Korean Shipping messenger

A collection of articles and daily news for the shipping industry with focus on the Korean shipping and shipbuilding markets.

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Shipbuilding News

Contract modification worrisome

Newbuilding contract cancellation or delivery postponement by overseas shipping companies are rallying again due to depressed global shipping market in the aftermath of financial crisis.

Above all, as those cancelled or postponed vessels are mostly ordered in 2008, when the newbuilding price peaked, it is worrisome that profitability would worsen.

However, others also argued that there would need no big worries as bulker and tanker order volume won before financial crisis is not huge.

According to the Financial Supervisory Service of South Korea, about 19 vessels or offshore units worth around KRW 2.652trn have been cancelled or postponed since August 2011.

STX Offshore & Shipbuilding put off deliveries of six VLCCs and four bulkers, Daewoo Shipbuilding & Marine Engineering cancelled two VLCCs and two bulkers by unpaid down payment and postponed one drillship's delivery. Hyundai Mipo Dockyard decided to put off deliveries of four bulkers by one year, after requests from owner.

Faced with continued cancellation and delivery postponement on high-value vessels, Korean shipbuilders concern that the aftermath of 2008 financial crisis comes again.

Meanwhile, one from the major yard said, "Most of high-priced newbuildings from 2008 being scheduled to deliver in the first half this year, recently cancelled or postponed ones are likely to be the last batch of risky orders."

Stena MR tender extended

Shipyards were given a one-month extension to submit offers to build a series of 52,000-dwt MR product carriers for Stena Bulk and Weco Shipping.

The yards have until 25 February to make their bids. They had originally until the end of last month to submit offers. Sources suggest the tankers may cost $35m to $37m each, depending on specifications.

China's Guangzhou Shipyard International (GSI), Dalian Shipbuilding Industry Co (DSIC) plus a South Korean builder are slated to be the frontrunners in the tender.

Last year, Stena and Weco set up a joint venture for vegetable oil operations and the new ships are likely to be 50/50 owned by the Swedish player and Dannebrog, which controls Weco.

Samsung profit 20% down

Samsung Heavy Industries announced its 2011's earnings results and 2012's targeted revenue on 2 February.

As earnings result for 2011, on stand-alone basis, turnover increased to KRW 13.358trn (about $11.86bn), up by 2.2% y-o-y, while operating profit and net profit decreased to KRW 1.102trn and KRW 863.9bn, down by 20% and 11.5% each.

Revenue went up a bit, compared with 2010, however, operating margin dropped to 8.2% from 10.5% in 2010, due to huge decrease in operating profit by reflection of low-margin vessels ordered after 2009 on the book.

The South Korean shipbuilder revealed that its turnover targeted has risen to KRW 14.9trn, as there would be large delivery and massive offshore constructions await reflection on revenue in 2012. New order target is $13.7bn.

Hyundai profit falls 27%

Hyundai Heavy Industries has seen its operating profit fall 26.7% last year to reach KRW 2.613trn year-on-year.

2011 revenue increased 11.7% to KRW 25trn but net profit fell 31.4% to KRW 1.94trn.

HHI won new orders worth $25.3bn last year up 47.2% y-o-y as drillship, LNG carrier and offshore facility orders rose. HHI has set a target of $30.6bn in fresh ship, offshore and plant construction orders in 2012, up by one fifth on last year.

2012 revenue target is KRW 27.57trn, up 10% on 2011.

Meanwhile, HHI saw its 2011 fourth quarter profit battered as it rolled out vessels penned in the wake of the global financial crisis.

The Seoul-listed shipbuilder saw its bottom line (net profit) plummet over 90% to KRW 71.3bn ($64m), filings show.

While sales picked up by 5% to KRW 6.75 trillion, HHI's margin was squeezed from 17% to 6% year on year. Operating profit slumped by two thirds to KRW 404.6bn.

Declining margins have become a familiar theme for South Korea's listed yards in the past few quarters as cheaper ships from 2009 work their way to the water.

Hanjin profit loses 42%

South Korean shipbuilder Hanjin Heavy Industries & Construction announced that its operating profit plummeted 41.6% to KRW 59.4bn last year.

2011 turnover was KRW 2.316trn, down by 15.3% year on year while net loss hitting KRW 116.2bn.

The company said its shipbuilding division's workload decrease led to revenue shrinkage.

Five MR PC contracted

Newbuilding Medium-range tanker market has faced an untimely visited bright spot, with two owners placing orders for up to five ships.

STX Offshore & Shipbuilding (Dalian) has inked two 51,000-dwt MR products tankers plus two options from US-listed Top Ships, according to sources, while Hyundai Mipo Dockyard has bagged a products-tanker newbuilding from Ditas Denizcilik of Turkey.

