



Red Sea crisis – issues and responses

Intermodal Asia 2024

22nd May, 2024

Maritime Advisors

Tim Power, Managing Director



Contents

1 Key issues for lines

2 Key issues for lessors

3 BCO responses



Maritime Advisors

Rigorous analysis – Practical advice

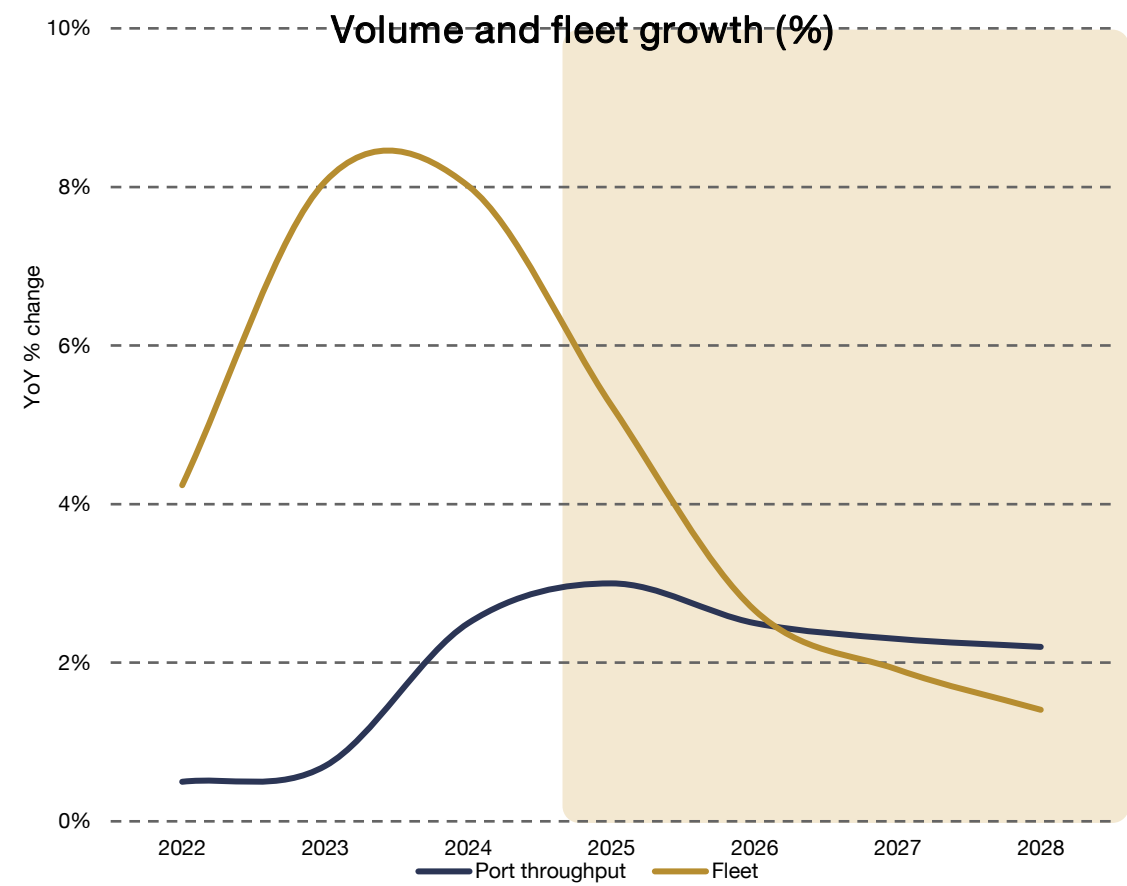
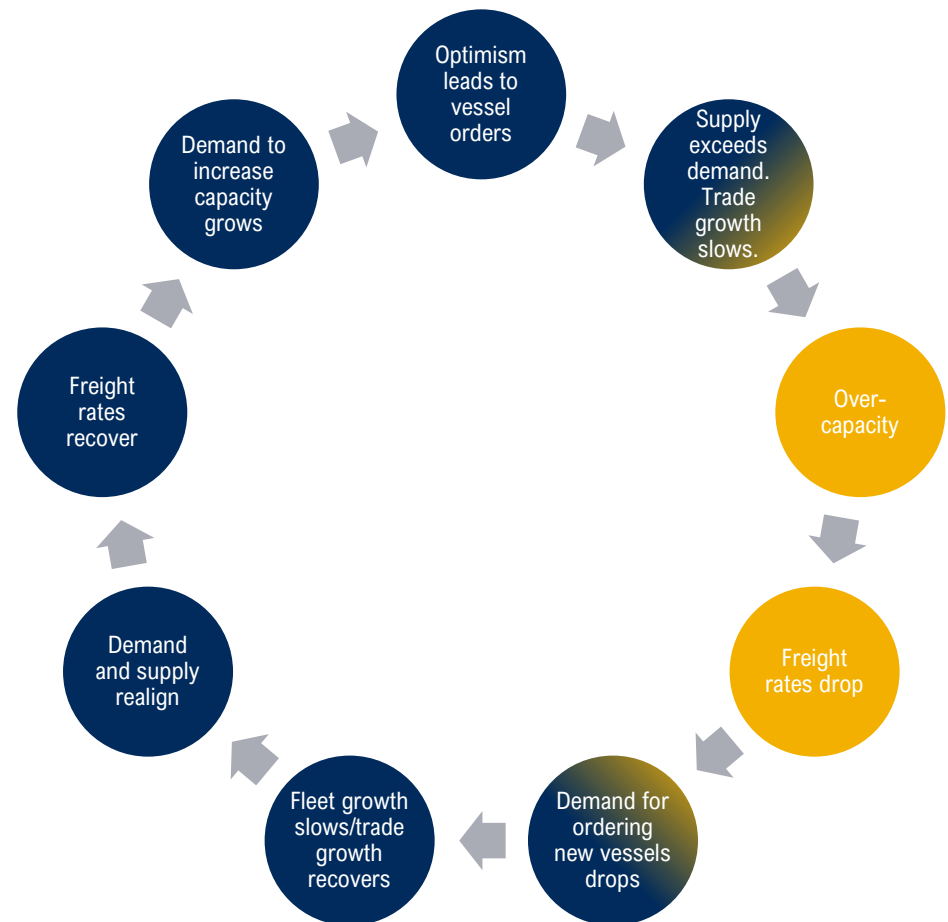


