

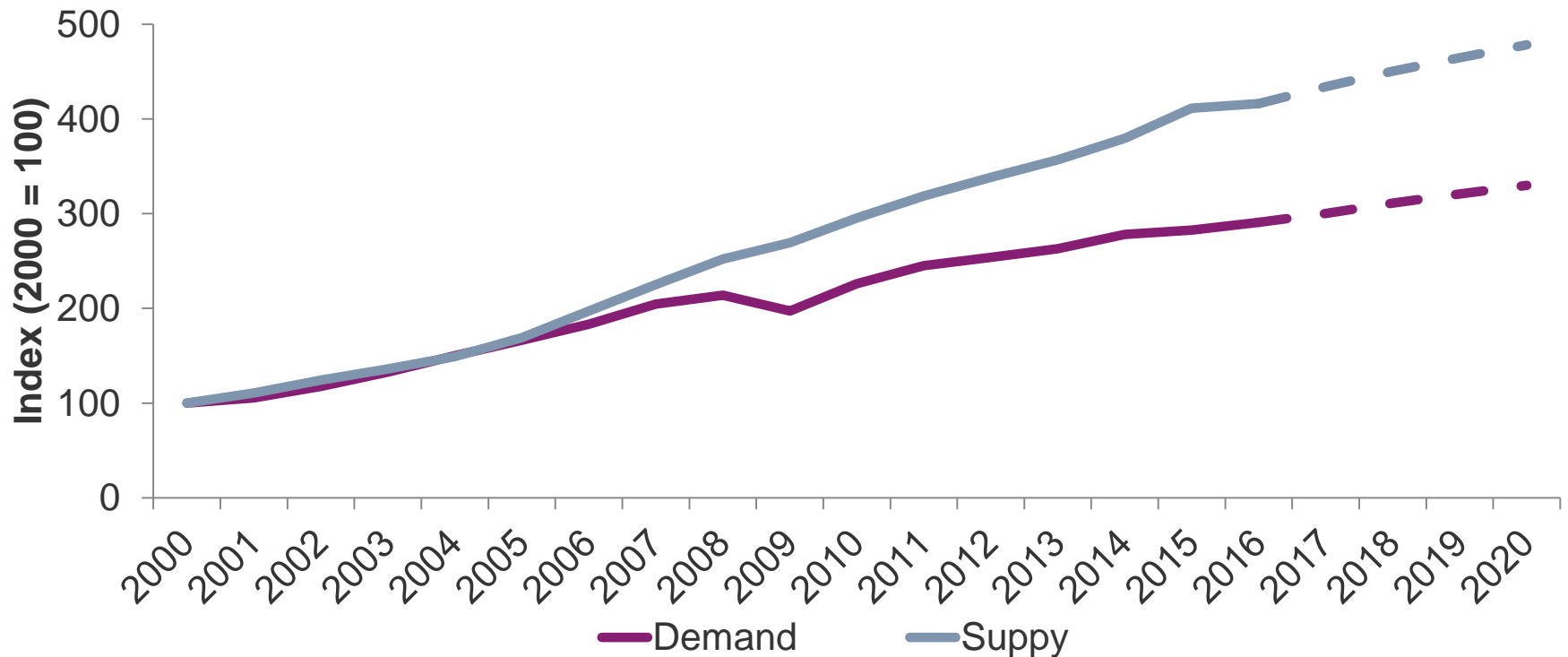
Container shipping industry trends and the impacts on ports and terminals in the Baltic region

28th September 2017

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Since 2008 the Global Containers Shipping Market has seen a significant gap between demand and supply growth

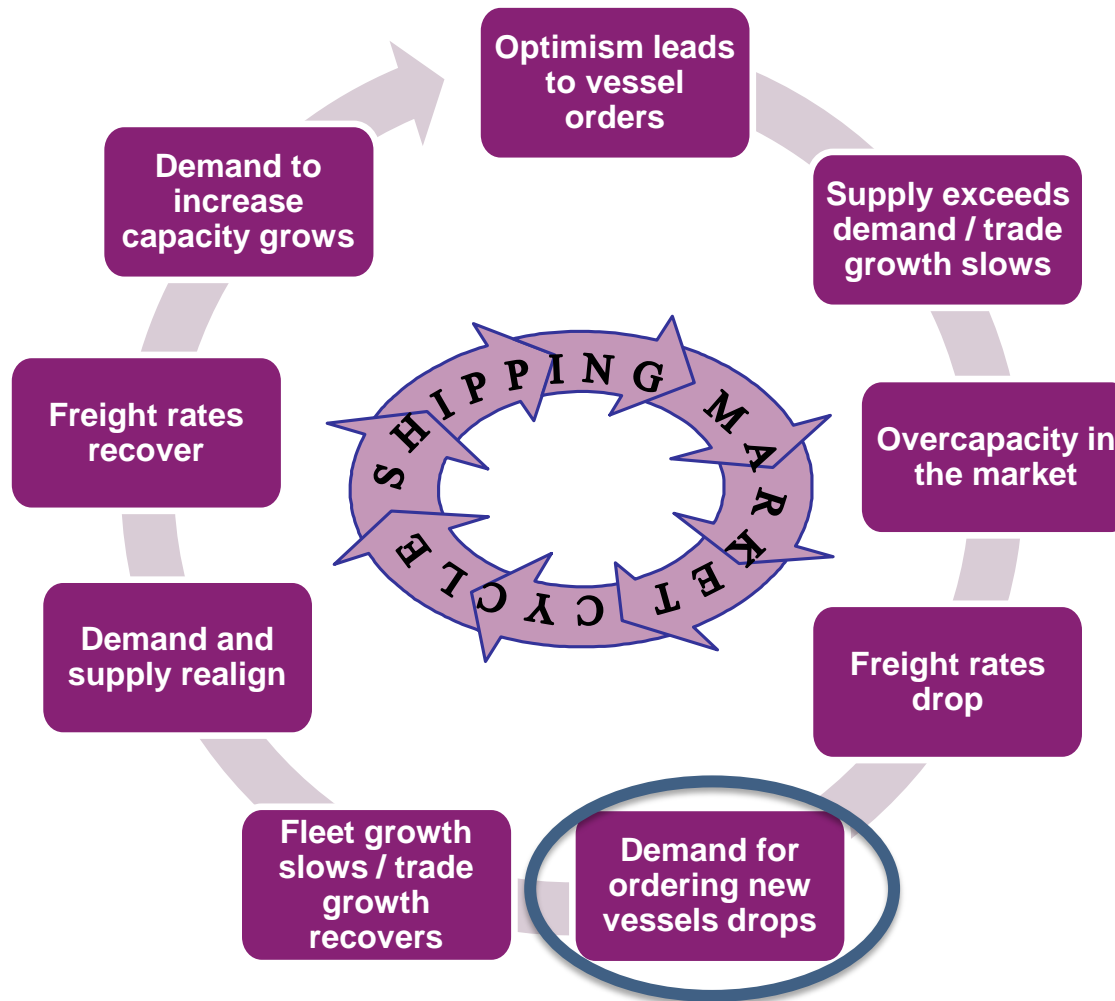


	2000-2008	2010-2016	2015-2016
Demand Growth	+10%	+4%	+3%
Supply Growth	+12%	+6%	+1%

