Shares soaring for shipbuilders

Share prices of shipbuilders are sailing higher and higher. In January so far, the Kospi shipbuilding index rose by 10.23 percent.

Ever since the end of the global financial crisis, shipbuilding shares have risen by 103.06 percent.

STX Offshore and Shipbuilding has risen 31.2 percent this year, while Daewoo Shipbuilding and Marine Engineering and Hyundai Heavy Industries have climbed by 12.79 percent and 10.95 percent, respectively.

The rise in share prices reflects increased overseas orders being won by shipbuilders.

Hyundai Heavy Industries, Korea’s leading shipbuilder, has already gained foreign orders worth 2.7 trillion won ($2.4 billion), which includes a drill ship and construction of an offshore gas field platform. The company also won orders for 10 container ships in December.

DSME has won orders for two semi-submersible drilling rigs worth $1.1 billion.

Investors are also buying shipbuilding stocks because of the rise in international oil prices, which means that major oil companies will step up offshore oil drilling. This will result in increased orders for oil drilling platforms.

"With the increase in deep sea oil development, offshore plant orders will increase in the first half of the year," said Song Jae-hak, an analyst of Woori Investment and Securities. “Offshore platforms fetch a higher price than vessels, which will help the industry’s profitability.”

The increasing oil prices are leading to more orders for fuel-efficient Korean ships, a sector where the local industry has a strong presence.

“As the fuel costs of shipping companies are equivalent to about 20 percent of their sales, interest in fuel efficiency is growing and orders are going to Korean shipbuilders that make both good quality and highly fuel efficient ships," said Lee Seok-jae, an analyst at Mirae Asset Securities. “With Korean makers responsible for about 60 percent of the world’s ship engines, fuel efficiency is something that Chinese makers won’t be able to catch up with overnight.” Analysts say that Korea will be able to maintain its leadership, which means the share prices of shipbuilders have room to increase.

Lee said that 60 percent of global shipbuilders last year did not win a single order, setting the stage for an industry shakeout.

China overtakes S Korea as world’s largest shipbuilder

China has surpassed South Korea to become the world’s largest shipbuilder in 2010 in terms of shipbuilding capacity and new orders, media reports here have said.

According to recently released statistics from China’s Ministry of Industry and Information, China’s shipyards finished building 65.6 million DWT (deadweight tons) from January to December last year, an increase of 54.6 percent on year on year.

They received new orders exceeding 75 million deadweight tons, nearly triple the amount of a year earlier.

The great development of the shipbuilding industry in recent years can be mostly attributed to the increased capacity requirements due to economic growth, People’s Daily quoted an expert from the economic research centre of China’s shipbuilding industry as saying.

HMD prospects stable new orders

Korea’s Hyundai Mipo Dockyard (HMD) is expected to smoothly attain this year's new order target of $3.3bn.

Seoul-based SK Securities said yesterday that HMD would not have difficulties achieving $3.3bn in new orders.

Lee Ji-hoon, analyst of SK Securities cast a prospect as saying, "HMD's new order target of $3.3bn for this year is an 8.9% increase on last year's. Considering the current market situation, the yard can see its target achieved easily."

"Small and medium containerships would lead the newbuilding orders for HMD in the first half of the year, but product carriers would be the main items to be ordered in the second half. Also, HMD is holding 223 ships worth $9.4bn on its orderbook, securing enough work by 2013," he added.

In terms of vessel types listed on HMD's orderbook, bulkers account for 50.8% and product carriers for 24.1% based on values.

According to the analyst, HMD would see a very limited drop in sales and profit despite decreased ship prices.

This is because deliveries are increasing due to the recovery of new orders since last year, and because the expected rate of cost has decreased due to the rise of exchange rate and the drop of raw material prices.
He also said, "HMD's total sales of this year would reach KRW 3.66trn ($3.27bn) similar to last year's, and operating profit would decline by 15.8% to KRW 472.3bn."

**Samsung in talks for 4,600TEU's**

Korea's Samsung Heavy Industries is progressing new order talks for four 4,600-teu boxships with Hanjin Shipping.