1. Key issues for lines



Key issues for lines - overcapacity

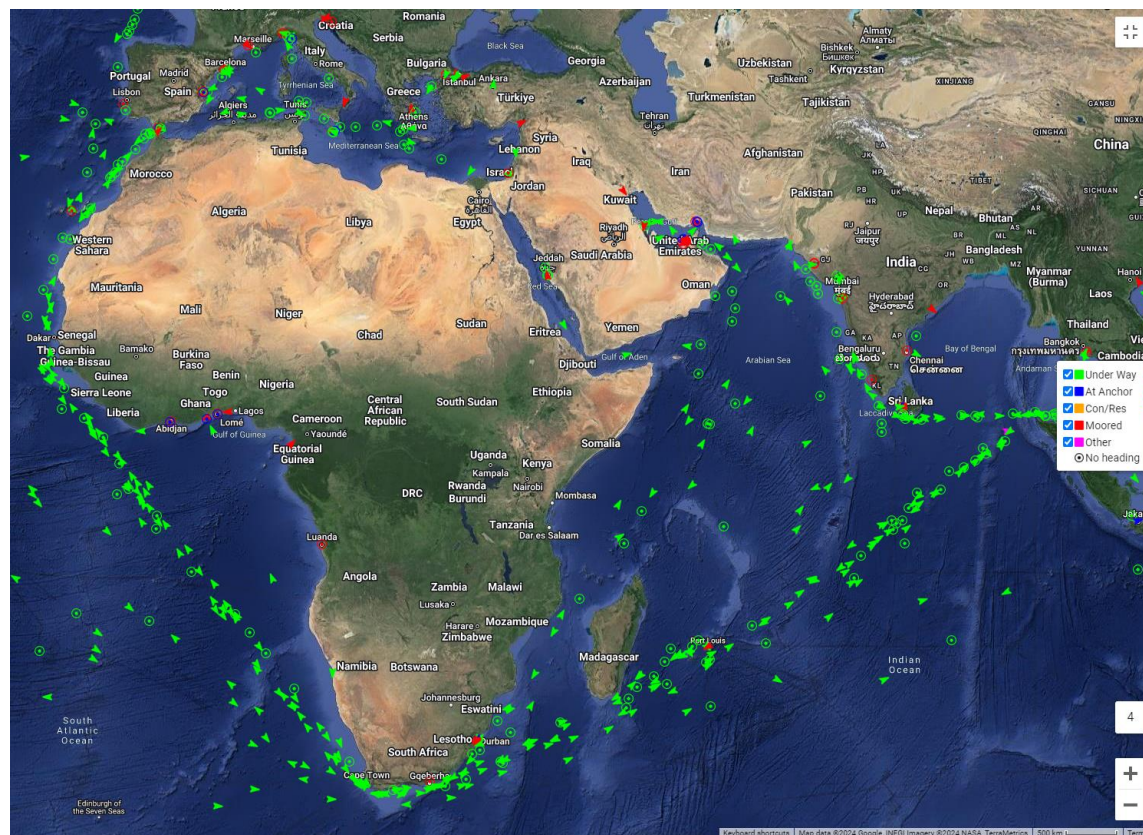
Liner shipping entered a down cycle in 2023: demand growth stalled and vessels ordered during the pandemic started to be delivered. Fleet growth exceeded demand growth. Overcapacity was a major threat to lines' earnings.



Vessel routing – relieving overcapacity

376 vessels now required to operate the current 25 services on Asia-Europe trade. Now only 340 ships deployed by the three alliances, leaving a shortfall of 36 on the trades to N. Europe and the Mediterranean; 9.6% of the capacity shortfall (*Alphaliner*).