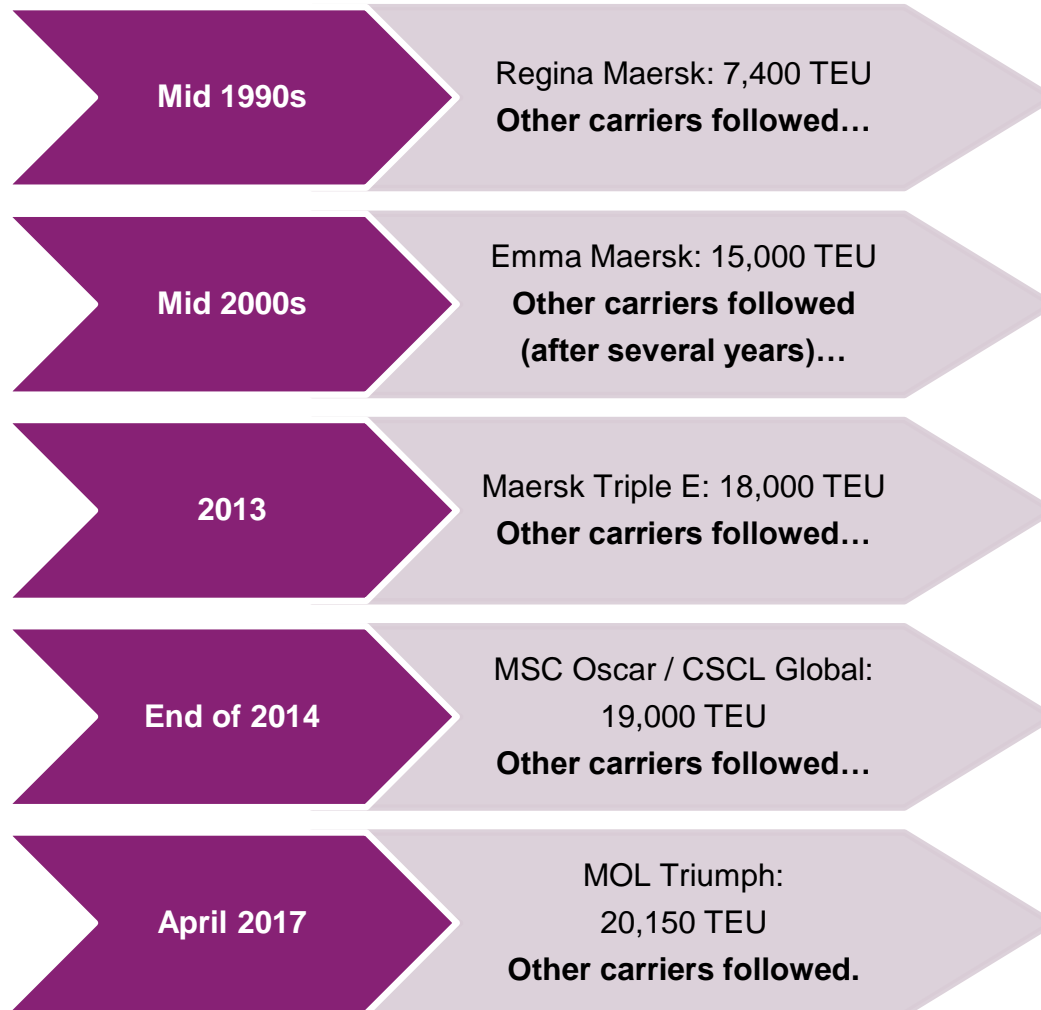
There are six factors in Liner Shipping that lead the Industry to focus on minimising costs.

Factor	Effect	Comments
Economies of scale	Structural overcapacity	Lines always build bigger vessels to exploit economies of scale. This leads to continual overcapacity
Perishability	Push for short-run contribution – rate erosion	Unused capacity cannot be stored. Lines cut rates in order to boost utilisation
High operational gearing	Push for short-run contribution – rate erosion	Lines' networks represent a high fixed cost burden. The logical response is to maximise utilisation
Commoditised service offering	Limited differentiation of product; price competition	Price is the principal competitive weapon
Fragmented industry	No coordination of capacity development, intense competition	Too many carriers and no dominant carriers to establish market stability
Inelastic demand curve	Falling rates have a limited effect on demand	Seafreight is a negligible element in the landed cost of manufactured goods and makes no difference to end market demand

The Container Shipping Industry follows a cyclical trend that impacts the financial health of the industry.



Since 2009 Lines have been quick to respond to when one of its competitors launches ever larger ships.



Lines are also consolidating into fewer, larger alliances, and through M&A activity.

