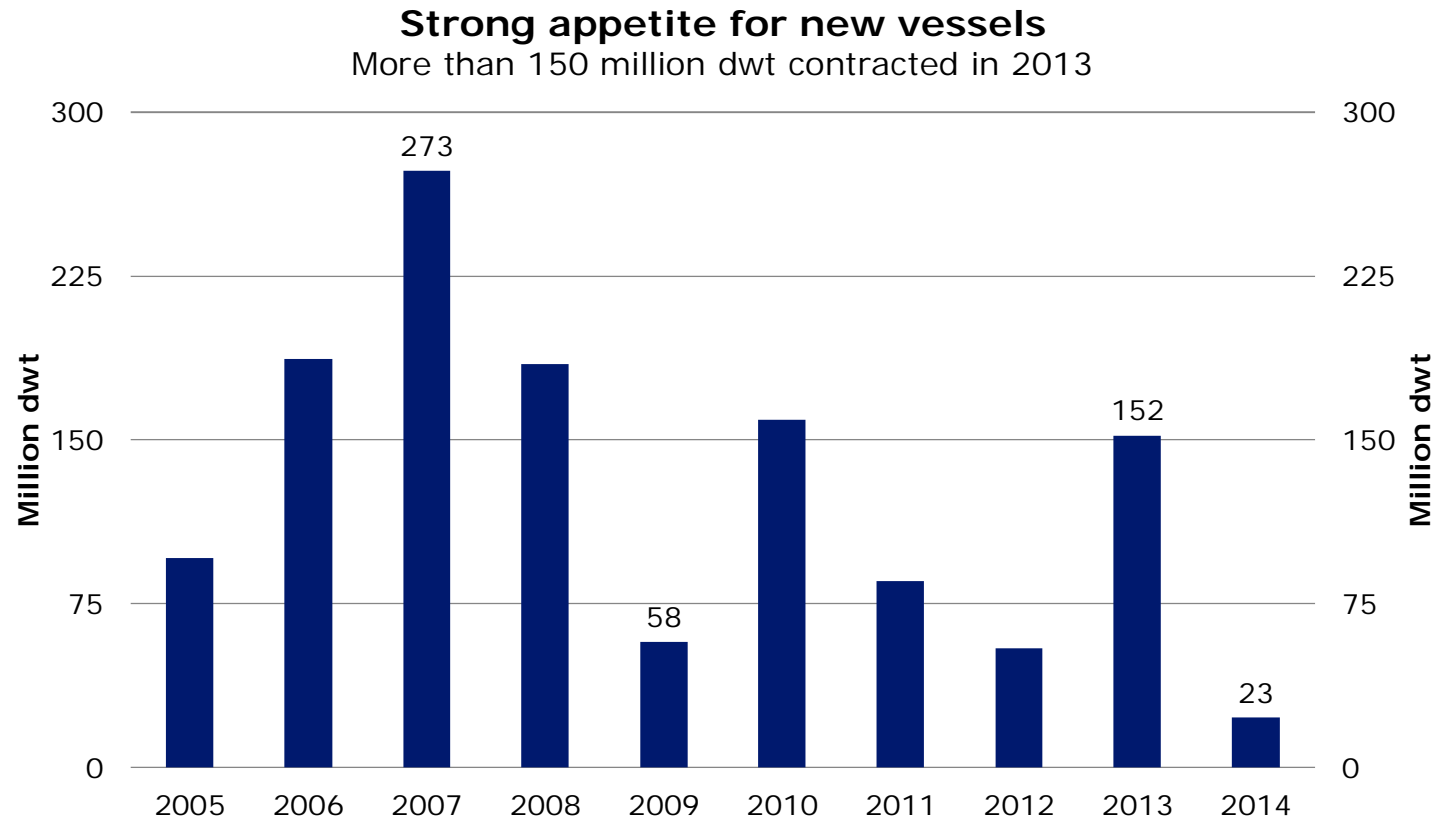


Sources: Clarksons, Danish Ship Finance



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BUT INVESTORS MAINTAIN A STRONG APPETITE FOR NEW VESSELS - HOPING TO INVEST AT THE BOTTOM OF THE CYCLE



