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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MUTUALMAR

Shipbuilding News

Chinese takes "Triple Crown"

China ranked 1st by new orders, order backlog and output in the first half of the year, surpassing South Korea in all those three indices for the first time.

China exceeded Korea by order intakes and orderbook since last year but it beat Korea in construction volume as well in H1 2010.

Seven years ago, Korea had overtaken Japan in the three indices but it now handed over the shipbuilding crown to China.

According to Clarkson Research Services data on July 18th, Chinese shipbuilders rolled out 8,014,148 cgt of ships, while Korean rivals built 7,470,889m cgt.

It is for the first time that China exceeded Korea by half-year shipbuilding volume. China is also expected to outdo Korea by annual output as well.

In the first half, China won new ship orders of 5.02m cgt (occupying 41.2% of global orders) while Korea won 4.62m cgt (38.0%).

As of the end of June, Chinese yards' combined orderbook stood at 53,307,252 cgt compared to 49,251,753 cgt held by Korean yards.

An industry official said, "Chinese government had announced that its shipbuilding industry would surpass Korean by 2015. But it attained the goal five years earlier."

"Korean shipbuilders have been contracting many new ships since the end of last year but Chinese rivals are winning more new orders from compatriot shipowners and they are expected to continue the No. 1 position in the whole year," he added.

Revenue ↓ Profits ↑: Korean yards

South Korea's five listed shipbuilders, namely Hyundai Heavy Industries, Hyundai Mipo Dockyard, Samsung Heavy Industries, Daewoo Shipbuilding & Marine Engineering and Hanjin Heavy Industries & Construction, are all expected to post much-improved profitability for the second quarter of the year.

Seoul-based HMC Investment Securities analyst Ahn Ji-hyeon estimated these shipbuilders' profits would grow while revenues deteriorating.

"Revenue will fall due to a decrease in construction volume despite a favorable movement of won-dollar exchange rate," Ahn forecast.

"Q2 revenue would decline by 5.8% year-on-year on average, which is up by 0.9% quarter-on-quarter."

"Revenues should fall as KRW-base newbuilding price rose by 1.1% but shipbuilding volume fell by 3.7% in the period."

Operating profits, however, is forecast to shoot up by 34.7% on-year on average (up by 4.6% on-quarter) for the five shipbuilders thanks to a fall in equipment and material prices like thick steel plates.

Steel plate prices fell by 28.4% on-year in Q2 to KRW 768,000 ($639) per ton.

HHIC to issue bonds

Korean shipbuilder Hanjin Heavy Industries & Construction is going for a quick $50m bond sale to refinance debt.

The Bloomberg news agency reported that unidentified sources said the dollar issue would be made in August.

The two-year notes will carry a floating rate of interest.

The cash will go towards repaying maturing debt and for working capital.

Hanjin has $60m of two-year notes repayable on 26 September.

DSME passes wage deal

Daewoo Shipbuilding & Marine Engineering has settled on the 2010 wage collective agreement, reaching a peaceful settlement for the 20th consecutive year.

DSME management and labor agreed on a tentative wage collective agreement for this year on July 16th and the union passed it Monday at a general meeting.

Of the entire 7,369 DSME union members, 7,119 cast votes and 4,913 or 69.01% voted for the agreed tentative wage collective agreement.

DSME labor and company started negotiations for it from May 12th and finalized it before the summer vacation, which begins next week.

They agreed to ▲raise basic salary by KRW 50,200 ($41.3), ▲offer bonus of 400%, ▲give incentive for wage collective agreement settlement of KRW 3,800,000, etc.

Regarding the controversial 'Time-Off' system, they decided to continue to discuss it at a separate series of meetings.

DSME president Nam Sang-tae said, "I appreciate cooperation from labor union executives and members. With the newbuilding market showing signs of life, let's show our power of unity to mature one step further."

DSME has now settled on a peaceful wage collective agreement for the 20th year since 1991.

Hamworthy inks STX LPG deal

Hamworthy, the UK marine equipment company, has won deals worth £50m ($77m) from a yard in Brazil.