Current – Until Q2 2017

2M



Ocean 3



G6



CHYKE



Future – From Q2 2017

2M



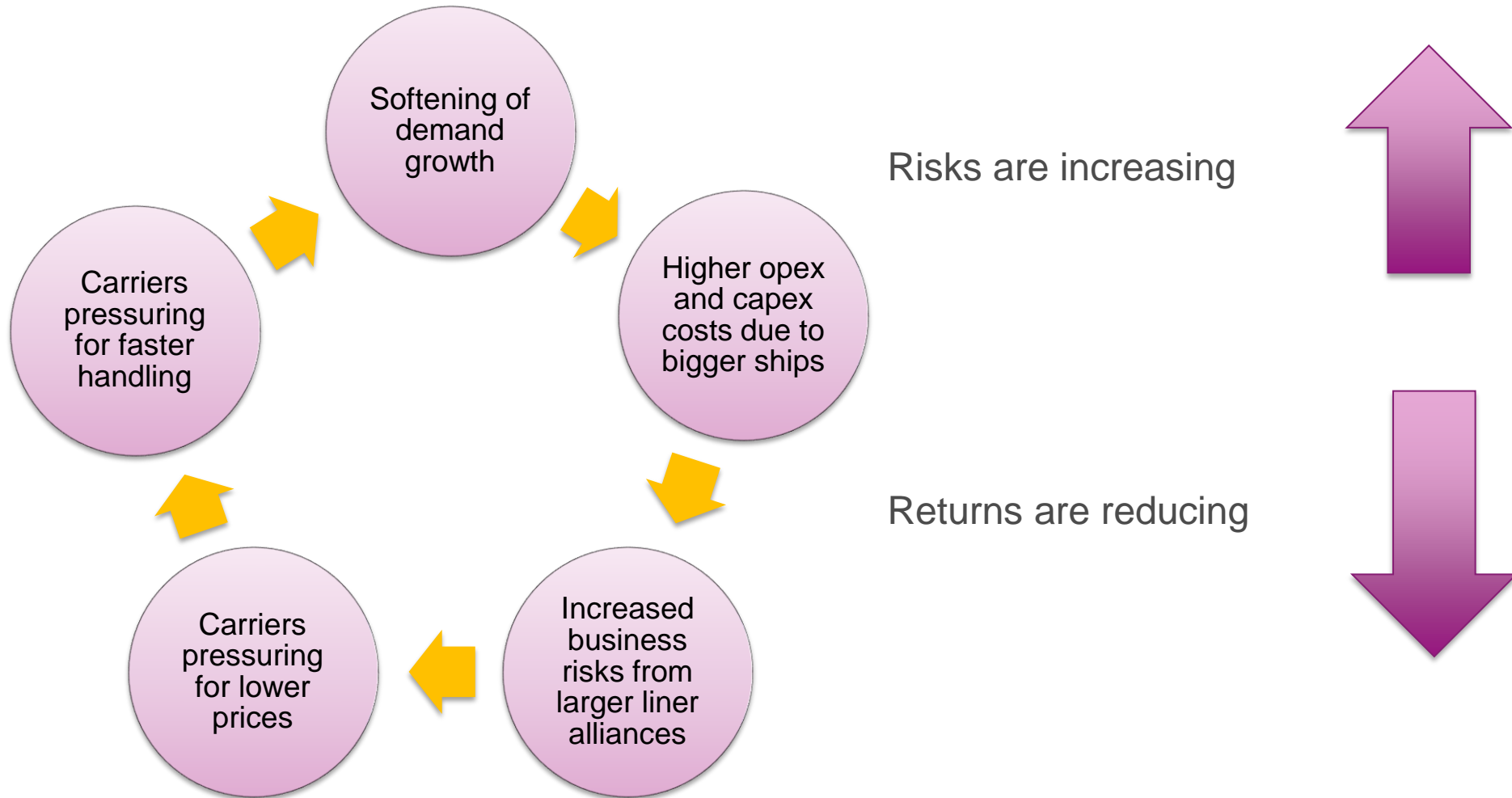
Ocean



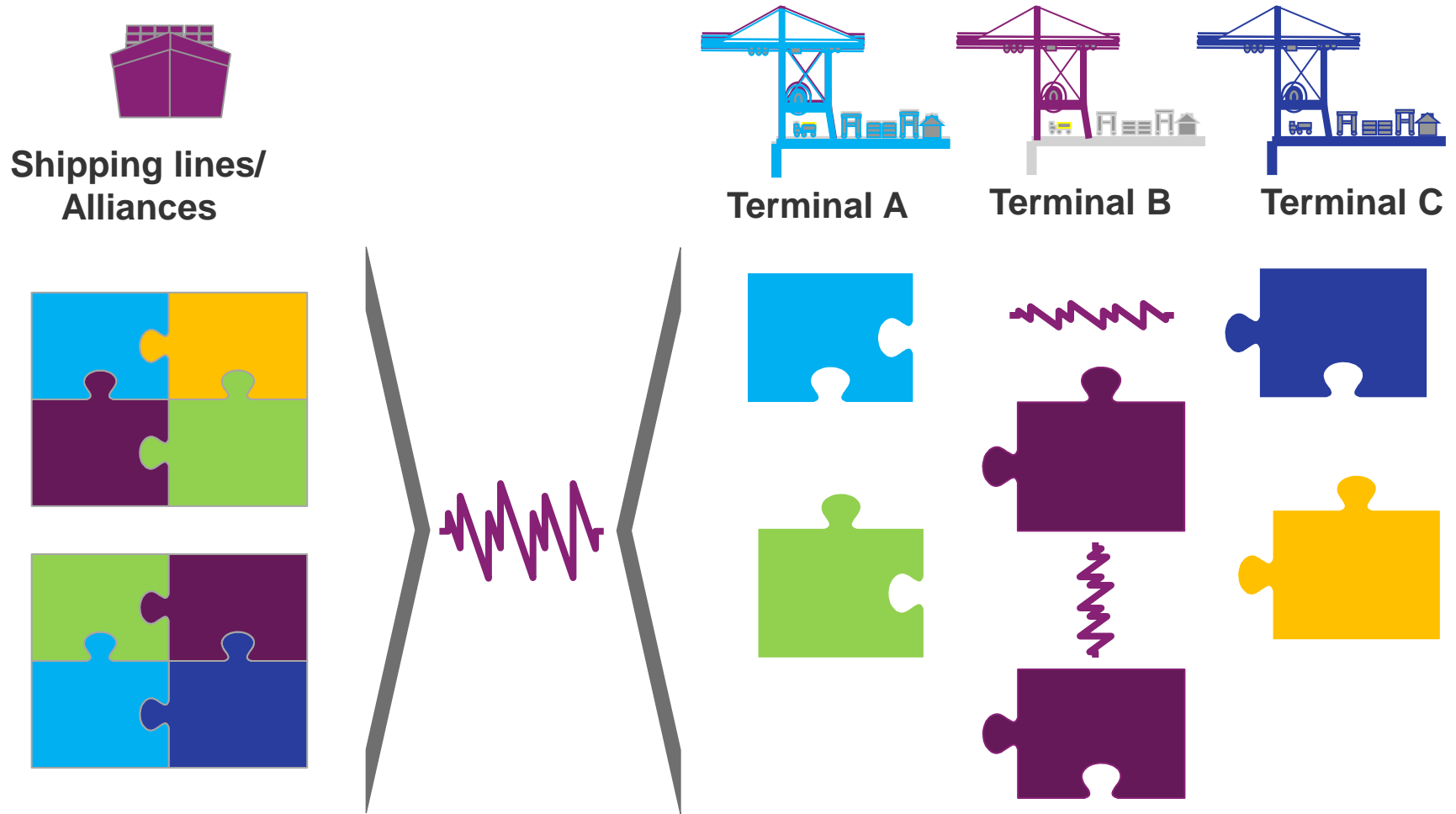
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Container Terminal operators are also experiencing changes that are impacting business returns and risks.



