Hong Kong debate makes the case for geared eco ultramaxes

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Where to spend $10m as a shipping investor? That was the question posed today to a diverse panel attending a Young Professionals in Shipping Network (Hong Kong) gathering entitled: Building a successful shipping start up. The six panellists were divided with opportunities championed in diverse sectors from dry bulk to river cruiseships.

Kicking off proceedings, Khalid Hashim, from Bangkok-listed Precious Shipping, made the case for geared secondhand ultramaxes.

“Values are very, very low, the forward book in terms of newbuildings is falling very quick. In that orderbook slippage factors are very high and virtually no new orders are being placed,” Hashim said. Moreover, supply will come down further with upcoming regulations including 2017’s ballast water treatment rules coming into place.

The demand side is better than the general media has been reporting, Hashim argued.

“China is not slowing down,” he said.

This year will see more than 1bn tonnes of iron ore imported into China. Coal imports will likely end up 18% this year and steel production is up too.

Geared ultramaxes, Hashim said are pound for pound the best ship money can buy. Avoid newbuildings, buy secondhand if you can, he added.

Up next, Nils Kristian Kodval, head of ship finance for Greater China at Standard Chartered Bank, argued $10m could best be spent in the sub-3,000 teu container sector, which has grown “quite moderately” over the last 20 years, he said, with annual growth of just 2.5%. The trade for this ship type has been growing with intra-Asia, for instance, growing by 5 to 6%. Freight rates for these ships have bottomed out and are starting to pick up, Kodval argued citing the big need for feeder ships.

“It is challenging as there are strong regional players and it is hard to penetrate,” he did caution however.

Creating some humour in his pitch, Gary Wong, a partner at law firm Ince & Co, said he’d invest his $10m in a luxury mega yacht. He said it was a big, growing market and was “sexy and interesting”. Moreover, if it failed, at least you would fail in style.

Karan Talwar, a principal at KPMG China, argued in favour of MR product tankers. “The tanker industry has been a bit of a bright spot … I believe in MRs because of temporary imbalances that will go on in the future,” Talwar said. He urged investors to pick an elderly ship, ten years plus. In terms of the demand picture, Talwar pointed out the vast number of new refineries coming online. Looking at the orderbook, Talwar noted MR supply is not as high as the LR1 and LR2 sectors. “Good deals are available in the market,” he stressed.

Alex Yan, the vice general manager at CSSC Shipping, the Hong Kong leasing arm of China’s state-run shipbuilding conglomerate, told delegates it was best to put money into a niche sector. He plumped for river cruiseships, trying to convince delegates showing that this sector had seen a 29% growth over the past four years in terms of passenger volumes, with strongest growth seen among Chinese holidaymakers. Yan would aim for a 150 passenger river cruiseship, aimed at Asian destinations, something that could make revenues of $40,000 a day with opex and capex costs totalling around $22,000.

Finally, Kenneth Koo, the chairman of Hong Kong line TCC Group chose to eschew pumping money into a ship type, instead opting to invest in new holistic emission cutting technology.

“The clock is ticking when it comes to the environment,” Koo said. Diesel engines have not changed for decades, he claimed, saying that they still burn just 50% of the fuel.

“We need to look at how to burn fuel efficiently. There are a lot of peripheral solutions – scrubbers, fins, propellers, etc, but when the market comes back these solutions will go out the window. If we can increase combustion efficiency from 50% to 70% – this is a virgin area that has not been addressed,” Koo said in his pitch. Koo’s firm is investing in new engine technology at the moment along with a university in California.

In the end, the 100-odd delegates attending the event voted most for the two owners’ ideas on the panel, with Hashim’s ultramax just beating out Koo’s environmental technology bid.

The two owners then gave tips on what to look for when making this investment.

Hashim urged delegates to invest in a secondhand ship. A three year old vessel can be 50% cheaper than a newbuild, he said. Check the ship’s class record and make sure it has had just one owner, Hashim suggested.

“Identify something value added that will attract customers, charterers,” Koo then added, “Something that provides a definitive solution to a problem such as for ships trading in and out of ECAs.”

Brokers in the audience said a three-year-old Chinese-built ultramax could now be bought for around $12m. Opex for this ship type today stands at around $5,000 and rates are in the $7,000 a day range.

If this investment, dubbed Acorn Shipping, starts out with just one ship, then Hashim urged that the ship should be farmed out to a reputable third party shipmanager.

Hashim, when quizzed how large he would look to grow the start up over its first 10 years, was aggressive, saying 25 ships, whereas Koo was more conservative – and by extension pessimistic on dry bulk prospects – suggesting a fleet of five or six ships after 10 years would be fine.

One delegate, Arthur Bowring, outgoing managing director of the Hong Kong Shipowners Association, said a combination of the two most voted for investments – ultramaxes and environmental technology – was a winning one.

“Combine the two,” Bowring said, “You will be beating the market come 2020 when sulphur regulations comes in. Your operational costs will be so much lower than others that banks will look at this as an attractive offer.”

Today’s debate was one of more than 40 taking place during Hong Kong Maritime Industry Week.