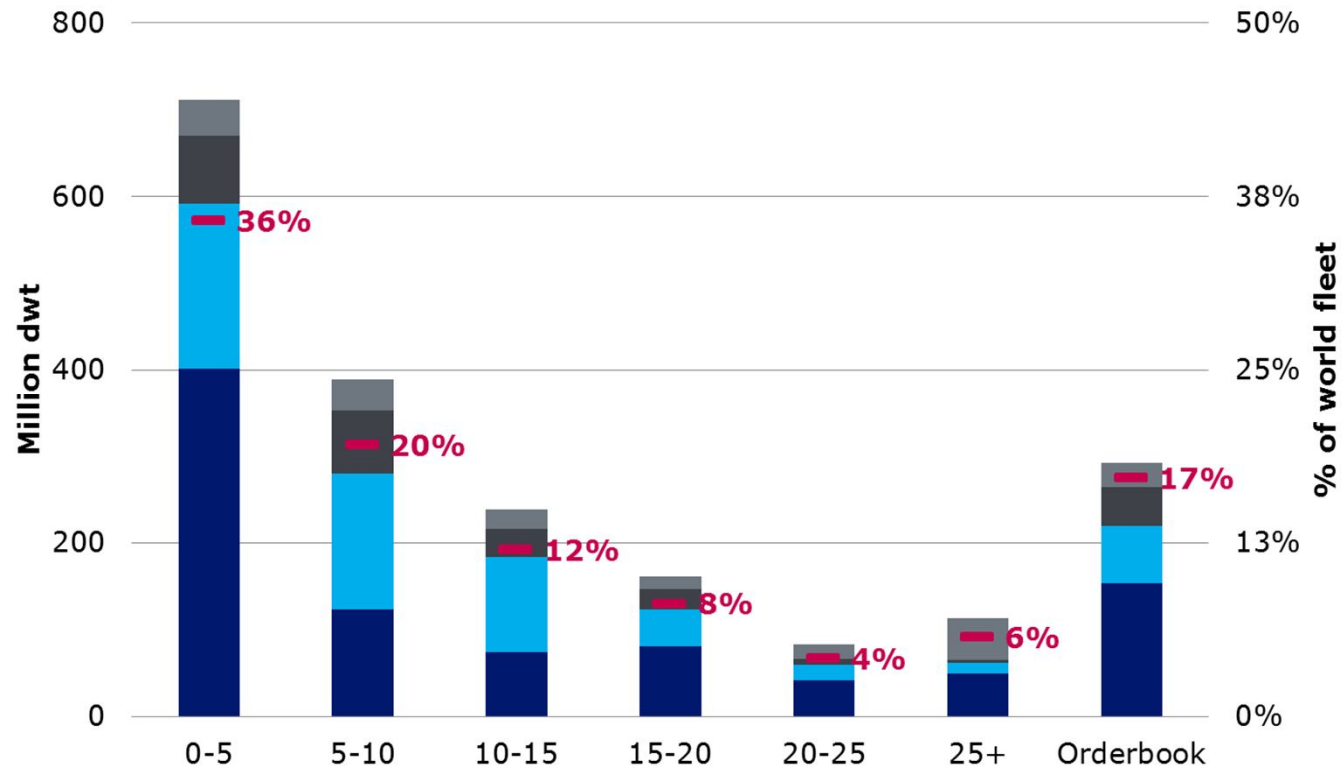
Sources: Clarksons, Danish Ship Finance

■ Global contracting

A GROSS INFLOW OF 17% IS SCHEDULED FOR THE COMING YEARS - BUT FEW OBVIOUS SCRAPPING CANDIDATES REMAIN

The fleet is becoming increasingly young

Only 10% of the world fleet is older than 20 years



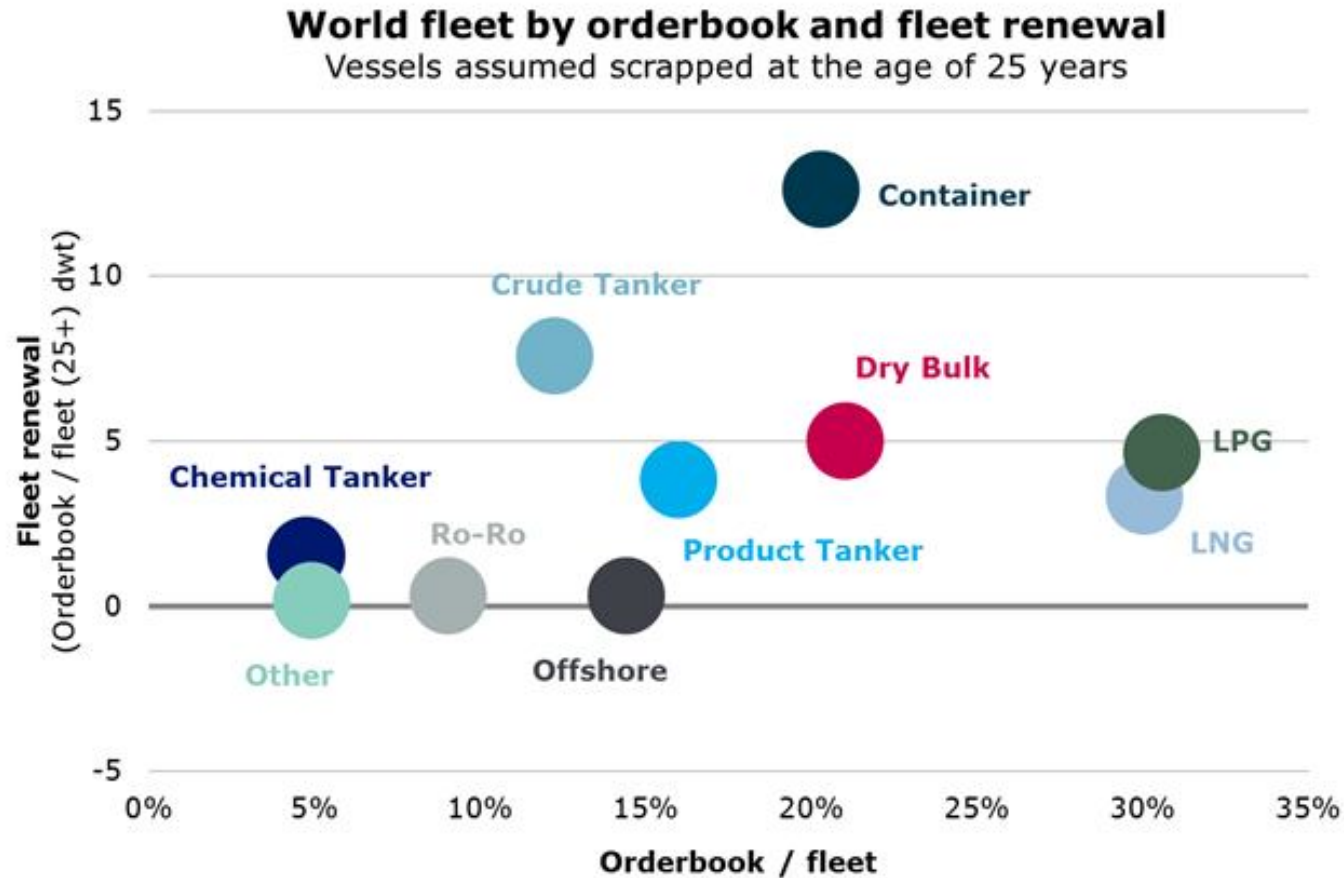
Sources: Clarksons, Danish Ship Finance ■ Dry Bulk ■ Tanker ■ Container ■ Other - % of fleet



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NOT ALL SEGMENTS ARE EQUALLY EXPOSED TO OVER-ORDERING - A GREAT DIVERSITY AMONG SEGMENTS AND SUB-SEGMENTS



Sources: Clarksons, Danish Ship Finance

SHIP VALUE DYNAMICS - ARE WE PAST THE BOTTOM?



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SHIP VALUE DYNAMICS – ARE WE PAST THE BOTTOM?

KEY TAKEAWAYS

- The cost of the over-ordering could be **a shorter operating life** (i.e. cash-flow period). When a balance between supply and demand has been re-established, vessels are once again expected to be traded until the age of 25 years (standard tonnage).
- Secondhand values are expected to increase but **older vessels** might not benefit substantially, since a shorter operating life is expected to offset the value of the freight rate increase.



