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Singapore Shipping Forum 2017

The Future of Shipping: Game Changers

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The Future of Shipping: Game Changers

The future of shipping will be shaped by the themes of Asian lease financing, innovation, and sustainability, according to Mr. Mick Aw, Senior Partner of Moore Stephens LLP, Singapore.

Mr. Mick Aw, Senior Partner, Moore Stephens LLP, Singapore, pointed to the escalating shipping portfolios of Asian banks to highlight the growing role of Asian banks in shipping.

Speaking at the Singapore Shipping Seminar, jointly organised by Moore Stephens LLP and BNP Paribas, Mr. Aw pointed to the escalating shipping portfolios of Asian banks to highlight the growing role of Asian banks in shipping. According to data from Petrofin Bank Research, the largest Asian portfolios up to November 2015 were held by Bank of China (US$21b), the Export-Import Bank of Korea (US$19b), and Industrial and Commercial Bank of China ("ICBC") (US$18b). In tandem with the development of Asian banks, financial leasing has emerged as a key financing structure. For example, the assets of ICBC Leasing, which is the financial leasing arm of ICBC, have grown from less than US$700 million in 2009 to nearly US$9 billion by June 2016, according to data from Marine Money. Mr. Aw opined that the role of Asian banks and financial leasing in the sector will continue to grow.

Turning to innovation, Mr. Aw noted that this will become increasingly crucial as most sectors of the industry continue to endure a prolonged downturn. Ship owners and operators today have access to an expanding range of innovative tools to manage their businesses, and astute utilisation of these tools can provide competitive advantages to enhance profitability. One such tool is forward freight agreements, or FFAs, which can lock in favourable freight rates. This can be an invaluable tool in a highly volatile industry. Other tools include data analytics and automation, which can lower costs and improve efficiencies.

The effective use of these tools will be even more critical at a time when compliance costs in the industry are rising as a result of higher environmental consciousness. Pointing to the recent ratification of the Ballast Water Management ("BWM") Convention and the agreement to cap sulphur emissions, Mr. Aw noted that these developments will lead to rising costs for the industry.

Mr. Steve Saxon, Expert Partner of Shipping at McKinsey and Company, discuss on macroeconomic drivers of the shipping industry.

Shipping – Quo Vadis?

Over the longer term, two of the most optimistic sectors are the cruise ship industry and Liquefied Natural Gas (LNG) carriers, based on research conducted by McKinsey and Company. This was shared by Mr. Steve Saxon, Expert Partner of Shipping at McKinsey and Company, who came on stage next to discuss macroeconomic drivers of the shipping industry.

Mr. Saxon remained sanguine about the industry in general, highlighting positive trends including continued growth in container trade volume, and increasing trade among developing economies. However, challenges abound, arising from macroeconomic and political trends including protectionism, near-shoring, and orientation towards economies driven by services rather than physical goods among developing and developed countries. Indeed growth is slowing in most shipping sectors, with limited exceptions such as in Agribulk carriers and Liquefied Petroleum Gas carriers. According to Mr. Saxon, the largest threat is still over-building of vessels, as worldwide shipbuilders aggressively seek orders to fill existing shipyard over-capacity. Over-building has led to large-scale industry consolidation through mergers, and in Mr. Saxon's view, this trend will continue.

Thereafter, Mr. Saxon provided an analysis of vessel demand based on predicted long-term commodity trends. Expected continued growth in gas fuel and clean liquid fuel consumption is expected to have positive long-term implications for gas and product carriers. Long-term development in bulk carriers, however, will be challenged by limited growth in bulk commodities. Drawing on in-house research data up to 2020, Mr. Saxon noted that seaborne iron ore demand has peaked in the medium term, while seaborne thermal coal demand is expected to remain flat, and seaborne coking coal demand will only grow modestly, driven by India.

Mr. Mark Jackson, Chief Executive Officer of the Baltic Exchange, will implement a slew of changes to enhance support for its members and the shipping industry in general, that will take place in the coming months.

Future of the Baltic Exchange

The Baltic Exchange will implement a slew of changes to enhance support for its members and the shipping industry in general, that will take place in the coming months, according to Mr. Mark Jackson, Chief Executive Officer of the Baltic Exchange.