The company is to provide ship design and supply of cargo handling systems for eight LPG carriers ordered at Estaleiro Promar S.A., a subsidiary of STX Norway Offshore AS.

The eight ships were only ordered on Monday by Transpetro, the shipping arm of Brazilian oil giant Petrobras.

Hamworthy said delivery of the equipment is scheduled from mid-2012 to mid-2015.

Chief executive Joe Oatley said: “We maintain our view that the global shipbuilding industry will remain challenging in the short term, and orders of this size will be exceptional.”

Speaking ahead of Hamworthy’s AGM on Thursday Oatley said the company continues to have “good near term visibility and sales coverage”.

It said market conditions remained largely unchanged from preliminary results announcement at the start of June.

The company said it has a “robust order book” which stood at £134m at the end of June against £222m a year ago.

“Whilst it remains too early to predict when a substantial recovery in our core markets will occur, significant orders received and reported over recent weeks are encouraging and reinforce the signs of increasing activity in both the offshore and marine markets,” said Oatley.

In the three months to 30 June, Hamworthy says it has received new orders with a combined value of over £15m.

These include a first of type order to supply its exhaust gas cleaning technology for a series of four vessels.

It has also booked orders for the supply of cargo pumps for the Papa Terra FPSO and cargo handling systems for two LPG-carriers.

DSME inks pipe-laying vessel

South Korea's Daewoo Shipbuilding & Marine Engineering has won an order for a pipe-laying vessel from Heerema Offshore Services B.V. of the Netherlands.

The 32,000-ton ship with a length of 215 meters and a breadth of 46 meters is able to lay pipe 3,000 meters under water. It can operate at a cruising speed of up to 14 knots.

Daewoo plans to deliver the ship by the end of 2012.

Reportedly, it had also won a same-type ship order last month.

Daewoo inked a near $600m contract with Swiss-based Allseas Group SA to build a Platform Installation/Removal & Pipe-lay Vessel in June.

The shipbuilder has secured new orders for 29 merchant ships and four offshore products so far this year and is expected to win $6bn worth of orders by the end of this month as large projects are said to be in the final negotiation stage.

SHI combines drilling rig at sea

Samsung Heavy Industries announced on July 16th that it has succeeded for the first time in South Korea in combining offshore crude oil drilling unit's Top Side and Hull at sea.

Back in 2007, Russia's Gazflot ordered the drilling rig for $600m with the top side of the facility contracted at Samsung and the hull inked at a Russian yard.

Originally, the Russian yard was to combine the topside and hull at sea in Russia but the yard gave up the combining project due to a lack of technical expertise. Hence, Samsung instead carried out the assembly work at sea in Korea, securing additional payment of $45m.
The assembly project took place at Jinhae Bay in South Gyeongsang Province, Korea for 12 days in the following steps. ▲The Hull was submerged to 27 meters from water surface ▲Above the Hull, the 20,000-ton class Top Side was positioned ▲The Hull was floated so that the two parts can combine.

The drilling rig, after assembly work, returned to Samsung's Geoje shipyard for final pipe and cable work. The vessel will be delivered to Gazflot before the end of this year.

With the successful sea assembly work, Samsung expects to win similar projects from Russia, Brazil and China where local owners are encouraged to order new vessels at domestic yards.

Samsung president Roh In-sik said, "The Top Side and Hull combining work has been done in just 12 days without a hitch, which was originally scheduled for three weeks, acclaimed by 50 Gazflot workers who were witnessing the work here."

Hyundai Heavy To Build $90M Transformer Plant In US By 2011

South Korea's Hyundai Heavy Industries Co. (009540.SE) said Monday it will build a $90 million power transformer plant in Montgomery, Alabama by 2011 to enter the U.S. transformer market.

Groundbreaking will take place later this month and construction will be completed by the end of 2011, with production beginning in early 2012, a company spokesman said.

Hyundai Heavy Industries was founded in 1972 and is a global business network operating in shipbuilding, offshore and engineering, industrial plants and engineering, engines and machinery, construction equipment and electro-electric systems.

BDI losing streak ends

The Baltic Dry Index gained 1.2% in London Friday, breaking a losing streak which stretches back 35 consecutive trading days to May.