BASIC SHIP VALUE DYNAMICS

SHIP VALUES ARE DRIVEN BY THREE PARAMETERS:

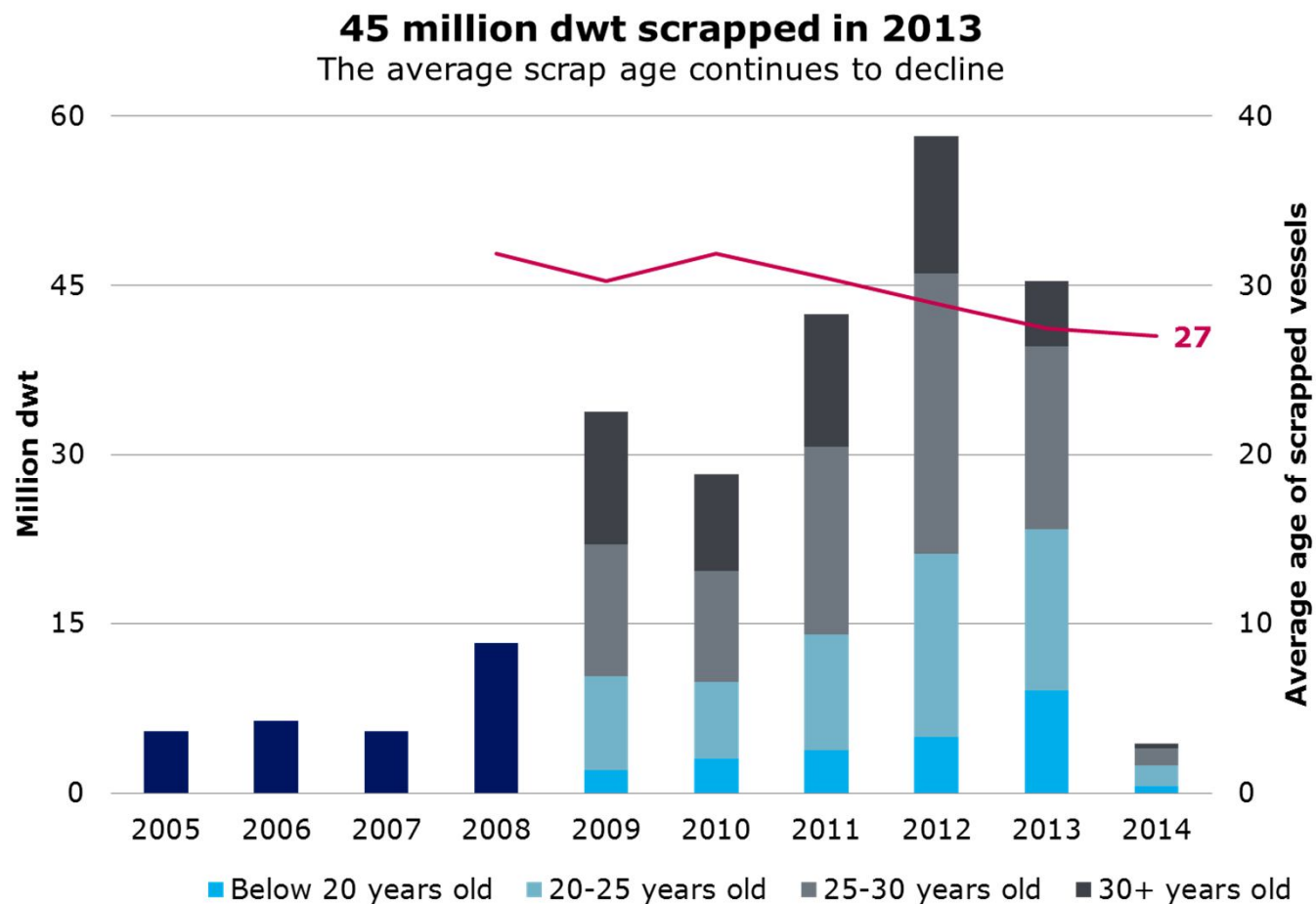
1. Short-term income
 - in our approach related to the timecharter rate
2. The long-term earnings potential
 - in our approach related to the newbuilding price
3. The expected remaining lifetime of the vessel
 - in our approach dynamic and age-dependent

It appears that 1. and 2. are widely expected to increase but what about the remaining lifetime of the vessel?



SCRAPPING AGES - THE DEVIL IS IN THE DETAIL

- THE AVERAGE AGE OF VESSELS SCRAPPED IS 27 YEARS



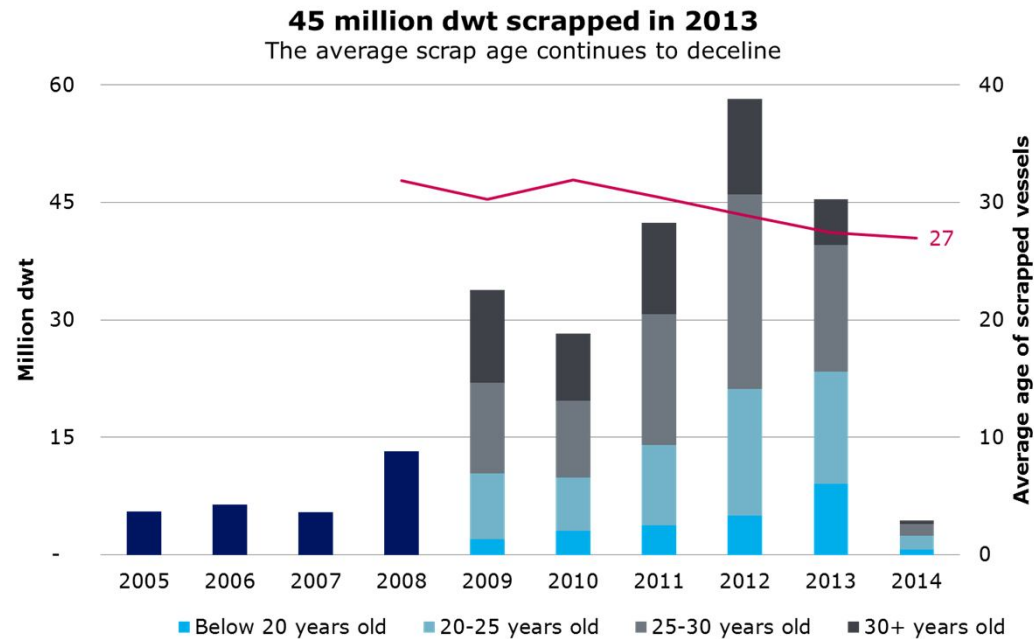
Sources: Clarksons, Danish Ship Finance



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SCRAPPING AGES - THE DEVIL IS IN THE DETAIL