The shipping company is also said to be sitting on a negotiation table with Hyundai Heavy Industries to order four 4,600-teu and another four 3,600-teu boxships.

Hanjin will probably clinch a winner to build the 4,600-teu quartet by March.

Samsung once built Hanjin's four 4,300-teu containerships ordered in November 2005 and if it is to be a winner for the 4,600-teu quartet, it will build 4,000-teu class boxships for the first time in five years.

Samsung won overall 22 containerships last year, all of which were large ships of 8,000-teu class.

**Hyundai pens 4,500TEU's**

D Oltmann has returned to Hyundai Heavy Industries for newbuildings.

The German containership owner has booked two wide-beam panamax boxships plus one option for delivery in late 2012 and 2013, market sources say.

It is said to be paying more than $60m each for the 4,500-teu vessels.

They add that the order was inked last year but details of the deal only emerged recently.

Hyundai Samho Heavy Industries, a sister company to Hyundai Heavy Industries, will construct the ships.

The last time D Oltmann ordered containerships at Hyundai was in 2007, when it booked two 6,600-teu ships.

**STX stocks skyrocketing**

Korea's STX Offshore & Shipbuilding is watching its stock prices sharply soaring with back of favorable comments from Korea's securities industry.

STX's stocks are being traded at a price of KRW 34,000 ($30) per share increasing by KRW 1,200 (3.66%) in the morning in the stock market.

The stock prices have continuously taken an upswing since the 10th of January and risen by 36% since the beginning of the year.

Seoul-based Shinyoung Securities explains about STX as saying, "it is the blue-chip shipbuilder in Korea and the concerns over its cash flow are dropping rapidly."

Eom Kyeong-ah, researcher of Shinyoung Securities, says, "STX's sales forecast for 2011 is KRW 11.12trn increasing by 8.6% year-on-year and its operating profit is forecast at KRW 439.7bn with 4% of operating margin. Also, while its net liabilities stayed in KRW 3.7trn in the end of the third quarter of last year, they dropped to KRW 960bn by the end of the fourth quarter, with the company's cash flow getting improved."

**HMD & STX benefit from restructuring**

Korea's two small- and medium-size ship specialist yards, Hyundai Mipo Dockyard (HMD) and STX Dalian Shipbuilding are paid a great attention as beneficiaries of shipbuilding industry's restructuring due to the continuous recession.

Lee Seok-jae, researcher at Seoul-based Mirae Assets, says the shipbuilding industry's restructuring focuses on mainly small- and medium-size ship types.

Because they have the biggest proportion of old ships among the whole ship types and there are not steady new ship orders to replace the old units, newbuilding demand for small- and medium-size ships would increase in the future, according to him.

He also diagnoses that since both HMD and STX Dalian reserve excellent ship designers and a much bigger scale of production than other rivals, they are the strongest in the small and medium ship segment to make various changes of ship types.

Meanwhile, HMD will see a high proportion of low profitability ships received after 2009 in the quarterly total volume of deliveries most quickly, followed by Hyundai Heavy Industries and Samsung Heavy Industries. And Daewoo Shipbuilding & Marine Engineering follows Hyundai and Samsung.

Ok Hyo-won, researcher at Seoul-based NH Investment & Securities, prospects that since Daewoo still has a high proportion of highly-priced ships, such as bulkers, PCCs and other ships, contracted before 2008 when the ship prices took an upswing, it has enjoyed performance advantages since the second half of last year and the advantages will still continue by the first half of the year.

However, in the case of HMD, the proportion of low-priced ships won after 2009 is rising in a fast pace, so HMD's profitability after the fourth quarter of last year would decrease as compared with the third quarter.

**China: From highway to normal**

In 2010 China's shipbuilding industry surpassed Korean in terms of new orders, becoming the largest shipbuilding country in the world.

However, experts indicated that the 'large' didn't mean 'strong' enough and the market was always changing. In future, Chinese shipbuilding industry would gradually return from highway to normal channel.