Sources indicate that STX-Top Ships signed order contract at the end of last year but details are only now emerging. Delivery of the firm ships is scheduled in late 2013 and price estimates vary between $31.5m and $33m apiece.

Meanwhile, Hyundai Mipo has signed up for a 52,000-dwt newbuilding, worth in excess of $36m, for delivery during the first quarter of 2013.

Qingshan wins 2+2 bulkers

China's Qingshan Shipyard contracted a newbuilding order for two 35,000-dwt handysize bulkers plus two options for delivery during the second half of 2013 from Russian-owned but Belgium-registered Pola Shipping.

No price has been disclosed but market players say Chinese yards are currently seeking $22m to $23m for such ships.

A source familiar with Qingshan confirms the order but gives no details on Pola.

Thick plate sales 'record-high'

South Korea's thick-plate export and domestic sales in 2011 both grew on 2010, while its total stock went up as well, due to increased production and import.

According to statistical data by Korea Iron & Steel Association on 2 February, 2011's thick-plate domestic sales stood at 8.92m t, up by 13% on 2010 and export at 2.14m t, up by 47%. Domestic sales and export from last year turn out to be the largest since 2001.

Import and stock rose to 4.68m t and 0.45m t, up by 14% and 30%, respectively.

Meanwhile, Korea's thick-plate production jumped 17% to 11.17m t in 2011.

Shipping & Business News

The Baltic Dry Index (BDI) is plunging.

After falling more than 50% this year closing 64% lower since October, the BDI is a good indicator of stagnating commodity demand, contradictory to reports that funds have added to bullish commodities positions by 13% as per a recent release by the CFTC. The index itself is a compilation of 3 sub-indices that measure the cost to charter different size ships that carry dry bulk commodities. The BDI is presently trading at 651 the lowest level it has traded since it was on its way up from a twenty-two year low of 663, set in December 2008.

Now, the problem is two-fold; the first element is overcapacity, the second is reduced shipping demand. As shipping rates reached highs in 2008, increasing more than 5-fold from 2006 levels, shippers added capacity at a breakneck pace. The prevailing assumption at the time was that commodity demand from China was going to continue to rise exponentially. However, as expectations of delivery for new vessels this year exceeds 22% of the existing fleet and shipping demand meanwhile slumps, this spare capacity has to be harbored or sold to protect already diminished margins.

The Baltic Dry Index is traditionally viewed as a leading indicator, the best recent example being the summer of crude in 2008. The BDI started falling several months prior to the peak of crude oil and the price rout that ensued. At present we are getting similarly mixed signals as the BDI falls to lowest level in over 25 years while commodity prices continue trucking higher as funds add to existing positions. There are several ways to interpret this information, because as shipping companies harbor vessels in an attempt to decrease supply and shift the curve left, commodities demand, which has been creeping up, should force prices higher according to modern economics. The reality is that with shipping prices declining, demand for shipping services is likewise in decline.

European imports continue to drop in the face of the sovereign debt crisis while further restrictions being placed on Chinese homebuyers in an effort to cool the overheated real estate market are reducing demand for new buildings. Banks are also not lending to shipping companies which is adding to the headache of procuring financing. Take Greece for example, for which 6% of GDP originates from shipping. If said shipping companies cannot finance existing vessel purchases because of weak banks, they must sell vessels at bargain basement prices. As shipping rates decline, the value of vessels likewise declines, forcing banks to writedown the value of loans to shipping companies (in Europe totals near $500 billion in loans) leading to a downward spiral in vessel financing.

The BDI is a good underlying indicator of global trade flows, but primarily an excellent leading indicator for the equity markets as the index reversed sharply before the S&P 500 rebounded off lows in 2009. While in the near-term it could be indicative of weakness in equities, watch for the turnaround as it could be suggestive of another solid rally in equities

China ups LNG imports

China expects its gas imports to rise by 45% this year, some of which will be imported in liquefied form on LNG carriers, potentially boosting charter rates beyond their already high level for the few vessels in the global fleet available for employment.

The forecast by China National Petroleum Corp did not say how much gas would be imported by pipeline and how much would arrive by ships as LNG.

However, analysts said China's LNG imports would rise this year, with one estimation of a rise of close to 50% on 2011 figures.

Even if only a small portion of China's forecast gas import rise comes as LNG, it will be positive for owners that have vessels available, say analysts. Any increase in demand for LNG will keep the market tight and boost daily rates.

There are 372 LNG carriers in the global fleet and 58 in the orderbook, according to London-headquartered shipbroker Clarksons. Just two vessels are scheduled to be delivered this year.

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