- IN SOME SUB-SEGMENTS THE AVERAGE AGE IS MUCH LOWER



Sources: Clarksons, Danish Ship Finance

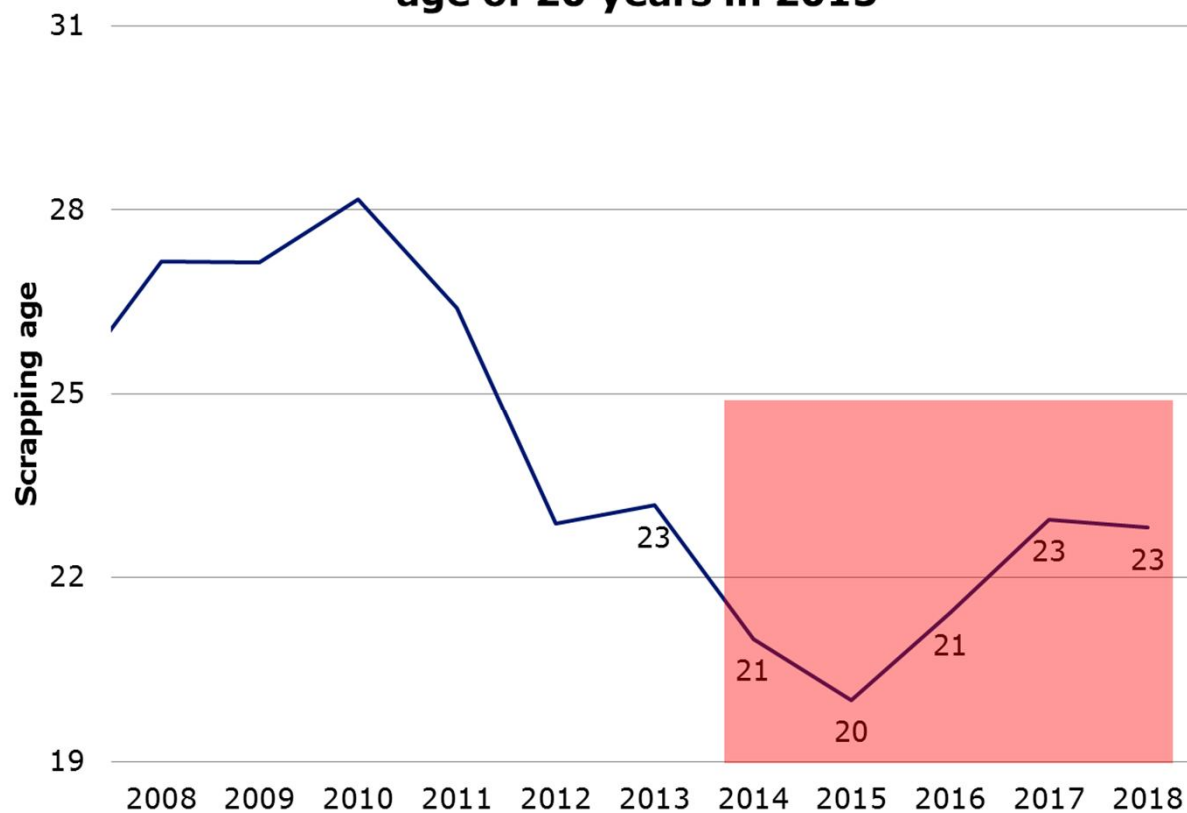
Age of vessels scrapped	Average	Youngest	Oldest
Container			
<1,000	28	15	42
1-1,999 teu	21	10	31
2-2,999 teu	22	15	31
3-3,999 teu	21	15	29
4-5,000 teu	21	17	25
Crude Tanker			
VLCC	18	14	22
Suezmax	20	17	26
Aframax	21	15	28
Dry Bulk			
Capesize	23	16	31
Panamax	27	10	39
Handymax	27	15	36
Handysize	29	15	50
Product Tanker			
LR2	25	22	27
LR1	23	20	26
MR2	22	18	28
MR1	26	13	32



FEWER YEARS TO GENERATE THE VALUE

THE CASH-FLOW PERIOD COULD BE REDUCED BY THREE YEARS IN 2015

Capesize vessels are expected to be scrapped at the age of 20 years in 2015



Sources: Clarksons, Danish Ship Finance

— Average age of vessels scrapped, Capesize

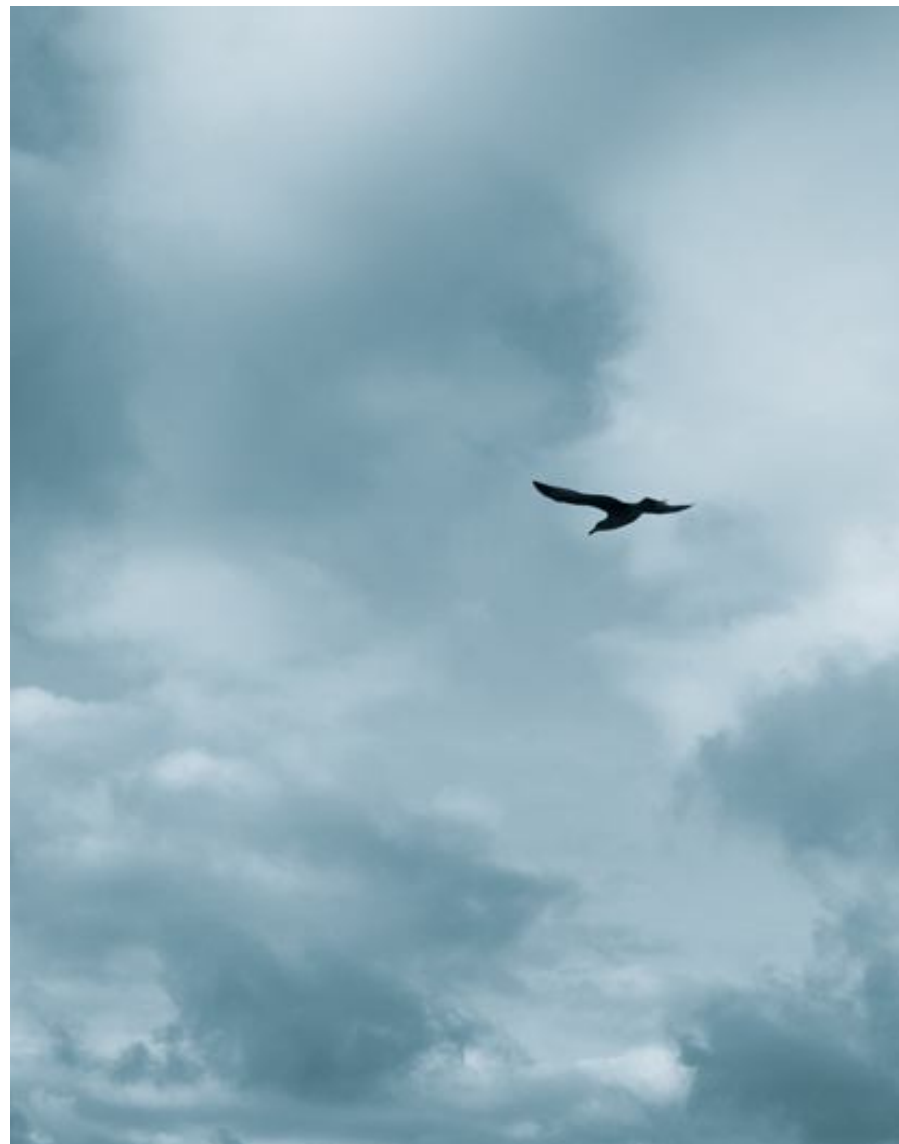


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OUTLOOK



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EXPECTATIONS FOR 2014 AND BEYOND