According to MITT statistics, from January to December, national output reached 65.6m dwt, rising by 54.6%. The new orders hit 75.23m dwt. By the end of December, the orderbook achieved 195.9m dwt, raised by 4.1% against that of 2009.

Chief Analyst Bao Zhangjing of China Shipbuilding Economy Research Centre said in recent years the
revenue and profits both showed rapid growth. As a result, huge capitals rushed into shipbuilding market.

Chinese shipyards were mostly distributed in Jiangsu, Shanghai, Zhejiang, Shandong and Guangdong. As is reported earlier, Jiangsu crowned in China again of 2010.

Bao Zhangjing thought the high-speed development of Chinese economy triggered transport demands rising in recent years. On the other hand, China owned advantages of labor costs and large domestic market. China's shipbuilding technology was improving as well. However, the shipbuilding industry was believed to face tough time in future due to overcapacity, limited demands, cost rising and CNY appreciation.

Hyundai’s Green Energy Drive

Korea's Hyundai Heavy Industries (HHI) is putting spurs to its newly established 'green energy' business division.

Kim Gwon-tae, head of operations of the green energy division and vice president of HHI, said yesterday, "Hyundai aims to attain KRW 1.2tn ($1bn) of sales this year in the renewable business sector, including photovoltaic (KRW 800bn) and wind power (KRW 400bn).

Mr. Kim suggested new order target of the renewable business sector of this year to $1.29bn, including photovoltaic (KRW 880bn) and wind power (KRW 560bn).

Hyundai will multiply its production capacity within the first half of the year with a completion of expanding and constructing new facilities of the photovoltaic and wind power factories in which Hyundai has intensively invested for the last two years.

Daewoo wins Aker drillships

Korean shipbuilder Daewoo Shipbuilding & Marine Engineering has signed a Letter of Intent (LOI) with Aker Drilling for the delivery of two advanced ultra-deepwater drillships, and the option for delivery of two additional same ships.

The price per drillship, including spare parts, drilling equipment, construction follow up, and activities up to "ready to drill" is estimated at US $600m.

"The LOI for the two drillships provides us with the opportunity to participate in interesting growth areas for drilling operations in ultra-deepwaters in areas such as Brazil, the Gulf of Mexico and Western Africa. The company has already commenced the work to establish an experienced construction follow-up team at the yard and an international, competent operational organization," said president and CEO Øyvind Eriksen in Aker ASA.

Aker Drilling Offshore Services Public Ltd in Cyprus, a wholly owned subsidiary of Aker Drilling ASA, has signed the LOI with DSME for the delivery of the two drillships in the fourth quarter of 2013.

25 percent of the contract value is due at the signing of the final contract agreement at the end of February 2011, and 75 percent will be paid on delivery.

The options with DSME give Aker Drilling the right to have the third and fourth drillships delivered in the second quarter of 2014 and the first quarter of 2015 respectively.

The ships can drill wells up to 12,000 meters deep, at water depths of up to 3,600 meters.

New challenger for offshore: Hyundai Samho

Korea's Hyundai Samho Heavy Industries is entering into the offshore plant market in a full scale, getting out of a single business portfolio of shipbuilding.

Oh Byeong-uk (pictured), representative director and president of Hyundai Samho, has revealed that the yard will lift this year's sales to the level of KRW 4.7tn ($4.2bn) and get involved in the offshore plant business for business diversification.

In particular, the yard will concentrate on manufacturing offshore drilling platforms and other offshore-related units.

The yard's main business items would be offshore plants that its mother company, Hyundai Heavy Industries's Ulsan yard does not carry.

For this plan, the yard will strengthen technical staff of this field in the future.

In terms of Hyundai Samho's current business structure, the shipbuilding sector accounts for 95% of the whole sales.

As seen above, the yard is currently operated centering on shipbuilding, but has already got ready to enter into the offshore plant market since it has successfully built and delivered the FPSO, which Hyundai Heavy Industry received from France's TOTAL in 2007.

