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

Korea Sole Lead

South Korea took the first place for newbuilding order for Q3 with outperforming in high-value ships, such as LNG carrier, drillship, etc.

The Ministry of Knowledge Economy and the Korea Shipbuilders' Association's statistical data on October 19 show that Korea took about half of global market share with newbuilding orders of 2.47m cgt totalling $7.2bn during July-September, down in comparison with 4.08m cgt, $16.2bn in Q1 and 5.53m cgt amounting $20.2bn in Q2.

China just won 1.37m cgt, 27.8% of overall new order, in the same period.

Korea won the whole 18 LNG carriers newly ordered in the third quarter, in particular, three of overall five drillships and five of seven large boxships over 8,000 teu. And Korea took 58% of total tanker orders of 1.74m cgt and 52% of 1.04m-cgt containership orders.

Meanwhile, Korea turns out to have secured 12.07m cgt (299 vessels, $43.6bn) of accumulated new order up to September this year with 51.2% of market share, exceeding China's 7.35m cgt, 31.2% and Japan's 1.11m cgt, 4.7%.

Even though, during Jan-Sept, the total new order in the world was down by 22.3% to 23.57m cgt on the same period last year, Korea went up by 17.2% to 12.07m cgt.

Korean shipbuilders' export in the third quarter was estimated to $12.4bn, increased by 8.4% on the same period 2010, while decreased from $16.4bn in Q1 and $15.5bn in Q2 this year. Total deliveries during the period was dropped 36.9% y-o-y to 106 ships of 2.97m cgt.

January-September ship export of Korea was estimated at $44.3bn, climbed about 23%.

Delivery in the same period took the second place, declined 8.8% to 11.79m cgt, 390 vessels, after China's 13.71m cgt, 832 ships.

In the meantime, Korean shipyards' orderbook by the end of September took 32.9% of worldwide orderbook with 43.14m cgt, 1,369 vessels, which dropped 5.7% and 0.6% from the end of last year and June 30 this year, respectively.

Worldwide newbuilding backlog plummeted by 10.7%, including other major countries' shrinkage, China (-10%), Japan (-24.5%), Europe (-15%), etc. Comparing with such huge drops, Korea's decreasing rate was quite low at - 5.7%.

Government prospected market uncertainties for shipping and shipbuilding industry to grow by ship oversupply, depressed ship financing and dull economic recovery in the advanced countries.

Also expected, high-value ship's new order boom in the first half was just a short-period demand but to decrease according to adjustment of supply and demand.

In case of bulker and tanker, most yards except major shipbuilders in the world would keep having a hard time due to decreased orders by a massive oversupply.

However, Korean small and medium yards are expected to win new order for small- and medium-sized tanker and boxship with high shipbuilding technical skills, it forecast.

Korean Shipbuilders Buck Decline to Grab Half of Market

Global ship orders in the third quarter plummeted 50 percent from the second quarter due to the financial crisis in Europe. Despite this, Korean shipbuilders flexed their muscles by grabbing half of the orders worldwide.

According to market researcher Clarkson on Wednesday, global ship orders in the third quarter fell to 5 million compensated gross tons (CGTs), marking a 52 percent quarterly decrease.

Orders in the first three months of the year stood at 8.3 million CGTs, rising to 10.4 million CGTs in the second quarter. Aggregate orders from January to September reached just 23.56 million CGTs, showing a slowdown of 22.3 percent on-year. This was caused by a glut of ships in the market, shrinking shipping finance due to debt woes in the eurozone and delayed economic recovery in advanced countries.

Orders took a huge hit in the second half in tandem with Europe's snowballing debt crisis, falling to their lowest number in September since 2010.

The Korean shipbuilding industry remained a world-beater, however, winning 52 percent of global ship orders, or 2.47 million CGTs, during the third quarter. Korean shipbuilders won all 18 orders for liquefied natural gas (LNG) ships placed in that three-month period, as well as three out of five contracts for drill ships and five out of seven orders for large container ships with more than 800 20-foot equivalent units.

China accounted for 27.8 percent of the total orders with 1.37 million CGTs, followed by Japan with 10.5 percent.
Japan order inquiry at bottom

Japan’s Major 6, Mitsubishi Heavy Industries, Universal Shipbuilding, IHIMU, Mitsui Engineering & Shipbuilding, Kawasaki Heavy Industries and Sumitomo Heavy Industries Marine & Engineering, end up with only one export ship newbuilding inquiry in August, monthly lowest since 1991.

European owner inquired about one handymax with IHIMU.