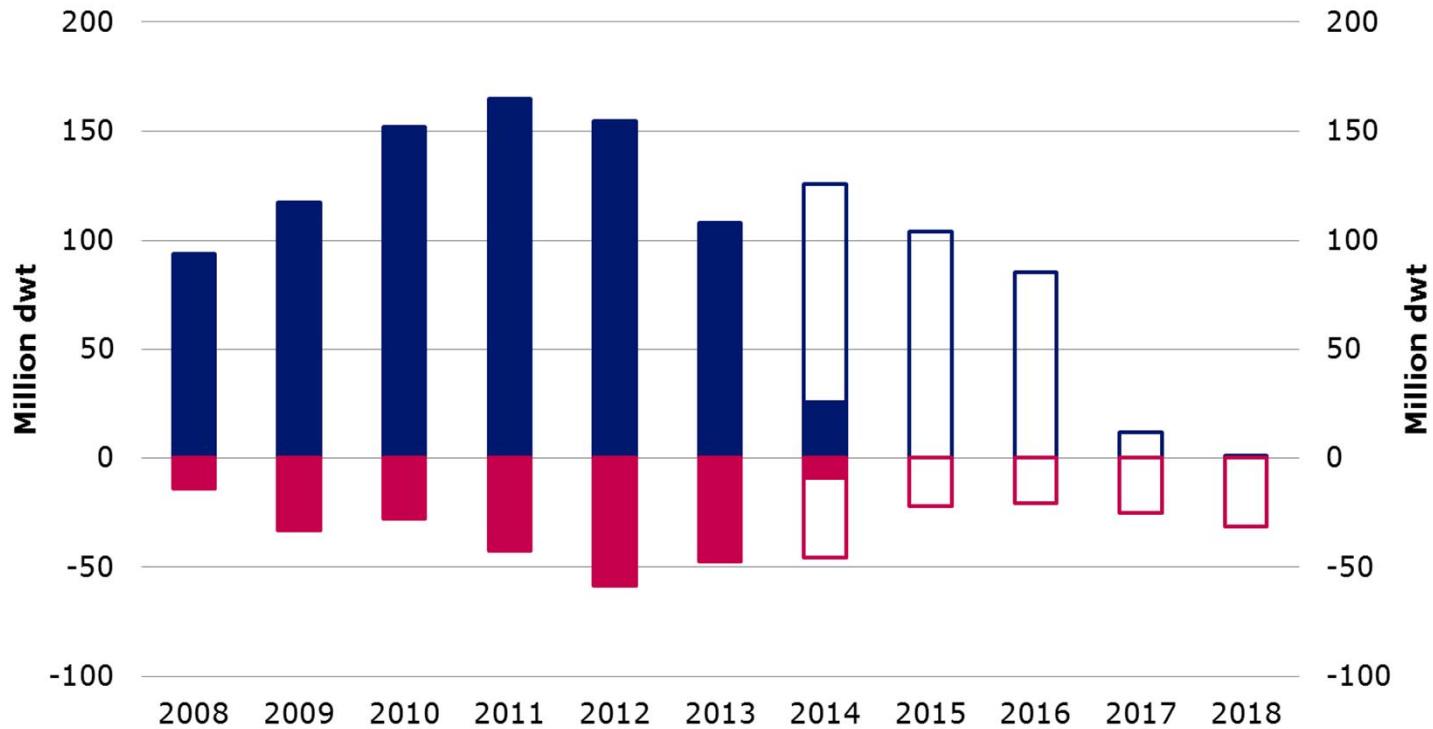
- The road to recovery is expected to be long and bumpy.
- The lopsided nature of the recovery is a concern as extensive and premature scrapping seems inevitable. The value of older ships may suffer while younger vessels might enjoy significant increases in value.
- Great uncertainty persists as the global economy in general and shipping in particular becomes increasingly dependent on China.
- Recovery pitfalls: Over-ordering, higher speed, inadequate scrapping activity and a slowing Chinese economic growth.



MASSIVE INFLOW OF NEW TONNAGE

- EXTENSIVE SCRAPPING UNABLE TO BALANCE DELIVERIES

The orderbook fleet ratio equals 17%
Scheduled deliveries and potential scrapping

