Korea second to none in shipbuilding

When it comes to shipbuilding Korea is second to none.

Korea has held top spot for six consecutive years from 2003 to 2009 in overall size of the order book with Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding accounting for over 50-percent of global market share.

According to Lloyd’s World Shipbuilding Statistics, Korea ranked 1st in two of the three key shipbuilding indicators last year with nearly 8.6-million Compensated Gross Tons of new construction orders and 29-million tons of vessel deliveries followed by Japan and China.

CGTs indicate the amount of work that is necessary to build a given ship.

“And Korea’s shipbuilding capacity is projected to surpass 50-million gross tons by next year, which is nearly half of the world’s total shipbuilding capacity.”

Experts attribute the country’s world-class know-how to advanced technology based on strong research and development and low dependency on imports of shipboard equipment which some say are what distinguishes Korean-made vessels from those made in China, Korea’s fast chasing rival.

“Korea didn’t become the world’s best over night. Innovative research was conducted over the course of years, such as building several vessels in a single dock, and building ships in water, which I believe were methods first introduced by Korea. China is chasing top spot, but Korea’s advanced technology, especially in specialized ships, will not be replaced any time soon.”

However, experts also add that Korea’s shipbuilders face tough challenges that are more threatening than before as many shipping firms have either delayed or cancelled deliveries following the global financial crisis, which resulted in an unprecedented plunge in vessel orders.

Although there are some signs of economic recovery, observers agree that Korea must counter the crisis by focusing on value-added vessels that differentiate itself from its competitors and also establish a protection shield to mitigate vulnerability from factors that are uncontrollable, such as currency risks.

Confidence in new orders

Korea’s shipbuilders are lifting their confidence in new orders for next year. Actually, recovery in Korean shipbuilding industry is emerging faster than expected after the severe drought in new orders last year.

One senior officials of Korean shipbuilding industry, also, predicted the restoration in new orders in the second half of this year will steadily go on till next year.

Another officials supported the opinion by remarking "Order target for this year is already out of consideration, and additional fresh orders are expected till next year". He added Korea's shipbuilding companies are well responding to the diversified demand of the shipbuilding market for offshore plant or sorts of a high value vessel.

To be true, the order backlog of Korea’s big four shipbuilders is neither a satisfactory level nor a low level, based on late October. Hyundai Heavy Industries (HHI) is said to have 320 vessels worth $52bn on its orderbook, Samsung Heavy Industries (SHI) 207 vessels worth $39bn, Daewoo Shipbuilding & Marine Engineering (DSME) 199 vessels worth $34bn and STX Offshore & Shipbuilding 304 vessels worth $25.4bn.

In particular, the revival of new orders for boxships, which is an indicator of a shipbuilding industry’s economic condition, is brightening outlook for next year.

While bulk carriers and special vessels were the main contributors to lead the recovery in the first half of this year, boxships would take the title with new orders coming flocking from the second half of this year. Considerable amount of new orders for boxships is expected until the end of 2010 and the beginning of 2011.

One observer said “new orders for containerships will increase in earnest next year because new orders in 2009 and 2010 had already bottomed out”.

To be sure, the boxship market shows a steady growth in new orders and ship prices as of Q3 of this year.

A welcome rain is falling across Korea's shipbuilders. SHI won new orders for 20 containerships of 8,000TEU class, and DSME and STX are also joining the new order parade. Plus, Hanjin Heavy Industries & Construction has recently won new orders for eight containerships of 3800TEU class.

According to Jeon Young-beom, a researcher of Solomon Securities, only 16 containers were ordered in 2009 and 67 in 2010 worldwide. However, the market condition of containerships has gradually been recovering from the slump since this year and will enter full-fledged recovery cycle next year when the world's shipping companies set up their stable profit structure.
On the other hand, some have opposing views. They argued the recent growth in new orders is signs for Korean shipbuilding industry to enter its recovery cycle. And any marked advances in the market situation have not been made yet, except for the slight increase in new orders. Therefore, it would be a half-baked idea to predict a pickup in new orders next year.