Lack of export ship inquiry was caused by varied factors, including Chinese shipbuilders’ low-margin newbuilding orders, overseas owners’ summer vacation, etc.

Although inquiry started to increase from September, newbuilding negotiation with owners is still tough due to down-pricing pressures.

Japan Shipyards Demand Cheaper Steel or Plan to Import From Chinese Rivals

Japanese shipbuilders will ask local steel mills to cut prices for plate used to construct vessels or be replaced by rivals from South Korea or China as the yen strengthens, three people familiar with the matter said.

The Shipbuilders’ Association of Japan Chairman Kazuaki Kama is scheduled to meet Eiji Hayashida, head of the Japan Iron and Steel Federation, as soon as next week to demand lower prices, said the people, who asked not to be identified because the information is not public. Japanese shipbuilders, the world’s third-largest by output, pay local mills as much as 30 percent more for plates than do South Korean yards, one of the people said.

The association, which counts Mitsubishi Heavy Industries Ltd. (7011) and IHI Corp. (7013) as members, is joining the nation’s Carmakers in reviewing costs and prices as a near-record high yen makes Japanese products less competitive overseas. Nippon Steel Corp. (5401) and JFE Holdings Inc. (5411), Japan’s biggest makers of the alloy, stand to lose contracts to South Korea’s Posco and China’s Baoshan Iron & Steel Co. unless they negotiate prices.

The Japanese currency, which rose to a postwar record in August, has gained 11 percent from an April low this year. It traded at 76.82 against the dollar as of 9:56 a.m. in Tokyo today.

Toyota Motor Corp. (7203), Asia’s biggest carmaker, has told parts makers it will buy more from emerging markets should domestic mills fail to match overseas prices. Carlos Ghosn, chief executive officer of Nissan Motor Co., said this month Japan faces a “hollowing out” of its industries should the government fail to take steps to counter the yen’s rise.

The Topix machinery index, which includes Mitsubishi Heavy and IHI, has fallen 17 percent this year, compared with a 31 percent drop in the Topix iron and steel index, including Nippon Steel and JFE.

Price Talks

Shipbuilders individually hold price talks with suppliers. The industry-wide request comes as domestic yards have been unable to get cuts from their decades-long steel suppliers, which offer lower prices to international customers, one of the people said. Higher steel prices in Japan than Korea and China erode local yards’ cost competitiveness, further crippling a domestic industry struggling to win new orders, he said.

Steel accounts for about 40 percent of the cost of a ship, according to the 19-member shipbuilding group, which also includes closely held Imabari Shipbuilding Co.

Japanese shipyards had a 12.1 percent share of the global market by new orders in the first half, down 2.4 percentage points from 2010, while South Korean yards boosted their share by 23 percentage points to 56.4 percent, the Shipbuilders’ Association said on its website, citing data from IHS, formerly Lloyd’s Register.

Steelmakers

Steelmakers in Japan, the second-largest in the world, have been under pressure to pass on increased raw material costs to customers to protect profit margins after iron ore and coking coal prices soared, outpacing gains in the yen. Nippon Steel’s gross margin fell to 12.24 percent in the June quarter from 13.62 percent a year earlier.

Yasumi Makimura, a spokesman for the shipbuilders association, couldn’t be reached for comment. Nippon Steel spokesman Hiroshi Nakashima declined to comment on individual price talks. JFE asks its customers to share the costs when the pace of gains in raw materials prices exceeds the level the company can absorb through its own efforts, said a JFE spokesman who asked not to be named because of a company policy.

Posco (005490), South Korea’s largest mill, boosted its heavy-plate capacity by 40 percent to 7 million tons a year in March, overtaking JFE as the biggest producer of the alloy. Hyundai Steel Co. (004020) said in July it expects to receive monthly orders for at least 10,000 tons of plates from Japanese shipbuilders in the second half of this year.

Last year, Japan imported 233,000 metric tons of plates, equivalent to 2.6 percent of the alloy produced by Japanese mills for local use, according to data from the Japan Iron and Steel Federation.

Sanoyas revamp for recovery

Sanoyas Hishino Meisho of Japan revealed at a press conference on October 18 that it will speed up restructuring for its big change in such an upheaval.

Sanoyas established ‘Sanoyas Holdings’ on October 1st and plans to split its shipbuilding department into Sanoyas Shipbuilding until January next year while the rest of onshore 13 businesses are to be transferred under Sanoyas Holdings.

The reorganization is to reconstruct on-land sectors, having them not to depend on shipbuilding department.