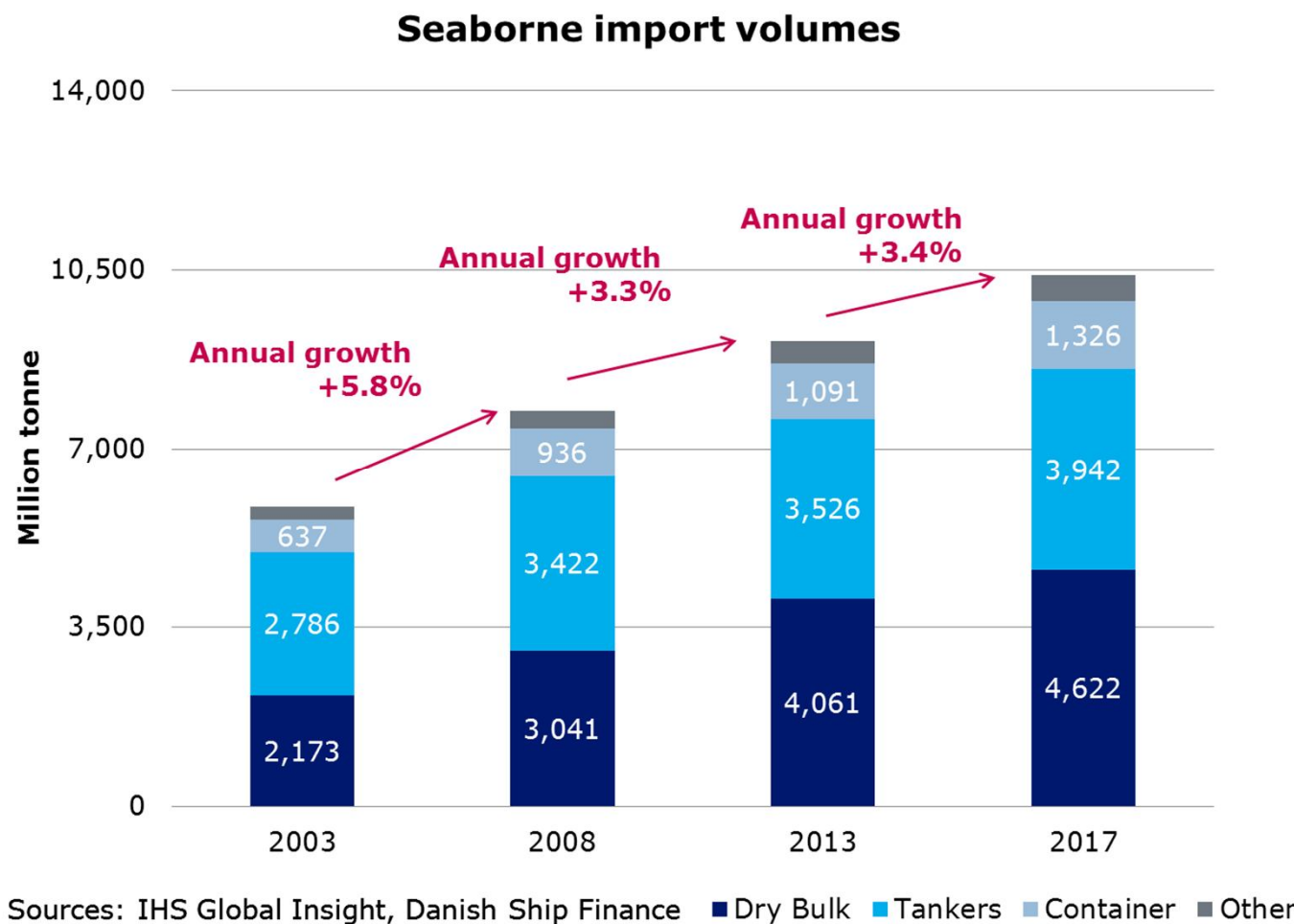


Sources: Clarksons, Danish Ship Finance

■ Delivery ■ Scrapping

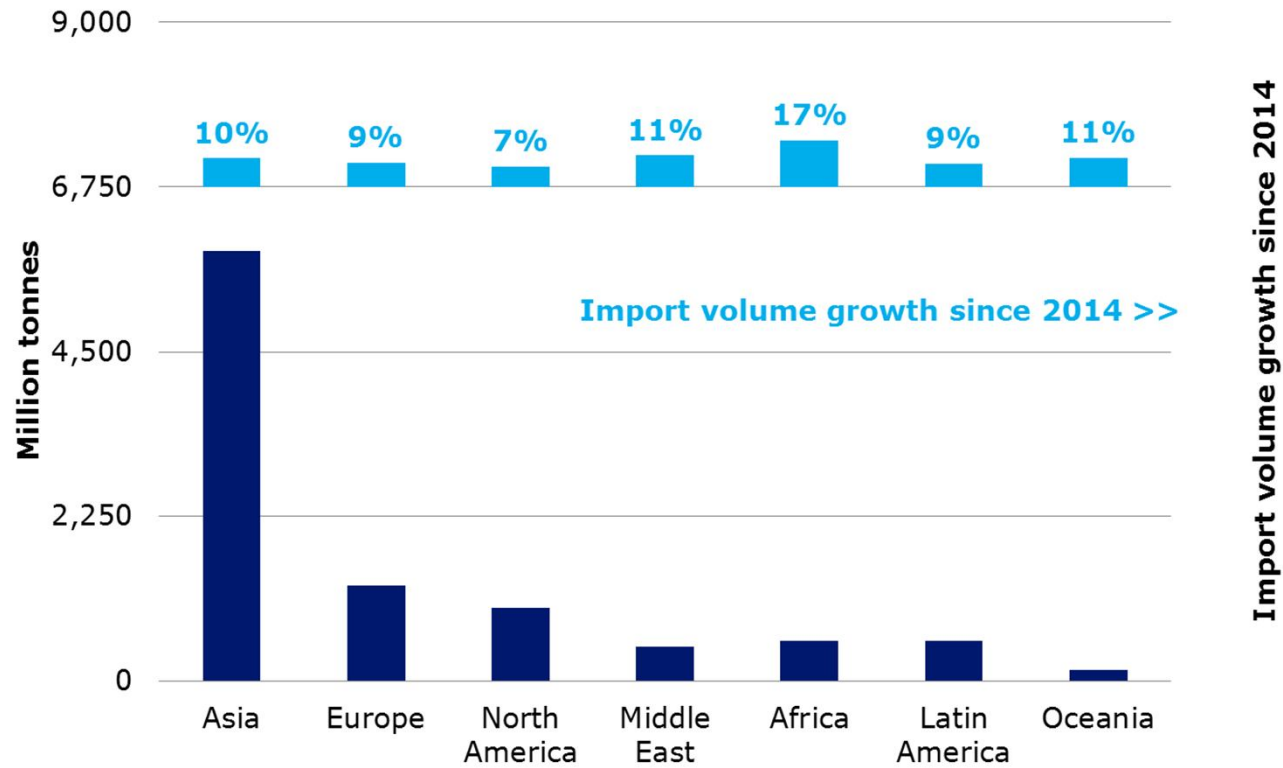


SEABORNE IMPORT VOLUMES UP BY 14% IN FOUR YEARS



ASIA IS EXPECTED TO CONTRIBUTE 60% OF IMPORT VOLUME GROWTH UP TO 2017

Forecast seaborne import volumes in 2017



Sources: IHS Global Insight, Danish Ship Finance ■ Import volumes 2017 ■ Growth since 2014



OUTLOOK

WE EXPECT TO SEE AN IMPROVED BALANCE BETWEEN SUPPLY AND DEMAND OVER THE COMING YEARS

- Freight rate levels may well recover further, as the market is entering a phase of structural improvements.
- But the vacant capacity, currently put out of sight by slow steaming, continues to jeopardise the timing and scope of the recovery.
- Freight rate volatility is expected to intensify during the transition process.
- Secondhand values are expected to increase but older vessels might not benefit substantially, since a shorter operating life is expected, temporarily, to offset the value of the freight rate increase.
- Newbuilding prices could double-dip if shipyards fail to scale back capacity.