Post-Panamax (>5300 teu capacity), 13th May 2024



ULCV (>18000 teu), 13th May 2024



- Large containerships are avoiding the Red Sea
- Round voyage times up by 30%
- Equivalent to 10% of containership capacity

Round voyage cost comparison: Asia-North Europe via Suez vs. Cape of Good Hope

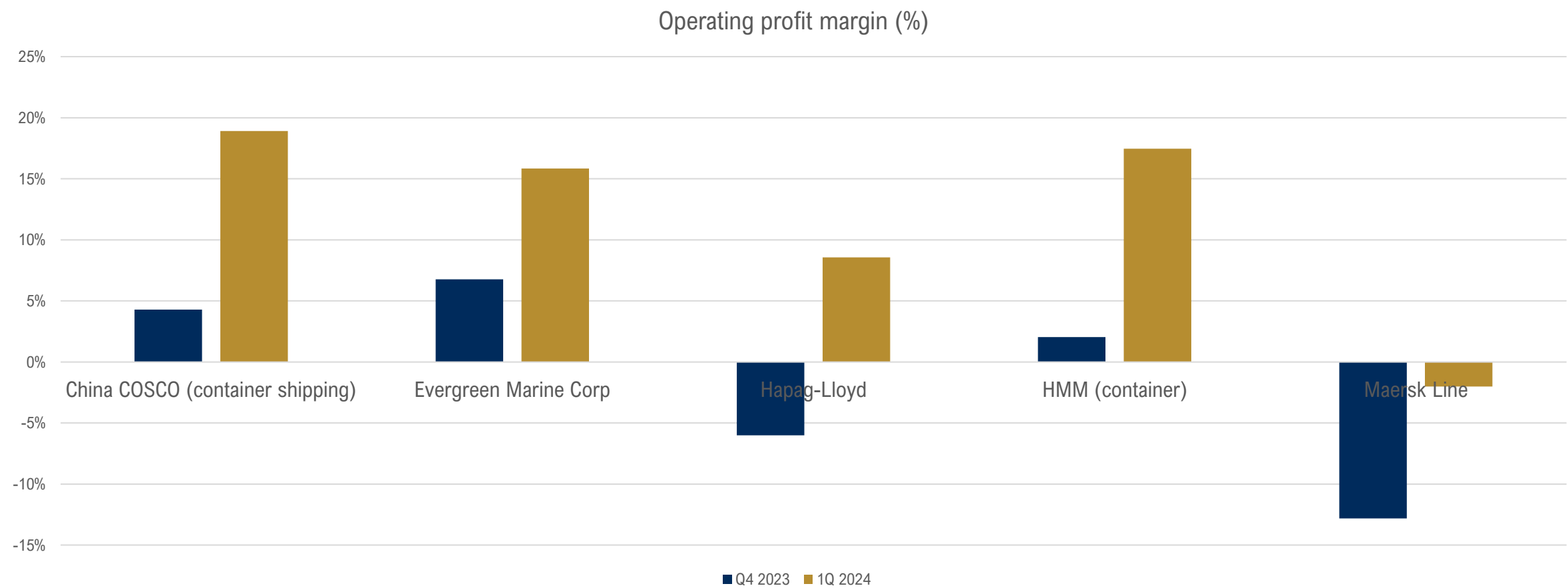
Effect on lines' costs depends on whether vessels speed up to maintain transit time or service speed is maintained and vessels are added to the service. Cost difference can be very small if speed is maintained.

Comparison of Ocean Alliance CEM service: Suez Canal v Cape of Good Hope scenarios

	Scenario 1: Similar speed			Scenario 2: Similar transit time	
Operations	Suez Canal	Cape of Good Hope	diff	Cape of Good Hope	diff
Round Voyage Distance	22,694	30,056	7,362	30,056	7,362
Service duration, days	98	115	18	97	-1
No. Vessels	14	16	2	14	0
Average vessel speed, knots	12.5	13.4	1	16.7	4
Singapore to Rotterdam (distance, nautical miles)	8,306	11,862	3,556	11,862	3,556
Singapore to Rotterdam (days)	25.4	35.7	10	26.1	1
Singapore to Rotterdam (avg. speed, knots)	14.0	14.0	0	19.5	6
Cost per round voyage (1 vessel)	Suez Canal	Cape of Good Hope	% diff	Cape of Good Hope	% diff
Vessel costs	\$4,532,282	\$5,346,248	18.0%	\$4,503,191	-0.6%
Port costs	\$270,948	\$270,948	0.0%	\$270,948	0.0%
Total Fuel costs	\$4,191,840	\$5,576,442	33.0%	\$8,337,077	98.9%
Canal costs	\$1,972,130	\$0	-100.0%	\$0	-100.0%
Anti-piracy costs	\$78,039	\$92,055	18.0%	\$77,539	-0.6%
EU ETS costs (2024)	\$237,031	\$305,720	29.0%	\$498,717	110.4%
Total Costs	\$11,282,271	\$11,591,413	2.7%	\$13,687,472	21.3%
CO2 emissions per RV (tonnes)	20,201	27,241	34.9%	41,242	104.2%
CO2 emissions per year (tonnes)	75,586	86,411	14.3%	155,314	105.5%