Offshore shipbuilding orders keep slumping

In 2010, 167 offshore ships were signed totally. The newbuilding orders kept slumping since 2008. Nearly 90% of them were PSV, AHTS and OSV.

In addition, the wind turbine installation ships became the dark horse, with nine new orders signed in 2010.

The shipyards for offshore ships were spreading over the world but in 2010, most offshore ship orders were caught by China, India, Norway and Brazil.

Chinese and Indian shipyards were always the big players with large share. Norwegian shipyards owned stable orders from abundant compatriot offshore shipowners and had advantage of technology. Brazilian government urged equipment localization and the marine oil filed exploitation storm in the country also triggered lots of offshore orders.

As offshore wind farm developed, more and more wind turbine installation ships came out, with ten-unit signed since the end of 2009. Two of them were jointly built by Polish and German shipyards. The remaining eight units were bagged by Asian yards. Lamprell won three units. Daewoo got two units. COSCO Nantong Shipyards gained one unit. Keppel caught one unit.
Rongsheng installs 1,600-ton goliath

China's biggest private-run shipyard, Jiangsu Rongsheng Heavy Industries, has installed the world's largest-grade 1,600-ton goliath crane on its 4th dock, investing overall CNY 115m ($17m).

The crane features 202 meters in span and 80 meters in height. The yard is planning to improve building efficiency for 400,000-dwt VLOCs, LPG carriers or offshore platforms through the newly installed crane.

The world's largest shipbuilding cranes are owned by China's Yantai Raffles (20,000-ton crane of fixed type), Korea's Hyundai Heavy Industries (1,600-ton crane of movable type) and Japan's Mitsubishi Heavy Industries and Oshima Shipbuilding (1,200-ton crane).

MSC: Say no to 18,000TEU boxships

As is reported earlier, Maersk would sign newbuilding contract to build 18,000TEU boxships in couples of weeks, totaling $2.0bn. At present, Maersk was talking about technical details with shipyards. As is revealed, a Korean shipyard was expected to win the order.

Currently, as Maersk's rival, Mediterranean Shipping Company (MSC) clearly expressed no interest to order 18,000TEU level boxships. Chairman Gianluigi Aponte said there were no such large monsters entering MSC's fleet. In addition, he had no intention to build 18,000TEU level boxships because they were difficult to operate.

Traditionally, the 18,000TEU boxships were called 'Malacca' size boxships and rare port along Asia-Europe shipping route was capable to entertain such sized ships.

As is said, Maersk might order at least ten plus ten 18,000TEU boxships. The design of new ships would adopt new technology.

Aponte said he has no interest on ships above 14,000TEU. MSC had ordered many 14,000TEU boxships, to be delivered in coming two years.

In 2006, Maersk rolled out two 15,000TEU boxships, built by its own shipyard. It triggered escalation fight among shipping lines. MSC was believed to own seven similar sized ships, along with more among 11,300TEU to 13,800TEU ships. Alphaliner predicted 14-unit 12,500TEU to 14,000TEU boxships would enter MSC's fleet this year.

In 2010, the transport capacity of Maersk rose by 5%, at 2.2m TEU. Meanwhile, MSC was expanded by 25% at 1.9m TEU.

Bangladesh scrapping takes another hit

Bangladesh High Court has reportedly directed the government to halt all shipbreaking activity in the country until further notice.

It follows the death of four workers after an explosion on the 50,600-dwt former Great Eastern tanker Jag Pranam (built 1984), the latest accident at a shipbreaking yard in Sitakunda.

The move comes as a further blow to shipbreaking yards in Bangladesh where scrapping has been at a virtual standstill for several months following legal challenges by the Bangladesh Environmental Lawyers Association.

Diana Shipping is among the companies in the marine industry with the best relative performance (DSX, NM, DRYS, GNK, NMM)

Below are the top five companies in the Marine industry as measured by relative performance. This analysis was compiled based on yesterday's trading activity as we search for stocks that have the potential to outperform.