Regarding shipbuilding, Sanoyas sets a policy to upgrade designing, hold energy-efficient products in reserve and
have an aggressive sales aimed at shipowners in Asia to keep three-year workload.

The yard inked three ships during the first quarter, however, it could not possibly secure another order owing to stronger yen after then.

Sanoya's orderbook as of now is 29 vessels, covering up to mid-2014. It plans to book additional new orders with delivery by the end of 2014.

Sanoya would focus on newbuilding panamax, recently developed 120,000-dwt bulker, 100,000-dwt coal carrier and chip carrier.

Also, it has developed additional energy-efficient 82,000-dwt bulker and 120,000-dwt bulker.

Kawasaki into tidal power

Kawasaki Heavy Industries of Japan revealed on 19 October that it commenced development of tidal power generation system.

Kawasaki targets to create the tidal power system with high efficiency and market competitiveness, making use of its existing offshore-related know-how accumulated from its marine equipment business and technical skills for gas turbine power generation, etc.

The Japanese yard is now under investigation for the system in the Okinawa waters and plans to participate in global projects afterward.

HRDD new dry dock

China's Huarun Dadong Dockyard recently completed 300,000-dwt class large-size dry dock.

Shanghai-based yard used to repair on floating dock and berth and now it arranges ship-repair dry dock for large ships, such as VLCC, large containership and so on.

Recently completed dry dock, 380m in length and 103m in breadth, enables to repair large ore carrier and 10,000-teu boxship as well.

The ship-repair specialized yard aims to convert and repair for offshore platform.

**Shipping & Business News**

**Handy owners to go bust**

Plummeting handymax bulker rates could see a surge in the number of owners in the sector going bust, DVB warns.

Pressure from a huge newbuilding orderbook will cut earnings from $20,800 per day in 2010 to $9,500 daily in 2012, the bank forecasts.

DVB said: “Unlike the slowdown seen in 2008 when some owners had significant cash reserves and were able to survive the low earnings period, the current slowdown can significantly increase the number of owners going bankrupt due to cash flow problems.”

Its latest Handymax Market Outlook explains a vessel contracted in 2010 for $32.8m requires a daily rate of $18,782 just to break even.

**Tanker owners face insolvency**

Shipowners’ insolvency may be one of the keys to jumpstarting the engine of a tanker market recovery, according to a researcher at MJLF.

Donald Bogden, who joined the Stamford-based tanker brokerage nearly six months ago, says the mere threat of bankruptcy has already started to influence the crude segment’s fundamentals.

The analyst believes cash-strapped owners may artificially reduce the pool of tonnage available to charterers as oil majors are beginning to avoid certain players for fear that financial instability could lead to the arrest of vessels with cargo on-board.

Insolvency, increased ship scrapping, order cancellations and delays, lay-ups and crewing issues will both tangibly and artificially reduce vessel supply in 2012, Bogden contends.

MJLF believes a sustainable tanker market recovery is unlikely to occur before the first-half of 2013.

**CMA CGM 10,000TEU plan thwarted**

A planned order by CMA CGM for up to 20 10,000-teu containerships has been vetoed by Turkish stakeholder Robert Yildirim, who exerted his group’s voting rights on CMA CGM’s board.

The initial plan was on an order for 10 vessels, to be followed by a second series of 10, built by Chinese yards and chartered to CMA CGM for 10 years.

CMA CGM, however, announced earlier this month that deteriorating trade conditions had forced it to suspend plans to re-enter the newbuilding market.

CMA CGM “has no short-term plans to either purchase or long-term charter in any vessels”, the company said in a statement.

Yildirim Group, which was instrumental in the financial rescue of the French carrier by investing $500m in five-year bonds for a 20% stake, has an effective veto over major decisions through its voting rights acquired as part of the rescue deal.

**Essar Shipping Gets OK for Share Listing**

Essar Shipping Ltd. Thursday said it has received approval from India’s capital markets regulator to list on the bourses.
The company includes the shipping, oilfield services and logistics businesses of Essar Group. It was separated earlier this year from Essar Shipping, Ports & Logistics Ltd., which only retained its ports business and began trading as Essar Ports Ltd. on the stock exchanges from May 31.

The shares of Essar Shipping, Ports & Logistics were split in a way that gave its shareholders two shares of Essar Ports and one share of Essar Shipping for every three shares held in the erstwhile company.

Essar Shipping has a fleet of 26 vessels and has placed orders for 12 new ships, which are expected to join the fleet over the next 24 months. It operates one semi-submersible rig and 12 land rigs under its oilfield services business and manages a fleet of 5,000 buses under its logistics business.