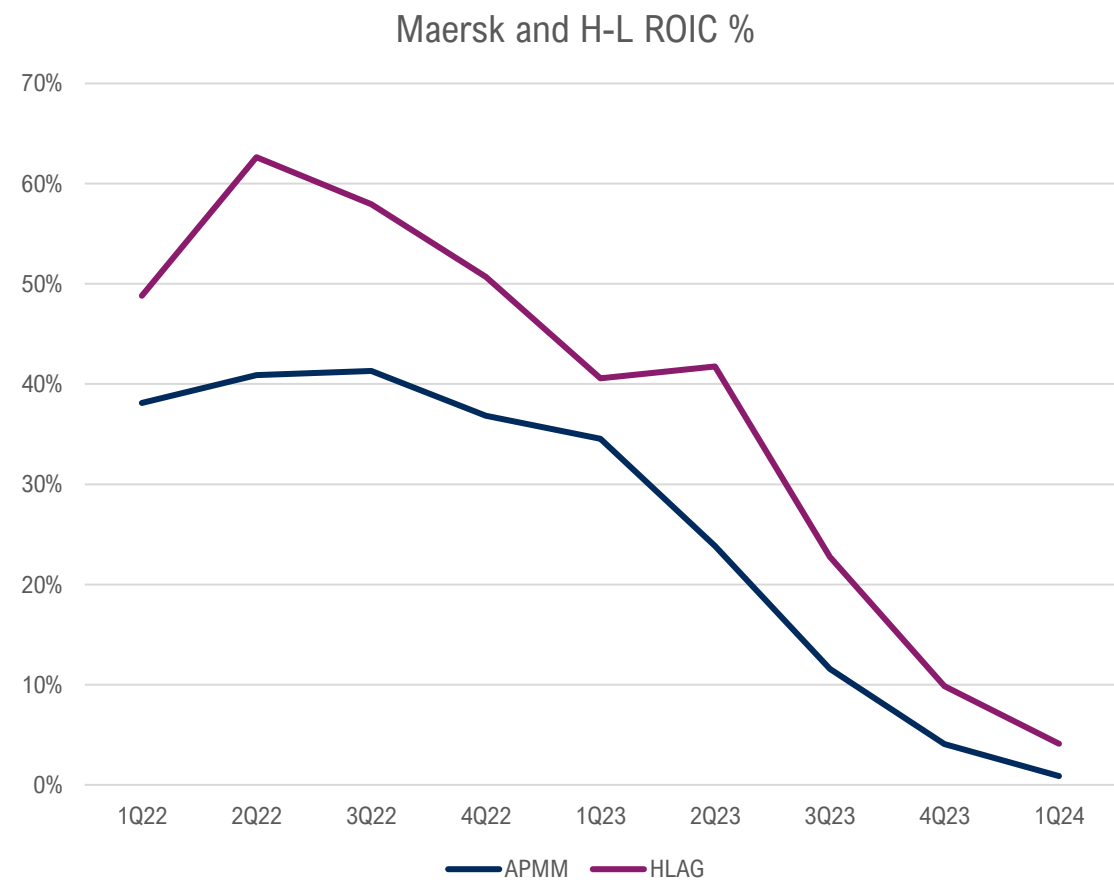
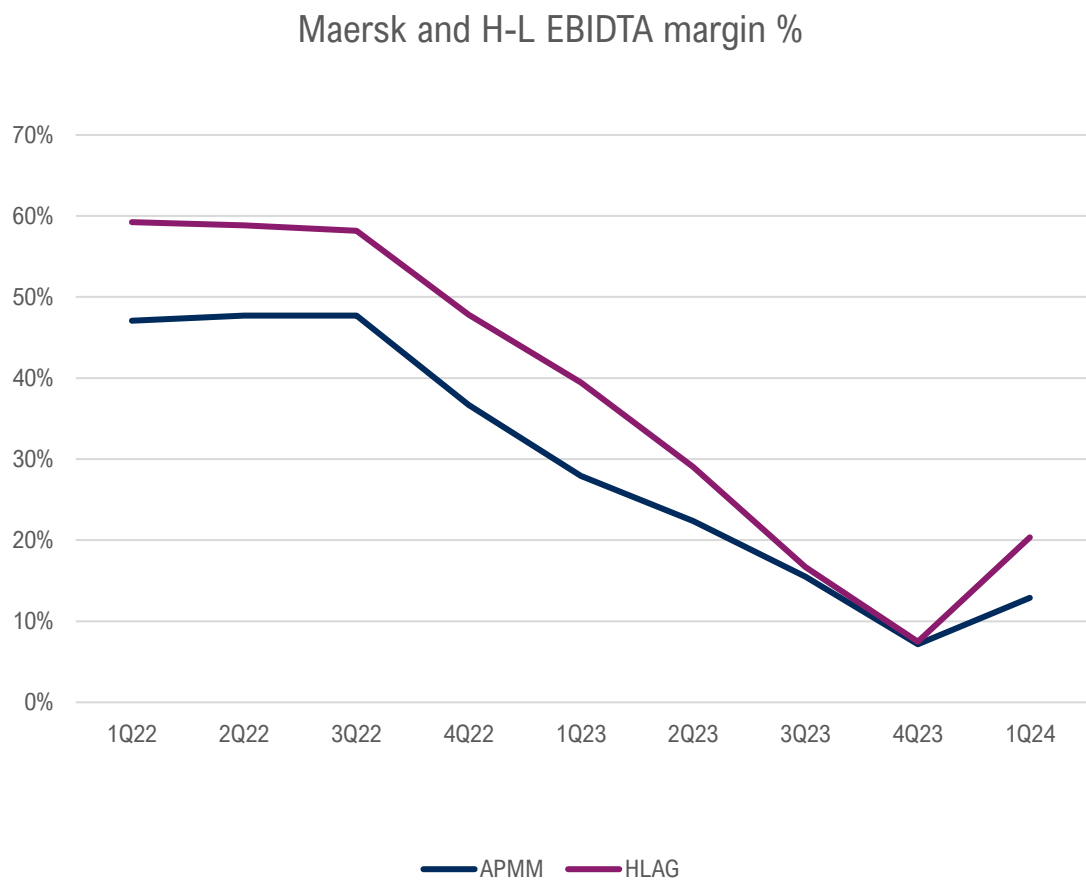
Effect on profitability