Challenges In The Market: Terminal Fragmentation



Challenges In The Market: Cascading

	2011	2013	2015	2017
Asia-North Europe	16,000	16,000	19,000	21,000
Asia-Med	14,000	14,000	16,000	16,000
Transpacific	10,000	13,000	14,000	14,000
Transatlantic	7,000	8,000	9,000	9,000
Asia-South America	9,000	10,000	11,000	13,000
Asia-W Africa	4,000	4,000	8,000	13,000

Causes

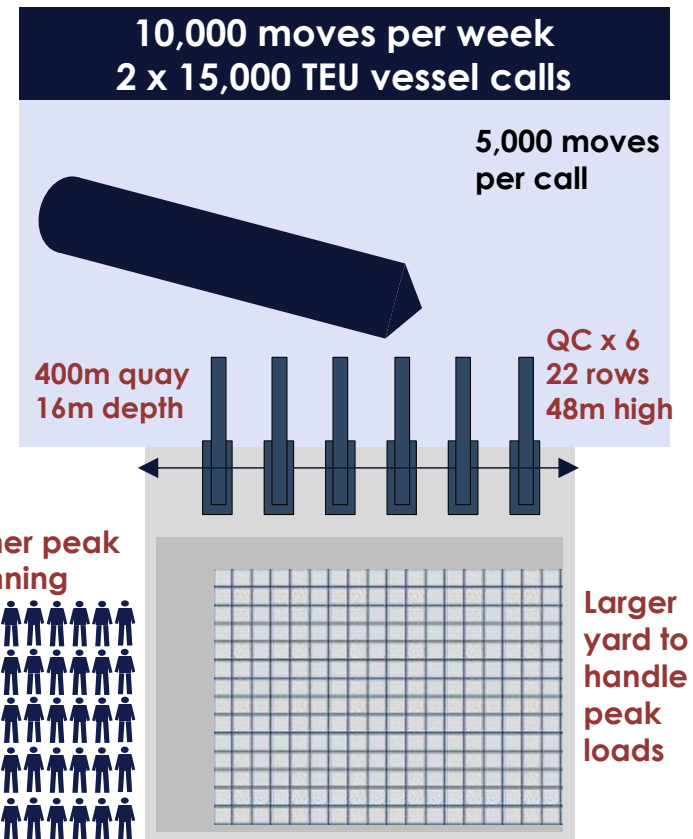
- Economies of Scale
- New deliveries of ULCVs
- Volume increase in few smaller trades

Effects

- Carrier consolidation
- Service withdrawal
- Increase in hub and spoke system
- Decline in new orders and chartering activities
- Low productivity at ports because of Infrastructural constraints

Challenges In The Market: Increased Costs and Terminal Obsolescence

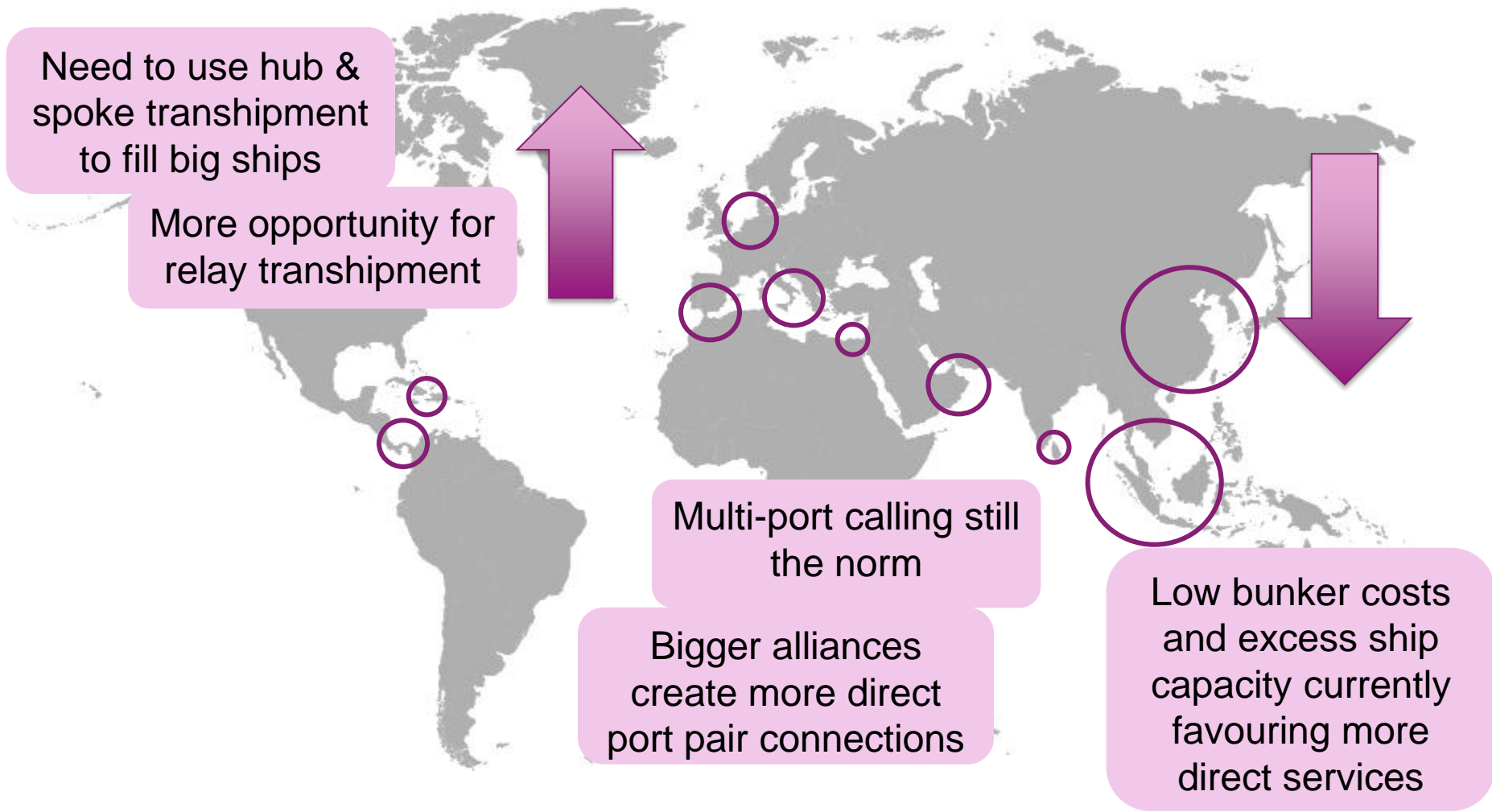
- Larger (and more) cranes.
- Longer and deeper berths.
- Deeper approach channels.
- Greater air draft.
- Higher crane and berth productivity.
- Larger or more densely stacked yard.
- Enhanced inland transport links.