**Samsung keeps No.1 by orderbook**

Korea’s Samsung Heavy Industries (SHI) has retained its No.1 world ranking in the orderbook, followed by Hyundai Heavy Industries (HHI) and Daewoo Shipbuilding & Marine Engineering (DSME), which are in competition for the No.2 position.

According to Clarkson Research Services, SHI recorded its order backlog for 8,509,000 CGT (201 vessels) as of November 1st, HHI (including Gunsan Shipyard) for 7,792,000 CGT (205 vessels) and DSME for 7,325,000 CGT (170 vessels).

SHI’s backlog stood at 8,888,000 CGT (210 vessels), which was about 1,200,000 CGT more than HHI’s and DSME’s, as of October 1st. However, SHI’s backlog decreased by 379,000 CGT during the month of October.

DSME’s order backlog of 7,679,000 CGT (175 vessels) as of October 1st, also decreased by 354,000 CGT during the same period.

Meanwhile, HHI recorded a 176,000 CGT increase on the 7,616,000 CGT (200 vessel) order backlog a month earlier, narrowing the gap with SHI from 1,272,000 CGT to 717,000 CGT.

**Samho to add two more**

A Turkish player is in close talks for a further pair of bulkers at Korea’s Samho Shipbuilding.

Turkey’s Ciner Group will take delivery of its first vessels by the end of this year but is already gearing up its expansion with orders for 10 more ships in 2011.

Ciner chief executive Vasileios Papakalodoukas says the group is in close discussions with Samho Shipbuilding for two more handysizes similar to the first four it booked in December last year.

“We think we may conclude that business by the end of November,” he said.

Earlier this year, Papakalodoukas said that the first quartet was booked for around $24.5m each. Although negotiations are still ongoing, he reckons the new pair will cost a little more. He adds that they are not resale contracts but a relatively prompt delivery date, by the end of 2011, is expected.

The first in the original four-ship series, to be named Zafer, will be delivered before the end of this year and the second, called Faith, in early 2011. Both have been fixed on an index-linked charter to Pacific Basin for three years. The remaining two ships, the Atilla and Kenan, will be delivered before the end of April.

**Daewoo-Mangalia wins kamsarmax pair**

Dalnave Navigation of Greece looks to be taking its first plunge into the newbuilding market.

The company is said to have booked a pair of kamsarmax bulkers at Daewoo-Mangalia Heavy Industries in Romania for delivery in 2010. The vessels are understood to be costing $37m each.

The Lloyd’s Register/Fairplay newbuilding database lists two 81,970-dwt vessels, Hull Nos 1053 and 1054, on order at the Romanian yard for, respectively, Iruzú Management Trading SA with delivery in February 2012 and Arenal Oceanway Trading Inc with delivery in May 2012.

These two companies appear to be single-ship owning entities.

**Hyundai-Vinashin wins handymax pair**

Hyundai Merchant Marine (HMM) has given Vietnam’s struggling shipbuilding industry a much-needed shot in the arm with the country’s first export order in almost two years. It has signed up for a pair of 59,800-dwt bulkers at Hyundai-Vinashin Shipyard.

No pricing details have been disclosed but the South Korean shipping giant has managed to secure early delivery dates. The first vessel is due in January 2012 and the second a month later.

Hyundai-Vinashin is a joint venture between Korea’s Hyundai Heavy Industries and local shipbuilding group Vinashin. It was set up initially as a large repair facility but branched out into shipbuilding in 2007.

The yard kicked off with a 13-vessel order for 55,800-dwt bulkers for ER Schiffhart of Germany and followed that up with other bulkers orders from companies such as Geden Lines, ESL Marine, Interorient Navigation and Norden.

Hyundai-Vinashin, like many other yards in Asia, has seen numerous orders cancelled including five 20,000-dwt general cargoships from Vinashin Maritime Co that were supposed to have been delivered in 2011.