Operating profit margins soaring as a result



Performance and business models

HL EBITDA margin and ROIC remains ahead of Maersk



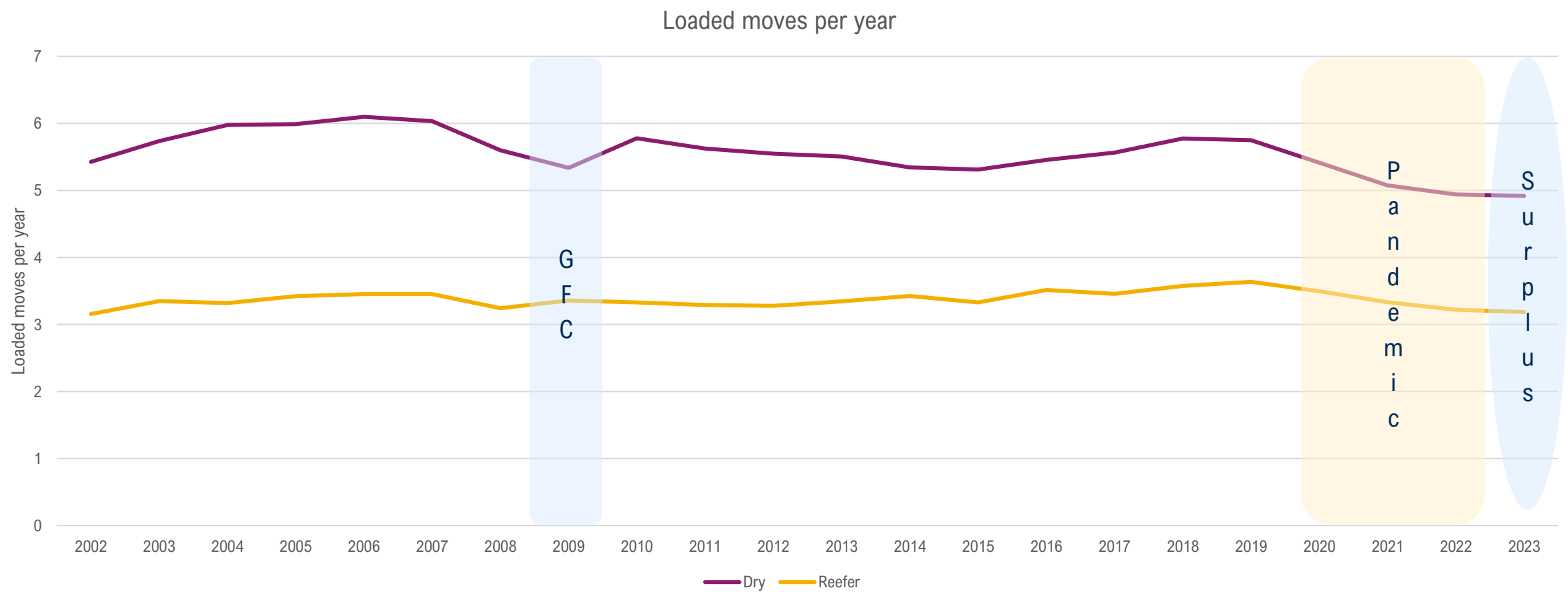


2. Key issues for container lessors



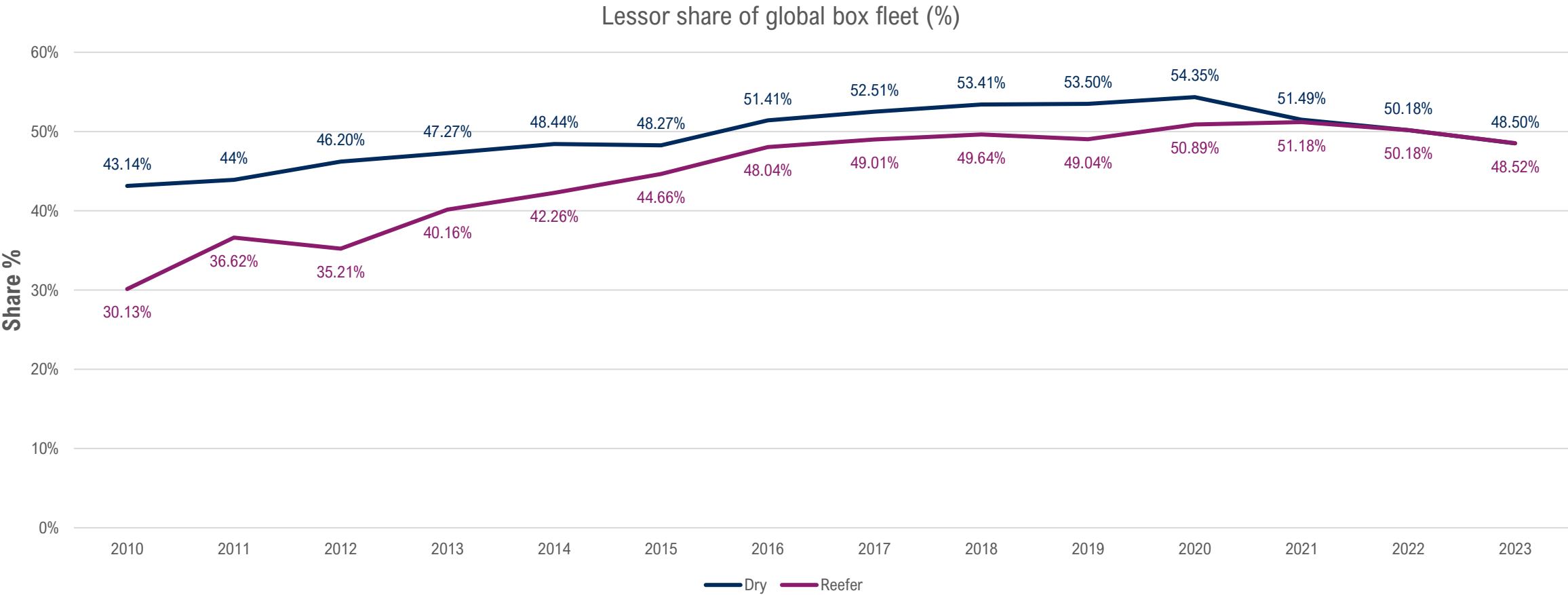
Key issues for lessors - Box productivity

Box productivity falls during the pandemic due to supply chain disruption and port congestion. Productivity falls in the GFC and post-pandemic due to falling fleet utilisation. Very different effects on the market. Red Sea crisis constrains box productivity again.