More rapid obsolescence of existing terminal capacity

Why are the risks increasing?

Bigger ships and alliances = more (or less) transshipment?

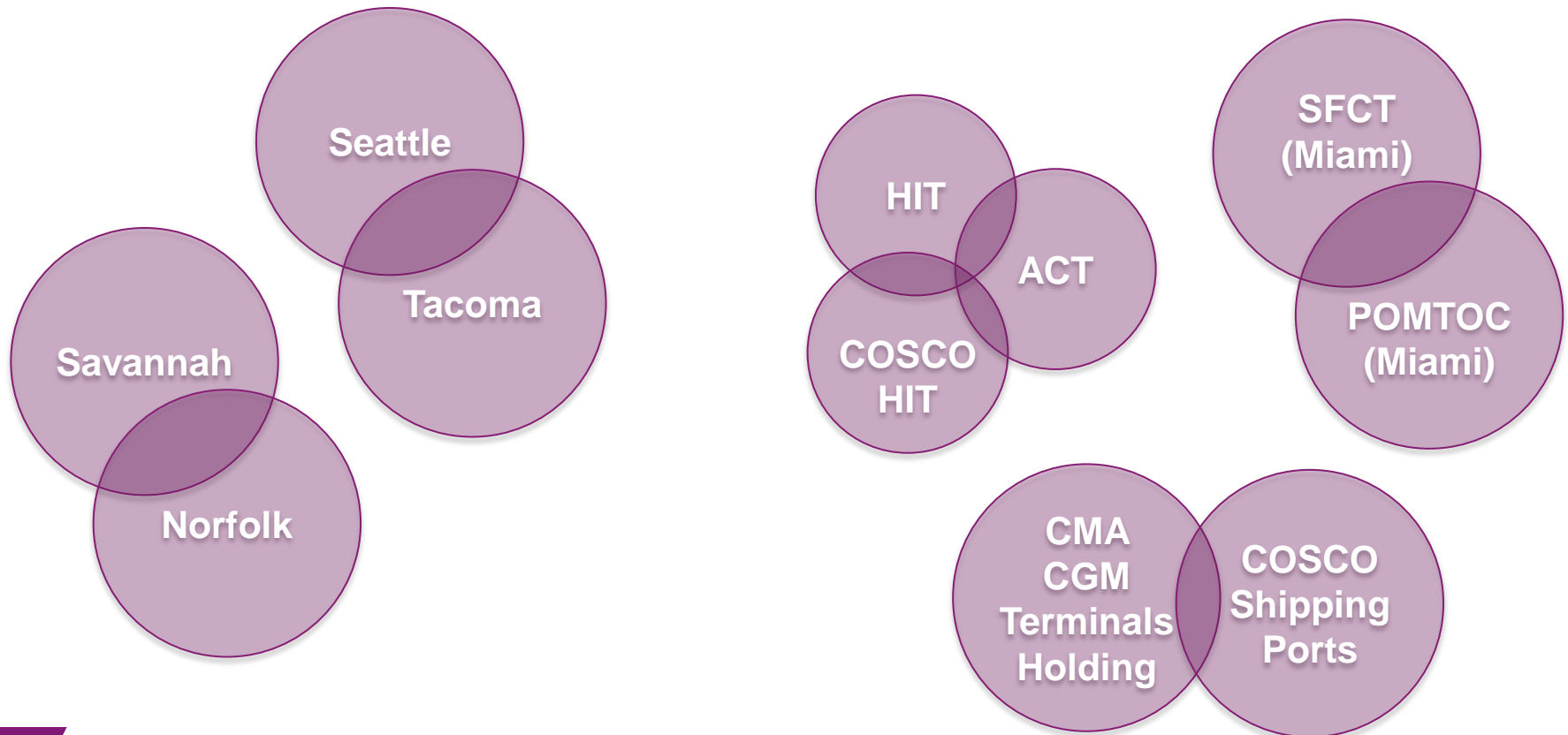


Opportunities: Liner 'Paradise' On The Horizon?

Factor	Effect	Change?	Comment
Economies of scale	Structural overcapacity	Economies of scale run out	Capacity will match demand not to chase economies of scale.
Perishability	Push for short-run contribution – rate erosion	No	Unchanged
High operational gearing	Push for short-run contribution – rate erosion	No	Unchanged
Commoditised service offering	Limited differentiation of product; price competition	Unlikely	Unchanged
Fragmented industry	No coordination of capacity development, intense competition	Industry consolidation	Fewer, larger carriers are able to match capacity to demand.
Inelastic demand curve	Falling rates have a limited effect on demand	No	Rising rates have a limited effect on demand.