Still, with capesize vessels earning less than $13,000 daily, the fall has hit shipowners hard in the pocket and dented sentiment in the market.

Daniel Brebner, an analyst at Deutsche Bank, said: "We interpret the recent weakness in the Baltic Index as reflecting the early stages of a slowdown in Chinese steel demand.

"A slowdown in orders for steel products has resulted in a slowdown in orders for iron ore over the past month, resulting in a decline in shipping," he said, according to Bloomberg.

Friday's uptick ends the worst losing streak for the BDI since November 2005, when it fell for 48 successive days.

Shipowners including Sammy Ofer have anchored vessels after refusing to accept loss-making charters.

Jeffrey Landsberg of Commodore Research, said earlier this week: "The recent decrease in congestion combined with the continued delivery of a large amount of newbuildings is largely responsible for freight rates coming under recent pressure."

According to Oppenheimer analyst Scott Burk around 100 capesize newbuildings have been delivered in the first half of 2010, compared with only 34 a year ago.

A further 206 capes are expected in the remainder of this year and 282 more are slated to arrive in 2011.

In a note to clients Burk added: "Additionally, the lack of scrapping activity has continued to exacerbate the vessel oversupply concerns.

"There have been no capesize demolitions since May 2009 as owners continue to operate old vessels because of rates above break-even costs."

Burk says the US grain season in September and possible Chinese iron ore import increases in the fourth quarter of 2010 following a re-pricing of contracted ore could push rates higher.

Hanjin prepares container shipping assault

One of Asia's biggest shipping companies has said that a Spanish terminal it opened last week will be a "beachhead" for an assault on markets in West Africa and South America currently dominated by European container lines.

The move by Hanjin Shipping of South Korea threatens the dominant position in West Africa of Maersk Line of Denmark and CMA CGM of France.

Maersk Line, the world's largest container carrier, and Hamburg Süd, a German specialist operator, have powerful positions in trade to and from South America.

Hanjin's move underlines the growing interest among container shipping lines and terminal operators in the relatively neglected African and Latin American markets.

After the company opened its terminal in Algeciras on the Gibraltar Strait in southern Spain, Kim Young Min, the chief executive, outlined his plans in a Financial Times interview.

Mr Kim said that Hanjin's size meant it had to concentrate on a few key areas. Even after a fleet expansion that is currently under way, it will operate only the world's seventh-biggest container ship fleet.

It is a significant force in trade between Asia and North America and on Asia- to-Europe services – a strong presence in north-south trades, those to Africa and South America, would strengthen flows on connecting Asia-Europe services.

"We have already started the West Africa service – that is already playing its part," Mr Kim said.

"We're looking at a service to South America from here, so this will be an important beachhead for our north-south trade penetration."

The Hanjin chief executive acknowledged that his company would face fierce competition from the European lines but said customers, including companies with substantial African businesses, had asked it to make the move.

"Obviously, it's not going to be easy from day one," he said. "I have no illusion about that."

Hanjin has invested €55m ($71m) in the Algeciras terminal, which will work like a hub airport, with feeder services from Africa and South America taking to and from Algeciras boxes to be moved onwards towards Asia or Europe.

Mr Kim rejected suggestions that the Gibraltar Strait was oversupplied with such terminals.

While the terminals arm of Maersk Line's parent company already operates such facilities in Algeciras and across the strait in Tangier, in Morocco, and CMA CGM has an investment in another Tangier terminal, Hanjin was the only operator to apply for the 30-year concession to run the new terminal. “If you look at the three terminals operating both sides of the strait, they’re essentially full,” Mr Kim said. “There’s a need for the new terminal.”

Hanjin made its investment as it recovers from the worst year for container shipping, when worldwide volumes fell more than 10 per cent.

The South Korean company made $1.09bn net losses for the year on $5.61bn revenue, ending the year with total liabilities of $5bn.

The container market has since experienced a remarkable recovery and Hanjin’s smaller dry bulk and tanker shipping businesses mostly work on long-term contracts that are not affected by market gyrations.

Mr Kim said there were currently no plans to speed up the repurchase of ships that Hanjin, like other South Korean shipping lines, sold at the height of the market crisis to a government agency and leased back.