**Big3 win $12bn offshore plants**

Korea’s big three shipbuilding companies - Hyundai Heavy Industries (HHI), Samsung Heavy Industries (SHI) and Daewoo Shipbuilding & Marine Engineering (DSME) – have seen the new orders for offshore plants exceed $12bn in total since the beginning of this year.

The new orders for the offshore plant, the big three have received so far this year, are estimated at $12.1bn, which is equivalent to 35.4% of all the new orders of the shipbuilding and offshore sectors of $34.09bn.

This number has already surpassed the annual new orders for offshore plants last year. If the big three continue to spur new orders in this sector, the amount will be likely to exceed the record of $14.9bn obtained in 2008.

HHI has already won new orders for offshore plants worth $4.8bn, DSME for $4.26bn and SHI for $3bn.
Considering the fact that the big three have been obtaining more new orders all the way into November, by the end of this year, the total amount of new orders of the big three could still increase even further.

These big three recorded new orders worth $16.25bn for offshore plants in 2007 and $14.9bn in 2008, but they barely reached $7.5bn last year in the wake of the global financial crisis.

However, the upturn of oil prices has fueled many oil companies to be more active in their business. According to one insider, orderers for offshore plants, such as oil majors, were not as negatively influenced by the financial crisis as the shipping companies were. Therefore, the continuing rise in oil prices would trigger more new orders for offshore plants for next year.

Equip makers eye Chinese market

Korean marine equipment makers are aggressively tapping into Chinese shipbuilding market, which is emerging fast under strong government support.

Chinese shipyards rank No. 1 in new orders and shipbuilding output worldwide but home production rate of ship parts is very low and Korean equipment makers aim to expand exports to China.

Shipping & Business News

Greek invest $6.4bn in 231 newbuilds

Undeterred by repeated warnings of a future oversupply of vessels, Greek shipowners ordered a whacking 231 ships totalling 25.9 million dwt in the first 10 months of this year, according to newly released data.

Taking into account some deals completed on a private and confidential basis, Piraeus broking house Golden Destiny SA estimates that Greek owners invested a total of $6.4bn between January and the end of October.

Preferred market segments were bulkers and tankers, with some containerships and a handful of gas tankers booked.

Golden Destiny calculates that there were 142 orders for bulkers of 12.4 million dwt, while an almost similar deadweight accounted for 65 tankers booked.

On the dry-bulk side, kamsarmaxes continue to be the preferred size, with a total of 71 booked, 63.3% of them at South Korean yards.

A total of 25 handysizes were inked and at the other end of the range, 21 capesizes were booked.

In each case, 14 of the ships went to Chinese yards, which have now taken the lead in dry-bulk orders from Greek owners with 72 out of the total booked, as compared with 65 that went to Korean yards.

Korea still holds a firm lead, however, in the tanker sector.

Golden Destiny calculates that including LNG and LPG-carrier orders, a total of 70 tanker contracts were placed in the 10 months, 48 going to Korean yards.In the containership sector, Chinese yards bagged 17 of the total 19 orders placed. No orders at all were recorded in liners, reefer, passengerships or cruiseships, Golden Destiny adds.

The broker also notes that the pace of Greek ordering slacked off after the summer, with bookings in September and October standing at 11 and 13 ships, respectively, with containerships representing the largest share.

Who orders ships?

In 2010, the shipping market seemed to have stepped out of depression and began to rebound. However, different views occurred on forecast.

How will the market go on in 2011? Chairman Wei Jiafu of China’s COSCO Group said the BDI was believed to hit 3,500pts next year while others were comparatively optimistic, most of whom eyed on 2,500pts.

Another question is how to keep the step of recovery? The big shipowners expected fewer orders but the new orders were erupting. Secretary Torben C.Shaanild of BIMCO indicated that the government should not save the shipyards.

‘They (Western countries) have enough ships but we don’t,’ returned by Vice General Manager of CSIC.
Chairman Xie Zhijian of Evergreen Marine supported Wei Jiafu’s views. He said the Far East area successfully passed global financial crisis by huge demand and free trade The cargo volume of costal shipping market just slumped by 2.6% while it surged by 16.9% in the first half of this year. The statistics was far better than that of western countries.