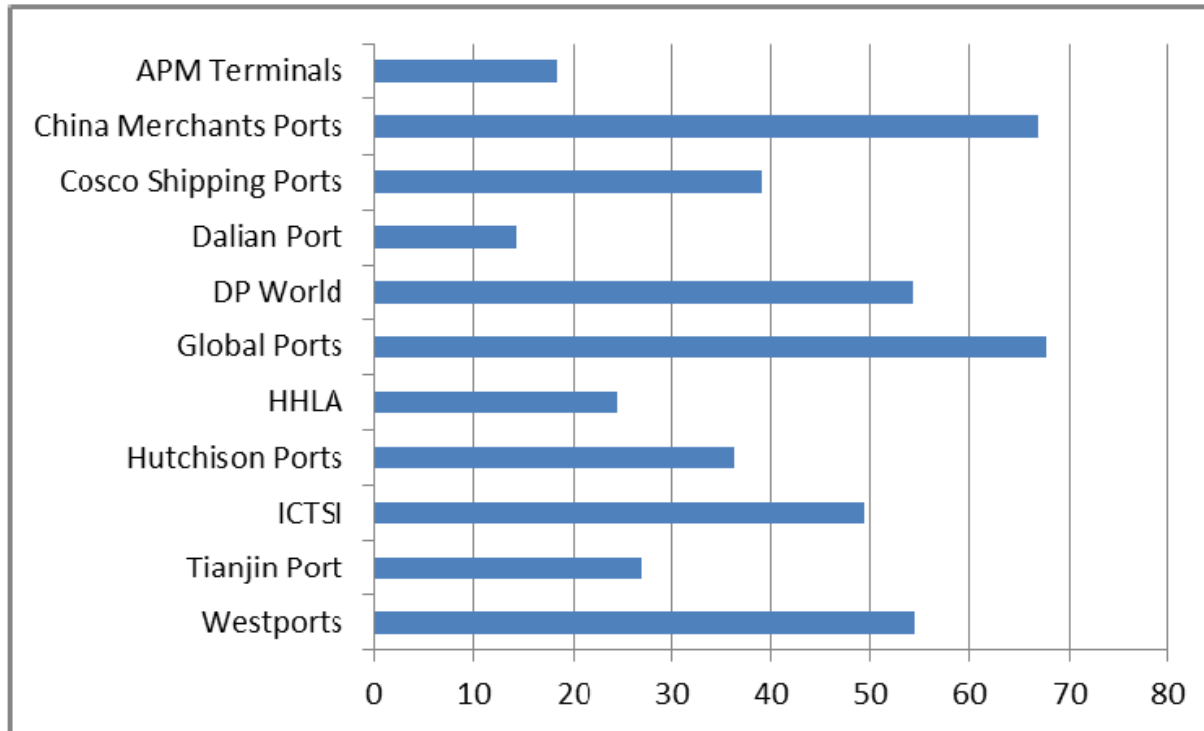
Opportunities: Consolidation by Terminal Operators

- Port Authorities: Coordinate investment, hinterland access and vessel calls.
- Terminal Operators: Exploit synergies, share resources, increase bargaining power.



Despite the Challenges in the Market Container Terminals are still continuing to make a profit.

Example EBITDA percentage margins of port and terminal companies, 2016-17



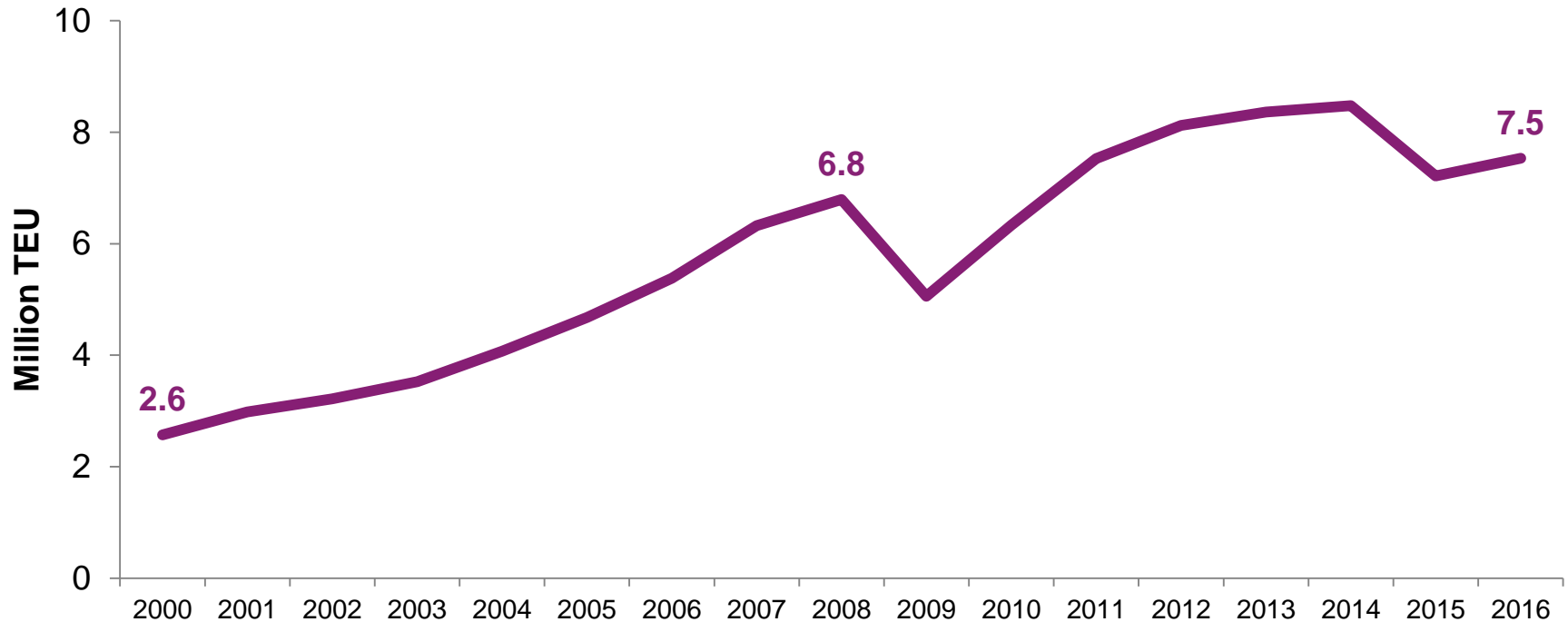
Note: EBITDA %age margins must be viewed in the context of risk levels and nature of operations

Current Characteristics For The Baltic Market

- Small And Fragmented Market In Europe
- Reliance On Feeder Services Connecting To A Major Hub In North Europe
- Three Ports Receive Direct Calls On Major East-West / North-South Trade Routes
- Several Ports Are Looking To Expand Container Terminal Capacity In The Next Few Years

Regional volume growth has been following the global trend, albeit there was a downturn in volumes in 2015.

