NEWSLETTER
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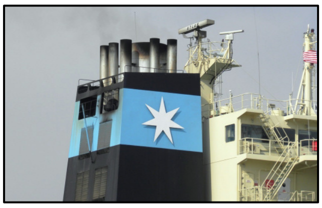
Maersk facing losses as freight rates plunge

A.P. Moeller-Maersk A/S said its container shipping line, the world's biggest, will lose money this year, lowering a previous forecast of a "modest" profit as freight rates plunged. Maersk posted a third-quarter net loss of 1.58 billion kroner ($293 million) compared with profit of 5.9 billion kroner a year earlier, the Copenhagen-based company said today. Its parent, which also owns the Nordic region's second-largest oil company, reported profit that missed analyst estimates.



Freight rates are falling because the container shipping industry has added too many ships in anticipation of an economic recovery. Maersk Line, which transports about 16 percent of the world's manufactured goods by sea, said today that higher global container demand has not been able to offset oversupply. "The loss in the container business is bigger than expected and the oil and gas unit has a smaller profit than expected,"

Janne Vincent Kjaer, an analyst at Jyske Bank A/S, said in a note. "Maersk Line faces large challenges with falling freight rates and higher bunker fuel costs." Kjaer, based in Silkeborg, Denmark, kept a "buy" recommendation on Maersk's stock. Maersk fell as much as 3.7 percent in Copenhagen trading. The shares were down 3.2 percent at 33,800 kroner as of 12:16 p.m. extending their loss for this year to 33 percent.

'Significant Losses'

Maersk Line transported the equivalent of 2.1 million 40- foot containers in the three-month period, a 16 percent increase. Rates were 12 percent lower on average, including fuel surcharges, it said. The company had lowered its forecast in August for the container unit to a "modest" full-year net profit compared with a May prediction of a "satisfactory" profit.

The global container industry will have "quite significant losses" this year, while Maersk Line will have a relatively lower loss than peers, Chief Executive Officer Nils Smedegaard Andersen said today in a television interview with Bloomberg's Francine Lacqua. "Everybody was gearing up for the peak season in the third quarter and the peak season didn't occur," Andersen said, adding that shipping lines added too many vessels. "We're destroying the price levels for ourselves."

Missed Estimate

The global container fleet expanded by 224 vessels with a combined capacity of 1.6 million 20-foot containers in the first nine months of the year, Maersk said. The parent company said that third-quarter net income plunged 82 percent to 1.64 billion kroner. That missed the 2.55 billion-krone average estimate of 10 analysts surveyed by Bloomberg. Sales fell 0.6 percent to 80.8 billion kroner.

The company forecast full-year net income before minority interests of $3.1 billion to $3.5 billion, including gains from the sale of its U.K. supermarket unit. Maersk's oil and gas unit was the company's biggest profit contributor in the third quarter. The division reported a 28 percent decline in net income to 1.79 billion kroner as exploration costs rose and production in maturing North Sea fields declined.

Yang Ming mulls order of five 1.,000 TEU vessels

Yang Ming Marine Transport Corp's possible order of mega-vessels could help prevent the company from being squeezed out of Asia-Europe trade amid a fiercely competitive market, Citigroup said yesterday. Yang Ming's possible order of five 16,000 twenty-foot equivalent unit (TEU) sized vessels is a "necessary and defensive move to maintain its market position in Asia-Europe trade," despite the current global slowdown and the company's weak balance sheet, Citigroup Global Markets analyst Rigan Wong said in a note issued yesterday.

The Hong Kong-based Wong said it was an unavoidable development for Taiwan's No. 2 container shipper to double the capacity of its current 8,000-TEU vessels because Yang Ming's major rivals are already deploying larger and more cost-efficient ships. It is "better late than never" for Yang Ming, Wong wrote. Sluggish demand amid a global slowdown and soaring fuel prices resulted in Yang Ming reporting NT$2.69 billion (US$89.3 million) in net losses, or NT$0.86 per share, for the third quarter, marking its second straight quarterly loss.

In the first nine months of the year, the firm's accumulated losses totalled NT$5.3 billion, the company's data showed. Despite these figures, Yang Ming chairman Frank Lu said on the sidelines of a legislative session on Thursday that he planned to submit a proposal to the company's board of directors this week to order five ships capable of carrying up to 16,000 TEU containers. The Chinese-language Commercial Times quoted Lu as saying that the proposal would be sent to the board today and, if approved, would cost the company an estimated NT$22.5 billion for the five vessels.

The newspaper said Yang Ming is likely to place the order with CSBC Corp, Taiwan, the nation's biggest shipbuilder, and the first ship would be delivered in 2015, citing unnamed CSBC officials. Shares in Yang Ming rose 2.8 percent to NT$12.85 on the Taiwan Stock Exchange yesterday, outpacing the 0.24 percent rise in the TAIEX. So far this year, the stock has dropped 54.51 percent, compared with a decline of 15.05 percent in the benchmark index over the same period.

Citigroup said investors should be cautious about the news as details of the order have yet to be finalized and investors should take into account Yang Ming's loss of market share in Asia-Europe trade until the new mega-vessels are delivered, it said. In addition, there is also concern about Yang Ming's ability to secure favourable financing terms for these vessels given the current restricted credit environment and the potential financial impact on the shipper's weak balance sheet, Citigroup said.

"This potential order could strain Yang Ming's already stretched balance sheet," Wong said in the note. More positively, Yang Ming could gain favourable terms from CSBC or receive support from its major shareholder, the Ministry of Transportation and Communications, the note said.