Diana Shipping (NYSE:DSX) ranks first with a loss of 0.91%; Navios Maritime Holdings (NYSE:NM) ranks second with a loss of 1.09%; and DryShips (NASDAQ:DRYS) ranks third with a loss of 1.37%.

Genco Shipping & Trading (NYSE:GNK) follows with a loss of 2.08% and Navios Maritime Partners (NYSE:NMM) rounds out the top five with a loss of 2.41%.

South Korea Rescues Crew and Ship From Pirates

South Korean special forces staged a daring early morning rescue on a hijacked freighter hundreds of miles off the coast of Somalia on Friday, killing eight pirates and rescuing all 21 hostages, the South Korean military said.

President Lee Myung-bak, sharply criticized last year over his government’s response to the sinking of a warship and the North Korean shelling of a South Korean island, reaffirmed his country’s tough stance against pirates and appeared pleased with the operation in a televised statement.

"We will not tolerate any behavior that threatens the lives and safety of our people in the future," Mr. Lee said.

Rescue operations on hijacked ships are rare, with countries often deciding against such attempts over concerns for the safety of the crew. Most shipping companies, in turn, opt to pay the expensive ransoms demanded by Somali pirates to release hijacked ships rather than engage in confrontations.

"The decision to carry out the operation was made to send a message that there will not be any negotiation with the pirates," a military official in South Korea said. He added that while the operation was not free of risk, the military
had confidence it would succeed because “the pirates were exhausted” after a standoff of days.

A naval special forces team stormed the ship, the Samho Jewelry, from a small boat. A nearby South Korean destroyer fired warning shots as the elite force approached the cargo vessel. The battle between South Korean soldiers and the pirates, who were armed with AK-47s, heavy machine guns and rocket-propelled grenades, began just before 5 a.m. local time and lasted five hours.

The operation rescued all 21 crew members, including 8 South Koreans, 2 Indonesians and 11 citizens from Myanmar. Eight pirates were killed and five were captured.

The captain of the ship, a South Korean, was shot in the stomach during the operation, but his condition is not life-threatening, said Col. Lee Bung-woo, a spokesman for the South Korean Joint Chiefs of Staff. The battle left three South Korean soldiers injured, the military said.

The rescue came nearly a week after the 11,500-ton ship was seized by pirates as it was traveling from the United Arab Emirates to Sri Lanka. The ship was captured last Saturday, and was about 800 miles off the coast of northeast Somalia at the time of the rescue operation, Yonhap reported.

On Tuesday, a South Korean destroyer, the Choi Young, pursued the Samho Jewelry and saw pirates aboard the freighter leave the ship to hijack a nearby Mongolian vessel, according to Yonhap.

A standoff between the South Korean naval destroyer and the pirates aboard the Samho Jewelry ensued until Friday morning’s rescue, with the South Korean military sending messages ordering the pirates to surrender.

The Samho Jewelry was the second vessel of South Korea-based Samho Shipping to be hijacked in the past several months. In November, Somali pirates freed the supertanker Samho Dream and its 24 crew after seven months of captivity.

South Korea started dispatching antipiracy patrols to Somali waters in March 2009.

In a military rescue in April 2009, Navy Seal snipers rescued an American cargo ship captain, killing three of his Somali captors.

Pirates in 2010 increased their attacks for the fourth straight year, taking more hostages than in any year on record, according to an annual report on piracy. The Piracy Reporting Center of the International Maritime Bureau said pirates had taken 1,181 people hostage and killed eight in attacks on 445 ships last year. At least 53 ships were hijacked last year, the bureau said.

The waters off Somalia remain the most hazardous for vessels, according to the organization. Ninety percent of ship seizures occurred there last year. By the end of last year, at least 28 vessels with 638 hostages were being held for ransom.

On the same day of the successful South Korean rescue, two other ships were captured by pirates off Somalia, Reuters reported. The European Union Naval Force for Somalia said a Syrian-owned vessel flying Togo’s flag and a Mongolian-flagged vessel with a Vietnamese crew were seized.