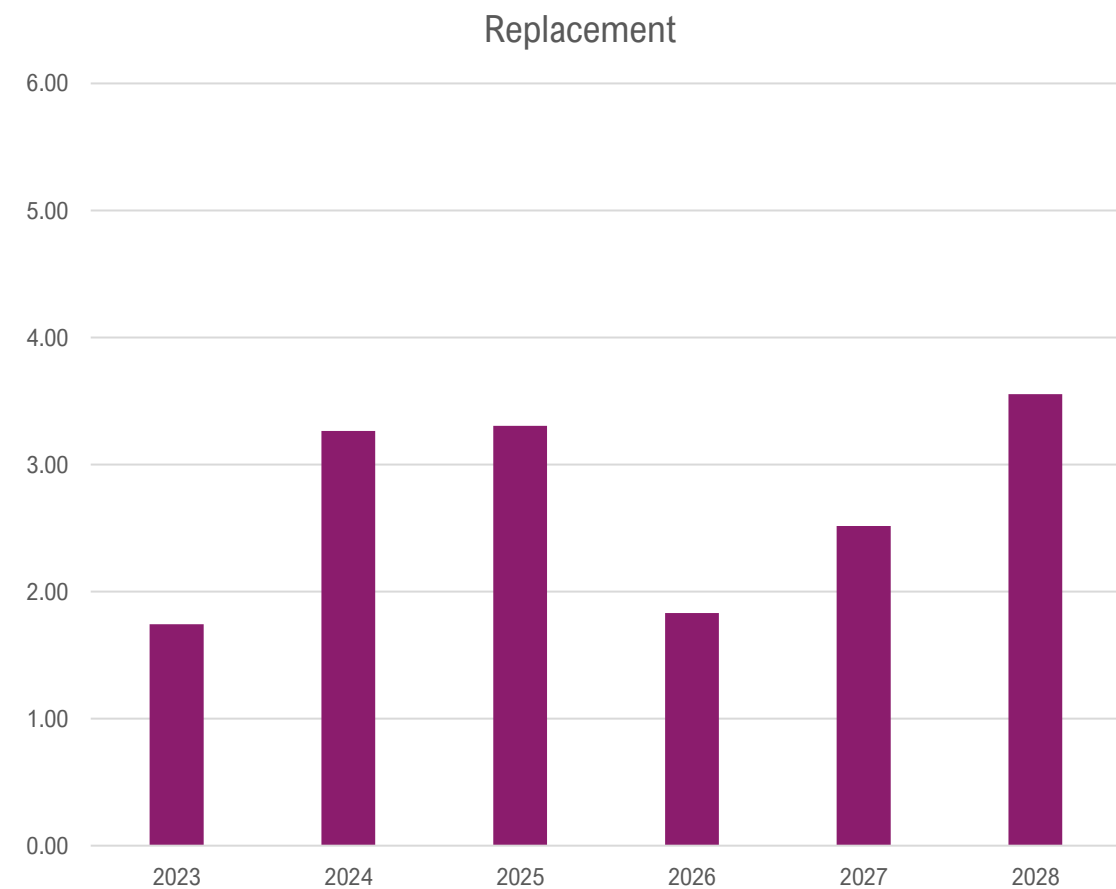
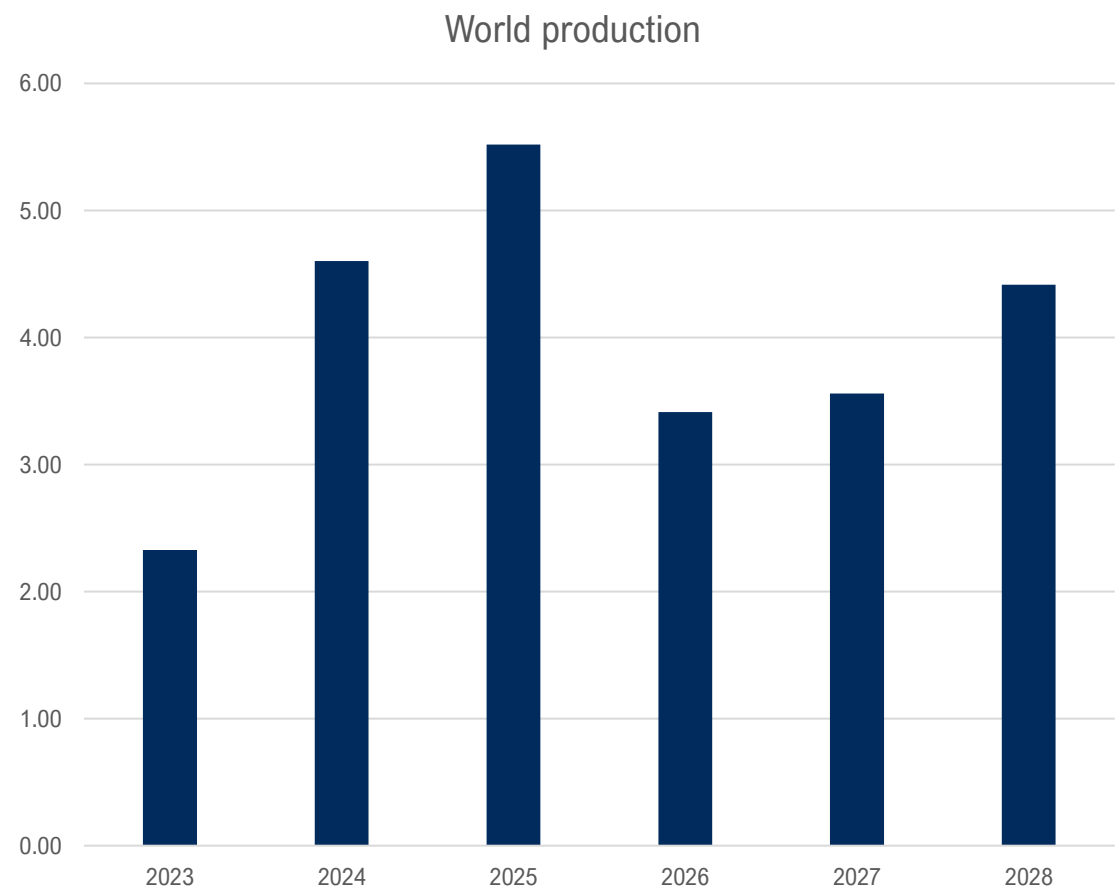
Key issues for lessors - container fleet share