Firstly, changes to the distribution policies of Baltic Exchange data will be effected after a six-month engagement period with members and the industry to amend, educate and enforce the new data licences. There will also be a new requirement to appoint a Baltic Exchange panellist as a calculating agent when Baltic data is used for financial settlement of freight contracts.

In addition, the Baltic Exchange is re-looking closely at its indices, and has initiated a program change for its Panamax, Supermax, and Handysize tanker assessments. Plans are also in place to develop new data segments focusing on LNG, the containers segment, and Asia.

Thirdly, the Baltic Exchange will enhance its role as a dispute resolution and disciplinary intermediary, stepping up efforts to help members recover monies from disputes through various mechanisms, including leveraging on P&I Clubs and government contracts. This will also involve the enhancement of the Baltic Code, which governs members, to reflect the changing regulatory climate.

Another development is the proposed establishment of an escrow facility by the Baltic Exchange that can be used by members to support vessel sale and purchase transactions. In due course, it is hoped that the escrow facility can be extended for other purposes including acting as financial security for ship arrests and disputes.

Also in the pipeline are plans to develop an electronic platform that is envisaged to support safe and efficient post-trade contract development, digitisation and management. It is envisaged that this will help to reduce errors, improve auditability, and reduce transaction costs.

Finally, a new Asian Advisory Committee is being set up to advise the Baltic Exchange on all shipping matters in Asia. The Committee will have 12 members including BHP Billiton, BW LPG, Cargill, Cosco Shipping, FIS, Fortescue Metals Group, Howe Robinson Partners, Louis Dreyfus Company, Oldendorff Carriers, ST Shipping & Transport, Thurlestone Shipping, and Zodiac Maritime.

Developments in Shipping Regulations

An improved process to develop regulations for the shipping industry would have done much to reduce difficulties for ship owners brought about by regulations such as the BWM convention, in the view of Mr. Peter Hinchliffe, Secretary-General of the International Chamber of Shipping ("ICS"). Pointing to the historical development of BWM, Mr. Hinchliffe highlighted the myriad pressures and difficulties involved in regulatory development, and concluded that the shipping industry can better protect its interests by providing strong financial and technical support to national shipping associations. At the international level, new proposals need much greater scrutiny at the level of the International Maritime Organisation (IMO), including impact assessments, cost benefit analyses and cross-checks with existing regulations. In this respect, ICS has kick-started progress by making joint submissions with the International Association of Classification Societies ("IACS") to the IMO Council. Finally, noting that BWM has been left unratified for 13 years, Mr. Hinchliffe suggested that Conventions which remain unratified for long periods should be abandoned and redeliberated, as the long ratification period is likely to be indicative of underlying issues.

Mr. Peter Hinchliffe, Secretary-General of the International Chamber of Shipping ("ICS"), highlighted the myriad pressures and difficulties involved in regulatory development.

Shipping finance panel, led by (leftmost) Mr. Logan Chong, Managing Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. Other panel members included, (from left to right) Mr. Jack Xu (Head of Shipping, CMB Financial Leasing), Ms. Stacy Zhang (Senior Manager, Shipping Finance, ICBC Financial Leasing) and Mr. Jerry Yang (Head of Shipping, Minsheng Financial Leasing).

Shipping Finance: West to East

Chinese financial lessors have been rapidly expanding their shipping portfolios, and will continue to do so, with increasing partnership from traditional financiers. However, they will become more discriminating in the selection of financing targets.

That was the conclusion of a panel, led by Mr. Logan Chong, Managing Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. The panel comprised of representatives from the major Chinese financial leasing companies including Mr. Jack Xu (Head of Shipping, CMB Financial Leasing), Mr. Jerry Yang (Head of Shipping, Minsheng Financial Leasing), and Ms. Stacy Zhang (Senior Manager, Shipping Finance, ICBC Financial Leasing).

