

OCEAN SHIPPING CONSULTANTS

SHIPPING PROFITS : MIXED OUTLOOK AHEAD

After witnessing massive increases since mid-2003 in many sectors, shipping profitability is set to decline in several sectors over the near-term, although for certain vessel types/sizes the outlook is more positive with advances expected in daily operating profits. Great opportunities are expected for secondhand purchases and newbuilding orders, but the timing of such activities will remain critical in shaping individual vessel profitability. This is one of the conclusions of the major new Report on the outlook for shipping costs and revenues, published by the UK-based independent shipping market consultants *Ocean Shipping Consultants Ltd.*

The 175-page detailed report - entitled

“SHIPPING PROFITABILITY to 2015: The Outlook for Vessel Costs & Revenues”

examines the costs and revenues facing a variety of vessel sizes in several vessel sectors – tankers, bulk carriers, containerships, gas carriers and general cargo vessels – and explores the prospects for developments in these areas throughout the period to 2015. For vessel costs, attention is largely focussed on operating and capital expenses, and includes detailed forecasts on each aspect of these cost sectors. The Study also includes examination of the main implications for shipping companies.

A summary of some of the findings of this major new study is provided hereunder:-

VESSEL OPERATING COSTS

- The operating cost category is made up of five individual components including Manning, Insurance, Repairs & Maintenance, Stores & Lubes, and Administrative costs.
- The annual typical manning cost levels for bulk carriers range within approximately US\$0.60-0.74m, with a corresponding \$0.87-1.00m range for tankers and \$0.44-0.72m for containerships. This is the largest component within the operating costs total, generally accounting for 40-45% of the aggregate.
- Repairs & Maintenance is generally the second largest cost category for all vessel types, typically accounting for 15-20% of total operating costs.

BULK CARRIER COSTS & PROFITABILITY

- The operating profitability for a typical Handysize vessel approximates \$15,400/d in 2004. The corresponding profitability for larger vessel sizes is even higher – at around \$32,500/d for a Panamax vessel, rising to \$37,800/d for Capesize tonnage. These 2004 profitability levels represent large-scale increases from previous years, with levels across all size classes approximating just \$3-4,000/d as recently as 2002.
- The outlook is for a marked decline in vessel profitability over 2004-06, although the decline is limited to rate levels implying break-even levels. Renewed freight rate strength will see profitability strengthen before the end of the decade and over the early part of the next decade before decline in the final part of the study period. The profitability implied by 2004 freight rates is not expected to be approached within the next decade, although the volatility of rates amid tight market conditions should not be under-estimated – as witnessed over 2003/04.
- A 5-year old Handysize purchase in 2003 is estimated to require approximately US\$8,600/d to cover operating and capital costs – this is expected to rise to almost US\$11,000/d for a vessel purchased by the end of the decade, with corresponding end-period cost levels of approximately \$15,200/d for Panamax vessels and \$19,100/d for Capesizes.