Lessors' share of the global box fleet rose from 2010 to 2020 to 54% of dry and 51% of reefer. Cash-rich lines invested more in containers 2021-22. Share outlook likely to be affected by lines' profitability



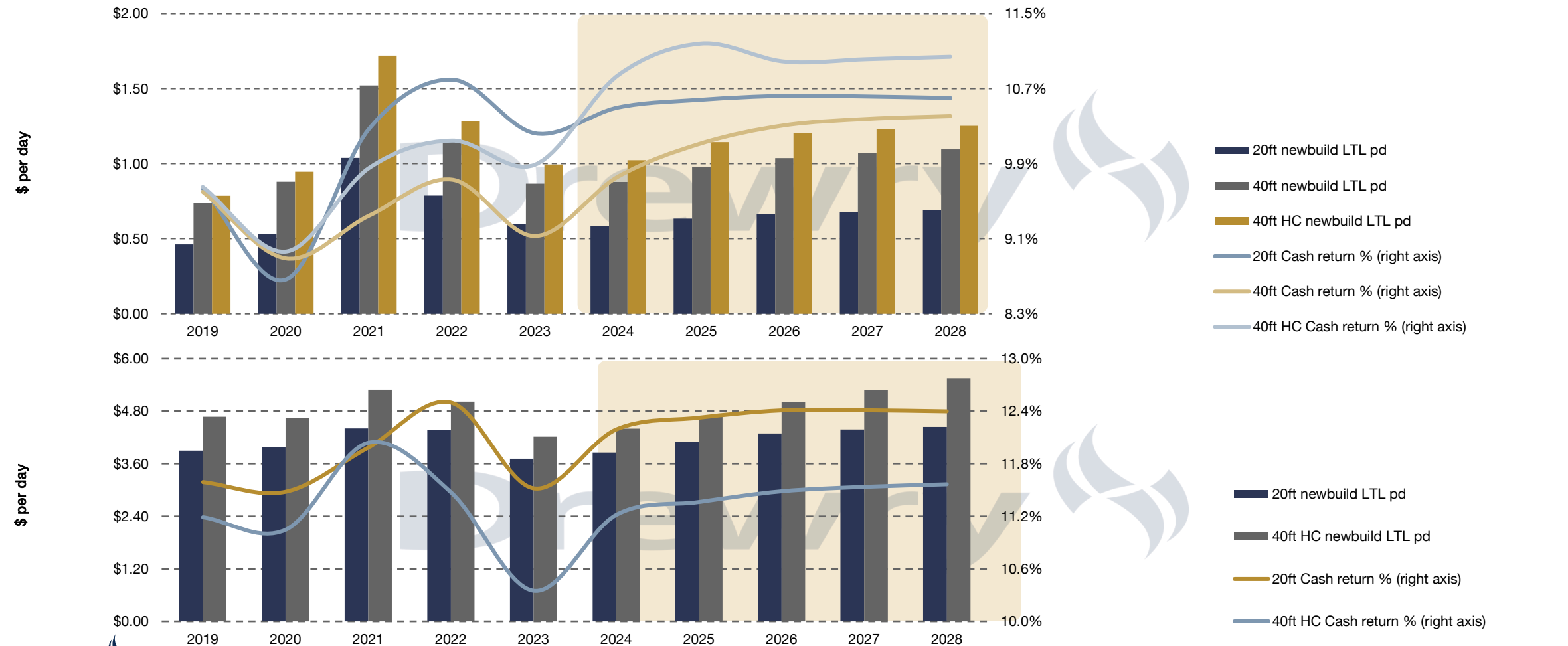
Container production and replacement

Strong production volume projected in 2024 and 2025. Overhang of older boxes continuing to come out of the fleet.



Newbuild lease rates and initial cash returns

After depressed returns in 2023, we expect lease rates and initial cash returns to improve in 2024 due to growth in box demand (container volume growth and productivity constraints) and interest rates remaining elevated.





3. BCO responses



Supply chain resilience – BCO responses

BCOs adopting a variety of measures to ensure supply chain resilience and to manage cost risks

Extended lead times –
revised business
planning required/ build
up of safety inventory

India/ Middle East
origin/ destination
shipments – increased
use of airfreight

Some delayed tenders

Some moved to shorter
term rates (quarterly)



UK

35-41 Folgate Street
London
E1 6BX
United Kingdom
T +44 20 7538 0191

INDIA

4th Floor, Tower C
Urban Square
Sector 62, Gurugram
122098 India
T +91 124 497 4979

SINGAPORE

#17-01 Springleaf Tower
No 3 Anson Road
Singapore 079909
T +65 6220 9890

CHINA

Unit D01, Level 10,
Shinmay Union Square
Tower 2, 506 Shangcheng Road
Pudong, Shanghai 200120
T +86 21 5081 0508

enquiries@drewry.co.uk

www.drewry.co.uk



LONDON

DELHI

SINGAPORE

SHANGHAI