Hanjin has until 2014 to buy them back.

However, Mr Kim said that Hanjin was “carefully looking at” the possibility of making further piecemeal disposals to strengthen the balance sheet, after a rights issue and sale of a terminal business at Busan in South Korea together raised $450m.

“Yes, our leverage deteriorated,” said Mr Kim. “Yes, we’ve worked on it. It’s going in the right direction.”

Analyst thinks drybulk shipping market bottomed

A Deutsche Bank analyst says he thinks the drybulk shipping market may have bottomed, a sign that global trade might soon improve.

THE OPINION: The Baltic Dry Index, which measures activity on major shipping lanes throughout the world, posted its first gain Friday in nearly two months. The index is a key measure of global trade because it indicates how well shipments of everything from coal to cement are moving. The gain was the first gain since May 26.

Analyst Justin Yagerman said in a client note Friday that rates for Capesize and Panamax vessels, two kinds of drybulk ships tied heavily to coal and iron ore trade, are up "considerably" -- both of them fetching rates more than twice their operating costs. Coal and iron ore are used in steelmaking. Coal is also used to generate electricity.

Capesize vessels are named because they are too big to fit through the Panama or Suez Canal and must instead navigate around the Cape of Good Hope or Cape Horn to travel between oceans. Panamax vessels are the largest ships that can fit through the locks of the Panama Canal.

THE STOCKS: Some drybulk shipping stocks gained Friday despite a lower broader market. Diana Shipping Inc. gained 27 cents, or 2.1 percent, to $13.37. Genco Shipping & Trading Ltd. was up 25 cents, or 1.6 percent, at $16.38.

'Plunging BDI not to impact Indian shipping'

Most of the Indian shipping companies are largely insulated from the heavy fall of Baltic Dry Index (BDI) due to their limited exposure to dry bulk fleet and long-term contracts, according to Crisil Research.

The last one month has been turbulent for dry bulk shippers with the BDI falling by more than 56%. Decline in Chinese demand for iron ore and coal and easing port congestion have caused spot freight rates to fall. In addition, increase in supply, on account of delivery of new ships, has caused the demand-supply imbalance to widen, putting pressure on spot freight rates.

A comparison between Indian and global fleet shows that Indian companies have higher exposure to the tanker segment than their global counterparts. In the tanker segment, which accounts for almost 75% of the Indian fleet, freight rates have been relatively stable. The exposure of Indian companies to dry bulk segment is limited to only 16% vis-a-vis 47% for global carriers, it said.

In its shipping industry analysis, one of the country's leading research house said private Indian companies such as Mercator Lines, GE Shipping and Essar Shipping are fairly insulated from the fall in dry bulk spot rates, as their ships are largely on long-term contracts on a time-charter basis.

The exposure of Indian companies to dry bulk is limited to only 16% vis-a-vis 47% for global carriers. Moreover, companies such as Mercator Lines, GE Shipping and Essar Shipping are fairly insulated from the fall in dry bulk spot rates, as their ships are largely on long-term contracts on a time-charter basis.

Vinalines not buying Vinashin ships

State-controlled Vietnam National Shipping Lines (Vinalines) is still actively absorbing assets tied to Vinashin but ships might not be on the menu.

Vinalines has rejected claims that it is buying over three-dozen vessels from the troubled state shipbuilder, a company spokesman said Friday.

According to local media reports, Vinalines' legal chief shares the same sentiment.

"The company will receive some assets following a government decision," Tran Manh Ha said during an interview.

Ha dismissed rumours about the vessels involved in the restructuring but refused to elaborate further.

The attorney's statements may come as a surprise because only a handful of Vietnamese insiders have been willing to talk publically about the Vinashin overhaul.

Anonymous sources have been fuelling speculation since the plan was first announced earlier this month.

The Vietnamese government is restructuring loss-making shipbuilder Vinashin by stripping it of some of its subsidiary assets.

Twelve of Vinashin's shipyards and shipping companies are being absorbed by Vinalines and state-run tanker owner PetroVietnam.

The restructuring is expected to wrap-up by the end of September.