Lloyd's List
Maritime intelligence | informa

Tuesday June 26, 2017

Daily Briefing
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Did Cosco pay over the odds for OOCL?

The $6.3bn Beijing-backed takeover was more expensive than expected, but analysts argue it was a reasonable deal and a necessary move, writes Cichen Shen in Hong Kong.

ON the face of it, Bejing is paying over the odds, to secure the assets of the Hong Kong-based container line and its parent company, Orient Overseas (International) Ltd (OOIL), after months of vibrant speculation, during which OOIL played the waiting game, despite one of its worst years on record, generating confusion among observers.

And yet, while the $6.3bn offer made by the two Chinese state-owned giants to acquire Orient Overseas (International) Ltd equity is deemed to be a higher price than expected yet still reasonable, according to analysts in Hong Kong and China.

On Sunday, Shanghai- and Hong Kong-listed Cosco Shipping Holdings and Shanghai-listed Shanghai International Port Group unveiled their joint precondition voluntary cash offer, in which the two intend to acquire 68.7%-100% of the equity of Hong Kong-listed OOIL for HK$78.67 per share.

Assuming a 100% acquisition, the total price will reach HK$49.2bn ($6.3bn), resulting in a 40% premium against OOIL's book value as of end 2016, or a price-to-book ratio of 1.4.

"In line with expectations and a good deal for OOIL shareholders," was the view of Daiwa Capital Markets, adding that the Tung family's decision to sell made sense, given the heavy capex required to stay competitive in a market where economies of scale have become increasingly crucial.

Like many others, Dongxing Securities viewed the deal as higher than expected, but reasonable given previous comparable transactions, improved market fundamentals and synergies operation cost reductions expected from the merger. Cosco will also be able to access OOIL's cheaper financing sources, and hence reduce its borrowing costs.

An overpaid deal?

However, some suggested that the Chinese shipping giant could overpay the shareholders of OOIL. At a 1.4 price-to-book ratio, the pricing assumes the sector is embarking on an upward cycle, which given the persistent vessel glut and looming deliveries of ultra-large containerships, is at best a bold forecast. $2.7bn worth of synergies from the deal could also be cast as optimistic.

Viewed over a long-term horizon, however the pricing could be considered reasonable reasonable if you view the core value of OOIL not its ships, but its networks, clients, and management. After all, the company has proved itself as one of the best-run liner shipping carriers, with its past achievements.

For a full breakdown of analyst reactions to the deal and our view on the Cosco conference call held Saturday, read the full version of this story at Lloydslist.com/containers.

Comment

Two mergers and a meltdown

THE dog days of summer are supposed to be quiet and relaxing, but even as the UK goes through an unseasonably warm spell, container shipping has been rocked by a series of big stories, writes James Baker.

Some of those we forecast ahead of time. Cosco Shipping's swoop on the Tung family's stake in Orient Overseas International Ltd had been rumoured for some time and when it did happen came as little surprise. For Cosco there was a certain logic to buying a well-run, well-regarded container line that will remove a rival from the landscape and push it in to third place in the container line league tables. For the Tung family, there was a certain logic to the deal, too. A $6.3bn logic.

Also announced, and previously forecast by Lloyd's List, was the appointment of NYK chief executive Jeremy Nixon to the top job at Ocean Network Express, the merged entity of Japan's three container lines. ONE has now established itself as an operating company and plans to launch services next year, once regulatory hurdles have been overcome. Already South Africa has thrown a spanner in the works by rejecting competition clearance over fears of collusion between the lines' car carrier operations.

But with the merger of the Japanese lines and Cosco's takeover of OOCL, the industry has become more concentrated than most could ever have imagined. Seven lines now dominate the world of box shipping, all with over 1.3m teu of capacity when orders are included. The eighth-largest operator has less than half that of that.

Does this concentration matter? For shippers, it is likely to as it means less competition and fewer choices. But there are also the risks of the black swans as Maersk found out to its cost when its computer systems were hit by a computer virus last month. As Maersk itself said, the company found itself having to move 16% of world trade using manual systems.

The thought of something similar happening to two or more lines at the same time may seem far-fetched, but so did the idea of it happening to Maersk. With additional concentration comes additional risk and potentially far worse consequences.