Noting the rise of Chinese lease financing in the shipping industry over the past 8 years, Ms. Zhang opined that this can be attributed to the rise of the Chinese economy, which has driven Chinese banks to seek overseas expansion. Shipping assets were an ideal investment for the financial leasing subsidiaries of these banks to enhance their asset base, especially since the growth of these leasing companies coincided with the withdrawal of certain Western banks from the industry. Mr. Yang and Mr. Xu both noted that the ability of Chinese lessors to provide higher leverage ratios and greater financial flexibility, as compared to traditional financiers, contributed further to their growth.

Despite the exit of certain Western banks, Mr. Chong observed that there are still many banks providing financing for the industry, including BNP Paribas. In fact, more banks are approaching Chinese lessors for partnership to meet the needs of ship owners, according to Mr. Xu. In selecting the right banking partner, the bank's ability to provide funds at a competitive cost and strong industry expertise will be critical for the leasing company, in the view of Ms. Zhang.

Going forward, panellists generally concurred that there will be increasing focus on credit risk management. Mr. Yang noted that financing targets sought after are not necessarily large corporates, but rather, businesses with strong models and long-term sustainability, particularly in light of the over-building issues previously highlighted. Mr. Yang also cautioned against unrealistic financing expectations by ship owners. The panel highlighted that poorly-funded ship owners will find it increasingly difficult to obtain financing.

Closing panel and polls

The seminar ended with a participant poll which was conducted simultaneously with a closing panel led by Mr. Julian Bray, editor-in-chief of Tradewinds. The panel comprised of Mr. Chong and Mr. Saxon, together with Mr. Carl Ackerley, Director of Grindrod Shipping, Mr. John D'Ancona, Divisional Director of Dry Bulk Analysts at Clarksons Platou Asia, and Mr. Matthew Forrest, Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. The poll was conducted using polling devices supplied by Complete Corporate Services.

Singapore Shipping Forum 2017

The Future of Shipping: Game Changers

Based on the poll results:

1. Most participants (39%) will not invest in the traditional shipping sectors (bulkers, containers, tankers, and offshore). Of those which will invest, the majority opted for bulkers (33%). Commenting on the results, Mr. D'Ancona observed that prior year bulk carrier prices have been over-suppressed, and are returning to normal levels in the current year, which has created significant returns for astute buyers. Mr. D'Ancona opined that dry bulk owners will achieve lower but reasonable return levels going forward, but Mr. Ackerley cautioned that this will depend on continued industry discipline against over-building of vessels.

2. Sulphur emission (34%) and BWM (34%) regulations will have most impact on shipping operating and capital expenditures. This is closely followed by carbon emissions (30%). Commenting on the results, Mr. Ackerley opined that sulphur emissions could be most challenging, although those regulations only take effect in 2020. Challenges include finding scrubber systems that are small enough to be retrofitted on ships, scrubber reliability, as well as uncertain cost of low-sulphur bunker fuel considering that demand for such fuel will escalate when the regulations take effect. An added consideration is that the ability of vessels to comply with regulations can affect the procurement of financing for those vessels, in the view of Mr. Chong.

Mr. Julian Bray, editor-in-chief of Tradewinds, led the closing panel.

3. Trade wars (48%) constitute the key geopolitical risk for shipping. Commenting on the results, Mr. D'Ancona observed that the impact of trade wars can vary greatly. In some cases, trade wars benefitted shipping when they resulted in countries needing to procure commodities from more distant destinations.

4. Supply (44%) is the major challenge facing the shipping industry.

5. Leasing (36%) is expected to be the major source of funding going forward, followed by bank loans (26%). Commenting on the results, Mr. Forrest pointed out that although certain banks have exited, many banks still lend to the industry. Banks are also lending to financial leasing companies to support their ship leasing activities. On this basis, Mr. Forrest remained optimistic that traditional financiers will continue to be very active in shipping.

6. Most participants are either optimistic (29%) or very optimistic (43%) that Singapore will remain as a global maritime and financial centre. Commenting on the results, panellists generally shared the optimism over the Singapore maritime sector, but also cautioned that there are challenges, including rising labour costs and growth of regional maritime competition.

Thereafter, tokens of appreciation were awarded to speakers, panellists and sponsors, and the seminar concluded amidst a lively networking session.