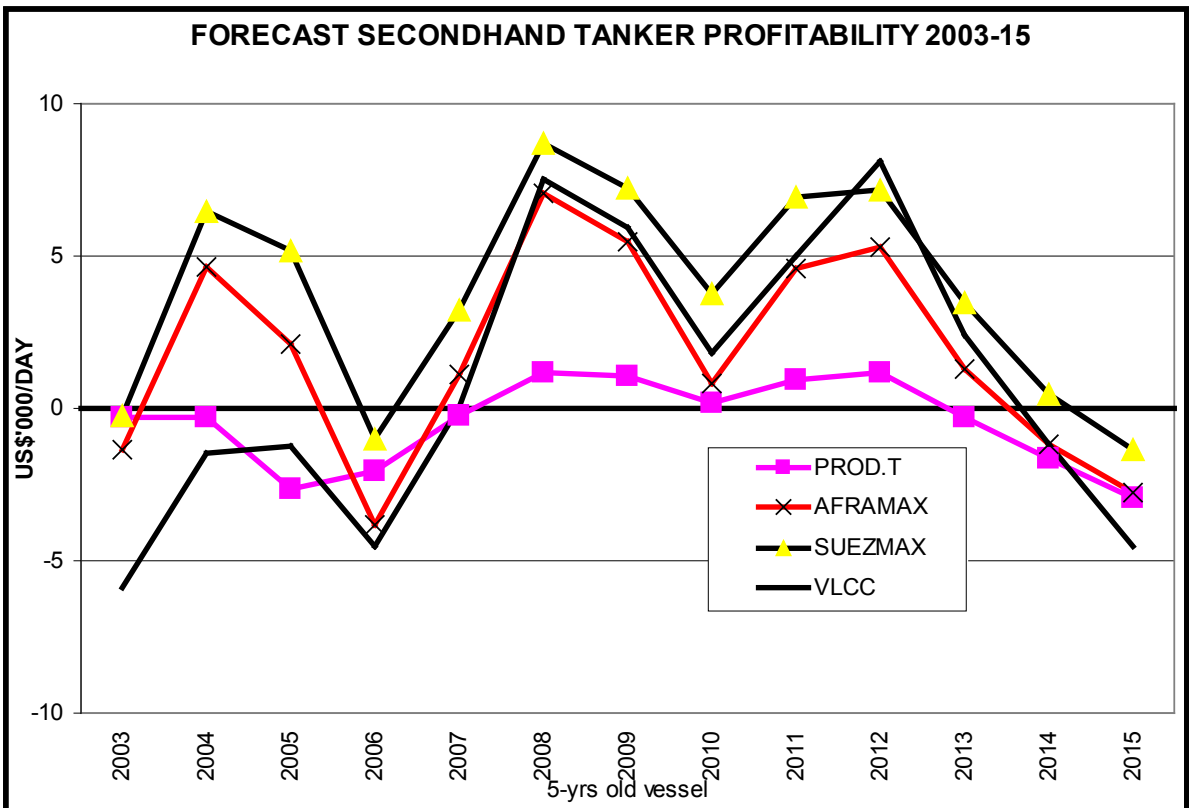
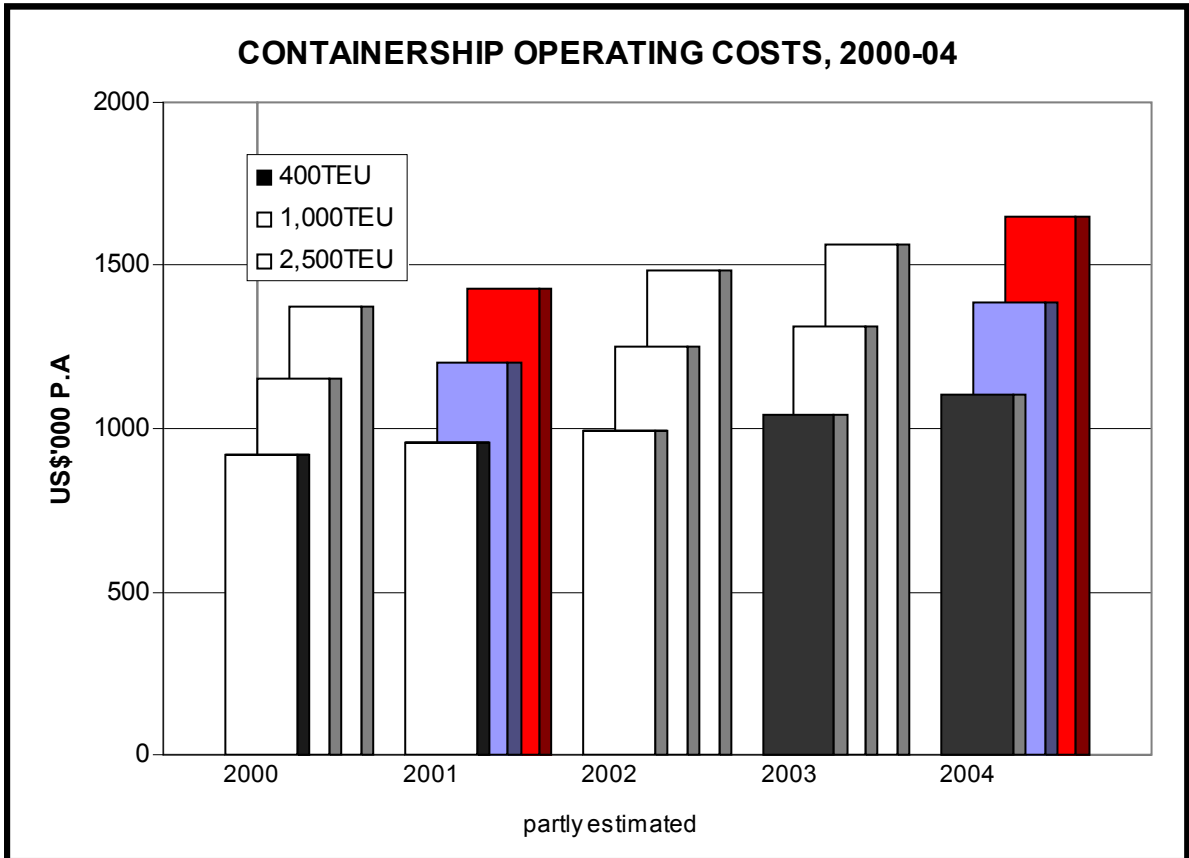
TANKER COSTS & PROFITABILITY