Regulatory round up Everything you wanted to know about last week's MEPC *(but were too afraid to ask)*

Shipping's environment pollution body, the Marine Environment Protection Committee, concluded its latest round of talks last week with limited progress on the international strategy to deal with greenhouse gases from shipping, but it did manage to produce a series of key regulatory changes that will directly impact the industry. Full coverage can be found at Lloydslist.com/regulation, but our key takeaways include:

The IMO has steered away from Europe's fuel oil consumption data collection system which opponents had argued would add unnecessary burdens on industry and administrations. The decision, however, further diminishes the possibility of an alignment of the IMO and European Union systems anytime soon and leaves open the possibility of a two tier international regime. Vessels will begin reporting fuel consumption levels beginning in January 2019 under the IMO scheme. The EU MRV came into force in 2015, with data collection on vessel voyages beginning in January 2018. Both systems apply to vessels above 5,000 gt.

The IMO and EU have publicly clashed over shipping's decarbonisation aspirations in the past few months. Aside from crafting its own MRV, the EU is currently considering including the sector in its revised emissions trading system, much to the ire of the IMO.

The question of how to protect the Arctic from heavy fuel oil is now firmly on the regulatory agenda, but proposals expected to include a complete ban on HFO use in the Arctic, will only start being debated in April 2018 at the next MEPC. Given the European Parliament adopted a resolution in March calling for the implementation of a ban on HFO use and carriage in the Arctic in March 2017, expect a strong showing of proposals from European member states at IMO.

You may have missed our coverage last week where we explained why the IMO only adopted the vaguest of draft outlines for its much anticipated greenhouse gas emissions reduction strategy, sending the complicated negotiations down to the wire.

And if you haven't already seen our take on how Sulphur emissions standards will be enforced from 2020, and why a two-year delay to the divisive Ballast Water Management Convention has been hailed as a victory for common sense by shipwoners, be sure to catch up at Lloydslist.com/regulation or set your alerts at Lloydslist.com/myview

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Liner financing

Why CMA CGM and Hapag Lloyd are both issuing notes and looking carefully at debt

HERE is where we would merge two stories into one. Our take on how Hapag-Lloyd has agreed to sell and lease back eight 8,000 teu-9,000 teu containerships to China's Bocomm Financial Leasing for $320m in total, would be masterfully merged with CMA CGM raising $741m through a note offering stretching out its debt repayments. The background context of how Hapag-Lloyd has seen its debt burden balloon since it merged with United Arab Shipping Co, nearly doubling to $8.3bn would be made. But ratings agency Standard & Poor's recently held its rating for the company at B+, saying it should be able to retain its credit ratios over the next two years. Hapag-Lloyd is also due to launch a further fundraising through a rights issue following the merger that is due to raise another $400m.

For CMA, proceeds from the €650m ($741.1m) raised will be used to extend its debt maturities, in particular redeeming notes due in 2018 and reimbursing drawings under credit facilities made to repay the NOL 2017 bonds upon their maturity in April, CMA CGM said.

Against the background of improving industry conditions and CMA CGM's good financial performance, these initiatives resulted in credit rating agency Standard & Poor's recently adopting a positive outlook on its corporate rating (B), said CMA CGM.

Containers

Jeremy Nixon picked as chief executive of new Japanese container line

JEREMY Nixon has been appointed chief executive of Ocean Network Express, the Singapore-based operating company of the new carrier being set up by Japan's big three shipping groups.

He will be in charge of a line that will rank number six in the world in terms of fleet capacity with a combined 1.44m teu, and a fleet of roughly 240 vessels, including 31 ultra large containerships, according to a press release.

Mr Nixon, who now heads up NYK's container shipping business, had been widely tipped to take over the top job at ONE, which became a legal entity last week and is due to start shipping operations next April.

NYK will have the largest interest in ONE, which was unveiled last October in response to the unparalleled round of consolidation taking place in the container shipping industry that has left the Japanese trio losing scale and market share.

Markets

CONTAINERS

Container spot rates are holding firm after the latest round of GRIs

Renewed market confidence points to a bumper peak season, but rates could come under pressure in the latter stages of the year. