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BMI Industry View

Vietnam's export outlook will continue to be bolstered by China's growth outlook over the short and medium term. Although we project China's economic growth to slow over the medium term, the real GDP growth is still robust, estimated at 7.5% in 2013 and 6.4% over the medium term, which should have a beneficial impact on the shipping sector in Vietnam.

Vietnam plays a key role in China's coal supply chain. The country is China's fifth-largest coal exporter, providing the country with the thermal coal it requires for its power stations. Vietnam's role in this supply chain looks set to continue, although BMI highlights that China is trying to decrease its power sector's reliance on coal. While we believe that coal-fired power plants' percentage in China's energy mix will slip over the medium term, it will remain above 70%.

Vietnam's ports and shipping sectors play a role in the global dry, liquid and container sectors. As highlighted earlier, Vietnam plays a considerable role in China's coal supply chain, with the dry bulk commodity being shipped out of Vietnam and into China's main coal port of Qinhuangdao. Vietnam is an oil-producing nation, but its consumption needs have come to outweigh its supply and so the country is making use of the liquid bulk shipping sector for the import of oil.

It is in the container shipping sector that Vietnam has seen the most development - a trend which is expected to continue. As Vietnam has become the factory of Asia, with an emphasis on the development of clothing and shoe exports, the country's ports and shipping links have had to keep up. As mentioned, considerable investment was ploughed into Vietnam's container terminal sector over the last five years, with international players participating. This investment is now starting to yield results, with Vietnam now directly connected to the key demand market of the US (in 2009) and Europe (in 2010).

The development of Vietnam's liner connections is highlighted by data from UNCTAD's liner connectivity index. In 2004, Vietnam was ranked lowest out of its 14 Asian peers in terms of container line connectivity. By 2012 it had jumped up the rankings to eighth place among its 14 Asian neighbours.

The Port of Ho Chi Minh City remains by far the country's main port and will also be Vietnam's outperformer in terms of year-on-year (y-o-y) tonnage handled in 2013 - forecast to increase 7.56% this year to reach 38.75mn tonnes, compared with the Port of Da Nang's predicted annual growth of 4.26% (4.16mn tonnes). On the other hand, it will be the Port of Da Nang that will enjoy the higher levels of
annual growth in terms of containers handled, with double-digit y-o-y growth forecast in 2013, as opposed to the Port of Ho Chi Minh City's protracted growth of 7.95%.

**Headline Industry Data**

- 2013 tonnage throughput at the Port of Ho Chi Minh City is forecast to grow 7.56% to 38.75mn tonnes.
- 2013 tonnage throughput at the Port of Da Nang is forecast to increase 4.26% to 4.16mn tonnes.
- 2013 container throughput at the Port of Ho Chi Minh City is forecast to rise 7.95% to 3.58mn twenty-foot equivalent units (TEUs).
- 2013 container throughput at the Port of Da Nang is forecast to increase 10.36% to 133,154TEUs.
- 2013 total trade real growth is forecast to increase 5.60%.

**Key Industry Trends**

*Global Economic Pick Up To Support Ho Chi Minh Port Growth:* Annual tonnage throughput growth at the Port of Ho Chi Minh is set to come in at a very healthy 7.56% in 2013. This faster rate of growth is in keeping with our macroeconomic outlook on Vietnam, where we forecast that real GDP growth will accelerate from 5.0% in 2012 to 7.0% in 2013.

*Growth Potential In The New Factory Of Asia:* Vietnam's shipping sector is set to benefit not only from the steady growth outlook of its two main trade partners, the US and China, as well as an uptick in domestic growth. Vietnam's logistics sector has been developing to keep up with the country's increasing role as Asia's factory, especially in the manufacturing of clothing and shoes. Vietnam's connections to its key export partners has been improving over the last three years, with the country now boasting direct container line services to the US and Europe.

*Transport Ministry Opens Cai Mep Thi Vai International Port:* The end of January 2013 saw the opening of the Cai Mep Thi Vai International Port in the southern province of Ba Ria Vung Tau. The port, which has been designed to fulfil the rising demand of container shipping in the south, is the country's deepest and biggest seaport. The port project, worth around US$620mn, will also open direct shipping channels with other domestic and international ports globally, thereby reducing the intermediate and transit shipping expenses.
Key Risks To Outlook

We have witnessed a strong PMI reading of 51.6 in China, up from 50.4 in February, signalling that robust demand from the Chinese economy could lend some support in boosting Vietnam's exports over the coming months. Meanwhile, the infrastructure sector is expected to continue to enjoy robust growth as the government accelerates spending on infrastructure projects to meet the country's need for a more efficient transportation network and logistical infrastructure to support long-term growth.

The construction of the deepwater Lach Huyen Terminal in Haiphong, which is scheduled to start in April 2013, provides upside risk to our forecasts over the medium term. The US$1.2bn, 900,000 twenty-foot equivalent units (TEUs) joint venture between Vietnam's Vinalines and Japan's Mitsui OSK Lines, Nippon Yusei Kaisha and Itochu is a historic one in that it is the first public-private project in Vietnam. The project is likely to be operational in 2015 and once completed will be able to accommodate vessels with a capacity ranging between 8,000TEUs and 9,000TEUs. The new facility - which is intended to be the gateway port to northern Vietnam - will be situated 100km north east of Hanoi and is likely to help in easing port congestion in Haiphong.
SWOT

Shipping

**SWOT Analysis**

**Strengths**
- Vietnam's location by the South China Sea gives the country access to the main inter-Asian shipping routes, allowing it to meet its trading needs.
- Vietnamese facilities feature as ports of call on Maersk Line, MOL, Hanjin Shipping and APL services.

**Weaknesses**
- Significant outside investment is required for the country to match expected export growth over the next few years, despite a surge in state investment led by a US $4.5bn government port investment programme.
- Decades of underinvestment have left Vietnam with a port infrastructure system ranked 97th out of 139 countries by the World Economic Forum's Global Competitiveness Report.
- Overcapacity is a looming spectre over the country’s shipping sector and is an issue that must be addressed.
- Following three years of delays and due to state overseers failing to raise US$3.6bn in foreign and national investment, the construction of Van Phong International Transshipment Port was halted at the behest of the Vietnamese Transport Ministry. The decision to shelve the planned port - originally proposed to be completed by 2020 - was undertaken by the Vietnamese Deputy Prime Minister, Hoang Trung Hai and was made public in September 2012.

**Opportunities**
- There is growing international interest in Vietnam as a growth market within the box shipping sector, catering for rising exports of manufactured goods to Western markets.
- The Ministry of Transport plans to invest US$4.5bn in developing port infrastructure by 2012.
The steady recovery in Vietnam’s trade volumes from the 2009 downturn is set to continue.

Vietnam and France entered into an economic dialogue in April 2013 in Hanoi to discuss the strengthening of bilateral economic ties, especially in trade and investment.

Threats

The South China Sea territorial dispute with China, combined with widespread anti-Chinese sentiment in Vietnam, is a significant political risk factor to bilateral trade and investment.
Political

SWOT Analysis

**Strengths**
- The Communist Party of Vietnam remains committed to market-oriented reforms and we do not expect major shifts in policy direction over the next five years. The one-party system is generally conducive to short-term political stability.
- Relations with the US have witnessed a marked improvement, and Washington sees Hanoi as a potential geopolitical ally in South East Asia.

**Weaknesses**
- Corruption among government officials poses a major threat to the legitimacy of the ruling Communist Party.
- There is increasing (albeit still limited) public dissatisfaction with the leadership's tight control over political dissent.

**Opportunities**
- The government recognises the threat corruption poses to its legitimacy, and has acted to clamp down on graft among party officials.
- Vietnam has allowed legislators to become more vocal in criticising government policies. This is opening up opportunities for more checks and balances within the one-party system.

**Threats**
- Macroeconomic instabilities in 2012 are likely to weigh on public acceptance of the one-party system, and street demonstrations to protest economic conditions could develop into a full-on challenge of undemocratic rule.
- Although strong domestic control will ensure little change to Vietnam's political scene in the next few years, over the longer term, the one-party-state will probably be unsustainable.
- Relations with China have deteriorated over recent years due to Beijing's more assertive stance over disputed islands in the South China Sea and domestic criticism of a large Chinese investment into a bauxite mining project in the central highlands, which could potentially cause wide-scale environmental damage.
Economic

SWOT Analysis

**Strengths**
- Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.1% annually between 2000 and 2012.
- The economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 14.0% in 2010.

**Weaknesses**
- Vietnam still suffers from substantial trade, current account and fiscal deficits, leaving the economy vulnerable to global economic uncertainties in 2012. The fiscal deficit is dominated by substantial spending on social subsidies that could be difficult to withdraw.
- The heavily-managed and weak currency reduces incentives to improve quality of exports, and also keeps import costs high, contributing to inflationary pressures.

**Opportunities**
- WTO membership has given Vietnam access to both foreign markets and capital, while making Vietnamese enterprises stronger through increased competition.
- The government will in spite of the current macroeconomic woes, continue to move forward with market reforms, including privatisation of state-owned enterprises, and liberalising the banking sector.
- Urbanisation will continue to be a long-term growth driver. The UN forecasts the urban population rising from 29% of the population to more than 50% by the early 2040s.

**Threats**
- Inflation and deficit concerns have caused some investors to re-assess their hitherto upbeat view of Vietnam. If the government focuses too much on stimulating growth and fails to root out inflationary pressure, it risks prolonging macroeconomic instability, which could lead to a potential crisis.
- Prolonged macroeconomic instability could prompt the authorities to put reforms on hold as they struggle to stabilise the economy.
Business Environment

SWOT Analysis

Strengths
- Vietnam has a large, skilled and low-cost workforce, which has made the country attractive to foreign investors.

- Vietnam's location - its proximity to China and South East Asia, and its good sea links - makes it a good base for foreign companies to export to the rest of Asia, and beyond.

Weaknesses
- Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world.

- Vietnam remains one of the world's most corrupt countries. According to Transparency International's 2012 Corruption Perceptions Index, Vietnam ranks 123 out of 176 countries.

Opportunities
- Vietnam is increasingly attracting investment from key Asian economies, such as Japan, South Korea and Taiwan. This offers the possibility of the transfer of high-tech skills and know-how.

- Vietnam is pressing ahead with the privatisation of state-owned enterprises and the liberalisation of the banking sector. This should offer foreign investors new entry points.

Threats
- Ongoing trade disputes with the US, and the general threat of American protectionism, which will remain a concern.

- Labour unrest remains a lingering threat. A failure by the authorities to boost skills levels could leave Vietnam a second-rate economy for an indefinite period.
Industry Forecast
Port Of Ho Chi Minh City Throughput Outlook

Short Term: Strong 2013 Growth Ahead

Year-on-year (y-o-y) tonnage throughput growth at the Port of Ho Chi Minh is set to come in at a very healthy 7.56% in 2013, to reach 38.75mn tonnes, which is slightly down on 2012's estimated y-o-y increase of 7.71%. Container throughput is predicted to perform even better, forecast as it is to reach growth of 8.03% in 2013. This faster rate of growth is in keeping with our macroeconomic outlook on Vietnam, where we forecast that growth in 2013 will accelerate from 5.0% to 6.3%.

Macro Picture Supporting Port Throughput

Vietnam Real GDP Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.5</td>
</tr>
<tr>
<td>2009</td>
<td>5.0</td>
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<td>2012</td>
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<td>2014f</td>
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<td>2015f</td>
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<td>2016f</td>
<td>7.5</td>
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<tr>
<td>2017f</td>
<td>7.0</td>
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</tbody>
</table>

*f = BMI forecast. Source: Asian Development Bank

This ties in with what we are seeing in the global economy; the US and China are Vietnam's two biggest trade partners. These two markets are essential for throughput at Vietnamese ports as the South East Asian country is rapidly becoming the workshop of Asia as the labour market is cheaper than that in China. As such its container-handling facilities are in demand for finished products to be exported through them. We
are more optimistic with regards to economic growth in both China and the US in the coming year; at the start of the year we revised up our China growth forecast for 2013 from 7.1% to 7.5%, and our US growth forecast has been bumped up to 2.2% following the successful avoidance of the fiscal cliff.

It is not only the macro picture that is supporting growth at Ho Chi Minh, but also investment in new facilities at the port complex, centred around the premier commercial centre of southern Vietnam. Despite a slow start amid the bleak macroeconomic fundamentals affecting the eurozone, China and the US, there are signs that Cai Mep International Terminal (CMIT) is beginning to outperform, placing upside risk on our forecasts for the Port of Ho Chi Minh City as a result. We believe that Cai Mep's positive throughput growth outlook for 2012 is in large part attributable to APM Terminal (APMT)'s operation of the terminal over the year, as the company has poured in investment and attracted new clients operating on key trade routes.

Growth Supported By Terminal Investment

Port Of Ho Chi Minh City Container Throughput, TEU, 2008-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013f</th>
<th>2014f</th>
<th>2015f</th>
<th>2016f</th>
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o Chi Minh City container throughput, TEU (LHS) (LHS) (LHS)
o Chi Minh City container throughput, TEU~ % y-o-y (RHS) (RHS) (RHS)

e/f = BMI estimate/forecast. Source: VPA
APMT’s presence should support continued growth at the port over the medium term (2013-2017) as it continues to improve the port’s facilities and attract shipping lines keen to capitalise on Vietnam’s positive macroeconomic outlook. Despite being operational for just a year, CMIT likely handled close to 600,000 TEUs in 2012.

**Medium Term: Impressive Growth Beckons**

Impressive growth will be the order of the day for the Port of Ho Chi Minh City over the medium term to 2017. Tonnage throughput will average 6.6% to reach just under 50mn tonnes by the end of the forecast period - 49.66mn tonnes in 2017. Box throughput, meanwhile, is also set to remain very healthy, averaging 7.0% over our forecast period, which will see throughput reaching 4.65mn TEUs by the end of 2017. **BMI** highlights the substantial investments APMT has made in CMIT since it opened in March 2011 as an important driver of growth and believes this will continue to be the case.

**BMI** highlights that the Port of Ho Chi Minh previously only played a role as a feeder port, relying on the transhipment of containers through one of Asia’s larger, better equipped ports such as Singapore. Exposure to these routes is in large part attributable to the port’s ability to handle ultra-large container ships, which are becoming the standard for shipping containers on Asia-Europe trade routes. This was demonstrated in December 2011, when CMA CGM’s 13,820TEU *Laperouse* docked at the terminal. We believe CMIT’s proven capacity for handling these vessels marked an important step for the terminal and will be a key driver of growth over the medium term.
Strong And Steady Over Medium Term

Port Of Ho Chi Minh City Throughput, Tonnes '000, 2008-2017

With real GDP forecast to grow at an average annual rate of 7.6% over the medium term and nominal GDP per capita set to increase almost twice as fast, at 12.7% annually, a key driver of this growth will be the country's booming export sector, providing a boost to the country's shipping sector, especially the Port of Ho Chi Minh City.

Long Term: Infrastructure Improvements Needed

Capacity issues at the Port of Ho Chi Minh are expected to dog Vietnam in both the short and long term, although Cai Mep provides sizeable opportunities. The solution to this disruptive problem will not just be a small matter of capacity expansion. BMI suggests that the country must also put money into landside supply chain, such as road and rail networks. These developments are particularly vital if Vietnam is to achieve its aim of enabling Ho Chi Minh to handle larger container vessels so that it can ship goods directly to destination markets.
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</thead>
<tbody>
<tr>
<td>Port of Ho Chi Minh City (Saigon New) throughput, tonnes '000*</td>
<td>31,132.00</td>
<td>33,450.71</td>
<td>36,029.40</td>
<td>38,753.08</td>
<td>41,430.13</td>
<td>44,146.40</td>
<td>46,892.52</td>
<td>49,658.39</td>
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<tr>
<td>Port of Ho Chi Minh City (Saigon New) throughput, tonnes, % y-o-y*</td>
<td>62.65</td>
<td>7.45</td>
<td>7.71</td>
<td>7.56</td>
<td>6.91</td>
<td>6.56</td>
<td>6.22</td>
<td>5.90</td>
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<tr>
<td>Port of Ho Chi Minh City (Saigon New) container throughput, TEU*</td>
<td>2,850,000</td>
<td>2,973,973</td>
<td>3,218,563</td>
<td>3,476,905</td>
<td>3,730,824</td>
<td>3,988,464</td>
<td>4,248,933</td>
<td>4,511,278</td>
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<tr>
<td>Port of Ho Chi Minh City (Saigon New) container throughput, TEU, % y-o-y*</td>
<td>17.19</td>
<td>4.35</td>
<td>8.22</td>
<td>8.03</td>
<td>7.30</td>
<td>6.91</td>
<td>6.53</td>
<td>6.17</td>
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<tr>
<td>Port of Da Nang throughput, tonnes '000</td>
<td>3,303.04</td>
<td>3,868.00</td>
<td>3,987.31</td>
<td>4,160.05</td>
<td>4,329.82</td>
<td>4,502.08</td>
<td>4,676.24</td>
<td>4,851.65</td>
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<tr>
<td>Port of Da Nang throughput, tonnes, % y-o-y</td>
<td>5.46</td>
<td>17.1</td>
<td>3.08</td>
<td>4.33</td>
<td>4.08</td>
<td>3.98</td>
<td>3.87</td>
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<tr>
<td>Port of Da Nang container throughput, TEU</td>
<td>89,199.00</td>
<td>114,373.00</td>
<td>120,649.60</td>
<td>133,366.19</td>
<td>145,865.06</td>
<td>158,547.10</td>
<td>171,368.43</td>
<td>184,282.03</td>
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<tr>
<td>Port of Da Nang container throughput, TEU, % y-o-y</td>
<td>27.94</td>
<td>28.22</td>
<td>5.49</td>
<td>10.54</td>
<td>9.37</td>
<td>8.69</td>
<td>8.09</td>
<td>7.54</td>
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</table>

*2011 figure is an estimate. Source: VPA, BMI. e/f = BMI estimates/forecasts.
### Table: Trade Overview, 2010-2017

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<tbody>
<tr>
<td>Real Imports</td>
<td>14.71</td>
<td>2.94</td>
<td>6.15</td>
<td>4.90</td>
<td>4.50</td>
<td>4.40</td>
<td>4.30</td>
<td>4.20</td>
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<td>Real Exports</td>
<td>15.41</td>
<td>11.42</td>
<td>5.10</td>
<td>6.50</td>
<td>6.10</td>
<td>5.80</td>
<td>5.50</td>
<td>5.20</td>
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<td>Total Trade</td>
<td>15.06</td>
<td>7.18</td>
<td>5.63</td>
<td>5.70</td>
<td>5.30</td>
<td>5.10</td>
<td>4.90</td>
<td>4.70</td>
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<tr>
<td>Nominal Imports, US$bn</td>
<td>90.9</td>
<td>112.0</td>
<td>127.5</td>
<td>144.1</td>
<td>161.1</td>
<td>179.1</td>
<td>198.4</td>
<td>218.1</td>
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<td>Import growth, % y-o-y</td>
<td>24.1</td>
<td>23.2</td>
<td>13.9</td>
<td>13.0</td>
<td>11.8</td>
<td>10.8</td>
<td>10.0</td>
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<tr>
<td>Nominal Exports, US$bn</td>
<td>80.3</td>
<td>106.8</td>
<td>120.4</td>
<td>138.1</td>
<td>156.8</td>
<td>176.7</td>
<td>197.9</td>
<td>219.7</td>
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<tr>
<td>Export growth, % y-o-y</td>
<td>26.1</td>
<td>33.1</td>
<td>12.8</td>
<td>14.7</td>
<td>13.5</td>
<td>12.6</td>
<td>12.0</td>
<td>11.0</td>
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<tr>
<td>Total trade, US$bn</td>
<td>171.2</td>
<td>218.8</td>
<td>248.0</td>
<td>282.2</td>
<td>318.0</td>
<td>355.7</td>
<td>396.3</td>
<td>437.9</td>
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<tr>
<td>Total trade growth, % y-o-y</td>
<td>25.0</td>
<td>27.8</td>
<td>13.3</td>
<td>13.8</td>
<td>12.7</td>
<td>11.9</td>
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### Table: Key Trade Indicators, 2010-2017

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<tbody>
<tr>
<td><strong>Agricultural raw materials</strong></td>
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<tr>
<td>Imports, US$mn</td>
<td>2,666.48</td>
<td>3,758.86</td>
<td>4,248.51</td>
<td>4,884.81</td>
<td>5,556.72</td>
<td>6,269.16</td>
<td>7,045.44</td>
<td>7,820.77</td>
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<tr>
<td>Imports, % y-o-y</td>
<td>28.31</td>
<td>40.97</td>
<td>13.03</td>
<td>14.98</td>
<td>13.76</td>
<td>12.82</td>
<td>12.38</td>
<td>11.00</td>
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<td>Exports, US$mn</td>
<td>3,436.62</td>
<td>3,385.63</td>
<td>3,893.09</td>
<td>4,433.35</td>
<td>4,989.36</td>
<td>5,755.72</td>
<td>6,298.49</td>
<td>6,877.69</td>
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<td><strong>Ores and metals</strong></td>
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<td>Exports, US$mn</td>
<td>594.33</td>
<td>800.03</td>
<td>910.44</td>
<td>1,053.91</td>
<td>1,205.41</td>
<td>1,366.05</td>
<td>1,537.59</td>
<td>1,714.75</td>
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<td>Exports, % y-o-y</td>
<td>44.06</td>
<td>34.61</td>
<td>13.80</td>
<td>15.76</td>
<td>14.38</td>
<td>13.33</td>
<td>12.56</td>
<td>11.52</td>
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<td>Imports, US$mn</td>
<td>3,300.36</td>
<td>4,357.33</td>
<td>5,013.60</td>
<td>5,712.29</td>
<td>6,431.37</td>
<td>7,189.69</td>
<td>7,958.80</td>
<td>8,823.66</td>
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<tr>
<td>Imports, % y-o-y</td>
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**Key Trade Indicators, 2010-2017 - Continued**

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**Manufactured goods**

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**Source:** UNCTAD, BMI. e/f = BMI estimates/forecasts

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*na = not available. Source: IMF Direction of Trade Statistics*
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Source: IMF Direction of Trade Statistics
Market Overview

Vietnam Container Shipping Market Overview

The Port of Ho Chi Minh City has expanded to become the largest facility in southern Vietnam. It now accounts for more than 65% of port throughput in the Ho Chi Minh City area and 42% of throughput in Vietnam as a whole. In 2012, the port handled an estimated 3.32mn twenty-foot equivalent units (TEUs). The port comprises three cargo terminals, as well as depot and customs points, which are situated at different locations within the Mekong Delta area in south-east Vietnam, in an area measuring 60km in circumference.

Cai Mep is Vietnam's largest deep sea facility. The Port of Cai Mep was developed in response to the rapid growth in trade volumes at the Port of Ho Chi Minh, which caused congestion in the area. The Cai Mep facility is located approximately 85km south east of Ho Chi Minh City, at the mouth of the South China Sea.

Connectivity

In 2012, Vietnam scored 4871 on UNCTAD's liner connectivity index - a considerable improvement on 2004's score of 12.86. Although the port is trailing far behind regional outperformer Singapore, it is well ahead of its neighbours Cambodia and the Philippines. BMI believes that this vast improvement in its connectivity score over seven years demonstrates Vietnam's growing importance in global containerised shipping. The country also now has direct links with major markets in the West. However, it should be noted that Vietnam's place in global container shipping is not yet assured, and that as the industry has struck difficulties Vietnam has been impacted more severely than more established ports of call. This has been demonstrated by the fact that Vietnam's score in 2012 marked a slight decline from 2011's peak of 49.71.
Getting Better Connected
Vietnam's Score On The Liner Connectivity Index, 2004-2012

Liner Connectivity Index

Source: UNCTAD

Vietnamese ports are well placed to take advantage of growing Intra-Asia trade volumes.

The rapid growth in Vietnam's port volumes has attracted ample international investment in port terminals, giving rise to overcapacity concerns.

Alleviating economic headwinds in the US and China will support Vietnam's export markets and container ports.

We caution that Vietnam needs to invest in its freight transport network in its entirety to ensure efficiency at its ports.

Regional Role

The Port of Ho Chi Minh is a vital domestic and regional facility, with the port having rapidly expanded in response to sharp growth in the Vietnamese economy. Container traffic through the port accounts for over 65% of Ho Chi Minh City's market share and more than 40% of the entire country's.
Intra-Asian trade has been growing rapidly, with many shipping firms using this to cushion themselves from the slowly recovering big-money East-West routes. The Port of Ho Chi Minh has been a key part of this and it is not only regional trade for which Vietnam is becoming key. In 2009, **Hanjin Shipping** became the first carrier to launch a direct service between Vietnam and the US. In September 2010, Hanjin became the first line to launch direct Vietnam-Europe services, followed in October 2010 by **CMA CGM** making the country a port of call on its FAL3 service.

The Port of Cai Mep was developed in response to the rapid growth in trade volumes at the Port of Ho Chi Minh City, which caused congestion in the area. **BMI** notes that the terminal has a considerable advantage over Ho Chi Minh, in that it offers a draft of 14 metres (m), thereby enabling it to serve post-Panamax container vessels, which cannot call at other Vietnamese ports due to draft and turning restrictions.

The importance of the port's depth was reflected in December 2011, when Cai Mep International Terminal (CMIT) docked its largest ever containership. The 13,830TEU CMA CGM Laperouse is the biggest vessel to dock in the Vietnamese port, with its accommodation made possible by the post-Panamax cranes operating at the site.

**BMI** believes that Cai Mep's positive throughput growth outlook is in large part attributable to **APM Terminal** (APMT)'s operation of the terminal, as the company has poured in investment and attracted new...
clients operating on key trade routes. We believe APMT's presence will support continued growth at the port over the medium term (2013-2017) as it continues to improve the port's facilities and attract shipping lines keen to capitalise on Vietnam's positive macroeconomic outlook.

Cai Mep International Terminal (CMIT) at the Port of Ho Chi Minh City (also known as New Saigon Port), which is made up of a collection of terminals lying 50km away from Vietnam's capital city, is on course to handle nearly 600,000 twenty-foot equivalent units (TEUs) in 2012 - its first full calendar year of operation - according to projections from Maersk Line sister company APMT. CMIT accepted its first vessel on March 30 2011 and in the following nine months to 2012 handled 186,000 TEUs.

On The Up

Source: World Bank

BMI highlights the substantial investments APMT has made in CMIT since it opened in March 2011 as an important driver of growth. In addition to helping to construct the port, which it did through a joint venture (JV) with Saigon Port and Vietnam National Shipping Lines (Vinalines), APMT purchased two laden reach stackers, an empty reach stacker, two empty container handlers and a 25-tonne forklift - all of which were delivered by Konecranes in 2011. Weak infrastructure is one of the main factors holding back Vietnam's shipping sector - the country ranks 111th out of 145 countries on the World Economic Forum's
Global Competitiveness Report on the Quality of Port Infrastructure. As such, APMT's commitment to improving CMIT's facilities is an important step both for the terminal and the country's shipping sector as a whole.

Investment in the port has allowed Cai Mep to attract a client base of some of the major players in the box shipping sector. While a foregone conclusion, given APMT's close connection with the company, Maersk Line began pulling into the port in August 2011, boosting throughput as expected. More significantly, CMIT has added CMA CGM and the Grand Alliance - comprising shipping lines Hapag-Lloyd, Nippon Yusen Kaisha (NYK), and Orient Overseas Container Line (OOCL) - to its client list. These lines not only provide positive prospects for the port given their direct impact on throughput volumes, but also because their presence signals the industry's confidence in the terminal's growth outlook and growing role in the region.

An important aspect of the addition of these lines to the terminal is that they have exposed CMIT to the two largest maritime trade routes: Asia-Europe and Asia-America. Maersk has added the port to its Transpacific string from Asia to North America, while CMA CGM and the Grand Alliance have placed it on their Asia-Europe routes, marking the first time Vietnam had been directly connected on either of these trade routes.

We highlight that Vietnam previously only played a role as a feeder port, relying on the transhipment of containers through one of Asia's larger, better-equipped ports such as Singapore. Exposure to these routes is in large part attributable to the port's ability to handle ultra-large container ships, which are becoming the standard for shipping containers on Asia-Europe trade routes. This was demonstrated in December 2011, when CMA CGM's 13,820TEU Laperouse docked at the terminal. We believe CMIT's proven capacity for handling these vessels marks an important step for the terminal and will be a key driver of growth over the medium term, though in the near term there are significant hurdles to be crossed.

**Overcapacity Remains A Threat**

The rapid growth in Vietnam's port volumes has attracted ample international investment in port terminals. However, concerns are being raised about the possibility of overcapacity in the country's container port sector. This a particular concern for operators at the Port of Cai Mep. In 2006, international terminal operators secured stakes in nine terminals at the port after the government invited foreign investment, believing that rising throughput volumes would be quickly soaked up by increasing capacity. Five of the nine planned terminals are in operation in the Cai Mep area, but are working well below capacity, with as little as 20% of capacity at CMIT being utilised. With additional new facilities due to come online, BMI
believes this is a considerable cause for concern. Further, as container shipping lines look to consolidate their services Vietnam, as a relatively new addition, is at risk of being struck from the ports of call.

The lack of container traffic seen at the beginning of 2012 also poses problems for ports in the province of Ba Ria-Vung Tau. Ports in the region have a total container handling capacity of up to 8mn TEUs; however, the actual demand only comes to around 5mn TEUs. Ports in the Cai Mep-Thi Vai region of Ba Ria-Vung Tau have been failing to attract a significant number of vessels, despite a total investment of over US$7bn by the end of 2011, according to reports. The region contains several modern container ports and is set to open several more facilities in 2012 and 2013. Industry analysts attributed the failure to a lack of infrastructure, which has caused capacity to remain largely underutilised. Only 62.5% of overall port capacity in the province of Ba Ria-Vung Tau is in use.

It is in this atmosphere of concern over having grown too much too soon that the construction of Van Phong International Transshipment Port has been halted at the behest of the Vietnamese Transport Ministry. The decision to shelve the planned port - originally proposed to be completed by 2020 - was undertaken by the Vietnamese Deputy Prime Minister, Hoang Trung Hai and was made public in September 2012.

The estimated cost of the project was set to be US$3.6bn and the construction work would have included 37 wharves at length of 12.5km. The initial stage of the project began in October 2009 and was pencilled in to be completed by the end of 2012; however, financial mismanagement meant that the project fell way behind schedule. Vinalines, the project's investor, was urged to alter its plans by the Vietnamese government and so the company came up with the idea of expanding the port in order to handle container vessels up to 12,000TEUs.

The deputy prime minister asked the Transport Ministry to look into the feasibility of raising domestic and foreign investment to fund the project, which is located in Hon Gom peninsula. The Van Phong port has become the target for criticism, as Vietnam's attractiveness for potential investors weakens. The Van Phong site was described as too far from any major manufacturing companies, and the state's role in neglecting better infrastructure at strategic locations is being highlighted.

**Global Headwinds Alleviating In 2013**

We forecast Vietnam's real GDP growth figure to climb to 6.3% in 2013. This marks a downwards revision from the 7.0% we forecasted last quarter, and follows an expansion of 5.0% in 2012; this expansion in 2012 was the slowest since 1999, and reflected the headwinds buffeting Vietnam's key trade partners, namely the US and China. However, the outlook for 2013 is looking more sanguine, resulting in our growth rate of
6.3%. This is in keeping with our more buoyant general outlook for the global economy which has seen us make a significant upwards revision to our China growth forecast for the year from 7.1% to 7.5%, and bump the US’s growth projection up to 2.3% following the avoidance of the fiscal cliff.

However, over the longer term, imports will be boosted by Vietnam's young population, as younger populations are generally more supportive of private consumption. The country has a population of 90.7mn, according to estimates for 2013 by BMI, 60% of which is under 35. We forecast that the population will be 94.1mn by 2017, with 57% under 35, and will rise to 97.7mn by 2022.

**Road And Rail Links Need Investment**

The Vietnamese government plans to deepen the Port of Ho Chi Minh City's draught, allowing larger vessels to access the facility. BMI notes that these works are badly needed, as we are seeing a growing trend of lines ordering larger container vessels. Recognising the need to cater for bigger vessels, Vietnam's prime minister has directed the country's ministry of transport and its Maritime Administration to focus on developing deep water ports. A channel depth of about 14m is required for non-tide restricted access for vessels with capacity of up to 8,000TEUs.

BMI notes that while Vietnam's port sector has received plenty of investment, due to growing Intra-Asia trade volumes, the freight transport networks that link the ports with production and consumer centres are badly in need of investment. Growth in box throughput at the nation's ports has far outpaced investment in its freight transport network. In 2010 (latest available data), total container throughput at the country's ports reached 5.98mn TEUs, up 550% from the 919,264TEUs handled in 1999.

With a rating of 123 out of 142 in the World Economic Forum's 2011-2012 Global Competitiveness Report, Vietnam's road infrastructure is the regional underperformer, trailing well behind regional leaders Singapore and Hong Kong. The country's rail infrastructure fares slightly better, with a score of 71 out of 123, placing it just ahead of the regional underperformer the Philippines. BMI believes there must be more private and state investment in developing these links if the country's ports are to take full advantage of increasing trade volumes.
Industry Trends And Developments

Global Economic Pick Up To Support Ho Chi Minh Port Growth

Year-on-year (y-o-y) tonnage throughput growth at the Port of Ho Chi Minh is set to come in at a very healthy 7.56% in 2013, to reach 38.75mn tonnes, which is slightly down on 2012's estimated y-o-y increase of 7.71%. Container throughput is predicted to perform even better, forecast as it is to reach growth of 7.95% in 2013. This faster rate of growth is in keeping with our macroeconomic outlook on Vietnam, where we forecast that real GDP growth will accelerate from 5.0% in 2012 to 7.0% in 2013.

This ties in with what we are seeing in the global economy; the US and China are Vietnam's two biggest trade partners. These two markets are essential for throughput at Vietnamese ports as the South East Asian country is rapidly becoming the workshop of Asia as the labour market is cheaper than that in China. As such its container-handling facilities are in demand for finished products to be exported through them. We are more optimistic with regards to economic growth in both China and the US in the coming year; we have recently revised up our China growth forecast for 2013 from 7.1% to 7.5%, and our US growth forecast as been bumped up to 2.3% following the successful avoidance of the fiscal cliff.

It is not only the macro picture that is supporting growth at Ho Chi Minh, but also investment in new facilities at the port complex, centred around the premier commercial centre of southern Vietnam. Despite a slow start amid the bleak macroeconomic fundamentals affecting the eurozone, China and the US, there are signs that Cai Mep International Terminal (CMIT) is beginning to outperform, placing upside risk on our forecasts for the Port of Ho Chi Minh City as a result. We believe that Cai Mep's positive throughput growth outlook for 2012 is in large part attributable to APM Terminal (APMT)'s operation of the terminal over the year, as the company has poured in investment and attracted new clients operating on key trade routes.

APMT's presence should support continued growth at the port over the medium term (2013-2017) as it continues to improve the port's facilities and attract shipping lines keen to capitalise on Vietnam's positive macroeconomic outlook. Despite being operational for just a year, CMIT likely handled close to 600,000TEUs in 2012.
Medium Term: Impressive Growth Beckons

Impressive growth will be the order of the day for the Port of Ho Chi Minh City over the medium term to 2017. Tonnage throughput will average 6.6% to reach just under 50mn tonnes by the end of the forecast period - 49.66mn tonnes in 2017. Box throughput, meanwhile, is also set to remain very healthy, averaging 7.0% over our forecast period, which will see throughput reaching 4.51mn TEUs by the end of 2017. BMI highlights the substantial investments APMT has made in CMIT since it opened in March 2011 as an important driver of growth and believes this will continue to be the case.

BMI highlights that the Port of Ho Chi Minh previously only played a role as a feeder port, relying on the transhipment of containers through one of Asia's larger, better equipped ports such as Singapore. Exposure to these routes is in large part attributable to the port's ability to handle ultra-large container ships, which are becoming the standard for shipping containers on Asia-Europe trade routes. This was demonstrated in December 2011, when CMA CGM's 13,820TEU Laperouse docked at the terminal. We believe CMIT's proven capacity for handling these vessels marked an important step for the terminal and will be a key driver of growth over the medium term.

With real GDP forecast to grow at an average annual rate of 7.1% over the medium term and nominal GDP per capita set to increase almost twice as fast, at 13.0% annually, a key driver of this growth will be the country's booming export sector, providing a boost to the country's shipping sector, especially the Port of Ho Chi Minh City.

Long Term: Infrastructure Improvements Needed

Capacity issues at the Port of Ho Chi Minh are expected to dog Vietnam in both the short and long term, although Cai Mep provides sizeable opportunities. The solution to this disruptive problem will not just be a small matter of capacity expansion. BMI suggests that the country must also put money into landside supply chain, such as road and rail networks. These developments are particularly vital if Vietnam is to achieve its aim of enabling Ho Chi Minh to handle larger container vessels so that it can ship goods directly to destination markets.

Growth Potential In The New Factory Of Asia

Vietnam's shipping transport sector will benefit from the uptick in domestic growth and also the steady growth outlook of its two main trade partners, the USA and China, which will drive export growth.

© Business Monitor International
Vietnam's logistics sector has been developing to keep up with the country's increasing role as Asia's factory, especially in the manufacturing of clothing and shoes. Vietnam's connections to its key export partners has been improving over the last three years, with the country now boasting direct container line services to the US and Europe.

Vietnam's economic growth is picking up. While the country's economy expected to expand at a reasonable rate of 5.0% on 2012 this year marked the second year in which Vietnam's real GDP slowed. In 2013 BMI forecasts the country's economic expansion to get back on its growth trajectory with Vietnam's real GDP projected to grow by 6.95%.

The country's medium-term growth will place even more pressure on the country's logistics sector with Vietnam's economy forecast to expand quicker over the next four years, with an average growth of 7% predicted between 2013-2017 compared to an average annual growth of 5.9% between 2008-2012.

To keep pace with this growth Vietnam will continue to need to invest in its logistics sector, but BMI expects a lot of this investment to come from outside logistic and freight transport companies which will be keen to enter and expand into this high-growth market. We have already witnessed this to some extent in Vietnam's port sector, with considerable investment being made by container shipping lines and global port operators in the development of modern box terminals at Vietnam's ports.

This investment in the country's maritime sector has ensured that Vietnam's manufacturing growth can be achieved with greater links between the country and its main trade partner the US. Direct container shipping links between Vietnam and the US have been in operation since 2009, which have cut both time and cost, as previously Vietnamese shipments had to be transhipped via Singapore.

Demand from the US for Vietnam's manufactured goods looks set to continue growing, with Vietnam's exports set to benefit from the steady recovery in the US economy. We have revised up our US real GDP forecast for 2013 to 2.3% an improvement on the estimated increase of 2.2% in 2012. Over the medium term (2013-2017) we forecast the US economy to expand by an average 2.4% per annum.

**Transport Ministry Opens Cai Mep Thi Vai International Port**

The Cai Mep Thi Vai International Port in the southern province of Ba Ria Vung Tau, Vietnam was successfully opened by the Ministry of Transport at the end of January 2013. The port, which has been designed to fulfil the rising demand of container shipping in the south, is the country's deepest and biggest
seaport. The port project, worth around US$620mn, will also open direct shipping channels with other
domestic and international ports globally, thereby reducing the intermediate and transit shipping expenses.

Additionally, the project will offer assistance in the social economic development of Ba Ria Vung Tau and
the southern region, while offering protection from overload burdens to other ports in the south, Deputy
Prime Minister Hoang Trung Hai said. Meanwhile, the project has developed an international gateway
having an ability to export Vietnamese goods directly to European and North American ports without
stopping at international transit terminals in the region, Transport Vice Minister Nguyen Van Cong said.

Deputy Prime Minister Hoang Trung Hai explained: 'The project will also help increase the social economic
development of Ba Ria Vung Tau in particular and the southern region in general while saving other ports
in the south from overload burdens.'

The Cai Mep-Thi Vai International Container Terminal (CTICT), which was inaugurated at end-January, is
likely to worsen the port overcapacity situation in south Vietnam, reports Container Management Magazine.
The CTICT is set to officially begin commercial operations in six months following the conclusion of the
final installation of equipment by contractors. The Vietnamese government and Japanese Official
Development Assistance body jointly funded the construction of the terminal.

The terminal would ease clogging faced in southern Vietnam according to suggestions given by the
Vietnamese Ministry of Transport. However, the fact is that the terminal's capacity is extremely under-
utilised.

**Vinalines Expects To Record VND2.1trn In Losses In 2013**

Nguyen Canh Viet, the CEO of Vietnam National Shipping Lines (Vinalines), has announced that the
company expects to record VND2.1trn (US$100.96mn) worth of losses in 2013, owing to the downturn in
the ocean transport sector, it was reported on February 1 2013. The CEO added that losses are also
experienced by several seaports, such as CICT, SSIT, SP-PSA and CMIT, which are managed by the joint
ventures between Vinalines and international partners. Meanwhile, the company's subsidiaries sold a total
of 10 vessels in order to reduce losses in 2012. The company is looking forward to secure a VND3trn (US
$144.2mn) loan for its 14 subsidiaries in order to carry out operations even during the tough times, Viet
mentioned. Additionally, the ocean transporting market is likely to be revitalised in 2017, enabling the
company's subsidiaries to repay debts by that point of time, Viet added.
Construction Of Lach Huyen Terminal To Start In April

Vietnam's Prime Minister Nguyen Tam Dung has announced that the construction of the deepwater Lach Huyen Terminal in Haiphong is scheduled to start in April. The US$1.2bn, 900,000TEU joint venture between Vietnam's Vinalines and Japan's Mitsui OSK Lines, Nippon Yusen Kaisha and Itochu is the first public-private project in Vietnam. The project is likely to be operational in 2015. The terminal, which might emerge as the largest port facility for the north of the country with a draught of 14m, will be able to accommodate vessels with a capacity ranging between 8,000TEUs and 9,000TEUs. The new facility will be situated 100km north east of Hanoi and is likely to help in easing port congestion in Haiphong.
Company Profile
Vietnam Petroleum Transport Company (VIPCO)

Strengths
- 60% of VIPCO’s fleet is employed by Petrolimex.
- The company boasts a relatively young fleet.
- It has diversified away from operating in a single sector, with a real estate arm.

Weaknesses
- VIPCO only operates in one shipping sector.

Opportunities
- The company plans to expand its fleet.

Threats
- Vietnam’s reliance on imported refined products is decreasing as the country brings online more refining capacity, which could negatively affect VIPCO. In the longer term, Vietnam’s refining capacity could allow the state to export.

Company Overview
The Vietnam Petroleum Transport Joint Stock Company (VIPCO) offers maritime transport for petroleum products. The company has a diversified portfolio, including units that support its product tanker fleet - such as its port operations and freight forwarding services. It is also engaged in real estate.

Strategy
VIPCO has developed a fleet of six product tankers with a total capacity of 176,111 deadweight tonnes (DWT). The fleet is relatively young with an average age of 16 years. VIPCO has a fleet expansion strategy in place and is prepared to invest either in newbuilds or purchasing tankers under the age of 10 years. The company plans to boost its fleet to 200,000DWT.

The majority of VIPCO’s tanker fleet (60%) is employed to meet the transport needs of the Vietnam National Petroleum Corporation (Petrolimex). The remaining 40% is charted to other consignees.

Via its connection with Petrolimex, the company is able to cater for Vietnam’s oil sector. While Vietnam has estimated oil reserves of 4.6bn barrels, it imports refined products. The company’s shipping unit is complemented by its petrochemical terminal’s sector.
Financial Data

<table>
<thead>
<tr>
<th>2012</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>For the final quarter of 2011, VIPCO registered a drop in net income to VDN8bn, down from VDN51.7bn a year previously. Meanwhile, in mid-February 2012, the company saw its share price fall 2.2% to VND4,500.</td>
<td></td>
</tr>
<tr>
<td>For the first half ended June 2011, the company reported a net profit of VND38.66bn (US$1.88mn), which represents a 121% year-on-year (y-o-y) increase. Revenues rose 36% y-o-y to VND943.12bn during this period, while six-month earnings per share were VND647, compared with less than half of that for the corresponding period of 2010.</td>
<td></td>
</tr>
</tbody>
</table>

Latest Activity

**Petrolimex Launches New Subsidiary**

The board of directors of Vietnam National Petroleum Group (Petrolimex) made an announcement in February 2013 that a new wholly-owned subsidiary was to be established called PG Tanker. Headquartered in Hanoi, the subsidiary forms part of Petrolimex’s restructuring plans and it will become the parent corporation to other subsidiary companies, including VIPCO, VITACO, PTS Hai Phong and Cua Cam Port.
Vietnam National Shipping Lines (Vinalines)

Strengths
- Diversified fleet operating in dry bulk, container and oil transport.
- Largest commercial shipping line in Vietnam.

Weaknesses
- Vietnam does not play a role on the major Asia-Europe routes, despite developing as a direct port of call on these routes.
- The US$3.6bn Van Phong International Port project, primarily constructed by state-owned Vinalines, was suspended in June 2011 following a reassessment of the geological conditions at the project site.
- Vietnamese shipping company Vinalines is currently US$2.1bn in debt, reported Reuters in June 2012.
- Vinalines’ heavy exposure to Vietnam’s domestic transport sector, which has been performing well recently, indicates that the firm’s struggles go beyond the troubles facing the global industry.

Opportunities
- Vietnam is expanding its role in the global box market and it is fast becoming a mainstay port of call on Asia-Europe services.
- Potential to increase its intra-Asia role, shown by the expansion work at Cai Mep, and well placed to be chosen as a partner on these services by major lines.

Threats
- While Vietnam has invested heavily in its port network, the logistics supply chain could be let down by the landside freight network, which will have a negative impact on operators.
- In 2011, Vinalines posted its first ever loss in 15 years of operations, with further losses expected.
- Overcapacity is a threat over the medium term, unless money is pumped into port facilities and infrastructure.
• Vietnamese police issued an arrest warrant for the former chairman due to the scandal rocking the debt-mired company. Duong Chi Dung has been accused of deliberately mismanaging Vinalines during his tenure.

• Vinalines has been stung by the poor performance of the three container terminals it has joint venture interests in.

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**Company Overview**

Vinalines is Vietnam’s largest commercial shipping line. Established in 1996, it caters for domestic trade in Vietnam and offers intra-Asia services.

The company also has a port operating division that is the largest in Vietnam, controlling and managing ports in Quang Ninh, Hai Phong, Da Nang, Ho Chi Minh and Can Tho.

**Strategy**

Vinalines’ 14 shipping companies operate a diverse fleet, dominated by dry bulk vessels but also boasting container ships, oil and product oil vessels.

According to the company’s website, Vinalines’ fleet consisted of 128 vessels. The line is looking to expand, with a plan centred on increasing the proportion of specialised vessels such as box ships or oil tankers.

In order to achieve this, the line was seeking to spend US$2bn on ordering new ships from Vietnamese yards seeking state funding for the plan. Vinalines has in fact ended up expanding its fleet quicker than intended, with the shipping line taking on 36 vessels from the debt laden Vietnamese shipbuilder Vinashin in July 2010. Vinaline’s chairman, Duong Chi Dung, said at the time that up to two-thirds of the acquired vessels could not be used as they failed to meet technical requirements. He estimated that the company would need to spend US$26mn to repair the vessels and purchase insurance cover. Dung added that the company expected some financial aid from the government for the project.

Vinalines services the trade needs of Vietnam’s domestic shipping market, but also has exposure to the intra-Asia trade lane after joining forces with NYK in December 2010 to launch a Thailand-Vietnam-Singapore (TVS) service. Vinalines provides a 1,100 twenty-foot equivalent unit (TEU) vessel for the service.

**BMI** believes that Vinalines' presence on the intra-Asia trade route will increase, with major lines looking to expand into the route and the company well placed to enter partnerships with them. Vinalines is also increasing its contacts in the container sector, partnering with a number of the majors on container terminal projects in Vietnam.

According to Port Strategy, Vietnam is of increasing interest in East Asia, due to the fact that it is focusing on becoming better connected with both short and long haul
destinations. Providing the bedrock to this strategy are the new terminals constructed in the Cai Mep area.

Financial Data

2013

Vinalines is bracing itself for a full-year loss of VND2.1trn (US$101mn) already as the company continues to perform abysmally following 2012's reported loss of VND2.44trn. The company’s CEO, Nguyen Canh Viet, said: 'There are few transporting contracts amid these crisis times, while several partners refused to clear their payment on time, despite the cheap fares.'

2012

Vinalines announced a VND1,439bn (US$69.2mn) loss during the first half of 2012, which is around double the losses incurred for the corresponding period a year previous. The loss was attributed to a 'perfect storm of liquidity and jobs woes', according to Vinalines director Nguyen Canh Viet, reported by Vietnam Investment Review.

2011

Vinalines recorded a VND62.15bn (US$3mn) profit for 2011, despite posting a loss of VND660bn (US$32mn) in H111 - the first time this has ever occurred in the company’s 15 years of operations. The results came as a surprise to analysts who were expecting the company to suffer from the sinking of the bulker Vinalines Queen. In 2011, Vinalines shipped 36.8mn tonnes of cargo, which was a 1% annual increase on 2010.

Latest Activity

Government Asks Vinalines To Quit Port Project

Vinalines has been asked by the government to withdraw its plans to participate in the development of the northern Lach Huyen Port, reported Sea Ship News in March 2013. The company will continue to concentrate on its ongoing port projects; however, Hanoi said that it needs to make arrangement of funds before it can mull over additional expansion. Vinalines teamed up with Japan’s Itochu, MOL and NYK for the development of the port.

Vinalines Launched Country's Second Largest Carrier

On December 16 2012, Vinalines launched the second biggest bulk carrier in Vietnam in Hai Phong city. Named Vosco Sunrise, the bulk carrier has been designed to cater for a deadweight of 56,200DWT and according to a company statement, at the launching ceremony, Nguyen Van Cong, Deputy Minister of the Ministry of Transport, said: 'In the situation of difficulties faced by the ship building industry, the construction and operation of Vosco Sunrise by Vietnamese corporations with help improve the image of and create confidence in the Vietnam Ship building Industry.'
Global Industry Overview - Container Shipping

Demand: Slow Start To 2013

Container throughput continues to grow in 2013, but the strength of growth has weakened. Global bellwether container ports show a slow start to the year. Although the Chinese New Year will have somewhat skewed such figures the continued sluggish recovery of the US economy, the slow pull out of recession in the eurozone and the slowdown in Chinese growth all highlight that - from a demand perspective - 2013 is set to be another tough year for the container shipping sector.

Still Growing, But Slowing

Still Growing, But Slowing

Monthly data for the top five largest container ports for the first two months of 2013 shows that although container throughput continues to increase, year on year (y-o-y) growth is slowing. In the first two months of 2013 the top five container ports globally (Shanghai, Singapore, Hong Kong, Shenzhen and Busan) handled a total of 19.6mn twenty-foot equivalent units (TEUs), a growth of 1% on the 19.3mn TEUs

*Global Bellwether Ports= Port of Shanghai, Singapore, Hong Kong, Shenzhen and Busan. Source: Port authorities
handled for the same period in 2012. Container growth of just 1% is, however, considerably weaker than the 4% y-o-y increase recorded in January and February 2012.

**BMI** highlights that the slowdown in growth for the first two months of 2013 is partly due to the fact that the Chinese New Year fell in February. This leads to a wind down in activity at ports in the Asia region and can be partly blamed for the sluggish start to the year.

This factor therefore leads **BMI** to believe that volume growth at the bellwether ports will plateau rather than grow for 2013. According to our full-year projections for the world's top five ports in 2013, total container throughput at these facilities will reach 130mn TEUs, a y-o-y increase of 2.1%, which is just slightly up on the y-o-y growth of 2% recorded in 2012.

### Slowing And Plateauing

**Global Container Bellwether Ports 2012 and 2013f Container Throughput y-o-y % Change**

- **Port of Shanghai**: 2.5%, 2.4%  
- **Port of Singapore**: 5.7%, 4.7%  
- **Port of Hong Kong**: -5.4%  
- **Port of Shenzhen**: 1.7%, 2.0%  
- **Port of Busan**: 5.4%, 5.2%

*f = BMI forecasts. Source: BMI calculation*

This slackening growth outlook can only be expected when the key container shipping demand markets of the US and Europe remain in recovery.
The US’ economic recovery is projected to continue in 2013, but is set to plateau, with a forecast expansion of 2.1% predicted, roughly at the same level to the 2.2% y-o-y growth estimated in 2012. The eurozone is forecast to emerge from recession, with a growth of just 0.1% following an estimated contraction of 0.7% in 2012.

**Demand Weakening**

*US, Eurozone and China Real GDP Growth, % Change y-o-y*

*2012 data is a BMI estimate. Source: National Statistics Authorities

This ongoing, but sluggish, recovery in demand for goods shipped by container is being further compounded by the slowing in Chinese growth, which has meant less robust demand growth in the emerging market.

**European Consumers Still Not Convinced**

Shipping specific indicators for the demand picture on the Asia-Europe trade route have yet to be published, with no information on container throughput from the European bellwether ports of Rotterdam, Antwerp or Hamburg. Latest data on throughput via the Suez Canal is from December 2012, highlighting that although the unrest in Egypt has not impacted the running of the waterway it would appear it have negatively
affected the Suez Canal Authority's ability to publish data, which up until the beginning of 2013 it was doing every month.

**BMI** highlights that rate data gives a partial insight into the state of demand on the Asia-Europe trade route. The problem of overcapacity persists and according to the Shanghai Containerised Freight Index (SCFI) rate levels are now down y-o-y and have fallen below the US$1,000-per-TEU threshold twice so far in 2013.

Our macroeconomic forecasts also highlight why container throughput volumes on this route are struggling to expand. **BMI** forecasts the eurozone to emerge from recession in 2013, but predicts a growth of just 0.1% following an estimated contraction of 0.7% in 2012. According to our projections the economic recovery in this region will only truly start to get underway in 2014 when a y-o-y growth increase of 1.2% is forecast.

![Remaining In The Doldrums](chart)

**Source:** European Commission's Business and Consumer Survey

A major factor holding back a more robust recovery is the consumer outlook in the region. The continued threat of the collapse of the euro, the threat that states could leave this common currency, and continued
high unemployment, is hardly conducive to encourage people to go out and spend, which in turn dampens demand for the import of consumer goods.

Although the European Consumer Sentiment Index has ticked up in 2013 reaching a plateau in March the index is at a lower point than it was in March 2012; this highlights the reservations of consumers as uncertainty about the state of the Europe-wide economy continues.

**US Comparatively Brighter As Plateau Continues**

In the US a brighter outlook is playing out, as the US' economic recovery continues on its slow-but-steady course. Total container throughput at the West Coast ports of Los Angeles and Long Beach, the US' two largest container ports increased by 14% y-o-y for the first two months of 2013, a considerable growth recovery when compared to the 4% decline recorded in the same period in 2012.

**The Best Start To A Year In A While**

<table>
<thead>
<tr>
<th>Year</th>
<th>Container Throughput % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-5%</td>
</tr>
<tr>
<td>2009</td>
<td>-17%</td>
</tr>
<tr>
<td>2010</td>
<td>1%</td>
</tr>
<tr>
<td>2011</td>
<td>11%</td>
</tr>
<tr>
<td>2012</td>
<td>-4%</td>
</tr>
<tr>
<td>2013</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Source: Port authorities and BMI calculations*

The growth is the strongest posted by the port's y-o-y for the January and February period since the downturn and indicates that the country's demand for containerised goods is well on course for a full
recovery. Interestingly, data for the start of 2013 highlights that once again it is box imports that are driving growth at the port.

In January and February 2013 container imports at the port of Los Angeles increased by 7%, and exports ticked up by 2%. In Q113 imports at the port of Long Beach expanded by 20.3% y-o-y, with exports growing by 10.9%.

Robust Import Growth Indicates Strengthening Consumer

Port of Los Angeles Imports and Exports % Change and Port of Long Beach

*Long Beach data is Q113. Source: Port authorities

The strengthening demand for imports suggests that the US' consumer is strengthening. BMI does however highlight that it is not plain sailing for this sector. The country's economy, while recovering, is forecast to plateau in y-o-y growth terms in 2013. BMI forecasts US real GDP to grow by 2.1% in 2013 following an estimated growth of 2.2% in 2012.

The consumer picture in the US is also starting to show signs of weakening, with the rating from the University of Michigan Consumer Sentiment Index dipping to its lowest level so far in 2013 in April to 72.3, a level last seen in July 2012 and down 5% on the index's rating for April 2012.
Due to these indicators BMI is projecting that although growth at the port of Long Beach and Los Angeles with strengthen for the full year of 2013 up from a y-o-y growth of 1% in 2012 to 4% in 2013.
Not Quite There Yet

LHC: Port of Los Angeles Container Throughput (TEU) and Container Throughput Milestone Level (TEU). RHC: Port of Long Beach Container Throughput (TEU) and Container Throughput Milestone Level (TEU)

\[
f = \text{BMI forecast. Source: Port Authorities}
\]

This uptick still sees the two ports continuing on their recovery course as BMI's forecast 2013 throughput at the facilities will not be enough to volumes to their previous milestones, which at LA were hit in 2006 when the port handled 8.5mn TEUs and at Long Beach in 2007 when the port catered for 7.3mn TEUs.

China Slowdown Lengthening EM Development, But Growth Assured

Further compiling the container shipping sector's problems is the slowdown in China. The country traditionally viewed as the key export point of containerised goods worldwide has been highlighted as a growth engine for box demand and therefore a container importer in the medium term. Although the country's consumer is set to continue developing and growing China's growth outlook is not set to be as robust as previously witnessed.

In the short term this slowing growth will hit raw material producers, many in the emerging markets, which have benefitted from China's high levels of growth. Slowing demand from China will feed through to the development of the country's economies, many of which have expanded and seen their consumer sector develop on the back of the China growth story.
While growth will likely slow in the development of these countries' consumer sectors, BMI retains its view that the very nature of emerging markets over developed markets will hold the most potential for container shipping firms. The mass volumes shipped in mega vessels on the Asia-Europe trade route and increasingly on the transpacific will remain, but the high growth outlook and the steady need to increase capacity is what will continue to attract more lines to the intra-Asia, Asia-Africa and Asia-Latin America trade routes.

Supply: Capacity To Outweigh Demand Uptick

Overcapacity will remain the watchword for the container shipping sector in 2013. A record number of newbuilds are due online over the year, with consensus from shipping consultancies indicating a year-on-year (y-o-y) growth in vessel capacity of between 9% and 10%, as 1.7mn twenty-foot equivalent units (TEUs) of new capacity is due online. This delivery rate is set to continue causing overcapacity. Although demand will be bolstered by the slow but continued recovery in the US, and the eurozone's emergence out of recession in 2013, supply is set to once again dwarf demand.

Growth Not Letting Up

Global Container Ship Fleet (dwt and % change y-o-y)

Source: UNCTADstat
As highlighted, part of the ongoing capacity problem is the volume due online in 2013. The projected increase of between 9% and 10% is on top of the 9% and 8% growth in the global container fleet in 2011 and 2012, respectively.

However, the major issue facing containership operators in 2013 will be the influx of vessels on the Asia-Europe trade route. The route is just starting on the road to recovery, following a recession in the eurozone in 2012, but is set to see the greatest concentration of new tonnage, as a new fleet of mega vessels are launched.

Due to their size, vessels of 14,000TEU and over are restricted to the Asia-Europe route, and in 2013 even more of these vessels are due online. In the top tier of container shipping companies the bar is being set higher in terms of vessel capacity, with CMA CGM welcoming its second 16,000TEU ship, the Alexander von Humboldt, which along with its sister ship, the Marco Polo, are the largest box ships afloat.

Maersk Line is set to take delivery of the first of its fleet of 20 18,000TEU vessels in mid-2013, moving the bar even higher in terms of ships operating on the Asia-Europe route. Other carriers in the top 20, while not going as far as CMA CGM and Maersk Line with their fleet expansions, are taking on larger vessels. APL, NYK Line and OOCL are all due to join the mega vessel club, operating ships of 13,000TEU or above in 2013.
### Table: Top 20 Container Line Newbuild Plans

<table>
<thead>
<tr>
<th>Already operating 13,000TEU+ vessels</th>
<th>Company</th>
<th>Current largest vessel size, TEU</th>
<th>Largest vessel newbuild plans, TEU</th>
<th>When due online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maersk Line</td>
<td>15,550</td>
<td>18,270</td>
<td>from 2013</td>
<td></td>
</tr>
<tr>
<td>MSC</td>
<td>14,000</td>
<td>16,000</td>
<td>Q314</td>
<td></td>
</tr>
<tr>
<td>CMA CGM</td>
<td>16,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COSCON</td>
<td>13,114</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSCL</td>
<td>14,074</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanjin Shipping</td>
<td>13,100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyundai MM</td>
<td>13,082</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UASC</td>
<td>13,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hapag-Lloyd</td>
<td>13,200</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13,000TEU+ vessels on order</th>
<th>APL</th>
<th>8,110</th>
<th>14,000</th>
<th>from 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYK Line</td>
<td>9,300</td>
<td>13,000</td>
<td>from 2013</td>
<td></td>
</tr>
<tr>
<td>OOCL</td>
<td>8,888</td>
<td>13,000</td>
<td>from 2013</td>
<td></td>
</tr>
<tr>
<td>Evergreen Line</td>
<td>7,024</td>
<td>13,800</td>
<td>from 2014</td>
<td></td>
</tr>
<tr>
<td>MOL</td>
<td>8,000</td>
<td>13,000</td>
<td>from 2014</td>
<td></td>
</tr>
<tr>
<td>Yang Ming</td>
<td>8,626</td>
<td>14,000</td>
<td>from 2015</td>
<td></td>
</tr>
<tr>
<td>K’ Line</td>
<td>8,212</td>
<td>14,000</td>
<td>from 2015</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other order plans</th>
<th>Zim</th>
<th>10,000</th>
<th>Seeking to order 13,000</th>
<th>after 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIL</td>
<td>4,000</td>
<td>6,600</td>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>CSAV</td>
<td>8,000</td>
<td>9,300</td>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>

**Source: BMI**

In order to make way for these larger vessels, container lines are cascading their fleets. Ships that were used on the Asia-Europe trade route are now being used on the transpacific route.

Cascading does not address the fundamental issue of overcapacity, but rather moves the problem onto other trade routes. BMI highlights that although the US economy is in recovery, demand is not strong enough to soak up a massive influx of tonnage. So far only one 13,800TEU vessel, the *MSC Beatrice*, has been put on
a transpacific route, docking in Long Beach in October 2012. The launch of a new round of mega vessels will likely see more vessels of this size plying this route. This is leading to tonnage trickling down to other trade routes. On the intra-Asia route, for example, vessel sizes vary from 4,500TEU to 8,000TEU, when 15 years ago this route was being catered for by 1,700-2,800TEU vessels.

BMI highlights two trends that we expect will remain key in controlling capacity in 2013: idling and slowsteaming. According to Lloyd's List Intelligence, the percentage of the idled fleet globally stood at 6.2% on April 17 2013 (last available data). While this is a slight drop on the 6.4% measured to be in lay up on April 10, it is still above the 6% average for the year to date. The 6.2% of the global fleet in layup is also up y-o-y on 5.5% a year earlier.

**Keeping Capacity In Check**

% Of Global Container Fleet Idle

![Graph showing percentage of global container fleet idle from March 2012 to April 2013.](image)

*Source: Lloyd's List Intelligence*

While the idle fleet is likely to tick down in preparation for the traditional peak season shipping period, May through to September, the idle fleet is set to remain elevated due to the influx of new tonnage.
The second strategy BMI believes will remain prevalent in 2013 is slowsteaming. The industry has used this to highlight its green credentials and as a way to reduce fuel consumption and suck up some extra tonnage: if ships are slower more vessels are required to stick to service loop timetables.

### Slowing Down

**Containership Average Speed (knots)**

![Graph showing average speed of containerships](graph.png)

Source: Bloomberg

Latest data, for April 19 2013, shows container vessel speeds averaging 9.8knots, the lowest speed so far in 2013 and down on the average speed of 10.1knots for the year to date. The average box vessel speed of 9.8knots is down 7.3% on 10.57knots a year earlier.

### Rates: Alarm Bells Sounding

Storm clouds are building in the container freight rate sector, as rates drop. Freight rates in the sector started off strongly at the beginning of 2013, with a year-on-year (y-o-y) strengthening in growth. This changed dramatically after Chinese New Year, with rates weakening and freight rates now down in y-o-y terms. Overcapacity remains the main culprit behind volatile freight rates, and with more mega vessels due online on the Asia-Europe trade route in 2013 and the threat of an ensuing cascade onto the transpacific route, 2013 is likely to be another tough year for container lines, with the threat of a rate war graver than ever.
The strong start to 2013 is visible in the Q113 average freight rate from the Shanghai Containerised Freight Index (SCFI), a global measure of container freight rates. The y-o-y growth in Q112 with the SCFI average freight rate for the quarter up 9% illustrates the strengthening in growth y-o-y, as in Q112 the SCFI annual average rate for this period increased by just 2%.

This divergence y-o-y is continuing to play out in Q213, but unfortunately this trend is bad news for the container shipping sector. In the first three weeks of April 2012 the average SCFI rate increased by 38% y-o-y; in the first three weeks of April 2013 however the average SCFI rate for the period has dropped by 21% y-o-y.

From Decline To Growth And Back Again

![Average Freight Rates - % Change Y-o-Y](source: SCFI)

This trend does not bode well for freight rates in 2013. The uptick in rates in Q212 was the start of an increase which ran for the rest of 2012 and enabled many carriers to return to profit. Could the rate decline at the beginning of Q213 be the start of a year-long trend that will plunge carriers back into the red? In BMI’s opinion, developments on the key trade routes that make up the SCFI, the Asia-Europe and the transpacific are certainly cause for worry.
Carriers At War On Asia-Europe

Just as the SCFI comprehensive index got off to a flying start, so too did rates on the Asia-Europe trade route. In Q113 the average freight rate on the Asia-Europe trade route grew by 22%, up on the 15% decline in the same period in 2012, with the Q113 average increase placing the route third in terms of y-o-y growth of the 15 routes measured by the SCFI.

However, the start of Q213 marked a dramatic change in fortunes for Asia-Europe rates. The average rate for the first three weeks of April was down 45% y-o-y, compared to 80% growth a year earlier. At the time of writing (April 24 213) freight rates on the Asia-Europe route were in their eighth consecutive week of decline, below US$1,000 per twenty-foot equivalent units (TEU), at US$875 per TEU. BMI highlights a number of developments since the start of 2013 that give us cause for worry for full-year Asia-Europe freight rates.

So far in 2013 carriers have only managed to push through one freight increase on the Asia-Europe trade route. The planned rate push, with carriers seeking to raise rates by US$600-700 per TEU was a partial success. With rates increasing by US$424 per TEU, 42.4% of the rate increase was achieved.
Rate Increase Just A Blip

SCFI Europe Base Port (% change w-o-w)

This was in line with the trend of rate increases on the trade route in 2012 and enabled carriers to push rates up to a level where some operators managed to turn a profit. But this is where the similarities with the 2012 rate increase strategy ends.

Rate increases on this route have traditionally lasted for two weeks before starting to tick down once more. The March 2013 rate increase lasted only one week, with rates then declining again. Carriers responded to this with a change of strategy. Rather than seeking a rate increase once every two months they announced plans for a once-a-month increase. However, this has not worked, and despite the backing of nine major container lines the April 2013 rate increase was postponed.

**BMI** suggests that lines’ inability to push through a monthly rate increase means a rate war is underway, a view supported by the fact that rates have dipped below US$1,000 per TEU.
Dipping Below US$1,000 Per TEU

SCFI Europe Base Port (US$ per TEU and US$1,000 per TEU level)

Container lines are seeking to implement a rate push in May 2013, but so far only four carriers have joined the push, raising serious questions about success. This rate increase will give a better indication of whether container lines can claw back freight rates and ensure the end to declines, getting back on track with the strategy of rate increases once every two months that served them so well in 2012.

BMI believes returning to such a strategy may not be easy. If a rate war is underway it will poison the sector, as it did in 2009 and for part of 2011, with carriers blaming each other for not reining in capacity and seeking to increase market share by cutting rates, a strategy that damages the industry as a whole.

Suspicions between carriers is already heightened, with Maersk Line’s chief trade and marketing officer, Vincent Clerc, stating, ‘Some other lines have chosen to respond to lower demand levels by lowering prices. Such a move risks resulting in a fully-fledged price war: a development that concerns us. It places Maersk Line in the invidious position of having to choose between acting responsibly and protecting our market position.’
Meanwhile, over the past 12 months shippers have become used to carriers' rate increase strategies, and can prepare for planned rate increases, putting them in a stronger negotiating position with the carriers.

Finally there is the issue of capacity. Rates were always going to face greater pressure in 2013, with the influx of more tonnage and even larger vessels on the Asia-Europe trade route. The fact that a rate war appears to have erupted prior to the bulk of this capacity coming online will further damage rate levels for 2013, and with it carriers' bottom lines.

**Cascade To Put Pressure On Transpacific Rates**

Freight rates on the transpacific have managed to remain afloat for longer, as capacity has not been as big a problem as on Asia-Europe, and rates on the route have benefited from the fact that the majority of operators are members of the Transpacific Stabilisation Agreement (TSA) and so are able to speak about freight rate increases and coordinate them, a facility not available to operators on the Asia-Europe route since 2008, when the European Commission deemed it anti-trust.

The benefits of the ability to speak together and coordinate freight rates is highlighted by the fact that members of the TSA have managed to push through two freight rate increases in 2013, and that these increases have been much more successful than the one achieved on the Asia-Europe trade route.

However, despite this, the trend of a strong start to 2013 followed by weakening can also be seen in transpacific freight rates. In Q113 the average freight rate on the transpacific increased by 26% y-o-y, up from 2% y-o-y growth in Q112. In the first three weeks of April, however, the average freight rate on the transpacific did not increase y-o-y, down on 36% growth a year earlier. More worryingly, freight rates on the route have now dipped in y-o-y terms, falling for two consecutive weeks.
While TSA operators have more options to control freight rates, we do warn of the impact of cascading on the route's freight rates in 2013. The influx of new mega tonnage on the Asia-Europe trade route is leading to a displacement of vessels to the transpacific. The first 13,000TEU ship entered into transpacific service in 2012, with the *MSC Beatrice* docking at the port of Long Beach in October 2012. More ships in this class are likely to follow, as carriers look to benefit from the stronger demand outlook emanating from the US compared to Europe. BMI believes this strategy will transfer the problem of overcapacity and will put further pressure on transpacific freight rates.

**Emerging Trade Routes Offer Promise Of Volume Growth And Profits**

While the major trade routes look set for a tough 2013, there will be some success stories. These can be found in the emerging trade routes (ETRs). While ETRs have been affected by the cascade of vessels, and are using larger tonnage than previously, demand still outweighs supply and rates are ticking up.
In Q113 the outperformer in terms of average freight growth of the SCFI's 15 trade routes was Asia-Latin America, with average rates between Shanghai and Brazil's port of Santos increasing by 37% y-o-y. In the first three weeks of April we highlight the intra-Asia trade route as the outperformer, with the average freight rate between the port of Shanghai and South Korea's port of Busan up 22% y-o-y, with the freight rate to Santos in second place.

This growth in volumes and the uptick in freight rates on ETRs is highlighted in the 2012 results of Maersk Line, the world's largest container line. In terms of volume growth the intra-Asia and Latin America routes were outperformers, growing by 19% and 10% respectively. This growth and their profitability is encouraging container lines to increase their exposure to these routes. Maersk Line increased its distribution of volumes on its intra-Asia routes, from 6% of the total in 2011 to 7% in 2012. Latin America's market share in Maersk Line's operations increased from 13% in 2011 to 14% in 2012.
BMI continues to hold the view that ETRs not only offer diversification for carriers away from the saturated major trade routes, but are where the growth opportunities for box shipping sector will remain most prevalent. By extension, ETRs offer the strongest medium-term profit outlook for carriers.
<table>
<thead>
<tr>
<th>Quarter</th>
<th>2012 SCFI USWC Base Port Average Freight Rate, US$ per FEU</th>
<th>% change y-o-y</th>
</tr>
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<tbody>
<tr>
<td>Q112</td>
<td>1,852.60</td>
<td>2%</td>
</tr>
<tr>
<td>Q212</td>
<td>2,429.30</td>
<td>41%</td>
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<tr>
<td>Q312</td>
<td>2,587.80</td>
<td>58%</td>
</tr>
<tr>
<td>Q412</td>
<td>2,277.30</td>
<td>54%</td>
</tr>
<tr>
<td>Q113</td>
<td>2,338.64</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: BMI, SCFI
Global Industry Overview - Dry Bulk Shipping

Demand : Stimulus Benefit Dries Up, Tough Outlook Ahead

The dry bulk shipping sector looks set for a prolonged rough patch, as demand for iron ore in China, the shipping sector's key cargo and main destination, falls as the impact of China's infrastructure stimulus package runs its course. There is little to suggest a further bolstering in demand for commodities associated with China's steel production in 2013, unless the country pulls another stimulus package out of the bag. In the longer term a slowing in China's economic growth and a diversification in the country's power sector will be factors that dry bulk shipping firms will need to watch when making fleet capacity decisions.

Stimulus Comes And Goes, Rates Rise And Fall

Dry bulk shipping, specifically the Capesize segment, which transports iron ore to China was the first sector to feel the positive impact of China's US$158bn infrastructure package, which BMI had forecast would bolster China's iron ore imports. The Capesize shipping sector benefited from the uptick in demand for iron ore from Chinese steel mills in Q412, as steel producers ramped up imports in preparation for increased demand as a result of the infrastructure stimulus.

In early October 2012 Capesize rates went above US$2,000, reaching a high of US$2,587 at the end of the month and falling back below US$2,000 at the beginning of December 2012. At the time of writing (end of April 2013) the index was in a nine-day slump, with rates for April 24 at US$1,214, the lowest level of the year so far, with potential, from the demand side, to dip much lower.
The benefit for the dry bulk shipping sector from China's infrastructure plan appears to have ended, with nothing to fill its place in the short term.

**Iron Ore Demand Dips**

For BMI, two indicators highlight the threat of an exceptionally tough climate for the dry bulk sector in 2013. Iron ore inventories at Chinese ports are being run down, heading to lows last seen in 2010. The latest data entry for this index (April 19 2013) marks the fifth consecutive decline, with iron ore port inventories down 22% year-on-year (y-o-y) and at their lowest level so far in 2013, a level last seen in November 2010.

Low inventories are typically viewed positively by the dry bulk shipping community, as China runs them down only to build them up again, leading to a rush in demand and a rise in freight rates. However, there is little to suggest this scenario will play out in the short term, with the ramp up in demand for iron ore to fuel the steel sector in its preparation for the infrastructure stimulus having come and gone.
As well as running down its stores of iron ore, China is reducing its imports of the product, with imports dropping by 0.4% y-o-y in Q113.

**Coking Coal Imports Starting To Slow**

The other key indicator of Chinese steel demand is coking coal. While imports of this product, which along with iron ore is a key component in steel manufacturing, grew by 44% y-o-y, this is likely to be due to lower inventories of coking coal, meaning China has not been able to run them down to the same level as in the iron ore sector.
The increase in coking coal imports slowed in the first three months of 2013, and BMI highlights a slowdown in a y-o-y context, with March 2013 coking coal imports growing by 11.9%, down from 41.4% in March 2012.

Steel Production Feeling Stimulated... For Now

These indicators point to a likely slowing in steel production. Currently this is the sector which is feeling the impact of China's infrastructure stimulus, as steel mills ramp up manufacturing to feed infrastructure-sector demand, which is projected by BMI to be most acute in the first half of 2013. In March 2013 China's steel production reached a peak, not only for the year but also for the last seven years, at 66.3mn tonnes.
The Chinese construction sector is set to be next in line to benefit from China's infrastructure stimulus package. **BMI** projects China's construction industry to expand by 6.4% in 2013, up from estimated growth of 5% in 2012. While this is a strengthening in y-o-y growth, **BMI** highlights that China's construction sector growth is steadily slowing, with growth of just 6% last seen in the early 2000s.
Most worrying is the long-term outlook for China's construction sector, which is in line with the projected slowdown in China's economic growth outlook. In 2014 we project China's construction industry to expand by just 6.3%. Over the medium term we forecast an annual average expansion of just 5.8%, down from an annual average increase of 11.3% over the previous five years (2008-2012).
Longer Term Slowdown

China Construction Industry, Real Growth, % y-o-y

This slowing growth will feed through from the construction sector to steel manufacturers, with BMI's Metals and Mining team already warning of the likelihood of consolidation in China's steel sector. Rolling back up the supply chain, a slowing in steel production would lead to slowing in demand for iron ore and coking coal, which in turn would hit the dry bulk shipping sector.

The dry bulk shipping sector must prepare for slowing demand from its key client and review its operating fleets. The shipping sector will continue to cater for China's demand for iron ore, with the country's domestic iron ore mining sector hindered by deteriorating domestic ore grades, which fell from 43.1% in 2004 to 18% in 2011, but the projected slowdown in growth must be factored in when shipping firms mull scrapping and newbuild initiatives.

Thermal Coal Imports Dropping Off

Another key dry-bulk import into China is thermal coal, which fires the power sector and keeps the manufacturing sector running. Demand is highly correlated to China's growth outlook and is exposed to the slowdown that we forecast in the country's economic growth.
A rise in China's imports of thermal coal at the end of 2012 and the beginning of 2013 coincided with an uptick in iron ore imports in preparation for China's infrastructure stimulus. Just like iron ore imports, the country's thermal coal imports are now in decline.

**Thermal Coal Demand Going Cold**

China's Thermal Coal Imports (tonnes and % change y-o-y)

Source: China Customs

Thermal coal imports dropped by 0.7% in March 2013, ending a four-month rally. BMI has little optimism for growth in imports of this commodity in 2013, due to our projection of slowing Chinese economic growth. We forecast real GDP will expand by 7.7% in 2013, down from 7.5% in 2012.

**Slowing Growth And Power Sector Diversification Longer Term Worries**

Over the medium term, an ongoing slowdown in China's growth will dampen demand for thermal coal imports, with BMI forecasting China's real GDP to expand by an annual average of 6.4% over the medium term, down from the annual average growth of 9.2% in 2008-2012.
A longer-term trend that will also weaken demand for thermal coal imports is China's diversification away from coal. Although we project coal to remain the country's key source for electricity production, forecast by BMI's power team to account for over 70% in both our medium- and long-term (2018-2022) projections, China is diversifying away from its use of coal.

In 2013 we project coal to account for 76.9% of China's total electricity production. By 2017 we forecast this to have fallen to 73.5% and by 2022 to account for 71.9% of the country's total electricity production. This is another area dry bulk ship operators will need to consider when planning fleets and routes.
Supply: Fleet Expansion Slowing, But Overcapacity Still The Key Worry

On the supply side, dry bulk shipping firms face the same issue as those operating in the container and tanker shipping sectors: overcapacity. While there appears to be light at the end of the tunnel, with yearly growth of the dry bulk fleet now slowing and operators seemingly having learnt their lesson by holding off on placing new orders, the benefit from this will only start to be felt over the medium term and so operators will once again rely on the twin tactics of slowsteaming and idling in 2013 to manage capacity. The recent acceptance of a Valemax vessel into a Chinese port once again raises the question of the potential impact of these mega vessels on the global dry bulk shipping outlook. BMI, however, continues to hold the view that China welcoming fully loaded Valemax ships into its ports is some way off and the docking of the Vale Malaysia at Lianyungang port in April 2013, was in fact a hollow victory for Vale.

Deliveries And New Order Demand Slowing

Global growth looks set to start slowing in 2013, with fewer vessels currently under construction. In 2012, the global dry bulk fleet expanded by 17% up from year-on-year (y-o-y) growth of 16.5% in 2011. This growth was driven, not only by an increase in vessels coming online, but also by the size of the vessels increasing, as dry bulk operators embraced the trend of 'bigger is better', as have container ship operators.

According to UNCTADstat in 2011 the global average size for a dry bulk vessel stood at 59,419 dead-weight tonnes (DWT); in 2012, this increased by 63,420DWT, a y-o-y increase of 6.7%. The key driver behind this trend has been the uptick in demand from China for iron ore, leading operators to expand their Capesize fleet, which ship this cargo; but this has also led to the creation of a new class of dry bulk ships, the Valemax, which boast a capacity of 380,000-400,000DWT.
This expansion into larger vessel classes was reliant on continued growth from China, and although we project China to continue growing, its economic growth outlook is slowing, leading to the question of whether all this extra tonnage will be utilised.

Currently the extra tonnage that has come online in the last few years has caused overcapacity, as demand has not kept up with supply. However, we are starting to see a slowing in supply, which should go some way to addressing the problem of overcapacity in the medium term.

Using the Capesize sector as an example, BMI highlights that data from Bloomberg show a decrease in the number of Capesize ships currently under construction. On April 26 2013 the number of Capesize ships under construction stood at 55 vessels, down 52% on the 114 ships under construction for the same period in 2012.
The industry also appears to be learning from its mistakes, moderating its expansion plans, with fewer newbuild orders being made. According to Bloomberg data, the current total number of Capesizes on order stands at 120 vessels down 26% on the order book of 162 ships for the same period in 2012. This decrease in the order book means that the problem of overcapacity in the dry bulk shipping sector is being steadily addressed.

**Lay Up And Slowsteaming Remain Key In The Short Term**

**BMI** believes that dry bulk shipping rates will benefit as supply and demand come into closer equilibrium over the medium term. As for how operators will tackle the problem now, **BMI** expects the twin tactics of slowsteaming and idling to continue to be put to great use in order to manage capacity.

The average speed of Capesize ships has been steadily ticking down, as ship operators aim to burn less fuel, while at the same time keeping vessels in employment for longer, thereby partially addressing the capacity issue. On April 29 2013, Capesize vessel’s average speed stood at 8.85 knots, down 7% on the 9.56 knots for the same period in 2012.
Laying up vessels has also been a well-used tactic to combat overcapacity and looks set to be rolled out even further in 2013. For example on April 29 2013, the number of ships currently at anchor (an indication of how many ships are idle) had reached 302 vessels, up 4.9% on the 288 Capesize vessels at anchor in the same period in 2012.

Valemax A Hollow Threat?

The major short-term threat to overcapacity is the Valemax vessels. The ships were created with an eye to making Brazilian iron ore exports into China more competitive. Currently Australia dominates China's iron ore imports, with the country's miners benefiting from the relatively short shipping journey from Australia's main iron ore port of Hedland to China's key iron ore port of Qingdao, a distance of 3,462 nautical miles (nm). Brazil is China's second-largest iron ore partner, but with a distance of 11,075 between Brazil's main iron ore port of Tubarao to the port of Qingdao the extra time and by extension extra cost, put Brazilian iron ore miners at a disadvantage to their Australian counterparts.

That was until Brazil's Vale created the Valemax, the largest iron ore carrier afloat, with the rationale that economies of scale would place the Brazilian iron ore miner on a more equal footing with mining firms in Australia. The problem that has arisen in Vale's Valemax strategy, is that despite some of these vessels
being constructed in China, only two have been permitted to dock at Chinese ports, with suggestions that the Chinese Shipowners Association has been lobbying the government to place a ban on this ships owing to fears surrounding how the Valemax vessels will impact Chinese dry bulk vessel operators.

<table>
<thead>
<tr>
<th>Vessel Class</th>
<th>Dead Weight Tonnes (DWT)</th>
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<tbody>
<tr>
<td>Very Large Ore Carriers (VLOC)</td>
<td>200,000 plus</td>
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<tr>
<td>Capesize</td>
<td>110,000-190,000</td>
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<tr>
<td>Post-Panamax</td>
<td>80,000-109,999</td>
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<tr>
<td>Panamax</td>
<td>60,000-79,999</td>
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<tr>
<td>Handymax/ Supramax</td>
<td>40,000-59,999</td>
</tr>
<tr>
<td>Handysize</td>
<td>0-39,999</td>
</tr>
</tbody>
</table>

*Source: BMI Research*

**BMI** believes that there is still a long way to go before Valemax vessels are accepted into Chinese ports, although we note that Chinese ports are preparing for Valemax class vessels, with the Qingdao Port Group having launched a new iron ore terminal at Dongjiakou port in March 2013, which has the technical capacity to receive Valemax ships.

While the acceptance of the Vale Malaysia into the Chinese port of Lianyungang in April 2013 - the first Valemax to pull into China following the ban on vessels of the Valemax class - at first glance appeared to show a mellowing in their strategy towards this vessel class, **BMI** believes it was in fact a hollow victory for the Brazilian miner.

The whole point of the Valemax strategy is that, with 400,000DWT capacity, the ships would use economies of scale by shipping greater volumes of iron ore in one go, thereby saving on multiple trips by multiple vessels. The reason the Vale Malaysia was permitted to dock in the port of Lianyungang is that it was loaded with 220,000 tonnes of iron ore, thereby allowing it to circumvent China's ban on the 400,000DWT capacity ships; with just 220,000 tonnes of iron ore in the hull, however, the Valemax ship was only offering a capacity slightly bigger than a traditional Capesize vessel, a class that boasts capacity of up to 199,000DWT.
Global Industry Overview - Liquid Bulk Shipping

Baltic Dirty Tanker Index Under Pressure

**BMI** is not optimistic for the global crude oil shipping sector in 2013. While the orderbook is hugely reduced from the levels reached in 2008, the growth in the global fleet is still greater than we expect demand for seaborne oil to be. The Baltic Dirty Tanker Index (BDTI) continues to sink lower, and we do not foresee any convincing resurgence in its levels before the end of the year, as the global economic recovery is still sluggish. Furthermore, tanker operators must begin preparing for the greater threat presented by the shale revolution in the US, which could effectively remove what has been the world's largest importer of oil from many tanker operators' ports of call.

**Index Keeps Falling**

The BDTI, made up of a number of global crude oil shipping routes for a variety of different vessel classes, had its second consecutive week of declines in the period ended April 18 2013. The index fell from 674 to 634, a drop of 5.9%. This fall was even steeper than the previous week's, 4.7%, and reflects our outlook in that the dirty tanker sector will underperform in relation to its clean counterpart in 2013. The clean index saw a lesser decline, of 1.1%, in the period ended April 18. The outlook for product-tanker operators is brightening, as tonne-miles are increasing, and the fleet has not suffered from over-ordering to quite the same degree as the crude oil tanker fleet to date, although orders are now rising.

The BDTI is 14.9% down from the 745 it stood at a year earlier, and if we look further back the decline is even more apparent. In mid 2008 the index was over 2,000. From the 2,086 recorded on June 24 2008, the index has fallen 69.6%. The expected amelioration in the global supply and demand imbalance has failed to happen, with the index declining towards lows last seen in August 2012.

It is perhaps no coincidence that the 2012 lows coincided with negative earnings for very large crude carrier (VLCC) operators on the benchmark Middle East Gulf to Asia route. These operators are once again enduring negative returns. This trend is examined in greater detail in our piece on the VLCC sector ([VLCC Operators Under Pressure, April 23 2013](#)), but it is important to note that the wider crude oil shipping sector is in large part driven by what is happening to these supertankers.
Index Sinking Once Again

Baltic Dirty Tanker Index, 2010-2013

Given the current pressures on the global crude oil shipping fleet, we are less confident than we were that rates will rise over 2013. While we do not envisage the BDTI dropping to the five-year lows of under 500 seen in 2009, when the index made a spectacular fall from its pre-downturn highs as demand for seaborne oil declined, a return to the 600 mark is possible and any rate rises that are secured by operators are unlikely to bring the index back up over 800. The VLCC situation in particular will keep the index under pressure. Rates are likely to remain negative as the capacity of vessels awaiting cargos in the Middle East Gulf exceeds demand, despite Chinese refineries coming back online after routine maintenance.

Overcapacity An Ever-Present Problem

This underperformance on the part of the crude oil shipping sector is mainly due to continuing overcapacity in the global fleet. The highs of 2008, just prior to the economic crash, led to a glut of ordering by shipping companies looking to benefit from seemingly endless growth in demand for seaborne oil. Shipping has always been a cyclical industry. The time and considerable funds it takes to build and launch a new ship means that fluctuations in demand are not quickly accounted for in the supply of vessels. The BDTI had
risen to over 3,000 in November 2004, before crashing down to under 1,500 by January 2005. This current trough has been extended, however, as the highest level of ordering in decades coincided with the gravest recession since the Second World War.

According to IHS Shipping data compiled by Bloomberg, the global tanker orderbook reached its peak in September 2008, just prior to the global economic crisis, when it stood at 48.09%. The fleet at that time stood at 278,861mn deadweight tonnes (DWT). The orderbook has since declined as vessels have come online and overcapacity has driven rates down. On April 19 2013 the orderbook was just 10.3% of the global fleet.

Orderbook Diminishing But Still Considerable

Global Crude Oil Shipping Fleet (DWTmn) And Orderbook (% of total), April 2008-January 2013

However, the ever-expanding fleet means that, while the orderbook as a percentage is considerably less than it was, the larger fleet afloat today means there is still a considerable amount of new tonnage due online. The 48.09% of 278,861mn DWT in 2008 meant there was some 134,104mn DWT due to be delivered from the yards. The 10.3% on the orderbook today, as a percentage of the 373,682mn DWT afloat, is a still-significant 38,489mn DWT.
While scrapping goes some way to tempering the effects of the orderbook, the global tanker fleet continues to expand, exacerbating the overcapacity crisis, given the not-as-yet realised rebound of the global economy. Following years of excess fleet growth, tanker operators have fewer old vessels to scrap to bring the imbalance into line. One alternative that has been used is idling. Maersk Tankers has idled two of its VLCCs operating in the Nova Tankers pool, for example. With the fleet continuing to grow, BMI expects more idling as operators become reluctant to scrap perfectly serviceable vessels, instead holding out in the expectation of an improvement in the fleet imbalance. The container shipping sector is also engaging in idling as a way to cope with overcapacity.

Demand Insufficient To Absorb Fleet Growth

The growth in the fleet would not be such a concern if there were a commensurate rise in demand for seaborne oil. However, the global economy’s recovery from the 2008/2009 global financial crisis has been faltering at best. The eurozone re-entered recession in 2012, according to BMI’s estimates, and in 2013 we forecast another year of contraction, at 0.1%. The recovery in the world’s largest economy, the US, has been sluggish, and growth in China, the world’s second-largest economy, has dipped below the magic 8% as its key export markets have struggled to keep up demand. In 2013 we forecast real GDP growth of 2.1% and 7.5% respectively in these two economic giants.
In 2013 our Oil and Gas team forecasts that growth in global oil demand will be 1.8%. Africa and Latin America will register the highest growth in consumption, at 3.3% and 3.2% respectively, with Western Europe and North America lagging behind at 0.0% and 0.4% respectively. This does not bode well for tanker operators, with distances between the key exporters of the Middle East Gulf and Europe and North America doing much to support the tonne-km sailed by the global tanker fleet.

With the US's development of its own shale oil supplies, its demand for imports of seaborne oil will continue to decline, presenting a very real risk to tanker operators. Journeys from the Middle East Gulf to China are some 12,000km longer than those from the Middle East Gulf to the US Gulf.

The result of this is that tanker operators need to worry not only about the short-to-medium term, as the decline in rates continues to batter their bottom lines and balances and jeopardise their lines of credit, but must ensure that they adapt to the new trade environment created by the shale revolution in the US.
VLCCs Outlook

**BMI** believes that the Q1 results of companies operating very large crude carriers (VLCCs) on the spot market will be disappointing, given the fact that vessels operating on the supertankers' benchmark route generated negative returns for much of the first quarter, and were still doing so at the time of writing in mid-April.

VLCCs remain the vessel class that continues to suffer the most in terms of falling rates and overcapacity. Along with Capesize vessels in the dry bulk shipping fleet, these supertankers, capable of carrying 2mn barrels of crude, reflect the exuberance of the global shipping industry in the years just prior to the global economic crisis, when rising demand, in particular from China, saw daily returns for the vessels top US $200,000.

The boom times led to a glut of ordering, and the global VLCC fleet has grown from 432 in April 2008 to the 589 today. However, demand growth stalled during the economic crisis, and while it has increased again over the past few years, it has not been sufficient to iron out the discrepancies. This issue faces most of global shipping: dry bulk and container shipping companies have been similarly affected. Furthermore, supertanker operators continue to place orders at shipping yards, taking advantage of lower prices as shipyards have looked to maintain their own businesses in the face of falling demand. The orderbook as a percentage of the global VLCC fleet has come down, from 47% in 2008 to the current 6.6%, yet capacity is still growing more rapidly than demand.
The first four months of 2013 were not kind to VLCC operators. At the start of the year we were optimistic about the vessel class's prospects, believing the near-constant negative daily returns of Q312 were in the past and that the spread between supply in the global fleet and demand for seaborne oil was starting to converge, this has not yet proved to be the case. According to the Baltic Exchange, daily returns on the benchmark Middle East Gulf-to-Asia shipping route were negative in the seven weeks to March 14, and, after a brief sojourn into positive figures, went negative again on March 28. At the time of writing positive figures were still eluding supertankers; they were making negative returns of US$3,409 on April 16.

The Baltic Exchange’s calculations to work out daily returns do not take into account the effects of slow-steaming on companies' bottom lines. This practice of sailing more slowly than ships have previously has a twofold benefit to tanker operators: not only does it reduce fuel consumption, which has been particularly important since bunker costs shot up in 2011, but it also helps manage the overcapacity in the fleet by taking ships out of circulation for longer on a single trade.

Nevertheless the outlook is grim for VLCC operators. According to Frontline, its double-hulled VLCCs operating on a spot basis made an average of US$22,400 a day in 2012. However, this figure was buoyed by
a relatively strong first half. In Q3, with spot rates on the benchmark route were negative for much of the period, Frontline's chartered supertankers made just US$13,300 a day. By mid-April around 10 weeks of the first four months of 2013 had already been in negative figures.

In its Q412 results, Frontline gives its VLCC cash cost breakeven rates for 2013 as US$24,200, a figure we do not believe will have been achieved through the first quarter, and so the company will likely be reporting another quarter of losses. It should be borne in mind that Frontline's breakeven figure was reduced considerably by a company restructuring in 2012. President John Fredriksen, through his personal investment in Hemen Holdings, took on much of the company's debt and newbuild obligations in a new company, Frontline 2012. Other VLCC operators exposed to the spot market will be even worse off than Frontline if they have significant debt obligations to meet.

With the first three weeks of Q2 having generated negative returns, the outlook for Q2 is not much better than for Q1. A Bloomberg survey on April 17 gave the median consensus estimate that there were 20% more VLCCs available to hire over the following 30 days than there were likely to be cargoes, meaning the situation is unlikely to improve for VLCC operators anytime soon. Nor does the 2013 outlook as a whole look especially bright. Clarkson, the largest shipbroker in the world, forecasts that global VLCC carrying capacity will rise by 5.1% for the year, compared to its forecast demand growth of 4.9%. The imbalance should not widen too much further in 2013, but it is still far from narrowing.

Bloomer Tanker Index story

BMI does not believe that the Bloomberg Tanker Index is the indicator for the fortunes of dirty tanker operating companies that it once was. From a formerly fairly even split between six liquid-bulk tanker operators listed on the New York Stock Exchange (NYSE), the bulk of which were heavily involved in crude oil shipping, over three quarters of the index's weighting now comes from Teekay Corp, a company that is increasingly reliant on offshore and LNG shipping for its profits. With one former member already delisted, and two having declared themselves bankrupt, this dynamic is likely to continue. Despite our slightly more sanguine outlook for crude oil shipping in 2013, we do not believe that the index will see any significant resurgence over the coming year.

The dirty tanker market continues to suffer in 2013. The sector, just like container shipping and dry bulk shipping, is afflicted by a glut of ships which have come online having been ordered prior to the downturn. The growth of the global fleet has far outweighed growth in demand for seaborne oil in the years since; rates have been continuously pushed lower. The Baltic Dirty Tanker Index (BDTI), made up of a number of
global crude oil shipping routes for a variety of different vessel classes, stood at 658 on February 19, a far cry from its five-year peak of 2,347, recorded in July 2008.

![Far From Five-Year Highs](image)

**Far From Five-Year Highs**

**Baltic Dirty Tanker Index, 2008-2013**

The vessel class perhaps most affected by the overcapacity curse has been very large crude carriers (VLCCs), the supertankers capable of carrying as much as 2mn barrels of crude. These vessels earned daily returns in excess of US$200,000 in the pre-downturn boon years, yet are currently struggling to break even. The VLCCs operating on the class's benchmark Saudi Arabia to Japan route endured almost constant negative returns in the third quarter of last year, and with the recent drop in production by OPEC member states, the situation is once again dire. Chartering vessels from the Middle East Gulf has all but collapsed, with the benchmark route generating daily losses of around US$6,500 in the past week; the journey to the Gulf of Mexico has been generating even greater losses of over US$30,000, according to the Baltic Exchange.

Our outlook for crude oil shipping is more sanguine than it was in 2012; the global economy is picking up, with BMI forecasting a return to growth in the eurozone, and growth of 2.3% and 7.5% in the US and
China, the world's two largest economies. Equally, the orderbook for new tankers is at a more manageable level - at the start of 2013 it stood at 11.8% of the total, down from 34.3% three years earlier. However, the effect of the recent reduction in output by OPEC demonstrates how vulnerable the tanker companies remain to this uneven supply/demand dynamic.

Shipbroker Clarksons forecasts that the global supertanker fleet will grow by 5.3% over the year, compared to a 6.3% increase in demand, and this will go some way towards rectifying the imbalance. Nevertheless, the outlook for the Bloomberg Tanker Index, and the shipping companies that make up its weighting, remains poor indeed.

Dirty tanker operators have been fighting a war of attrition with falling rates and mounting debts since the global economic crisis first occurred, and this has been reflected in their falling share prices, and the plummeting Bloomberg Tanker Index. From its five-year peak of 912.07, recorded in June 2008, the index has fallen 80.3% to its current 179.72. Years of negative quarterly earnings announcements and costly debt restructurings have taken their toll. One former member of the index, General Maritime Corp, which filed...
for bankruptcy in November 2011, has since been delisted from the NYSE, and so no longer makes up part of the index's weighting. Another US-based tanker company, Overseas Shipholding Group, which now makes up just 1.01% of the index's weighting, has also declared itself bankrupt, and owes US$463mn in US taxes and interest.

The index is becoming increasingly reliant on the relative outperformance of Teekay Corp to support it. The company has been faring considerably better than any of the other four remaining companies in the index, and its weighting has risen considerably as a result. In February 2010 Teekay Corp made up 24.1%; at present the US company makes up a massive 78.3% of the index. It is followed by Nordic American Tankers (10.1%), Frontline (6.2%), Tsakos Energy Navigation (4.4%) and Overseas Shipholding Group.

**Teekay Comes To Dominate**

*Company Weightings In The Bloomberg Tanker Index, 2010 & 2013*

From looking at the weighting as a pie chart we can see that in 2010 the companies had a much more even market capitalisation, with Teekay, Frontline and Overseas Shipholding Group accounting for roughly a quarter of the weighting each. The bulk of the index was at that time driven by crude oil shipping, with some of the operators also with a substantial exposure to product tankers. On February 22 2010, Frontline, involved primarily in VLCC operations on the spot market, had the largest market capitalisation of the six tanker operators at US$2.23bn, giving it 25.2% of the weighting. Teekay Corp was next in size with a market capitalisation of US$1.75bn. By contrast, today Frontline's market capitalisation is just US
$239.03mn, compared to Teekay Corp's US$2.55bn; the two firms now account for 6.2% and 78.3% of the index respectively.

However, we note that Teekay's growing predominance in the index is not being driven by its dirty tankers. Rather, it is the parent company's diversified sections, active in the more-profitable LNG shipping and offshore shipping which are driving its success. According to Teekay Corporation's earnings results for the third quarter of 2012 (last available at time of writing), the company's cash flow from vessel operations (CFVO) of US$191.56mn was driven by its **Teekay Offshore Partners** and **Teekay LNG Partners** subsidiaries. At CFVO of US$95.53mn and US$111.73mn respectively they made up the bulk of the company profits, helping absorb the loss made by **Teekay Parent**. In the same period in 2011 a similar story played out. **Teekay Tankers**, concerned primarily with crude oil shipping, made CFVO of just US $16.25 in Q312.

### Pure-Play Tankers Underperforming

**Teekay Corp Cash Flow From Vessel Operations (CFVO), US$mn, By Subsidiary, Q312**

![Diagram showing cash flow from vessel operations by subsidiary](source: Teekay Corp)

**BMI** notes that the growing predominance of Teekay Corp in the Bloomberg Tanker Index, and the growing reliance on offshore and LNG shipping that Teekay has to ensure its profits, means that the index is
not the indicator for dirty tanker shipping that it once was, save perhaps to illustrate just how poorly the sector is doing. Even with our more sanguine outlook for the coming years, the more pure-play crude oil shipping companies represented in the index will have considerable debt issues for some time to come, and it may be some time before it is as equally split as it was in 2010. Further, even Teekay Corp's relatively profitable business has not yet been sufficient to elevate the index above the 200 mark.

Product Tankers

**BMI** maintains its view that the prospects for the product tanker sector are considerably more sanguine than those of its crude oil counterpart both in the medium and longer term. The more optimistic view is predicated not only on the supply outlook, as the orderbook remains at a reasonable level, but also on the demand side.

Growth in demand for clean tanker operators' services is not necessarily being driven by a greater demand for refined products, as the global economy's sluggish recovery from the global financial crisis continues to weigh heavily on volume demand, but rather by growth in the tonne-mileage of clean tanker journeys, as refining capacity moves from the developed markets of Europe and Australia to Asia and the Middle East.

The view that product tankers are sailing in safer waters than crude oil vessels is shared by dirty tanker operators, a number of whom are looking to increase their exposure to the product-shipping sector, either through new ordering or conversions. We caution that the industry must be careful not to create an overcapacity glut through a rush on the yards however.

**Index Remains Low, For Now**

The Baltic Clean Tanker Index (BCTI), which covers vessels transporting 'clean' products such as chemicals and refined petroleum products, saw a drop, its second in two weeks, over the seven-day period to April 26, falling 3.2% to 613. The BCTI was not the only liquid bulk index at the Baltic Exchange to fall over the period. The Baltic Dirty Tanker Index (BDTI), made up of a number of global crude oil shipping routes for a variety of different vessel classes, saw its third consecutive week of declines, down from 634 to 623, a drop of 1.7%.
A Brighter Outlook

Baltic Clean Tanker Index, 2010-2013

Although the BCTI saw a greater drop that week, it remains in much better shape than its dirty counterpart. The BCTI was down by 2.2% from 627 a year earlier, on April 26 2012. The BDTI, however, was down by a massive 18.7% year-on-year (y-o-y), and we believe the disparity between their overall performances will widen, with rates for clean tankers to begin to pick up much sooner than those for dirty tankers.

A Reasonable Orderbook

The disparity between the two sectors cannot be completely attributed to excess ordering in the crude oil sector; the growth in the two fleets over the past five years is in fact remarkably similar. According to IHS Global Shipping data compiled by Bloomberg, the global product tanker fleet stood at 1,602 on April 26, amounting to 55.74mn deadweight tonnes (DWT), a hefty 37.2% greater than the 40.62mn DWT that made up the fleet in May 2008. This is the same percentage growth in DWT seen in the crude oil tanker sector over the same period. In terms of the number of ships in the respective fleets, the number of product tankers has proportionally grown slightly more than crude oil tankers, by 24.7% to 23.8%. Today the orderbook for clean tankers as a percentage of the fleet is higher than that for crude oil tankers, 11.8% compared to 10.3%.
While the outlook for growth in demand for crude oil tanker services is poor, new trade lanes for shipping refined products are generating robust prospects for clean tanker operators. The two sectors' orderbooks might be at similar levels, but while for clean tanker operators this is a reasonable rate, for crude oil shipping it will result in more ships coming into an already overcrowded market, one with little hope of improvement in the medium term.

After hitting a five-year low of 9.8% in November 2012, the clean tanker orderbook as a percentage of the current fleet has begun to rise again on the back of the bright outlook for clean tankers.

**Tonne-Mile Dividend**

A number of new opportunities are opening up for product tanker operators, and this is due in large part to the reduction of refining capacity in developed markets. With refineries often developed decades ago, the costs of keeping them in operation are becoming greater than the profits to be made, especially given that
European and Australian administrations are not wont to subsidise the industry. This is in contrast to growing refining markets in Asia.

According to Bloomberg, two-thirds of European refineries lost money in 2011, and capacity has been closing down as a result. Refining capacity of 15.19mn barrels per day (b/d) in 2010 had fallen 2.6% by 2012, and we forecast that it will continue to fall over the medium term, to 2017.

In Australia Royal Dutch Shell has announced plans to sell the Geelong refinery. This will be the second refinery in Australia which the company has quit in the past year. In September 2012 it closed its Clyde refinery. Caltex has already closed an Australian refinery, and both of these closed refineries are now operating as import terminals. We forecast that by 2017 Australian refining capacity will have fallen to 534,240b/d, a drop of 37.0% from 2011 (latest available data), and this does not take into account the likely closure of Shell's Geelong refinery.

The result is that these markets are increasingly reliant on imported refined products from countries such as India and Singapore, where refining capacity is growing strongly. The distance involved in transporting
products from India to Europe or from Singapore to Australia means that the tonne-mile demand for product tankers is expected to grow strongly. Longer journeys will result in more business for operators even as volume demand sees lacklustre growth due to the anaemic economic performance in the eurozone, forecast by BMI to see a second consecutive year of recession in 2013, and elsewhere.

The reduction in European refining, and its growth in the US as shale supplies grow, has reduced the transatlantic trade. However, this is being offset by the growth of US exports to Latin America. Demand growth in emerging economies in Latin America and Africa, which are lacking adequate domestic refining capacity, provide further scope for tonne mile growth. It is worth noting that the upside for product tankers in this equation will add to crude oil tanker operators’ already considerable woes.

Money Pouring In

The sanguine outlook for the clean tanker sector is attracting considerable investment. According to an April 2013 report by shipbroker Clarkson Hellas, product tankers, especially medium-range (MR) and long-range (LR) ones, have been one of the largest class of vessels ordered at shipyards in 2013. Scorpio Tankers and Sinokor Merchant Marine are among companies to have placed orders for new clean tankers since the year began.

It is not only established players in the sector that are looking to gain from the projected growth in demand for product tankers. It appears that John Fredriksen's Frontline 2012 is not going to be a pure-play crude oil tanker outfit like Frontline, as he is looking to enter the clean market through the purchase of 16 product tankers. The vessels are contracted for delivery between 2013 and 2014. Another relatively new outfit, 2010-formed Tankers Inc, backed by Barclays Natural Resources, is looking to grow its fleet. CEO Mikael Skov told Seatrade Global: 'We are looking at any opportunity within the product tanker industry whether it's mergers and acquisitions, second-hand vessels or newbuildings. As of now we are already in various processes and believe 2013 is a good time to make investments.'

Newbuilds and acquisitions are not the only means by which new entrants are hoping to build exposure to refined-product shipping; conversions are also picking up. It has been reported that at least four dirty Aframax vessels are currently being converted into clean tankers through cleaning.

Cyclical Industry Brings With It Risks

As with any bright outlook in the shipping industry, there are downside risks, and these are largely down to the sector's highly cyclical nature. The time and costs involved in developing a fleet of tankers mean
reactions to fluctuations in demand can take time to come into play. As the outlook for any shipping sector brightens, so operators rush to increase their exposure, and once these vessels come online they are there to stay.

**A Sinking Ship**

Torm's Share Price, 2008-2013 (DKK)

![A Sinking Ship Graph](image)

*Source: Bloomberg*

This rush to the shipyards can bring rates plummeting down should there be a market disruption such as that caused by the global economic crisis in 2008-2009. While demand for seaborne crude oil diminished, the crude oil shipping fleet continued to grow, and this is the cause of the sector's current malaise. The product tanker sector, too, was hit, and rates are considerably lower than they were. While the outlook is bright, operators must be wary of not flooding the sector with new vessels, potentially offsetting the tonne-mile growth dividend and setting themselves up for disaster in the event of another crash.

A salutary lesson can be gained by looking at Copenhagen-based major product carrier **Torm** over recent years. The company operates a fleet of 91 handysize, long- and medium-range product tankers (in addition to a number of dry bulk vessels), making it one of the largest operators of product tankers in the world, although this fleet is much reduced from the 120-plus vessels it operated just over a year ago. It leased a
number of the vessels at market highs in 2008, and has been unable to secure charters to cover their payments to banks and shipowners. Torm made a net loss of US$581mn in 2012, its fourth consecutive year of net losses, and had teetered on the edge of bankruptcy in the first half of the year, forcing it into costly debt restructuring.
Global Company Strategy

Maersk Line

Overview

Maersk Line is the main container shipping unit of highly diversified shipping and energy conglomerate AP Moller-Maersk Group. The group's other box shipping subsidiaries are MCC, which operates its intra-Asia route network, and Safmarine, which transports boxes to and from Africa and the Middle East.

The company is based in Denmark but boasts a global presence, in 125 countries. It has around 25,000 employees.

Maersk is the largest container shipping company in the world, boasting a fleet with a capacity of 2.6mn twenty-foot equivalent units (TEUs) and one of the largest box shipping networks. It is heavily exposed to Asia-Europe but is increasing its role in intra-Asia trade, where it already possesses expertise in the form of MCC.

SWOT Analysis

Strengths

■ As the world's largest container shipping line, Maersk has a greater share of global seaborne container volumes than any other carrier.

■ Its large, expanding fleet offers it the ability to capture trade volumes.

■ Maersk is part of AP Moller-Maersk, a diversified company with activities in the oil and gas and terminal-operating sectors that synergise with its shipping operations.

■ Flexibility as a result of fleet size and type.

■ The company has a raft of strategies it can call on during the current depressed environment in the container sector, including laying up vessels and super slow-steaming.

Weaknesses

■ The dominance of the Asia-Europe trade route (accounting for 24% of volumes carried in 2012) in Maersk's service portfolio leaves the company heavily exposed to a downturn on this route.

■ The company managed to post a profit in 2012.

■ With such a large fleet, Maersk is constantly running the risk of overcapacity, which could be a drain on resources if business slows.
Its presence in the oil and gas and terminal operating sectors means Maersk risks an overreliance on the sector as an integrated whole. This could be dangerous if one sector's activities fail to hedge the other (for example, if oil prices are at odds with bunker prices).

Opportunities

- The company is increasing its exposure to intra-Asia, which is widely considered to offer huge growth potential for the container shipping sector.
- It looks set to remain number one in the container shipping sector and has cemented its position as a global leader with an order for 20 18,000TEU vessels.
- The company is increasing its exposure to Russia, one of the few European markets that still offers growth for the container shipping sector.
- The line's focus on emerging market routes is wise, not only as a diversification strategy from over-exposure to the 'big money' routes, but also as a way to enter potentially high-growth markets early.

Threats

- Overcapacity fears still plague the container shipping market.
- The trend of alliances and partnerships could put pressure on Maersk Line's market share, as its rivals join forces.
- The company is to hold off on newbuild ordering for two to three years, and this could mean that it misses some bargains being offered by shipyards as newbuild prices have shrunk.
- Maersk's offices, along with some of its peers, were raided in February 2013 by Russia's Federal Anti-Monopoly Service and in May 2011 by European Commission officials investigating antitrust claims. If the shipping company is discovered to have acted inappropriately it will be in line for a hefty fine.
- The company trades in kroner, which means it is vulnerable to changes in the US dollar.
- Although the group operates in the oil and gas sector, disparities in the price of oil and bunker costs threaten profits.

Strategy

Maersk continues to dominate the global container shipping sector, holding a 15.2% market share, according to AXS Alphaliner. This is still some way above its nearest rival, Mediterranean Shipping Company (MSC), which boasts a market share of 13.5%.

Routes

Maersk's tactics have seen it develop considerable exposure to the 'big money' routes, operating 10 transpacific services and 13 Asia-Europe services. Maersk is also heavily committed to intra-Asia, mainly through its subsidiary MCC, which operates the group's intra-Asia services.
In terms of volumes handled on Maersk’s services, Asia-Europe dominates. In 2012 the route accounted for 24% of the total, the same as in 2011. West and Central Asia is the second largest route, accounting for 17% of the total. Africa accounts for 15% of the total; Safmarine operates in this area with a focus on the transportation of containers to and from Africa and the Middle East. Transpacific accounts for 15% and Latin America for 14%, while intra-Asia currently makes up just 7%. BMI expects intra-Asia’s role in Maersk’s service portfolio to increase over the medium term, with the company - along with its peers - putting huge emphasis on the growing demand between Asian states.

While holding its dominant position on the big money trade routes, Maersk is also increasing its exposure to emerging trade routes (ETRs). These include intra-Asia, intra-Europe and West Africa. BMI considers this a wise strategy, as competition continues to expand on the Asia-Europe and transpacific routes, pushing rates down. As well as offering diversification away from the big money routes, ETRs offer both less competition and high growth potential. There are, of course, obstacles, as there tend to be in emerging market-focused activities. However, Maersk’s tactic of hiving off specific units, as in the case of intra-Asia MCC, is a sound strategy, in BMI’s view. We also highlight the lack of infrastructure at many of the ports on ETRs and note Maersk’s strategy of overcoming this by developing vessels with on-board cranes, thus negating a risk operations.

**Fleet**

Maersk has the largest fleet in the world in terms of capacity with 2.6mn TEUs, comprising 594 ships. The fleet’s dynamics are fairly evenly split between owned and chartered, at 51.6% and 48.4% respectively. Although the company charters in less capacity than it owns, it charters in more vessels, with the chartered fleet standing at 355 ships, compared with its owned fleet of 239 vessels. Maersk appears to have a strategy of chartering smaller vessels while owning and operating larger ones. This could be because of the prestige of owning a large fleet, but BMI believes it is also partly because there is a larger global supply of smaller vessels, which Maersk can charter in as needed.

The largest share of Maersk’s fleet, in terms of size, comprises 4,000-5,000TEU vessels. This means the company has flexibility to move ships between routes, with vessels in this size bracket able to be used for both direct services and feeder lines. The company has also invested heavily in larger vessels and owns eight of the second largest vessels afloat: the 15,000TEU ‘E’ class.

Maersk is implementing a strategy that should, in the medium term, ensure it remains the market leader in terms of capacity. The company originally ordered 10 18,000TEU vessels, but has now doubled that number. The first 10 vessels will be delivered in 2013 (the very first one in June) and 2014; the second 10
are scheduled for delivery in 2014 and 2015. Maersk did have the option to take another 10 18,000TEU vessels, but decided to let it lapse. BMI notes that while volumes on the Asia-Europe route have picked up after the downturn, ordering vessels that can only operate on one route heightens risk.

Further highlighting Maersk's strategy of 'bigger is better' are reports that the carrier is seeking to increase the capacity of some of its 8,600TEU vessels to 10,000TEUs. The company is, however, to hold off on ordering newbuilds for the next two to three years.

**Financial Results**

**Q412 And 2012**

Maersk Line's revenue in Q412 increased by 2.5% year-on-year (y-o-y) to US$6.52mn, despite a 9.1% fall in volumes to 2mn forty-foot equivalent units (FEU) and thanks to a 6.6% growth in the freight rate. As a result, Maersk Line recorded a net operating profit after tax (NOPAT) of US$335mn, compared with the US $593mn loss it recorded in Q411, and also helped by fall in the bunker fuel price from US$658 to US$604 per tonne.

Revenue for the year was up 8% to US$27.1bn, and volumes increased from 8.1mn FEU in 2011 to 8.5mn FEU in 2012. Cost reductions, surcharges collection and 1.9% higher average rate y-o-y led Maersk Line back to the black, posting a NOPAT of US$461mn in 2012 compared to a loss of US$553mn in 2011.

According to the company, it gained market share for the full year, but saw a declining share through H212.

**Q312 And 9M12**

In Q312 Maersk Line's revenue increased by 5.7% y-o-y to US$6.96bn. The main driver behind this increase was a 5.7% increase in the freight rate, which averaged US$3,022 per FEU over Q312, as volumes carried remained static y-o-y, at 2.1mn FEU.

On the back of this, Maersk Line recorded a profit of US$498mn, an improvement on the US$289mn loss in Q311. The profit was accomplished not only by increased revenue, but by a fall in operating costs, specifically the bunker fuel price, down 1.2% y-o-y to an average of US$648 per tonne in Q312.

The positive result in Q312 enabled Maersk Line to record a profit of US$126mn in 9M12. Over the first nine months of 2012 the firm's revenue increased by 9.9% to US$20.6mn, with volumes growing by 10.2%
and freight rates by 0.24%. Bunker prices, while down in Q312, were elevated for the other two quarters, up 11.9% for the period.

**Q212 And H112**

Maersk Line's net profit in Q212, while a positive signal, was not enough to drag the carrier back into the black for the first six months of 2012. The profitable second quarter was achieved due to success in pushing up rates on the Asia-Europe route, to which the company is most exposed. The limited success of the sector-wide rate increase the company implemented on the route in Q312, however, offered downside risk to the firm's ability to turn a profit for the whole of 2012.

In Q212 Maersk Line recorded a net operating profit of US$227mn, up from a US$95mn loss in Q211. The Q212 profit was enough to wipe out the loss in Q112, with the line recording a net operating loss of US$372mn, down from a profit of US$329mn in H111.

Maersk Line's revenue in Q212 increased by 16.7% y-o-y to US$7.3bn, with Q212 results outperforming those the company posted in Q112 and with H112 revenue increasing by 12.2%.

Maersk Line's revenue increase in Q212 was driven by the increase in volumes, with the carrier shipping 10% more boxes than in Q211, and the uptick in rates, with the company's average freight rates increasing by 4.2% y-o-y in Q212. Operating costs remained high, as although the bunker price ticked down in Q212, it was still up y-o-y, with Maersk Line posting an average bunker price increase of 10.3% in Q212 and 19.6% in H112.

Vitally for Maersk Line, Q212 rate increases were successful on the Asia-Europe route, the trade route to which it is most exposed, accounting for 24% of its operations. Maersk Line boosted rates on the route by 14%, but this was not enough to wipe out the rate declines in Q112, with rates on the trade route down 8% y-o-y.

**Q112**

Despite freight volumes increasing by 22.2% in Q112, enabling Maersk Line's revenue to grow by 7.4% y-o-y, the company remained in the red, recording a loss of US$599mn. The company was dragged down by the 9% decline in rates and the high price of bunker, with the price of fuel increasing by 30.9% in Q112.
BMI believes that the depth of Maersk Line's loss was mainly due to its exposure to Asia-Europe. In terms of revenue generation, the trade route was the worst hit, with the average rate declining by 21% y-o-y. In fact, Maersk Line's main route exposure, measured in distribution of volumes across its networks, in all but one case recorded rate declines in Q112. Rates on the Asia-Europe trade route, which accounts for 37% of Maersk Line's operations, fell 21%. The Latin America and transpacific routes, which account for 14% and 11% respectively of Maersk Line's network, recorded y-o-y rate declines of 8% and 5% respectively. Africa coverage, which accounts for 15% of Maersk Line's operations, posted a rate increase, but this was just 2% y-o-y.

2011

Despite Maersk Line's revenue increasing by 4.5% y-o-y from US$24bn to US$25.1mn, and transported volumes increasing by 11%, the company still posted a loss of US$532mn; in 2010, it had recorded a profit of US$2.8bn. The loss can be attributed to the sharp decline in freight rates, as a rate war between the major box carriers played out in 2011, forcing Maersk Line's average freight rate down 7.7% y-o-y, to US$2,828 per TEU. This was coupled with the negative impact from spiralling fuel costs, with the bunker price average increasing by 35.4% y-o-y to US$620 per tonne.

Maersk Line's exposure to the Asia-Europe trade route was a key factor in its 2011 loss. The route dominates the company's operations, accounting for 39% (the operator in fact lifted its market share in this route by 1 percentage point over the year, from 38%). While the route recorded solid throughput growth of 16% in 2011, a y-o-y decline in rates of 19% made turning a profit impossible.

Other key areas of growth for Maersk Line, in terms of container volumes, were Africa and Latin America, which recorded throughput increases of 19% and 17% respectively. These regions also increased their role in the carrier's distribution of volumes, with Africa accounting for 16% of the total and Latin America accounting for 14%. Unfortunately, rates also declined on both routes. The three areas in 2011 where rates did not decline were the transatlantic, Oceania and intra-Asia. Intra-Asia in our view, remained Maersk Line's stand-out performer, seeing 5% volume growth. Intra-Asia still only accounted for 6% of Maersk Line's total volume distribution, but with demand increasing and the fact that it has proved itself relatively protected from the rate decline, BMI expected Maersk Line to continue expanding its coverage.

2010

Maersk's revenue increased by 30.65% y-o-y to US$26bn in 2010, compared with US$19.9bn in 2009. The increase enabled the carrier to return to the black, with a full-year profit of US$2.6bn, following a loss of
US$2.1bn in 2009. The recovery in revenue was driven by the global uptick in both volumes and demand in the container shipping sector. In terms of total volumes carried, Maersk's box levels shipped increased by 5%. The major driver of Maersk’s recovery, however, was its ability to raise rates. Rates grew 29% y-o-y in 2010; Asia-Europe saw the greatest rise, at 52% y-o-y, followed by the transpacific, where rates increased by 33%.

The trend BMI noted from Maersk’s results is that rates increased considerably more than volumes in all but one case. The exception to the rule was intra-Asia, where volumes grew by 37% while rates rose 19%. This growth in volumes further cemented BMI's view that intra-Asia trade routes hold massive growth potential for the box shipping sector.

The company achieved its recovery in 2010 mainly through rate rises but, like its peers, the line struggled in 2011 to implement planned increases.

We note that it was not simply the uptick in volumes and rates that enabled Maersk to improve its financial position. The firm has continued its strategy of slow-steaming, ensuring a saving on bunker fuel. BMI expected this strategy to continue as demand in the market for express services had not yet materialised.

**Latest Activity**

*Maersk Line Swaps Panama For Suez*

Maersk Line has stopped using the Panama Canal to transport goods from Asia's Far East to the US East Coast from April 2013, quoting economic reasons, with larger, up to 9,000TEU, ships now being sent through the Suez Canal instead of 4,500TEU vessels via the Panama Canal, according to CEO Soeren Skou, as reported by Bloomberg. According to Skou, the economics are 'much, much better via the Suez Canal simply because you have half the number of ships', and one of the reasons behind this is an increase in the cost for sailing through the Panama Canal.

The China- US East Coast route via the Suez Canal is 4-5% longer on average, with the distance from Hong Kong to Charleston via Suez approximately 12,000 miles, compared to 11,000 miles via Panama. However the distance from Singapore is in fact shorter via Suez than through Panama, according to a company email quoted by Bloomberg.
The Panama Canal's fees have increased threefold over the past five years and now amount to US$450,000 per 4,500TEU vessel, Skou said. The group, however, is also 'deeply concerned' about the potential impact of the toll increases announced by the Suez Canal Authority in February 2013, to be effective from May, according to Maersk's statement in April.

The Panama Canal is undergoing a US$5.25bn expansion that is expected to be completed by June 2015. According to the CEO of Maersk Line, as reported by Bloomberg, the company's use of the canal after that 'will depend on the economics'.

*Triple-E Joining Maersk Fleet*

Maersk Line announced that its first 18,000TEU vessel will be joining its fleet at the end of June 2013. The Triple-E (Economy of scale, Energy efficiency and Environmentally improved) is the largest container ship ever built. According to the company, it will consume some 35% less fuel per container than the 13,100TEU vessels being delivered to other shipping lines in these years. The CO2 emissions per container moved will be more than halved compared to the industry average CO2 performance on the Asia-Europe route.

The company noted that the new vessel comes online 'at a challenging time though, with weak demand putting strains on all carriers' and said it is 'ready to adjust capacity accordingly' to avoid a repetition of the previous years' 'devastating rate wars'. It intends to do so by 'returning chartered vessels to leasing partners, recycling excess tonnage, idling parts of the fleet and further slow steaming'. Maersk Line plans to deploy the Triple-E vessels on its AE10 service calling at 13 ports in Asia and Northern Europe.

In March 2013 Skou said the company expected container ship capacity to increase by 11% in 2013, outperforming demand and despite the fact that 2% of the global container vessel fleet is projected to be scrapped and the idling vessels will amount to 6% of it, up from 5%. According to Skou, as reported by Dow Jones Newswires, demand on the Asia-Europe routes may increase by 3% to 5% in 2013, while demand between Asia and Africa and Asia and Latin America is outpacing it at an annual rate of 5%.

*Shipping Lines In Russia's Antitrust Probe*

Russia antitrust probe targeted at least 12 container lines in February 2013, according to Lloyds Loading List, when their offices in Moscow and St Petersburg were visited by investigators. The list of involved companies includes the three largest lines, Maersk, MSC and CMA CGM, along with APL, Evergreen OOCL, China Shipping, Cosco, NYK Hyundai Merchant Marine and Zim.
According to Russia's Federal Anti-Monopoly Service (FAS), quoted by the same source, 'the costs of marine container transportation constitute a significant portion of the price of goods, every increase of the transportation costs directly affects customers across the globe.'

FAS also noted antitrust investigations by European, US and some of Asian countries' authorities. The EU banned rate-setting conferences in 2008, and the European offices of 12 global lines were visited in May 2011, in what was thought to be part of the investigation into the surcharges setting procedure. At the time of writing, however, it is not known whether any of the case is to be taken any further.

In a statement, Maersk Line confirmed that its offices in Moscow and St Petersburg were visited by Russian antitrust authorities and denied any anticompetitive behavior, Lloyds Loading List reported.
Mediterranean Shipping Company

Overview

_Mediterranean Shipping Company_ (MSC) was founded in 1970 in Geneva, Switzerland. It launched its first service between the Mediterranean and South and East Africa in the mid-1970s. In 2003, it became the second-largest container shipper in the world, and remains in that position.

The carrier operates 200 direct and combined services weekly, calling at 316 ports. It has 480 offices in 163 countries and employs more than 37,500 staff.

SWOT Analysis

**Strengths**

- MSC is the second-largest container shipper in the world.
- The company has a forward-thinking strategy, with a fleet of 14,000-twenty-foot equivalent unit (TEU) vessels.
- MSC is not averse to chartering, which has allowed it to expand its fleet.
- The line is managing its capacity and exposure during volatility in the container shipping sector via link ups with other carriers and an alliance with _CMA CGM_.
- The company is increasing its exposure to the US, operating the largest vessels on the transpacific trade route.

**Weaknesses**

- With such a large fleet, MSC is constantly running the risk of overcapacity, which could be a drain on resources if business slows.
- With 16 vessels on order, at a time when overcapacity remains a major issue for container lines.

**Opportunities**

- The sector has managed to push up rates in 2012 following a rate war in 2011 that decimated carriers' bottom lines; _BMI_ believes that MSC will continue its rate push strategy into 2013.
- The shipping sector has proved lucrative in the past two decades, with trade volumes growing year-on-year since 1982. Although the downturn affected the company, the medium- to long-term opportunity for trade growth is ever present, and MSC is well positioned to capture these volumes.
- The company is seeking greater exposure to emerging trade routes, specifically in South America, which offer new growth opportunities.
Threats

- MSC is heavily exposed to Europe, not only on its Asia-Europe routes, but also its intra-Europe portfolio. The slow growth outlook in the region will be a threat to demand, and growth in volumes on these routes is likely to remain sluggish.

- MSC’s desire to become number one could be hampered by Maersk Line, which is about to start taking delivery of their 18,000TEU fleet.

- Overcapacity is set to remain a major threat for lines in the short term.

Strategy

MSC continues to snap at Maersk Line’s heels, with a global market share of 13.4% compared with Maersk’s 15.2%, according to AXS Alphaliner. BMI believes that MSC will continue to battle for the top position.

By some measures, it has overtaken Maersk Line to claim top position, with Containerisation International reporting in February 2011 that it had overtaken the Danish carrier in terms of capacity. This measurement takes into consideration only Maersk Line and not the whole Maersk Group, which includes Safmarine and MCC Transport. Taking the group as a whole into account, Maersk Line still holds the top position.

In December 2011, the US-based Journal of Commerce reported that, based on US import and export trade, MSC had replaced Maersk Line as the top container line serving the US in the first nine months of 2011, with MSC’s operations almost balanced between imports and exports.

BMI highlights that MSC operates the largest vessels on the transpacific route. The company now utilises vessels with capacities of between 11,600TEUs and 13,000TEUs on the trade route and in October docked the largest box ship ever into the port of Long Beach, with the MSC Beatrice a 13,800TEU capacity vessel calling there.

Routes

Despite the uptick in rates on both the Asia-Europe and the trans-Pacific routes, container lines are still battling the threat of overcapacity and are starting to link up to better manage the problem. MSC has formed an alliance with France’s CMA CGM on the trade routes of Asia-Europe, Asia-Southern Africa and South America. The alliance will considerably influence the market share of lines on the Asia-Europe route: the two carriers are operating a four-route service, including 44 ships with capacities of over 11,000TEUs. The effect of the alliance on this route was immediately felt, with the members of the Grand Alliance and New
World Alliance announcing at the end of 2011 that they would join together to form a mega alliance of six operators, called the G6 Alliance.

MSC is heavily exposed to the 'big money' routes, particularly the trans-Pacific, with the line operating five services from Asia to US West Coast ports. The line also caters to the US East Coast market with an all-water service.

It operates four Asia-Europe services: two (Silk Express and Lion Service) to Northern European ports and two routes (Dragon Express and Tiger Service) to ports in the Mediterranean.

MSC also caters for intra-Asia trade, with its New Shogun service linking China and Japan and its TongKing Service connecting China with Vietnam. Some of the line's other services serve a number of countries in Asia before linking elsewhere in the world. The Cheetah Service links Chinese ports with the Taiwanese port of Kaohsiung, before travelling on to Africa.

BMI believes that there is room for expansion in MSC's intra-Asia portfolio, with the potential for more intra-Asia specific routes either operated solely or in partnership. In comparison with its peers, MSC has only a small exposure to the intra-Asia market, which is set to be a major growth area for box carriers in the medium term.

**Fleet**

MSC has the second-largest container fleet in the world, operating 471 vessels with a total capacity of 2.3mn TEUs. The fleet's dynamics are weighted toward the charter market, with chartered in ships accounting for 55.4% of the total.

It has an owned fleet of 187 vessels with a capacity of 1.02mn TEUs, while its chartered fleet of 284 vessels has a combined capacity of 1.27mn TEUs.

An exact breakdown of MSC's fleet is unavailable, but the line is a member of the ultra-large container ship club, with a fleet of 14,000TEU vessels. The company stated in December 2011 that carriers must deploy the largest vessels on the Asia-Europe trade lane in order to minimise losses. Vice-president Diego Aponte said that he expects the Asia-Europe trade route to remain unprofitable until 2013.

MSC is preparing to take on more box ship tonnage, both owned and chartered. The company's order book currently stands at 16 vessels with a total capacity of 184,996TEUs.
While the carrier operates 14,000TEU vessels, it does not appear prepared at the moment to order larger ships. In an interview with Lloyd's List, MSC's founder and chairman Gianluigi Aponte stated that the company had no intention of following Maersk Line's lead and ordering 18,000TEU vessels. Aponte said that he was 'only interested in ships up to 14,000 TEUs'. It should be noted, however, that Aponte initially denied interest in ordering 14,000TEU vessels, yet his company has since done so. BMI will therefore not completely rule out the development of vessels larger than 14,000TEUs by MSC in future.

Financial Results

2012

Not available.

2011

Not available.

2010

MSC does not publish its financial results. However, its operating fleet and the amount of cargo carried increased in 2010. In that year, the line operated 432 vessels, a year-on-year increase of 14.3% from the 387 ships operated in 2009 and above the company's pre-downturn fleet of 410 vessels. Despite the downturn in 2009, the fleet's capacity continued growing, from 1.4mn TEUs in 2008 to 1.47mn TEUs in 2009 and 1.82mn TEUs in 2010.

However, the real indicator of improvement in MSC's operations is the volume of containers carried. This grew by 17.6% y-o-y to reach 12.1mn TEUs in 2010, following a year-on-year decline of 10.5% in 2009. In 2010, levels reached and surpassed the pre-downturn handling level of 11.5mn TEUs, indicating that MSC has recovered from the downturn. Coupled with rate increases during the year, which were implemented across the board, this meant that the company was in the black in 2010.
Latest Activity

*Divesting TIL*

Mediterranean Shipping Company (MSC) sold 35% stake in Terminal Investment Limited (TIL) to Global Infrastructure Partners (GIP) for a hefty US$1,929mn. The deal is expected to close in mid-2013 contingent on relevant approvals.

TIL, which is owned by the world's second largest shipping line MSC, is the world's sixth largest container terminal operator. Following significant expansion over recent years, the company now has, or is in the process of acquiring, an interest in 30 container terminals globally. The deal will also see Alistair Baillie, current chairman of GIP-owned International Port Holdings, joining TIL as president, indicating that GIP is taking an active management role in the company. GIP's latest investment sees it gain a significant position in the global container terminal market.

Within the broader shipping sector, port operators are outperforming. While we have remained cautious toward the overall sector, as a result of significant oversupply of vessels, the container terminals operators have been performing well. As container volumes pick up globally, shipping lines have remained stretched owing to extremely low shipping rates as a result of vessel overcapacity. However, container terminal operators have been protected from this, and are instead benefitting from overall increased throughput volumes. While some restrictions have been placed on handling costs due to pressure from the large shipping lines, we have seen much more stable financial results from the terminal operators versus the relative shipping lines. In addition, operators fared much better throughout the financial crisis, reporting more stable profits, while shipping lines saw sizable swings from profit to loss.

*MSC US Strategy Expands With Long Beach Stake*

MSC continues to increase its exposure to the US container shipping market with the line buying a stake in the port Of Long Beach's Pier T. The purchase will give MSC priority access into Long Beach, the US' second-largest container hub. BMI highlights that in the last two years MSC has been concentrating its focus on the transpacific, with the company the first to dock a 13,800TEU vessel into a West Coast port, the largest box ship they have handled to date. MSC's expanding US strategy will benefit the port of Long Beach and the company's assured patronage of the facility offers upside risk to our 2013 forecasts for the port.
MSC has purchased a stake in the leasehold of Pier T, the largest container terminal at the port of Long Beach. The shipping line already holds a financial interest in the terminal operations at Pier A.

**BMI** first highlighted MSC’s increasing interest in the US container shipping market in 2011. In December of that year the US-based Journal of Commerce reported that based on US import and export trade MSC had replaced market leader Maersk Line as the top container line serving the US in the first nine months of 2011. Since then MSC has continued to ramp up its transpacific coverage. In June 2012 was added the 11,660TEU *MSC Ivanka* to its transpacific VSA Loop 2 (the largest ship at that point to be added to a transpacific route). The company then proceeded to beat its own record in October 2012 by docking its 13,800TEU *MSC Beatrice* in Long Beach.

MSC’s stake in Pier T will enable the company's ships priority access, a major benefit for a firm with MSC's US focus as it will ensure the carrier has access to the US' second-largest container terminal.

The port of Long Beach will also benefit from this deal with MSC, as it will be assured the world's second-largest container line as a client. The development offers upside risk to our box throughput forecasts for Long Beach in 2013 and over the medium term.

The port of Long Beach posted its second consecutive year of container throughput decline in 2012, with box volumes down 0.25% y-o-y to 6mn TEUs. **BMI** currently forecasts volumes to start improving in 2013, as the US economy continues its steady recovery, and to keep growing over the medium term (2013-2017).

**Joining Forces With ZIM**

MSC and **ZIM Integrated Shipping Services Ltd** announced the beginning of ‘a new and improved’ Med-Europe service from mid-February 2013. The route will be serviced by five 5,500-6000TEU vessels on a 35 days roundtrip calling at Felixstowe, Rotterdam, Hamburg, Antwerp, Le Havre, Ashdod, Alexandria, Haifa, Ashdod, Valencia and Felixstowe.

Earlier, in January 2013, MSC joined ZIM in operations at the port of Tampa, Florida. Apart from Tampa, MSC now offers direct calls to Caucedo, Kingston, Veracruz and Altamira and provides three out of five 3,000TEU vessels for the service, with the remainder provided by ZIM.
MSC In Russia's Antitrust Probe

Russia antitrust probe targeted at least 12 container lines in February 2013, according to Lloyds Loading List, when their offices in Moscow and St Petersburg were visited by investigators. The list of involved companies includes MSC and two other largest lines Maersk and CMA CGM, along with APL, Evergreen OOCL, China Shipping, Cosco, NYK Hyundai Merchant Marine and ZIM.

According to Russia's Federal Anti-monopoly Service (FAS), as quoted by the same source, 'the costs of marine container transportation constitute a significant portion of the price of goods, every increase of the transportation costs directly affects customers across the globe.'

FAS also reminded about the antitrust investigations by the European, US and some of the Asian countries' authorities. The EU banned rate-setting conferences in 2008, and the European offices of 12 global lines were visited in May 2011, in what was thought to be part of the investigation into the surcharges setting procedure. By now, however, it is not known whether any of the case is to be taken any further.
CMA CGM

Overview

CMA CGM is the world's third largest shipping line. Compagnie Générale Maritime (CGM) was formed in 1977 by the merger of Messageries Maritimes (MessMar) and Compagnie Générale Transatlantique (Transat). Compagnie Maritime d'Affrètement (CMA) was founded the following year.

In 1996 CMA CGM was privatised and the following year made its first acquisition, Australian National Lines (ANL). This was followed by a spree of acquisitions, beginning with UK-based MacAndrews in 2002. In 2006 CMA CGM purchased Delmas, an African shipping line previously owned by Groupe Bolloré. The acquisition propelled CMA CGM to third place in ranking of the world's container shipping lines. Strong growth enabled it to make three purchases in 2007, with the acquisition of Taiwan-based Cheng Lie Navigation, Moroccan line COMANAV and US-based US Lines.

Turkey's Yildirim Group has a 24% stake (which it is seeking to increase to 30%) in CMA CGM and has voting rights, but the Saadé family remains in charge, with a majority of both shares and voting rights.

The group has operations in container shipping, with a focus on reefer cargo. It also operates in the tourist industry through subsidiary Croisières et Tourisme. CMA CGM Logistics operates 14 offices in China, Europe and the Middle East, and owns TCX Multimodal Logistics, a bonded warehouse company that operates in many French ports. CMA CGM's multimodal subsidiaries include French River Shuttle Containers; ocean freight forwarder LTI France; as well as CMA Rail and Progeco, the repair arm of CMA CGM's container business. Terminal Link is the group's terminal operating business.

SWOT Analysis

Strengths

• The group has the third-largest container fleet in the world.
• CMA CGM has a number of diversified subsidiaries, catering for different markets across the globe.
• Terminal Link supports the growth of the shipping division and the group's subsidiaries.
• Its multi-modal divisions also bolster growth, providing clients with an integrated 'door-to-door' service.
• The line is managing its capacity and exposure during volatility in the container shipping sector via link ups with other carriers and an alliance with Mediterranean Shipping Company (MSC).
Weaknesses

- With such a large fleet, the risk of overcapacity is ever present.
- The firm is not as diverse as competitors such as Maersk, COSCO and China Shipping, which also operate in the bulk and tanker sectors.

Opportunities

- The three-pronged acquisition of US Lines, COMANAV and Cheng Lie Navigation offers the opportunity to capture traffic volumes to and from three different regional markets.
- The partnership with Yildirim Group will enable the company to return to a strategy of growth rather than being preoccupied with the threat of insolvency.
- The company was back in the black in 2012 and expects similar profitability for 2013.
- Is increasing its exposure to Russia, which BMI believes will be a high-growth market.
- Increasing its exposure to Africa, a high-growth market, expanding its services and seeking to invest in the port of Abidjan, Côte d'Ivoire.

Threats

- The company must ensure it does not place the importance of its market share above recovery.
- Overcapacity and declining demand are still major issues facing the box shipping sector.
- Debt restructuring is leading to less diversity in the company's operations portfolio, with the group selling stakes in one of its major terminals and its cruise ship company.
- CMA CGM's offices, along with some of its peers, were raided in February 2013 by Russia's Federal Anti-Monopoly Service and in May 2011 by EC officials investigating antitrust claims.

Strategy

CMA CGM is the third-largest global container shipping company, with an 8.4% market share, according to AXS Alphaliner. This puts it considerably behind second-placed Mediterranean Shipping Company (MSC) with its 13.5% market share, but significantly ahead of fourth-place Evergreen, on 4.3%.

CMA CGM managed to ride out the 2009 downturn, despite a period where it looked likely that the French government would be required to bail it out. The shipping line was determined to remain a family concern. It found an investor in Yildirim Group, which agreed to invest US$500mn and take a 20% stake in the shipping line. This has since been increased to 24%, but left the Saadé family in charge, with a majority of both shares and voting rights. However, Yildirim is making its presence felt, blocking a planned new build strategy. Yildirim is seeking to increase its stake in CMA CGM from 24% to 30%.
Debt restructuring is affecting CMA CGM's diversity of operations, with the company selling its stake in the Marsaxlokk Malta Freeport terminal and its cruise ship company, Compagnie du Ponant.

**Routes** Despite the uptick in rates on the Asia-Europe and the transpacific routes, container lines are still battling the threat of overcapacity. Lines are starting to link up in a bid to manage the problem, and CMA CGM has formed an alliance with MSC on the Asia-Europe, Asia-Southern Africa and South America routes. The alliance will considerably affect the market share of lines on the Asia-Europe route, with the two carriers set to operate a four-route service and deploy 44 ships with capacities of more than 11,000 twenty-foot equivalent unit (TEUs). The impact of the alliance on the route is already being felt, with the members of the Grand Alliance and New World Alliance announcing at the end of 2011 that they would join together to form a mega alliance of six operators, called the G6 Alliance.

CMA CGM is a major player in Asia-Europe, boasting a service network of eight routes. It is exposed to the transpacific with a route network of nine services and is heavily involved in intra-Asia trade. CMA CGM offers more than 20 intra-Asia trade routes. These are, however, feeder services, and it is the company’s Asian subsidiary, CNC Line, that operates direct intra-Asia services. BMI expects CMA CGM to continue its strategy of developing its exposure to intra-Asia trade, as the region is considered to offer major box shipping growth potential.

**Fleet** Like its peers, CMA CGM's fleet is getting bigger, not only in terms of vessel numbers but also in terms of capacity. It operates a fleet of 13,000TEU vessels, with 26 vessels of 11,000TEU-plus capacity. The company has also welcomed the first and second of three 16,000TEU ships to its fleet, with the vessels beginning operations on the Asia-Europe trade route at the end of 2012 and in April 2013 respectively. The delivery of the third vessel was due in early May 2013.

CMA CGM appears set to take a break from ordering, with a proposed order for 20 10,000TEU vessels at a Chinese yard vetoed in October 2011 by the company's new partner, Robert Yildirim. Yildirim told Lloyds List: 'What I see in shipping is the role of ego in driving orders to keep up with the competition. This is very dangerous.' The company has 11 vessels on its order book, according to AXS Alphaliner.

The company has concentrated on developing its fleet via chartering in tonnage and is expected to continue this strategy. Chartered tonnage accounts for 63.8% of CMA CGM's total TEU capacity. This offers the company considerable flexibility. During periods of decline in volumes, it can return chartered vessels when the charter period has finished, reducing the size of its fleet and its operating costs.
Financial Results

2012

CMA CGM's consolidated revenue increased by 7% year-on-year (y-o-y) in 2012, from US$ 14.9bn in 2011 to US$15.9bn, driven by container volume growth of 6%, from 10mn TEUs in 2011 to 10.6mn TEUs in 2012. The company said it achieved US$800mn of savings over the year, well above target. It posted a consolidated net profit of US$361mn in 2012, compared to a net loss of US$5mn a year before.

The company managed to reduce bunker costs per TEU by 12% and charter expenses by US$200mn. In 2013 it expects a similar level of profitability, helping it to cut its net debt by US$1.1bn to US$3.5bn.

A company press release mentions the strengthening of CMA CGM's balance sheet thanks to the sale of 49% of Terminal Link for EUR400mn, the closing of US$100mn equity injection from Yildirim, the signing of US$150mn equity injection from Fonds Stratégique d'Investissement (FSI) and the closing of the agreement with company's banks regarding its debt restructuring.

Q312 And 9M12

CMA CGM reported improved earnings for Q312. This left it on course for a full-year profit after a hugely challenging four years for the global container sector. However, while this provides some much-needed respite and underscores the success of its cost-cutting programme, ongoing issues of overcapacity and a weak global growth outlook do not give cause for much optimism.

CMA CGM posted a net profit of US$371mn in Q312, bringing 9M12 profit to US$310mn, compared to just US$13.2mn in the first nine months of 2011. An improved Q3 was attributed to internal cost-reduction measures, as well as some rates relief and the benefits of reduced fuel costs. The ongoing challenges of overcapacity and weak global growth saw the company state that Q4 would be weaker. Yet it remained on track to post a full-year net profit.

Reasons for optimism for CMA CGM come in the form of the successful cost-control measures. In the first nine months of the year it realised savings of US$550mn, equivalent to a 5% y-o-y reduction in operating costs and well ahead of the target of US$400mn in savings for the full year. Planned asset sales, including the disposal of a 49% stake in terminal operator Terminal Link and the sale and lease-back of some of its self-owned vessels, should help keep operating costs under control moving into 2013. Furthermore, planned
investments from French fund FSI (US$150mn) and Turkey's Yildirim (US$100mn) should help alleviate operating pressures. Finally, perhaps most importantly and related to the aforementioned planned capital injections, CMA CGM has reached a restructuring deal with its lenders to help manage its debt obligations due next year.

While providing respite and putting the company on a firmer footing, BMI does not see all this as preventing CMA CGM from having another challenging year in 2013. The external operating environment is simply too difficult. On the supply side, issues of overcapacity will only become greater, and indeed CMA CGM is contributing to this with its own ordering strategy. On the demand side, a weak outlook for global economic growth will act as a further headwind.

BMI forecasts global real GDP growth of 2.9% in 2013, revised down from a previous forecast of 3.0%. While high frequency indicators suggest the outlook for global growth is weak, rather than recessionary, a Chinese hard landing, eurozone debt woes, the US fiscal cliff, the ever more marginal gains to be realised from expansionary monetary policy and the increasing difficulty with which governments can pursue expansionary fiscal policy, all mean this outlook remains precarious.

Q212 And H112

In Q212 CMA CGM bounced back into the black with a US$178mn net profit. Revenue increased by 12% to US$4.15bn. In H112 CMA CGM made a saving of US$294mn, putting it on course to realise its 2012 cost-cutting plan of US$400mn.

Q112

Although the carrier's volumes increased by 13.4% y-o-y to 2.6mn TEU and revenues grew by 2.6% to US $3.6bn, it posted a loss of US$248mn, with the relatively high bunker fuel price being blamed.

2011

CMA CGM reported a US$30mn loss in 2011, but this was considerably lower than that being posted by the company's peers. The loss was despite a 4% increase in revenue to US$14.87bn and 11% growth in container volumes carried by the liner to 10mn TEUs. The loss was attributed to overcapacity in the market, which forced rates down, and a rise in oil prices, which saw the bunker fuel price rise 34% y-o-y.
CMA CGM planned to get back into the black in 2012 via a cost-saving strategy, with US$400mn in savings planned. It believes it will save as much as US$80bn due to the decline in charter rates. In terms of expansion, the carrier planned to increase its coverage of Russia, India, Latin America and Africa, as well as expand its reefer coverage.

2010

CMA CGM’s revenue increased by 36% in 2010 to US$14.3bn, from US$10.5bn in 2009. This enabled the line to post a US$1.6bn profit following a loss of US$1.4bn in 2009. The recovery in revenue was driven by the global uptick in both volumes and demand for the container shipping sector. In terms of total volumes carried, CMA CGM’s box levels shipped increased by 14.7%. The company stated that ‘Asia-Europe and intra-Asia lines enjoyed record business… Asia-US lines returned to pre-recession levels.’

BMI believes the volume uptick in 2010 is just part of the story. Volumes were up both y-o-y and on 2008 levels (by 4.4%). We believe rate increases also played a massive role.

Latest Activity

Ratings Raised After Restructuring Finalised

CMA CGM announced in February 2013 that it had finalised its financial restructuring, launched in 2011. The agreement was closed with its banks on debt restructuring. This included a partial refinancing of a credit line maturing in 2013 into new EUR280mn ‘secured term loans of a maturity of more than [three] years’. Secondly, a binding agreement was signed with the FSI, which, at closing, expected within three months, will subscribe to bonds redeemable in shares for an amount of US$150mn giving rights to a 6% stake in CMA CGM upon conversion. The restructuring involved additional investment by Yildirim Group, with a closing of the subscription, under the terms of the existing agreement, by the Yildirim Group of bonds redeemable in shares for an amount of US$100mn giving right to a 4% stake in CMA CGM upon conversion.

According to CMA CGM’s director, Rodolphe Saadé, the finalisation of the debt restructuring together with new equity injection from FSI and Yildirim Group and the sale of 49% of Terminal Link is expected to allow CMA CGM ‘to operate with the required financial flexibility’ and is the major step towards ‘contemplating an IPO’.
CMA CGM’s announcement was followed later in February by a decision by ratings agency Standard and Poor’s (S&P) to raise the corporate credit rating on CMA CGM to B- from CCC+ and the issue rating on the company’s senior unsecured notes to CCC from CCC-. S&P also noted that the ‘rating remains on CreditWatch with positive implications, as we could raise our ratings on CMA CGM within the next three months if its liquidity improved, as we expect.’

49% Of Terminal Link Sold To CMHI

CMA CGM sold a 49% stake of Terminal Link to China Merchants Holdings (International) Company Ltd (CMHI) at the end of January, raising EUR400mn and entering into a new strategic partnership. Subject to regulatory approvals, the deal was expected be finalised in H113. CMHI is the largest public port operator in China. The two parties hope the deal will begin a ‘highly beneficial’ strategic partnership ‘in operating and developing container terminals on a global basis’.

Terminal Link, based in Marseilles, operates 15 terminals on key international shipping routes and is ranked 12th worldwide, handling 8.1mn TEUs in 2011. CMHI invests in and operates port business primarily in eight major Chinese cities, including Shenzhen, Hong Kong, Shanghai, Ningbo, Qingdao, Tianjin, Xiamen and Zhanjiang. In recent years it has also acquired assets in Colombo (Sri Lanka) and in Africa. In 2012 the total container volume handled by CMHI’s port assets was in excess of 60mn TEUs. The investment into Terminal Link further internationalises CMHI’s port business.

According to Alphaliner, reported by the Load Star, CMHI’s acquisition covers 10 of 15 Terminal Link terminals. Not included are the 10% stake in the Rotterdam World Gateway, the 25% stake in a Long Beach terminal acquired in December 2012, the 50% in the Fos2XL Terminal A development, and stakes in new and currently shelved port developments at Damietta, Egypt, and Cai Mep, Vietnam.

Baghdad Dry Port To Open In June 2013

In March 2013 CMA CGM announced that its new bonded dry port in the Abu Ghreib area near Iraq’s capital, Baghdad, would open in June. It said the facility has a total surface area of 165,000 m², yard surface of 90,000 m², storage capacity for 12,000TEUs, container scanner and on-site customs offices.

CMA CGM In Russian Antitrust Probe

A Russia antitrust probe targeted at least 12 container lines in February 2013, according to Lloyds Loading List. The lines' offices in Moscow and St Petersburg were visited by investigators. Involved companies
include CMA CGM and two other large lines Maersk and MSC, along with APL, Evergreen OOCL, China Shipping, Cosco, NYK Hyundai Merchant Marine and ZIM.

According to Russia’s Federal Anti-monopoly Service (FAS), as quoted by the same source, ‘the costs of marine container transportation constitute a significant portion of the price of goods, every increase of the transportation costs directly affects customers across the globe.’ FAS also noted antitrust investigations by European, US and some Asian authorities. The EU banned rate-setting conferences in 2008, and the European offices of 12 global lines were visited in May 2011, in what was thought to be part of the investigation into the surcharges setting procedure.

Earlier in the year CMA CGM resumed port calls at Vladivostok Commercial Port Terminal (VCT) in addition to calls at the Vladivostok Fishery Terminal and at Vostochny Port. The company’s upgraded Korea/Russian Far East Express service (KRT/RUFEX) now consists of five loops.
Evergreen Line

Overview

Evergreen Line is the name and global brand under which five shipping companies operate. The brand was established in May 2007 and encompasses Evergreen Marine (Taiwan), Italia Marittima (Italy), Evergreen Marine (Hong Kong) and Evergreen Marine (UK). A fifth carrier, Evergreen Marine (Singapore), signed a joint service agreement in May 2009.

Evergreen Line's main routes focus on the delivery of goods from Asia, particularly Taiwan, Hong Kong, China, South Korea and Japan. It operates to and from the US East and West Coasts, South America, Europe, the Mediterranean, the Middle East and Africa. It also provides a container service between the east coast of South America and the East Coast of the US, as well as a service linking Panama with the US West Coast. The carrier provides regular feeder services in the Caribbean, the Mediterranean and around the Indian sub-continent.

Evergreen is engaged in the port-operating sector, with terminals including the Taichung Container Terminal and the Kaohsiung Container Terminal in Taiwan, the Colon Container Terminal in Panama, and the Taranto Container Terminal in southern Italy, in which Hutchison Port Holdings also has a stake.

SWOT Analysis

Strengths

- Evergreen operates one of the most globalised route networks, with strong coverage of major Latin American and Middle Eastern ports in addition to its core Asian, US and European services.
- Its route-sharing agreements allow it to reduce capacity while still meeting client demands.
- Highly exposed to the intra-Asia trade route, which is widely considered a major growth market.
- The CKYH Alliance (also known as the Green Alliance), made up of COSCON, ‘K’ Line, Yang Ming and Hanjin Shipping has formed a partnership with Evergreen Line, allowing the line to compete more strongly with other alliances, as well as market leader Maersk.
- Has increased its routes through alliances, despite the difficult operating environment.
- After a year of net losses, Evergreen Marine is profitable again, posting a net income of TWD128.53mn in 2012.
Weaknesses

- Evergreen Marine reported net losses of US$105mn for 2011. With a large container fleet and little diversification into other sectors, the risk of overcapacity is ever-present. This threat is especially relevant as the company has the largest newbuild fleet currently on order, at 36 ships.

- Flagship services are focused on Asia, so a shift in the dynamics of this region could make Evergreen vulnerable.

Opportunities

- Seeking safety in numbers. Has joined up with the CKYH Alliance on several routes.

- Was the first box line to return to the yards after the downturn and in the medium term plans to order 100 vessels, which will give it one of the youngest and most modern fleets in the container sector (the plan for 100 new vessels has been put on hold until after 2015).

- Ordered at the bottom of the market, so has been able to expand more cheaply than its peers.

- Well placed to take advantage of the growth in cargo traffic brought about by the opening of direct routes between China and Taiwan.

- Is expanding its emerging trade route coverage, with new services connecting Asia and Africa.

- One of the shipping lines likely to benefit from a tax reduction the Taiwanese government is proposing for Taiwanese-flagged vessels in order to boost the merchant maritime fleet.

Threats

- While the company has built up intra-Asian history and expertise, the region's growth potential is luring new players, increasing the competition Evergreen will face.

- Shipping companies' bottom lines have been hit hard by rapidly rising bunker fuel prices and BMI projects that prices will remain elevated.

- Evergreen's offices, along with those of some of its peers, were raided in February 2013 by Russia's Federal Anti-Monopoly Service and in May 2011 by European Commission officials investigating antitrust claims. If the shipping company is found to have acted inappropriately it will be in line for a hefty fine.

Strategy

Evergreen Line is continuing to claw its way back up the ranks, and is now fourth in terms of market share. According to AXS Alphaliner, it has a capacity of 730,289 twenty-foot equivalent units (TEUs), only 748TEUs ahead of fifth-placed COSCON. The third-largest container shipping company, CMA GGM, has nearly double the capacity of Evergreen, meaning its climb up the table has likely ended.
Routes

Evergreen Line boasts a strong presence on intra-Asia trade routes and continues to launch new routes. The latest service to be included in its intra-Asia portfolio is its CPM service linking South China, the Philippines and East Malaysia with port rotation Shekou - Hong Kong - Manila - Kota Kinabalu - Bintulu - Shekou. The high growth potential of intra-Asia routes has seen a number of lines expand into this area. **BMI** believes Evergreen Line is positioned better than most, as intra-Asia is its traditional operating area and it has built up expertise and a client base.

In March 2012 the line announced its return to the North America-South America route, in conjunction with a number of other lines. Evergreen, **NYK Line** (NYK), **Hanjin Shipping** and **Hyundai Merchant Marine** (HMM) jointly launched a new service between the US East Coast and South America, the Atlantic North South Service (ANS).

The company has also developed a role on the 'big money' routes, and has 14 Asia-Europe and 13 transpacific services.

Fleet

Evergreen Line has a fleet of 188 vessels, with a capacity of 730,289TEUs. Evergreen owns and charters almost even numbers of vessels - 95 and 93 respectively. Making up 330,910TEUs, 45.3%, of company's fleet is chartered. The capacity Evergreen-owned vessels is 399,379TEUs.

In terms of vessel capacity, its fleet is much smaller than its peers', with vessels ranging from 1,164TEUs to 8,452TEUs. Evergreen's strategy of maintaining a large fleet made up of smaller vessels ties the carrier with intra-Asia routes, to which it is highly exposed. The company had previously seemed unprepared to make the leap into the mega-vessel class, a move undertaken by most of its peers. However, its orderbook shows it is prepared to take more vessels, with capacity of 8,000TEUs in terms of owned tonnage and 8,800TEUs in chartered tonnage.

The line's avoidance of ordering mega vessels appeared to be due to reservations by chairman and founder Chang Yung-Fa. He has been reported to be 'a noted sceptic about the industry trend towards far larger ships, believing that the need to fill them would end up driving down earnings'. This scepticism appears to have been overcome, with Evergreen set to charter 10 13,800TEU ships from Greece's **Enesel**. The Greek shipowner has placed a US$1.2bn order with South Korea's **Hyundai Heavy Industries**, with the first
vessel due online in H213. BMI notes that Evergreen is ensuring some protection, as it is chartering the vessels instead of owning them.

BMI believes Evergreen's decision to join the mega-vessel club will enable it to increase its market share. It will also help the company to remain the number-one container line in Asia.

Evergreen's orderbook, at 360,187TEUs, or 49.3% of its current fleet, is almost triple that of COSCON (at 123,473TEUs), meaning Evergreen should comfortably retain its lead. The change in strategy will also help the company move toward Chang's reported goal of 'steering Evergreen into becoming the world's largest container line in his lifetime'.

The company announced in August 2012 that it would take delivery of 40 container vessels by 2015, with the first 8,000TEU vessel delivered that month by South Korean shipbuilder Samsung Heavy Industries Company. Samsung will deliver 20 vessels in total, with Taiwanese shipbuilder CSBC Corporation and Greece's Enesel each delivering a further 10. The vessels will increase Evergreen Marine Corporation's overall capacity by 378,000TEUs to 1.06mn TEUs.

The company's plans to build 100 container ships have been put on hold. Twenty 8,000TEU-plus vessels from Samsung Heavy Industries were ordered in 2010. In 2011 Evergreen ordered a further 10 vessels of the same specification from Taiwan Shipbuilding Corp. Eighteen of the 30 8,452TEU newbuilds are expected to be delivered by the end of 2013. Evergreen also planned to build 20 7,024, 20 5,364TEU and 20 2,000TEU vessels. These plans are on hold until after the Panama Canal expansion project is completed, which is due in 2015.

Financial Results

2012

Evergreen Marine returned to the black in 2012, posting a net income of TWD128.53mn, compared to a TWD3.09bn loss in 2011. The company said it would not pay dividends.

Q312 And 9M12

Evergreen Marine recorded a net profit of TWD104.15mn (US$3.56mn) for January-September 2012, and a TWD2.5mn profit in Q312. While it was in the black for the first nine months of 2012, profits were considerably lower for this period than 9M11, when the company saw a profit of TWD266.8mn.
Q212 And H112

Evergreen announced a net profit of TWD858mn (US$29mn) for Q212. It reported an operating income of TWD641mn (US$22mn). However, it reported a loss of TWD2.4bn (US$82mn) in H112. This was compounded by an operating loss of TWD2.24bn (US$76mn) in H112.

2011


H111

Evergreen Marine managed to remain in the black in H111, unlike many of its peers, despite the fact that its profit declined by 61% to TWD1.39bn (US$48mn) from TWD4.03bn in H110. Its revenue fell from TWD8.6bn to TWD7.59bn, with the company attributing the decline to overcapacity and weakening in the economic recovery, which suppressed demand.

2010

In 2010 Evergreen Marine registered revenue of US$3.5bn, up 39.9% year-on-year (y-o-y). This enabled it to return to the black, with an operating profit of US$403.1mn compared to a loss of US$473mn in 2009.

Latest Activity

10th And 11th 8,452TEU Vessels Launched; Expansion To Slow

Evergreen Line's fleet continues to expand. It recently held naming ceremonies for two more ships. The Ever Liven and Ever Logic, each with a capacity of 8,452TEU, the 10th and 11th in a series of L-type containership to be operated by the company, were built at South Korea's Samsung Heavy Industries shipyard. Both ships joined Evergreen Line's Far East - Europe services from late April 2013.

While the firm has been increasing its fleet it is still carefully managing capacity. It has said it will delay its plans to build 60 medium-small box ships until after the Panama Canal expansion is complete, due in 2015. The company said in 2010 that it planned to build 100 vessels over the medium term. Of this 30 8,000TEU ships have been ordered, with plans to build 20 7,024, 20 5,364TEU and 20 2,000TEU ships on hold. Eighteen of the 30 8,000TEU newbuilds are expected to be delivered by the end of 2013.
Evergreen Buys Boxes

To keep up with an increase in its fleet capacity, the company is acquiring new containers. In March 2013 Evergreen purchased 50,000 containers worth US$171.7mn via two subsidiaries, according Lloyd's Loading List. Panama-registered Evergreen Greencompass Marine paid China International Marine Containers and Singamas Container US$121.3mn for 34,050 boxes, while Evergreen UK paid CXIC Group US$50.4mn for 15,150 containers, according to a statement from Evergreen Marine, as reported by Lloyd's Loading List.

Evergreen In Russia's Antitrust Probe

A Russian antitrust probe targeted at least 12 container lines in February 2013, according to Lloyd's Loading List, when their offices in Moscow and St Petersburg were visited by investigators. The list of involved companies includes the three largest lines Maersk, MSC and CMA CGM, along with APL, Evergreen OOCL, China Shipping, COSCO, NYK Hyundai Merchant Marine and ZIM.

According to Russia's Federal Anti-Monopoly Service (FAS), as quoted by the same source, 'the costs of marine container transportation constitute a significant portion of the price of goods, every increase of the transportation costs directly affects customers across the globe.'

FAS also noted antitrust investigations by European, US and some Asian countries' authorities. The EU banned rate-setting conferences in 2008, and the European offices of 12 global lines were visited in May 2011, in what was thought to be part of the investigation into the surcharges setting procedure. It is not known whether any of the case is to be taken any further.

Evergreen, confirmed that its offices in Russia had been visited, saying at the time that 'Evergreen staff are co-operating fully with the FAS on this matter.'

New And Reshuffled Services

Evergreen announced a number of changes to its services in April 2013. Firstly, it extended its service network in the Indian Ocean by launching the ISC - Mauritius - Mozambique - Africa (IMMA) Service linking the Indian sub-continent, Indian Ocean islands and Mozambique, together with United Africa Feeder Line (UAFL), at the end of April. Evergreen Line provides two out of three 2,500TEU vessels for the biweekly service, with the port rotation Karachi - Mundra - Colombo - Port Louis - Tamatave - Durban - Maputo - Nacala - Karachi.
Evergreen also reshuffled its East Med feeder network, adding the Turkish port of Gebze to its Greek - Turkey Service (GTS) and launching a new Greece - Cyprus service (GCY) with the port rotation Piraeus - Thessaloniki - Limassol - Piraeus, instead of the existing Greece-Turkey-Malta (GTM) service.

The company reinforced its coverage of the Red Sea, joining forces with CMA CGM in the creation of the new South Red Sea Service (SRS2) linking South East Asia, the Indian sub-continent (ISC) and Red Sea from May 2013. The new loop adds a link to Ethiopia via Djibouti. Evergreen Line provides three out of five 2,200TEU vessels deployed on the weekly service, with the port rotation Tanjung Pelepas - Colombo - Djibouti - Aden (Yemen) - Jeddah (Saudi Arabia) - Port Sudan (Sudan) - Djibouti - Colombo - Port Klang - Tanjung Pelepas.

Evergreen upgraded its Far East-South America service (ESA) and launched new Asia-West Coast of South America (WSA2) service. For the ESA, Evergreen has teamed up with COSCO and ZIM, providing half of the 10 8,500TEU vessels that are now being used instead of previously used 3,000TEU. The Brazilian ports of Rio Grande and Itapoá have been added to the service rotation, making it as follows: Shanghai - Ningbo - Yantian - Hong Kong - Singapore - Santos - Paranagua - Montevideo - Buenos Aires - Rio Grande - Itapoá - Santos - Singapore - Hong Kong - Shanghai.

The WSA2 is a joint service with Wan Hai Line (WHL), PIL and COSCO, and links Taiwan and China with five countries along Central and South America's west coast. The weekly WSA2 service deploys nine 3,500-3,900TEU vessels (one provided by Evergreen) for the port rotation of Kaohsiung - Shekou - Hong Kong - Ningbo - Shanghai - Manzanillo (Mexico) - Lázaro Cárdenas (Mexico) - Puerto Quetzal (Guatemala) - Buenaventura (Colombia) - Callao (Peru) - Guayaquil (Ecuador) - Manzanillo - Kaohsiung.
COSCO Container Lines Company

Overview

COSCO Container Lines Company (COSCON) is one of the world's largest container shipping lines and is the largest Chinese carrier, outgunning rival line China Shipping Container Lines (CSCL) in terms of fleet capacity.

COSCON is the container-transporting arm of China COSCO Holdings Company. The company dates back to 1961 and was originally engaged in transport solutions. It did not become a shipping company until 1993. In 2005 the firm issued an initial public offering (IPO) and now trades on the Shanghai and Hong Kong stock exchanges. China COSCO Holdings Company is the flagship and integrated platform of COSCO. The group is owned by the People's Republic of China.

SWOT Analysis

Strengths

- COSCO has a good relationship with the Bank of China, which has provided the company a source of credit since the 1960s.
- Its investment in a number of shipyards gives it flexibility in adapting its order book to the economic climate.
- The carrier has a well-diversified fleet.

Weaknesses

- COSCON's parent, China COSCO Holdings Company, was in the red for the second year in a row in 2012.

Opportunities

- The opening of direct shipping routes between China and Taiwan is likely to provide long-term growth opportunities for COSCO's container operations.
- The group is well placed to take advantage of growing intra-Asian trade.

Threats

- Ongoing overcapacity in 2013 will continue to drive down rates.
- Continued debt crises in the eurozone will affect COSCON's Asia-Europe trade.
Strategy

Routes

According to COSCON’s website, the liner operates more than 76 international shipping routes and 10 international feeder routes, connecting 159 principal ports in 48 different countries and regions.

Further to its international operations, COSCON also plays a key role in domestic Chinese shipping, both coastal and on inland waterways. It operates 21 coastal routes and 67 routes on the Pearl River Delta and Yangtze River.

As a Chinese company, COSCON is heavily exposed to the intra-Asian market, which BMI believes is a growth area for shipping, particularly at a time when the more traditional routes are suffering from overcapacity. In addition to its domestic Chinese services, it also has a large number of services connecting Chinese ports with ports in other Asian countries, such as Vietnam and Indonesia. COSCON also has high exposure to the traditional East-West ‘big money’ routes of Asia-Europe and transpacific.

As well as falling rates, the company has faced rising bunker fuel prices. In an effort to combat this, it has introduced a number of bunker adjustment surcharges. It has also tried to introduce a peak season surcharge, but with vessel supply continuing to outweigh demand, this did not hold.

Alliances

BMI’s view of an increase in link-ups between lines continues to play out, with the CKYH Alliance (also known as the Green Alliance), made up of COSCON, ‘K’ Line, Yang Ming and Hanjin Shipping, forming a partnership with Taiwan’s Evergreen Line. BMI believes the development of alliances will put further pressure on carriers on the Asia-Europe route alone, leaving them with two options: join up or drop out.

The CKYH Alliance’s link up with Evergreen came into force in Q212, with the carriers operating a 12-loop service using between 96 and 132 vessels.

Alliances are nothing new. They enable comparatively smaller players to operate on major trade routes, which they would normally be priced out of, if operating by themselves. In 2009 link-ups between lines became common and, as BMI projected, with the global economic environment once again turning sour, lines are joining up once more, although it should be noted on a scale we have never before witnessed. The launch of the G6 Alliance highlights this, with members of the Grand Alliance (Hapag-Lloyd, NYK Line...
and OOCL) joining with members of the New World Alliance (APL, Hyundai MM and MOL) to create a super alliance of six members.

**BMI** believes it is due to the launch of this mega alliance, along with the link up of MSC and CMA CGM on the Asia-Europe route and the continued dominance of *Maersk Line*, that the CKYH Alliance has joined up with Evergreen.

Further cooperation was announced in Q412, when CSCL and COSCON announced that they were to operate their first joint domestic service linking north east China with Fujian and Shantao in the south. The move will protect the firms, as by working together they will dominate the country’s coastal shipping sector, making it harder for outside shipping lines to break into the market.

**Fleet**

According to AXS Alphaliner data, as of April 26 2013 COSCON was the fifth-largest container shipping line in the world, with a market share of 4.3%, unchanged from the previous quarter. The company’s container fleet has a capacity of 729,541 twenty-foot equivalent units (TEUs), up 1.8% from 716,868 TEUs on December 17 2012. COSCON's fleet is made up of 161 vessels. The majority are post-Panamax vessels with capacities of more than 4,500TEUs. The largest vessel in the COSCON fleet is the 13,386TEU-capacity *MV COSCO Belgium*, delivered in February 2013.

COSCON slipped from fourth position in 2012, when it was overtaken by fellow Asian container shipping company Evergreen. Although Evergreen has the same market share as COSCON, its capacity is slightly larger, by just 9,200TEUs. We expect Evergreen to maintain its new position above COSCON, as it has a massive orderbook; 49.3% of its current fleet compared to COSCON's 16.9%.

Of its 161 vessels, COSCON has a fairly balanced ratio of chartered vessels, accounting for 45.8% of the fleet at 334,311TEUs. COSCON's owned fleet of 105 vessels makes up the remaining 395,230TEUs of capacity. COSCON has 14 ships on order, with a total capacity of 123,473TEUs. By 2014 COSCON projects that, between its owned and chartered-in tonnage, it will have a fleet of 850,776TEUs.
Financial Results

2012

COSCON's revenues increased by 16.9% year-on-year (y-o-y) to CNY48,446mn in 2012, compared to CNY41,437mn in 2011. Capacity grew by 13.3% and box volumes transported by the company were up 16.0%, from 6.91mn TEUs in 2011 to 8.02mn TEUs in H112. The highest revenues were earned by the transpacific trade services (CNY14,863mn, up 21.5% y-o-y), followed by Asia-Europe, including Mediterranean (CNY12,067mn, up 30.7%) and intra-Asia, including Australia (CNY7,318mn, up 14.3%).

H112

COSCON’s H112 revenues were CNY23,117mn, a 14.1% decline from CNY20,265mn a year earlier. Capacity had grown by 6.3% and volumes transported by the company had climbed by 16.7%, from 3.24mn TEUs in the first half of 2011 to 3.78mn TEUs in H112. This ties in with the wider trend that BMI has been seeing, whereby volumes transported have risen but revenues and profits have continued to suffer as a result of overcapacity in the global fleet, which continues to worsen.

2011

COSCON moved a total of 6.91mn TEUs in 2011, an 11.2% y-o-y increase in volumes. Even so, the tough operating environment, in which excess capacity had driven down rates and high oil prices had driven up bunker prices and operating costs, meant that the company (like most other container shipping lines) recorded a loss for the year. COSCO’s revenues from its container shipping segment were down 11% to CNY41.4bn, which contributed to its overall loss of CNY10.5bn (US$1.66bn) for the year, compared with a profit of CNY6.79bn (US$1.55bn) in 2010.

Latest Activity

COSCON Receives Its Largest Vessel

MV COSCO Belgium, COSCON’s largest vessel and the first of a series of eight 13,386TEU vessels being built for COSCON by Nantong COSCO KHI Ship Engineering Co Ltd (NACKS), was christened and delivered on February 28 2013. The COSCO Belgium will be deployed on the CKYH North Europe Express Service 3 (NE3). All eight 13,386TEU vessels are expected to join COSCON's fleet by Q314.
**Russia's Antitrust Probe**

A Russian antitrust probe targeted at least 12 container lines in February 2013, according to Lloyd's Loading List, when their offices in Moscow and St Petersburg were visited by investigators. The list of involved companies includes the three largest lines, Maersk, MSC and CMA CGM, along with APL, Evergreen OOCL, China Shipping, COSCO, NYK Hyundai Merchant Marine and ZIM.

According to Russia's Federal Anti-Monopoly Service (FAS), as quoted by the same source, 'the costs of marine container transportation constitute a significant portion of the price of goods, every increase of the transportation costs directly affects customers across the globe.'

FAS also noted antitrust investigations by the European, US and some Asian countries' authorities. The EU banned rate-setting conferences in 2008, and the European offices of 12 global lines were visited in May 2011, in what was thought to be part of the investigation into the surcharges setting procedure. At the time of writing it was not known whether any of the case would be taken any further.

**Optimising Far East-South America Service**

COSCON, Evergreen Line and ZIM optimised their Far East-South America Service (ESA) from May 11 2013. The service now deploys 10 8,500TEU vessels instead of the previously used 3,000TEU vessels. The Brazilian ports of Rio Grande and Itapoá are to be added to the service rotation, making it as follows:

- Shanghai - Ningbo - Yantian - Hong Kong - Singapore - Santos - Paranagua - Montevideo - Buenos Aires - Rio Grande - Itapoá - Santos - Singapore - Hong Kong - Shanghai.

**New Asia-West Coast Of South America Service**

COSCON, Evergreen Line, PIL and Wan Hai Line began a new Asia-West Coast of South America (WSA2) service. From May 4 2013 WSA2 links Taiwan and China with five countries along Central and South America's west coast. The weekly WSA2 service deploys nine 3,500-3,900TEU Panamax vessels for the port rotation of Kaohsiung - Shekou - Hong Kong - Ningbo - Shanghai - Manzanillo (Mexico) - Lázaro Cárdenas (Mexico) - Puerto Quetzal (Guatemala) - Buenaventura (Colombia) - Callao (Peru) - Guayaquil (Ecuador) - Manzanillo - Kaohsiung. The 63 days for a round-trip service is, in COSCON's words, 'in response to the booming Asia/ S. America market'.
**CKYH Asia-US East Coast Services Restructured**

The CKYH Green Alliance restructured its Asia-US East Coast services from mid-April 2013. The alliance, which is made up of COSCON, 'K' Line, Yang Ming and Hanjin Shipping, will be offering five loops on the route, namely AWE1, AWE2, AWE3, AWE4, and AWE7. The latter is a newcomer, replacing AWE6, suspended during the winter season 2012.


**Reshuffling Asia-North Europe And Asia-Mediterranean Services**

The CKYH Green Alliance reorganised its Asia-North Europe and Asia-Mediterranean Services from early April 2013. For Asia-North Europe the alliance suspended its NE1 service and decided not to resume the NE4 service, which was suspended in October 2012, while retaining both NE1 and NE4 port coverage.


Alliance's Asia-Mediterranean service network has a three loop structure. MD1: Qingdao - Shanghai - Ningbo - Yantian - Hong Kong - Nansha - Singapore - Piraeus - La Spezia - Genoa - Barcelona - Valencia - Piraeus - Singapore - Hong Kong - Qingdao. MD2: Ningbo - Shanghai - Xiamen - Kaohsiung - Hong Kong - Yantian - Singapore - Port Said - Ashdod - Genoa - Barcelona - Fos - Port Said - Singapore - Hong Kong -
Macroeconomic Forecasts

_BMI View:_ The State Bank of Vietnam's surprise decision to cut its policy rate by 100 basis points from 10.00% to 9.00% suggests that policymakers are under increasing pressure to stimulate economic growth in 2013. We believe that the latest move will help reinforce government efforts to boost private sector investment. Given that money supply growth remains considerably low by historical standards, we believe that the risks of reigniting inflationary pressure remain manageable.

The State Bank of Vietnam (SBV) cut its policy rate (refinancing rate) by 100 basis points from 10.00% to 9.00% on December 24 2012, just days before the General Statistics Office published its preliminary estimate for GDP growth to come in slightly weaker than expected at 5.0% for 2012 (compared with Bloomberg consensus of 5.2%). The surprise rate cut came amid growing concerns that mounting bad debt across the banking sector is deterring banks from issuing new loans to businesses, and that this could severely undermine government efforts to reignite economic growth in 2013. From our perspective, the move also suggests that policymakers are under increasing pressure to adopt more aggressive measures to stimulate economic growth in an attempt to stem the growing number of bankruptcies among small-and-medium enterprises (SMEs) and rising unemployment. This is closely in line with our view that the Vietnamese government's economic agenda will remain skewed towards boosting growth in 2013.
Recovery On Track

Vietnam - Real GDP, VNDbn (LHS) & % chg y-o-y (RHS)

Source: BMI, General Statistics Office

We are seeing evidence that credit conditions are beginning to improve and expect demand for private sector credit to pick up gradually in H113. In addition to aggressive monetary policy easing by the SBV, the government has also announced plans to slash corporate income tax rates by two percentage points to 23% in 2013. We believe that lower lending rates and tax incentives will help to reinforce government efforts to attract foreign direct investment and boost private sector investment over the coming quarters.

Inflation Still A Manageable Risk

International organisations including the World Bank and IMF have warned against easing monetary policy too aggressively, which risks reigniting inflationary pressure. Although we acknowledge these risks, we highlight that the recent rebound in money supply growth remains considerably weak by historical standards. As the accompanying chart shows, prior to periods in which Vietnam experienced very high inflation (2008 and 2011), M2 money supply was expanding at a rate of 33.3% and 46.1% in 2007 and 2010, respectively. This compares with M2 growth that came in at a record low of just 6.0% in 2012 and
our forecast for a mild pickup towards 11.0% for 2013, suggesting that inflation is likely to remain manageable at under 7.0% in 2013.

Credit Conditions To Improve In 2013

Vietnam - M2 Money Supply, VNDbn (LHS) & % chg y-o-y (RHS)

We acknowledge that the risk of a potential surge in commodity prices in 2013 - especially food prices, which make up around 40% of the consumer price index basket - could turn out to be a wildcard for policymakers. For now, we believe that overall conditions in Vietnam remain in favour of our forecast for real GDP growth to come in relatively strong at 7.0% in 2013.

Expenditure Breakdown

Private Consumption: We expect private consumption to grow at a robust pace of 5.6% in 2013. However, we note that the risk of a sustained collapse in exports and further bankruptcies among SMEs could potentially lead to widespread job losses in export-driven sectors. Uncertainties over the outlook for employment could, in turn, prompt households to cut back on spending.
**Gross Fixed Capital Formation:** We foresee a significant pickup in private sector investment growth in 2013. We believe lending rates will gradually ease over the coming months as the effect of recent rate cuts by the SBV begins to kick in. We are also seeing evidence that credit conditions are improving. Accordingly, we expect gross fixed capital formation growth to accelerate from 4.3% in 2012 to 5.9% in 2013.

**Public Spending:** We expect total public spending to remain relatively resilient in 2013, expanding at a respectable pace of 5.4%. However, there is limited room for the government to increase spending further owing to concerns over the need to finance a potential bailout of ailing state-owned commercial banks.

**Net Exports:** Net exports remain the biggest downside risk to our outlook for the Vietnamese economy, although we expect external demand to pick up as we head into H113. Vietnam has been recording an average monthly trade surplus of US$172mn since June 2012 (resulting in a year-to-date surplus of US $77mn) and we see the case for a substantial pickup in external demand on the back of a rebound in regional growth over the coming month. However, we believe that China's structural imbalances will return in H213, becoming a drag on regional growth. Accordingly, we still expect exports to expand at a moderate pace of 6.5% in 2013.

### Table: Vietnam - Economic Activity

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<tr>
<td>Nominal GDP, VNDbn</td>
<td>1,658,389</td>
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<td>Nominal GDP, US$bn</td>
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<td>103.53</td>
<td>122.82</td>
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<tr>
<td>GDP per capita, US$</td>
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<td>1,383</td>
<td>1,576</td>
<td>1,782</td>
<td>2,025</td>
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<td>90.7</td>
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<td>93.3</td>
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<td>Unemployment, % of labour force, eop</td>
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<td>4.5</td>
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Demographic Forecast

Demographic analysis is a key pillar of BMI’s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is key to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail Vietnam’s population pyramid for 2011, the change in the structure of the population between 2011 and 2050 and the total population between 1990 and 2050, as well as life expectancy. The tables show key datapoints from all of these charts, in addition to important metrics including the dependency ratio and the urban/rural split.

Source: World Bank, UN, BMI
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<td>89,730</td>
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<td>7,186</td>
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<td>9,124</td>
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<td>6,703</td>
<td>6,885</td>
<td>7,143</td>
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<td>9,142</td>
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<td>6,844</td>
<td>6,539</td>
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<td>8,954</td>
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<tr>
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<td>8,602</td>
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<tr>
<td>30-34 years</td>
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<td>7,475</td>
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<tr>
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<td>6,677</td>
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<td>40-44 years</td>
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<td>3,884</td>
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<td>6,086</td>
<td>6,304</td>
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<td>45-49 years</td>
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<tr>
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<td>3,739</td>
<td>4,580</td>
<td>4,936</td>
<td>5,449</td>
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<tr>
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<td>1,887</td>
<td>2,201</td>
<td>3,617</td>
<td>4,001</td>
<td>4,446</td>
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<td>2,573</td>
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<td>1,621</td>
<td>1,649</td>
<td>1,927</td>
<td>3,233</td>
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<tr>
<td>70-74 years</td>
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<td>1,084</td>
<td>1,194</td>
<td>1,439</td>
<td>1,389</td>
<td>1,384</td>
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<td>2,264</td>
<td>2,388</td>
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* = BMI forecast. Source: World Bank, UN, BMI*
## Table: Vietnam's Population By Age Group, 1990-2020 (% of total)

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<tr>
<td>0-4 years</td>
<td>13.92</td>
<td>12.45</td>
<td>8.89</td>
<td>8.15</td>
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<td>12.42</td>
<td>11.58</td>
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<td>7.63</td>
<td>7.67</td>
<td>7.73</td>
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<td>11.61</td>
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<td>7.21</td>
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<tr>
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<td>10.01</td>
<td>10.84</td>
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<td>10.20</td>
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<tr>
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<td>8.87</td>
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<td>50-54 years</td>
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<td>2.90</td>
<td>4.50</td>
<td>5.21</td>
<td>5.50</td>
<td>5.89</td>
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<td>2.40</td>
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<tr>
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<td>2.21</td>
<td>2.12</td>
<td>2.36</td>
<td>2.87</td>
<td>3.74</td>
<td>4.43</td>
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<tr>
<td>65-69 years</td>
<td>1.91</td>
<td>1.88</td>
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<td>1.85</td>
<td>1.84</td>
<td>2.08</td>
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<tr>
<td>70-74 years</td>
<td>1.37</td>
<td>1.46</td>
<td>1.52</td>
<td>1.73</td>
<td>1.58</td>
<td>1.54</td>
<td>1.56</td>
<td>1.79</td>
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<tr>
<td>75+ years</td>
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<td>1.76</td>
<td>1.98</td>
<td>2.23</td>
<td>2.58</td>
<td>2.66</td>
<td>2.72</td>
<td>2.85</td>
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</tbody>
</table>

\(f =\) BMI forecast. Source: World Bank, UN, BMI
### Table: Vietnam's Key Population Ratios, 1990-2020

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<tbody>
<tr>
<td>Dependent ratio, % of total working age ¹</td>
<td>75.5</td>
<td>71.2</td>
<td>60.5</td>
<td>49.7</td>
<td>42.1</td>
<td>40.9</td>
<td>40.6</td>
<td>41.6</td>
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<tr>
<td>Dependent population, total, '000 ²</td>
<td>28,859</td>
<td>30,790</td>
<td>29,679</td>
<td>27,609</td>
<td>26,006</td>
<td>26,031</td>
<td>26,717</td>
<td>28,321</td>
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<td>Active population, % of total ³</td>
<td>57.0</td>
<td>58.4</td>
<td>62.3</td>
<td>66.8</td>
<td>70.4</td>
<td>71.0</td>
<td>71.1</td>
<td>70.6</td>
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<tr>
<td>Active population, total, '000 ⁴</td>
<td>38,243</td>
<td>43,218</td>
<td>49,079</td>
<td>55,552</td>
<td>61,842</td>
<td>63,699</td>
<td>65,725</td>
<td>68,034</td>
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<tr>
<td>Youth population, % of total working age ⁵</td>
<td>66.8</td>
<td>62.5</td>
<td>51.5</td>
<td>40.9</td>
<td>33.5</td>
<td>32.4</td>
<td>31.7</td>
<td>30.3</td>
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<tr>
<td>Youth population, total, '000 ⁶</td>
<td>25,529</td>
<td>27,009</td>
<td>25,268</td>
<td>22,735</td>
<td>20,732</td>
<td>20,610</td>
<td>20,837</td>
<td>20,615</td>
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<tr>
<td>Pensionable population, % of total working age ⁷</td>
<td>8.7</td>
<td>8.7</td>
<td>9.0</td>
<td>8.8</td>
<td>8.5</td>
<td>8.5</td>
<td>8.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Pensionable population, '000 ⁸</td>
<td>3,330</td>
<td>3,780</td>
<td>4,411</td>
<td>4,874</td>
<td>5,274</td>
<td>5,421</td>
<td>5,881</td>
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</tbody>
</table>

¹ = BMI forecast; ¹ 0>15 plus 65+, as % of total working age population; ² 0>15 plus 65+; ³ 15-64, as % of total population; ⁴ 15-64; ⁵ 0>15, % of total working age population; ⁶ 0>15; ⁷ 65+, % of total working age population; ⁸ 65+. Source: World Bank, UN, BMI

### Table: Vietnam's Rural And Urban Population, 1990-2020

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<tbody>
<tr>
<td>Urban population, % of total</td>
<td>20.3</td>
<td>22.2</td>
<td>24.3</td>
<td>26.4</td>
<td>28.7</td>
<td>29.7</td>
<td>31.2</td>
<td>33.9</td>
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<td>Rural population, % of total</td>
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<td>77.8</td>
<td>75.7</td>
<td>73.6</td>
<td>71.3</td>
<td>70.3</td>
<td>68.8</td>
<td>66.1</td>
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<tr>
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<td>63,080.4</td>
<td>63,600.5</td>
<td>63,690.7</td>
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</table>

¹ = BMI forecast. Source: World Bank, UN, BMI