- Estimated typical operating profitability for a product tanker approximates \$8,800/d. The corresponding profitability for larger crude carriers is higher – at around \$15,300/d for an Aframax vessel, rising to almost \$25,000/d for Suezmax tonnage and \$32,000/d for VLCCs. These 2004 profitability levels represent large-scale increases from the 2 previous years, and represents a return to 2000/01 levels.

- A newbuilding VLCC delivery in 2004 is estimated to require approximately US\$32,200/d to cover operating and capital costs – this is expected to rise to over US\$43,000/d for a newbuilding delivery by the end of the decade with some subsequent weakening to around US\$39,000/d before some later expansion.
- For VLCC tonnage the future profitability profile for newbuildings is one of generally improved performance, although this still implies loss-making over the majority of the study period.
- The forward period will see significant fluctuation in implied profitability for secondhand purchases, although the profile is generally positive for much of the next decade – especially after the near-term and up to the early part of the next decade. In the case of VLCCs, profitability is expected to improve over the near-term but not reach positive returns until around 2007/08, with implied profitability peaking at around \$7,500/d, and then peaking again at around \$12,000/d in 2012 after slumping to under \$2,000/d in 2010.

CONTAINERSHIP COSTS & PROFITABILITY

- The operating profitability for a 300teu vessel in 2004 is estimated at \$2,600/d. The level of operating profitability increases in relation to vessel size – at around \$7,600/d for a 1,000teu vessel, rising to over \$19,300/d for the 2,000teu class and \$27,300 for 3500teu vessels. These 2004 profitability levels represent massive increases of almost 200% from the 2 previous years, and, despite profitability decline in earlier years, represent large-scale overall increases on 2000 levels.
- A 1,000teu newbuilding delivery in 2004 is estimated to require approximately US\$9,700/d to cover operating and capital costs – this is expected to rise to over US\$14,100/d for a newbuilding delivery by the end of the decade with some subsequent weakening to around US\$13,000/d before some later expansion.
- For 2,500teu vessels, forward newbuilding profitability is expected to vary around break-even. For the larger vessel class, the sheer scale of recent years' ordering volumes suggests that forward freight rates are likely to be much reduced from 1Q-2004 levels – thereby reducing daily profitability for a newbuilding from the \$15,000/d estimated in 2004 to fluctuate around break-even/small losses after 2006.
- Secondhand vessel profitability is expected to decline over the near-term before rate development funds profitability gains and then decline towards the end of the decade. By 2008 therefore, daily profitability is projected at around \$1,800 for 1,000teu vessels, and \$2,500 and \$6,200 respectively for the larger sizes, with these levels falling to \$300, \$2,300 and \$2,700 respectively by 2010.



MAIN IMPLICATIONS

- The timing of vessel acquisition/sale will remain crucial in determining individual vessel profitability.
 - Shipping has become more of an arena for asset play in recent years, as the significance of traditional shipping companies has continued to diminish - this trend is set continue.
 - One of the key areas for continued examination by shipping companies must be operating costs reductions.
 - Major financial benefit will be associated with well-timed market activity – the probability of shipping companies achieving the latter will be markedly improved through the undertaking of regular appraisals of markets and market prospects.
 - Maintaining the flexibility to take advantage of any emerging opportunities and to act on such market intelligence will remain a key part of shipping market survival and future profitability.
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In 175 pages, the highly detailed and extensive new report contains analysis of all aspects of costs and revenues for a variety of vessel types and sizes, including :-

bulk carriers; tankers; containerships;
LPG carriers; general cargo vessels.

The Report includes detailed forecasts of developments throughout the period to 2015, and is essential reading for all parties with an interest in the future development of shipping costs and revenues.

“SHIPPING PROFITABILITY to 2015: The Outlook for Vessel Costs & Revenues”

Available 9th August 2004.

Price : £850 (UK) or US\$1600 (overseas) – for printed or electronic version.

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