The four-hour Singapore Shipping Seminar was jointly organised by Moore Stephens LLP and BNP Paribas at Marina Bay Sands, on 27 April 2017, in conjunction with the Singapore Maritime Week that is driven by the Maritime and Port Authority of Singapore. It was well-attended by over 250 delegates from shipping corporations and financiers from around the world, as well as key maritime legal and governmental associations.

(From left to right) Mr. John D'Ancona, Divisional Director of Dry Bulk Analysts at Clarksons Platou Asia, Mr. Logan Chong, BNP Paribas, Mr. Carl Ackerley, Grindrod Shipping, Mr. Steve Saxon, McKinsey and Company and Mr. Julian Bray, editor-in-chief of Tradewinds.

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(From left to right) Mr. Chris Johnson, Moore Stephens LLP, Singapore, Mr. Terrence Tan, BNP Paribas, Mr. John D'Ancona, Clarksons Platou Asia, Mr. Logan Chong, BNP Paribas, Mr. Mick Aw, Moore Stephens LLP, Singapore, Mr. Carl Ackerley, Grindrod Shipping, Mr. Steve Saxon, McKinsey and Company, Mr. Matthew Forrest, BNP Paribas and Mr. Julian Bray, Tradewinds, wrapping up the session with a group photo of the speakers and panelists of Singapore Shipping Forum 2017.


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(From left to right) Ms. Cheryl Yeo, BNP Paribas, Ms. Sue Xu, BNP Paribas, and Mr. Marcel Ivison, Macquarie Group.


(From left to right) Mr. David Chin, Singapore Maritime Foundation and Mr. Arnold Wu, BNP Paribas.


The forum ends with a networking session.


(From left to right) Mr. Terrence Tan, BNP Paribas, Ms. Katie Men, iSEACO Investment Pte. Ltd, and Mr. Peter Lam, Bank of America Merrill Lynch.

Press Report - Platts

Consolidation in containers could augur more sustainable freight rates: expert

Consolidation in the container sector has sped up scrapping in the less popular classes and, after near record low freight rates last year, future rates could become more sustainable, a senior partner at Moore Stephens, an international accountant and shipping adviser, said Thursday.

Mick Aw, speaking at the Moore Stephens-BNP Paribas: Singapore Shipping Forum, said consolidation in containers could well set the theme across other asset classes.

“Developments in data analytics, predictive analytics, and rapid automation, will all help transform and disrupt the industry but it is all for the better,” Aw said. “Perhaps the darkest days are past and we await better days. Meantime, my money is on cruise ships.”

As for bulkers, Aw said there was general cautious optimism having gone from a record low 290 points on February 10, 2016, on the Baltic Dry Index to 1,154 Wednesday.

However, according to the Baltic and International Maritime Council, fleet growth in the first quarter of 2017 stood at 2.6%, due to reduced scrapping.
“Such growth will dampen rates again,” Aw said.

There was similar optimism for tankers, but an oversupply could again dissipate any bright spots.

“In shipping, sometimes we are our own worst enemies. Easy money has been increasing supply and this will slow down recovery,” he said.

“Assuming a new normal of oil price between $60-$80/b, we may need another 4-5 years of rewinding before new investments will be warranted and a new equilibrium is reached.

Esther Ng, 27th April 2017 16:02 GMT

Press Report - TradeWinds

TradeWinds
28 April 2017

FINANCE

Chinese banks show prowess as game-changers in ship finance

Panellists discuss the sector's shift from West to East and how Chinese banks want a piece of the 'whole supply chain'

Irene Ang
Singapore

ON-STAGE OFFERINGS: Moore Stephens senior partner Mick Aw (above) and ICBC Financial Leasing senior financing manager Stacy Zhang (right)

Photo: Spencer Tan

"The Future of Shipping: Game Changers" was the theme widely explored during the annual Singapore Shipping Forum — an event hosted by Moore Stephens and organised in conjunction with co-sponsor BNP Paribas.

Running in its 8th edition, the forum focused attention on the shift in ship financing from West to East.

Mick Aw, a senior partner at Moore Stephens, highlighted that ship finance has become more difficult in recent years as the shipping downturn continues and traditional financiers and banks increasingly decide to exit the industry.