Q & A



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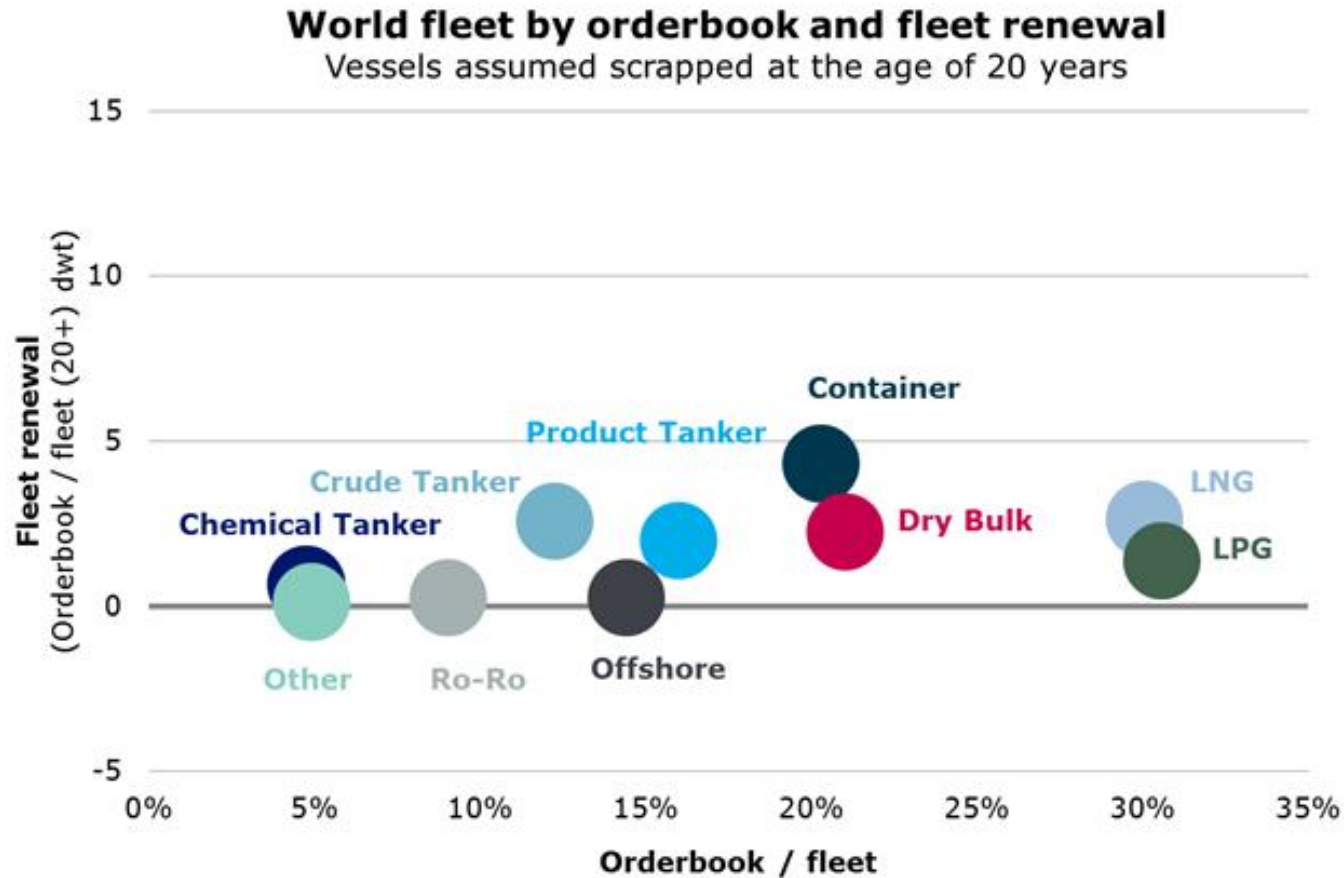


THANK YOU FOR YOUR ATTENTION



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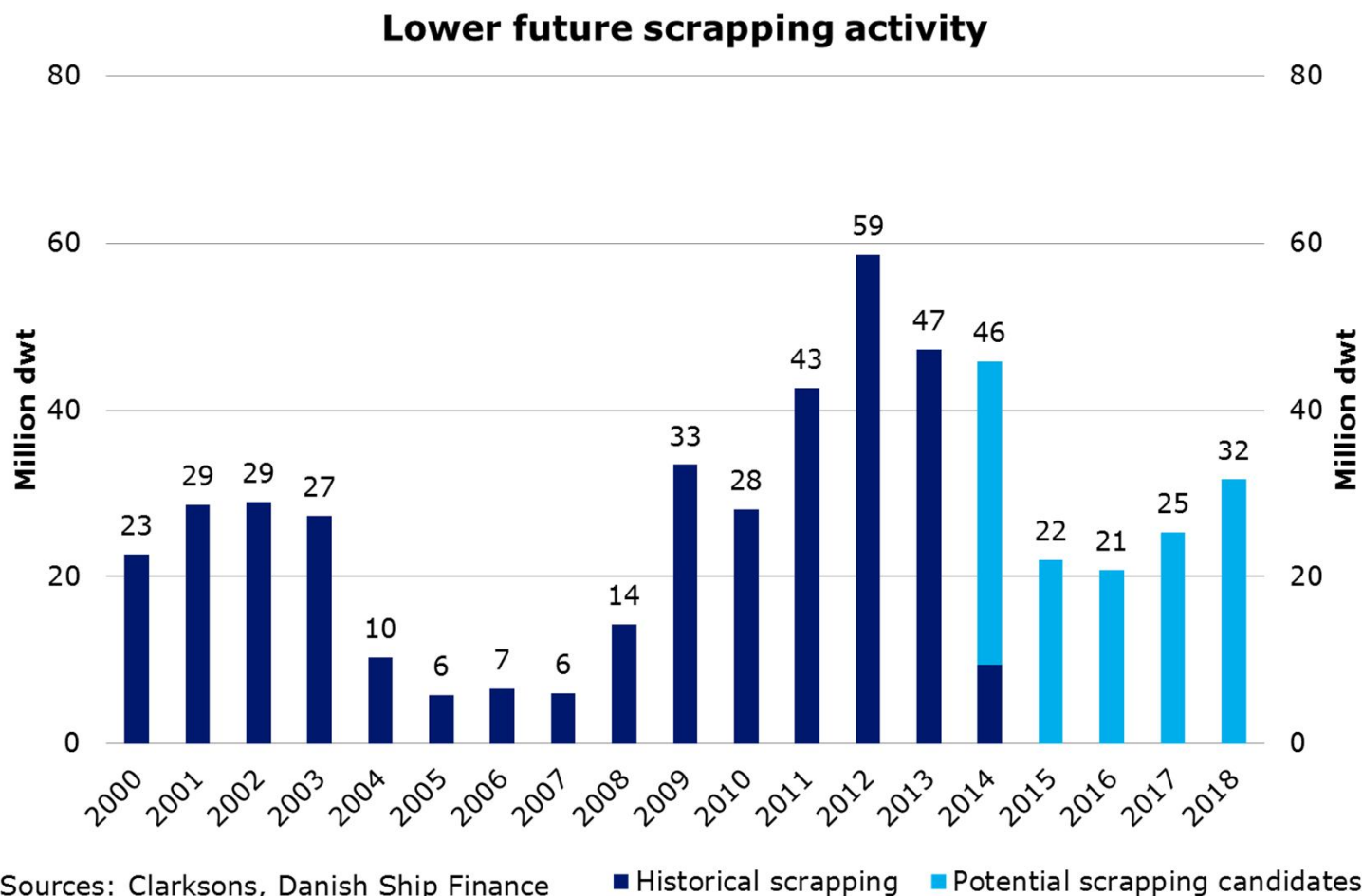
BUT MOST ORDERBOOKS APPEAR AHEAD OF DEMAND AND ABOVE THE POTENTIAL FOR FUTURE FLEET REPLACEMENTS