Grand Alliance to suspend one of its FE-North Europe loops

Grand Alliance (Hapag-Lloyd + NYK + OOCL) is to suspend one of its four own Far East-North Europe loops in order to adjust its capacity due to the depressed market conditions compounded with the winter seasonal lows. The Loop D (30715) is to be suspended, effective next week. This loop is also used by COSCO (under a slot exchange agreement).

The last westbound sailing will be ensured from Busan on 06 November with the OOCL CHINA and the last eastbound sailing is planned from Southampton on 09 December. The Loop D is the smallest of the GA loops and is also the smallest of the current loops to North Europe. It is ensured with ten ships of 5,300-6,700 teu offering a weekly capacity of 5,840 teu, according to Alphaliner figures. The three other loops are ensured with a total of 32 ships of 8,000-9,600 teu.

Japanese shipping lines considering fusion

Koichi Muto, The President of MOL, for the first time suggested that the three large Japanese shipping companies could merge to stand together stronger. NYK Line, MOL and "K" Line originally were born out of number of fusions, but have each a separate context. So far a fusion seemed 'not done', even when some found that three large shipping companies for a country, the size of Japan was already an overflow.

MOL has the largest container fleet of three, but stands only on the tenth place in the top 20 of worldly largest container shipping companies. NYK and K Line follow on a eleventh and sixteenth place. The three shipping companies suffer at present a significant loss. With a relatively small market share the Japanese ship-owners must face the heavy competition of the world's top 3 carriers (Maersk Line, MSC and CMA CGM). If they would merge, the combination of their current container fleets would put them on the fourth place.

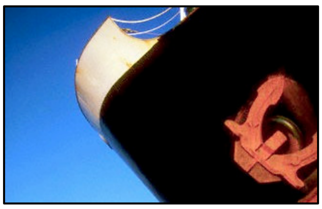
To remain competitive on the Far East / North Europe tradea, the three Japanese shipping companies must invest in ultra large container ships (ulcs). Ten ships of that format demand an investment of one and a half billion dollar, the MOL CEO says. At the present we can't afford this. Nevertheless, to be able to run such tonnages, MOL and NYK closed charter agreements with their alliance partners APL and OOCL. For all clarity: presently there are no discussions regarding a possible merge.

The fact that MOL suggests the possibility however, is in itself already large news in shipping world. A possible fusion would possibly lead to a large shift of the current cooperation bonds in the shipping. All three Japanese shipping lines are member of several alliances. NYK form with Hapag-Lloyd and OOCL the Grand Alliance, MOL is, just like APL and Hyundai Merchant Navy, member of the New World Alliance, and K Line finally is active via the CKYH Green Alliance on the east/west-routes, which also still includes Cosco, Hanjin and Yang Ming.

Idle container capacity rising by 50%

Idle container capacity is expected to increase by around 50% over the next two months, to reach 600,000teu by early January, according to the latest forecast from Alphaliner. Having reached a recent low of around 100,000teu earlier this year, the volume of idle container capacity has been on the rise as freight and charter rates weakened and boxship owners and operators have found it harder to employ their vessels.

"The hefty imbalance between supply and demand leaves carriers with surplus tonnage that they will have to lay up, at least until volumes start to pick up again after the lunar new year," Alphaliner says in its latest weekly report. It estimates that at present, the idle containership fleet has risen to 398,000teu, made up of 185 ships. Out of these, 50 are controlled by carriers, while the rest belong to non-operating owners. "Owners of panamax tonnage are under increasing pressure as demand for ships of this size have strongly declined following service reorganisations favouring larger ships," the report adds.



The statistics show that of the 185 idle ships, only one has a capacity of above 7,500teu and only seven are sized between 5,000 and 7,500teu. The 1,000-2,000teu capacity vessel sector has the largest number of idle ships – 68. Although not up at the highs of 2009, when the containership sector was suffering from the worst year in its history, the pace at which the idle fleet grows is accelerating.

Following the global financial crash of September 2008, when trade credit was frozen and containership demand plummeted, a huge volume of capacity was put into lay-up. For most of 2009, the idle fleet did not dip below 1.2 million teu of capacity, and reached a peak of over 1.5 million teu late that year and in early 2010, Alphaliner statistics show. However, these numbers quickly fell away last year, as the boxship market appeared to be bouncing back and lines reactivated vessels into service, only for the sector to take a downturn this year.

A significant fall in consumer demand from Europe and the US, due to an uncertain outlook for the global economy, has reduced the volume of cargo retailers have wanted to ship on the main trade lanes out of Asia. The transpacific trades in particular have suffered from lower demand, pushing four newcomers out of the market only two years after they started services. TCC, CSAV, Horizon Lines and Grand China Shipping have all withdrawn their transpacific services.

This leaves Hainan and TS Lines, which are struggling to maintain their presence and have slimmed down their joint services among the newcomers operating on the transpacific routes. A report in IFW's sister publication Lloyd's List says the combined Asia-US share of the six new entrants peaked at 5% in July and is forecast to fall to 1.5%.

Clarksons Securities freight derivatives broker Ben Gibson has said that the exit of the four carriers would lead to a stabilisation of rates, which has started to take place over the last fortnight as the Shanghai Containerised Freight Index, World Container Index and Drewry's transpacific box freight rates have moved back up above $1,500 per feu. He added that, in general, cargo volumes were decreasing in line with seasonal expectations following a disappointing peak season and the end of the Christmas and Thanksgiving ordering season.

Alphaliner's idle fleet forecast is similar to estimates made by Macquarie Equities Research, that laid-up capacity would reach 5% by the end of the year, up from 0.6%.