On the other side of the coin, Asian banks have expanded their shipping portfolios. Three Chinese banks that have made notable expansion in shipping assets are Bank of China (BOC), ICBC Financial Leasing and China Development Bank (CDB).

BOC's shipping assets have grown from $13bn to $21bn between 2010 and 2015, while ICBC's more than tripled from $5bn to $18bn. CDB's grew from less than $2bn to $11bn.

During a panel discussion, Stacy Zhang, ICBC Financial Leasing's senior financing manager, said her company entered ship leasing activity 10 years ago and had since built up a sizeable portfolio.

"It was a good and unique time to enter the ship-leasing sector as Western banks were cutting down their activities," Zhang said.

"It gave ICBC the opportunity to work with shipowners. We are aware of the risks involved in this business and are trying to balance it."

Chinese banks and leasing companies have been active in funding conventional commercial vessels such as bulkers and containerships.

But it appears they are ready to go beyond that.

Jerry Yang of Minsheng Financial Leasing said his firm had interests in the upstream and offshore segments, adding that it wanted to be involved in the "whole supply chain".

With the shipping industry still in turbulent waters, McKinsey & Company executive partner Steve Saxon said growth was slowing down in most shipping sub-sectors.

Saxon added that he thought seaborne iron ore demand would peak in the medium-term while seaborne thermal coal would remain flat into 2021.

"Given the demand outlook and supply overhang, we are cautiously optimistic for certain vessel segments if no extra capacity is ordered," Saxon said.

He viewed the LNG and cruise sectors as good areas with high single-digit growth, while he classed dry bulk and crude businesses to be "bad with no growth to decline".

During the real-time polling and live interaction exercise, a majority of attendees (39%) believed that there should not be any investments made on assets even though there was optimism about market recovery. However, 33% thought bulkers would be the best place to park their money, followed by tankers with 14% of the vote.

Press Report - IHS

Consolidation to continue in container sector, says McKinsey

Xiaolin Zeng, east Asia correspondent | 28 April 2017

Further consolidation in container shipping needs to continue as a step towards recovery. Credit: Dietmar Hasenpusch

Consolidation is expected to continue in the container shipping industry, an industry conference in Singapore heard on Thursday, 27 April.

Speaking at Moore Stephens' Singapore Shipping Forum, McKinsey & Co's head of shipping, Steve Saxon said, "There has been an absolute flurry of container mergers over the last two to three years. Eight of the top 20 container shipping lines have of three years ago no longer exist."

CMA CGM acquired APL last year while Japan's Big Three lines – Mitsui OSK Lines, NYK Line, and 'K' Line – will merge their container operations in 2018. A merger between Hapag-

Press Report - IHS (cont.)

Lloyd and United Arab Shipping Company is pending while Maersk recently acquired Hamburg Sud.

Years ago, Hapag-Lloyd had acquired Chilean carriers, CSAV and CCNI.

Hanjin Shipping, once South Korea’s largest shipping line, was declared bankrupt on 17 February after succumbing to massive debt.

The wave of consolidation has made the industry more concentrated and Saxon noted that the top five container lines now have a combined market share of more than 60%.

Of this market share, Saxon said, “This is double of what they controlled 20 years ago. Large container lines do make more money too. There are real economies of scale in this business, from the network effect from being able to connect cargoes around the world. There are also significant synergies in container mergers. We don’t, however, believe that the recent consolidation is going to be enough. If you look at the share, it is still not sufficiently concentrated and the industry is likely to continue to see significant overcapacity because of the orderbook. Strong profitability is going to remain elusive.

“We are working with several container lines and there is a need for an industry-wide strategy. You need to prepare for the next wave of consolidation.”

Alphaliner statistics show that the five largest mainline operators, Maersk Line, Mediterranean Shipping Company, CMA CGM, Evergreen, and COSCO China Shipping, now have a total fleet of 11.2 million teu.

Container trade growth remains healthy, at 3% per annum. Trade is expected to reach 188 million teu in 2017, up from 182 million teu in 2016.

Moore Stephens LLP Singapore

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