Sources: Clarksons, Danish Ship Finance

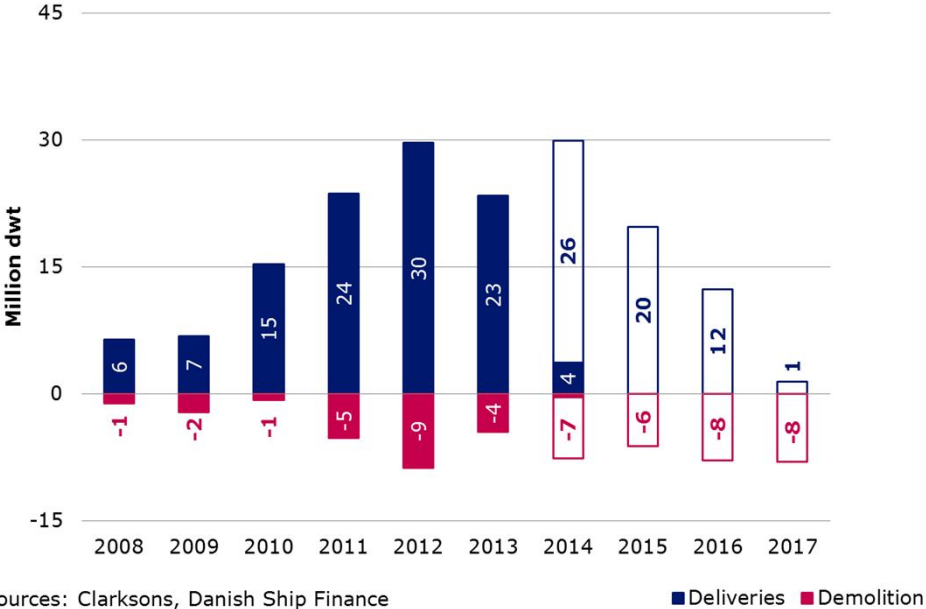


SCRAPPING ACTIVITY IS EXPECTED TO REMAIN HIGH BUT LOWER THAN THE LEVELS SEEN BETWEEN 2011 AND 2013



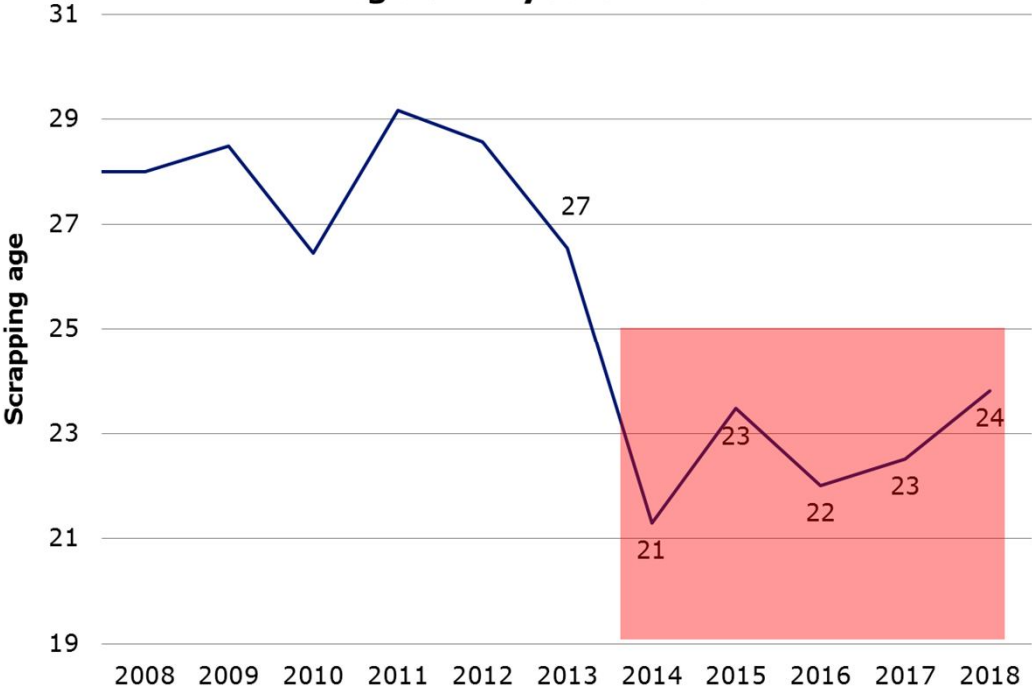
SOME SEGMENTS MAY BE IMPACTED EVEN MORE IF THE AGE DISTRIBUTION IS LESS FAVOURABLE

Panamax fleet
Scheduled deliveries and potential demolition



Sources: Clarksons, Danish Ship Finance

Panamax vessels are expected to be scrapped at the age of 21 years in 2014



Sources: Clarksons, Danish Ship Finance — Average age of vessel scrapped, Panamax