However, Torben C.Shaanild said that’s not enough and the reboud of western market was essential in case of overall recovery. Otherwise the market might drop into crisis again.

According to Clarkson statistics, the orderbook of global dry/bulk cargo ships reached 3.333 ships of 292m dwt in May, occupying 60% of global transport capacity. The remaining delivery orders of this year also hit 93.9m dwt, many of which were delayed. The new orders from January to October reached 95.12m dwt.

Who orders these ships?

The leaders of COSCO, Sinotrans, Evergreen and China Merchant Group all denied fleet expansion plan in this year. But the fact seemed different.

Evergreen launched ‘100 newbuilding plan’ in June of this year. China Shipping ordered one more 48,000 bulk carrier. COSCO Shipping announced the group would order 18 MPPs and heavy lifters. In addition, COSCO Group had sighed seven bulk carriers and boxships with Greek local shipyards.

Dong Qiang said China was proceeding re-structuring so it needed huge number of ships.

During January to September, China’s new orders hit 50.71m dwt. At the same period of last year, the figure was only 16.92m dwt. Chinese new orders occupied 45.6% of global share.

**Rongsheng enters Hong Kong Stock Exchange**

On November 19th, Rongsheng which is China’s largest private shipbuilder was listed on Hong Kong exchange. Rongsheng intended to issue 1.75bn stocks totaling HKD14bn ($1.67bn). Rongsheng thought currently global economy walked on the way of recovery and they kept caution on risks. Meanwhile, Rongsheng would exploit more hi-tech ships by philosophy of energy-saving and low carbon. Rongsheng also considered purchasing some stock of marine equipment manufacturers.

Rongsheng was established in October of 2005 which mostly focused on shipbuilding and low-speed marine engine. In 2006, Rongsheng signed its first shipbuilding contract to build six Panamax bulk carriers. That meant actually the development history of the company was only four years.

According to prospectus, the net profit in the first eight months of this year was just CNY1.12bn (CNY668m). By September, Rongsheng took 2.2m dwt new orders, occupying 4.7% of global shipbuilding orders.

According to Clarkson statistics, Rongsheng ranked 2nd in China of this year, in terms of new order intakes A leader of Rongsheng said the market was believed to enter recovery stage. The orders of this year would be increased by 50% against that of last year.

**Rongsheng shares fall on debut**

Shares in China's Rongsheng Heavy Industries Group closed down on their offer price on their first day of trading on the Hong Kong Stock Exchange.

The Chinese shipbuilder’s shares closed at HK$7.96 per share compared to an offer price of HK$8.

The company raised HK$14bn ($1.8bn) from the offering.

“We are confident about growth in the shipping industry,” Chen Qiang, Rongsheng CEO, told reporters.

He also said he expects “bigger growth” in the company’s offshore engineering business.

**Brazil to grant $7.6bn shipbuilding financing**

Brazil’s Merchant Marine Fund, part of the Transport Ministry, may approve 13bn Brazilian reais ($7.6bn) of financing for new shipbuilding projects at a meeting on Dec. 17, fund director Amayura Ferreira Pires Neto said.

A total of 165 newbuilding projects will be considered for the funding, and these may be completed within the next four years, Pires Neto said.

Projects can get up to 90% financing, he said at a press conference in Rio de Janeiro.

Over the past eight years, since the start of the government of President Luiz Inacio Lula da Silva, the fund has approved financing of BRL17.3 billion for 406 shipbuilding projects. The fund has BRL15 billion available in the Brazilian treasury and a further BRL4.8 billion that has been made available by government decree, Pires Neto said.

One of the fund’s users is oil giant Petroleo Brasileiro SA’s transport arm Transpetro, which is investing BRL10 billion on 49 new oil tankers for delivery between 2010 and 2015 for Petrobras’ expansion program.

Before 2000, the merchant marine fund granted less than BRL1 billion a year in financing due to lower demand, Pires Neto said. “There’s been a fantastic leap in shipbuilding activity and this may intensify further in coming years,” he said.