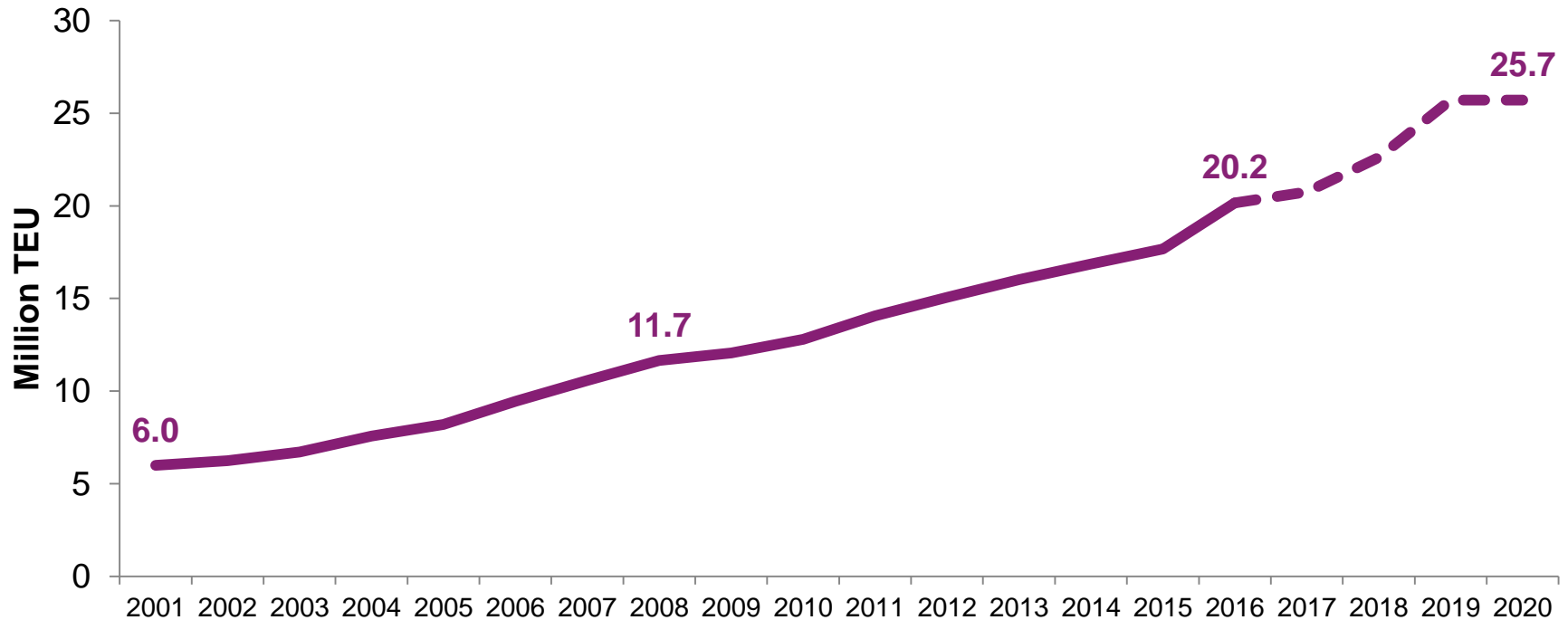
Baltic Region Volume Growth*



CAGR Volume Growth	2000-2008	2010-2016
Baltic Region	+13%	+3%
World	+10%	+4%

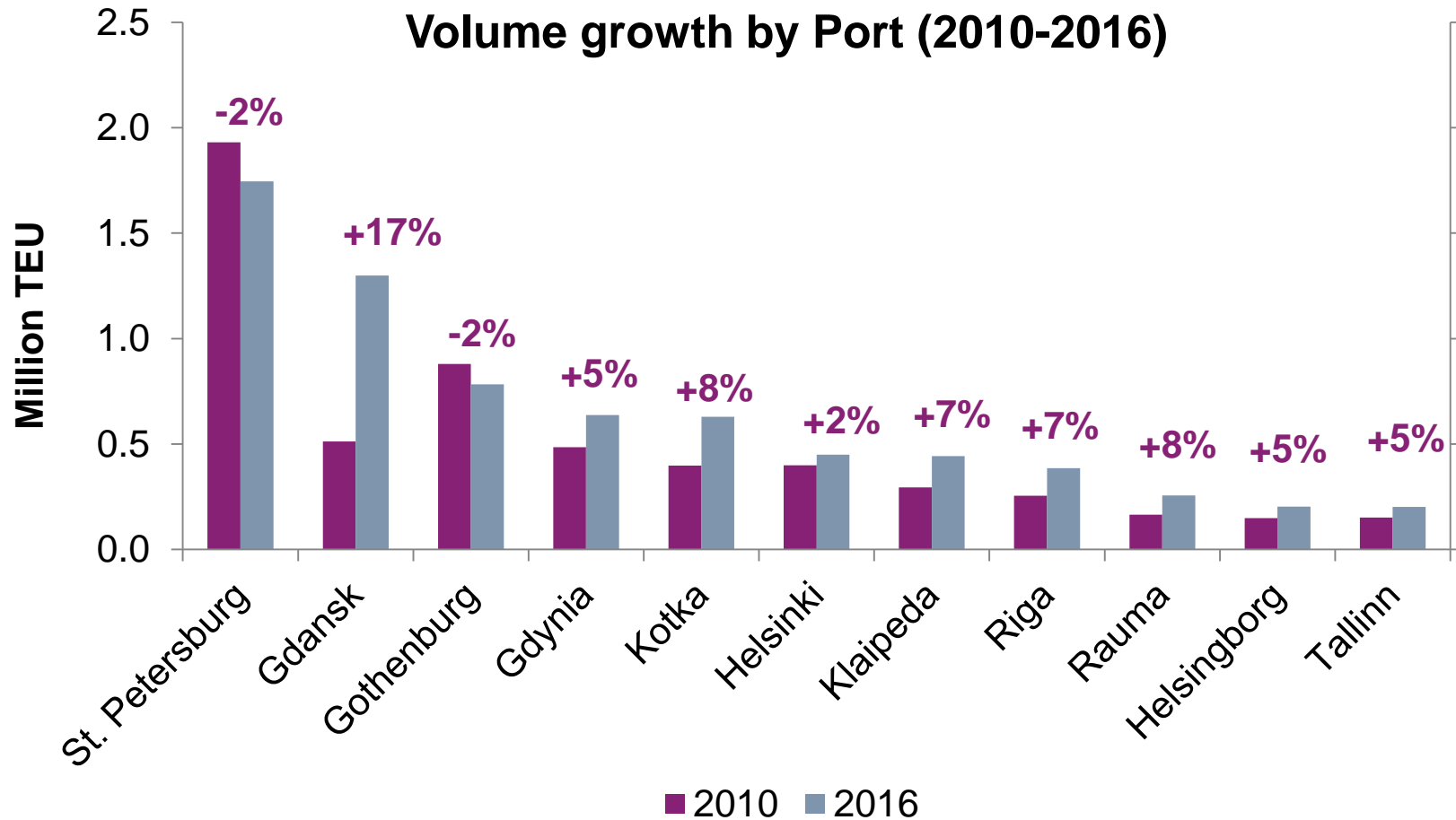
Capacity of container terminals has grown steadily since 2001 and is expected to continue doing so through to 2020.

Baltic Region Capacity Growth*

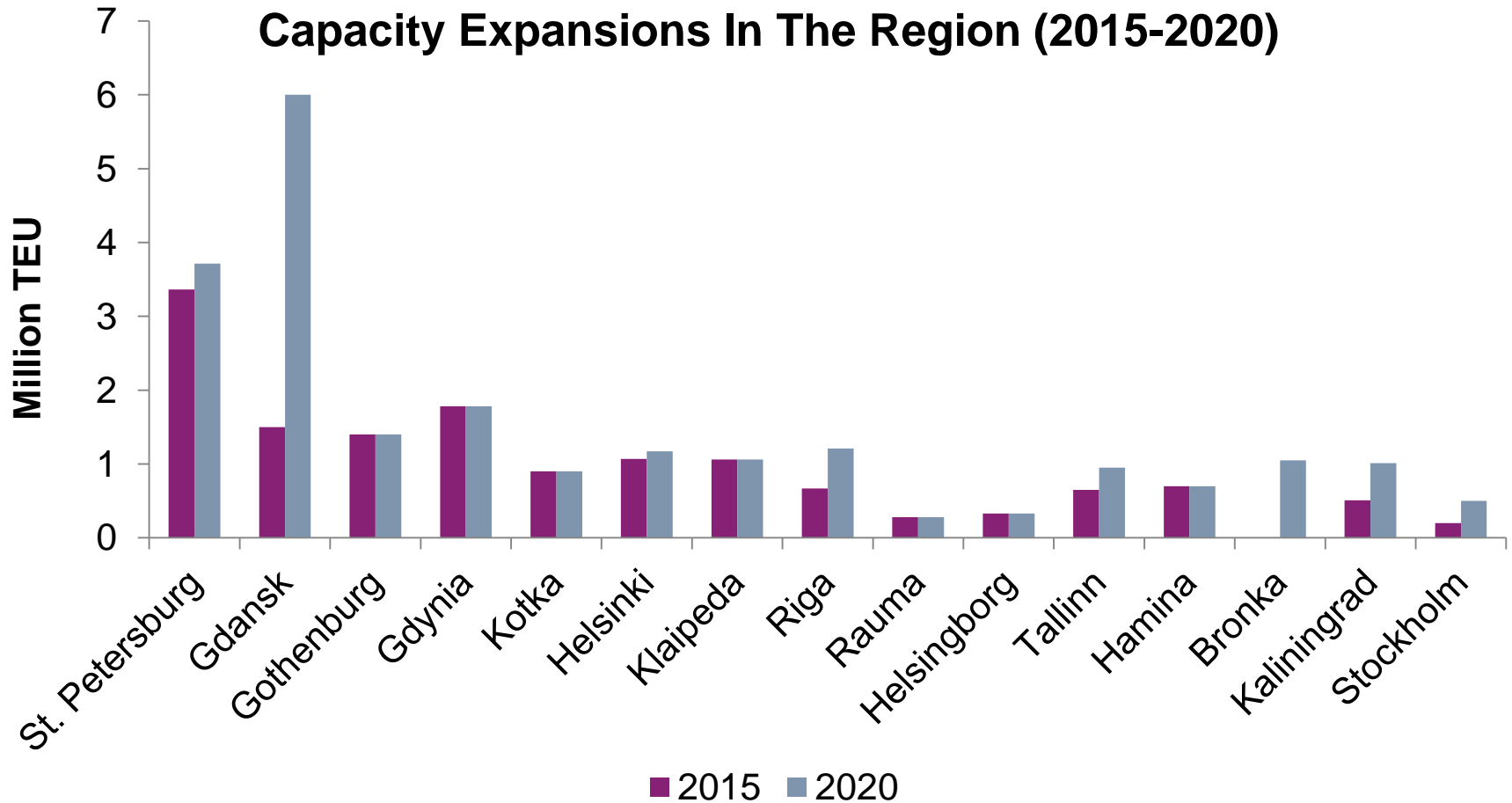


CAGR Volume Growth	2001-2008	2010-2016	2016-2020
Baltic Region	+9%	+8%	+6%
World	+10%	+4%	+3%

Of the top ten ports by volume, two of the largest three has seen volumes decline, with Gdansk seeing high growth.



The largest expansion plan to 2020 is at Gdansk (+4.5 million TEU). Other notable expansion plans are expected.

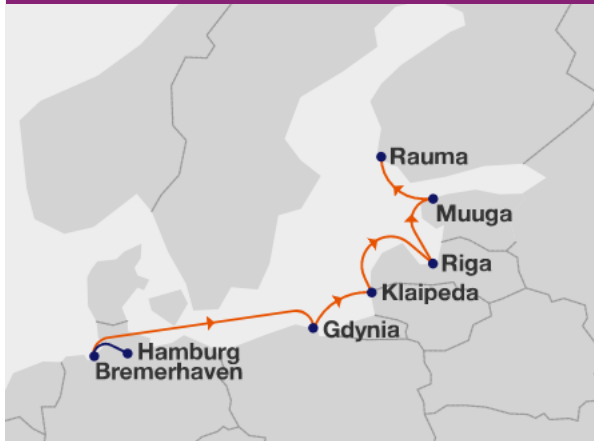


The Baltic Region has connections to four East-West and two North-South trade routes, focusing on the largest ports.

Line / Service	Trade Route	Average Vessel Size	Maximum Vessel Size	Baltic Port Calls
Ocean Alliance – FAL5/NE5	Asia-North Europe	13,334	21,413	Gdansk
Maersk/Safmarine – Ecubex	Europe/Med-WCSA	2,524	2,592	St Petersburg
2M – AE5/Albatross	Asia-North Europe	18,853	20,568	Gothenburg
MSC – North Europe-West Africa Loop 1	Europe/Med-West Africa	3,158	3,842	St Petersburg
ACL – North Atlantic Service	North Europe-North America	3,435	3,842	Gothenburg
2M – AE10/Silk	Asia-North Europe	17,320	19,154	Gdansk

Feeder Services either connect Baltic ports to a major port in north-west Europe or to ports such as Gdansk.

Hapag-Lloyd Baltic Sea Express



Seago Line Russia-Baltic Service



CMA CGM St.Petersburg Shuttle Service D



MSC Baltic Loop 10
Antwerp-Bremerhaven-Riga-Tallinn-Antwerp

Unifeeder Rotterdam Route
Rotterdam-Gdynia-Szcecin-Klaipeda-Riga-Rotterdam

Conclusions

- Future gap between demand and supply growth?
- How will Lines serve the Baltic market in future?
- What vessels will Baltic ports have to accept in future?
- To what extent will there be consolidation of shipping Lines and / or Terminals?
- Are there opportunities for Baltic ports to improve collaboration to maintain competitive?

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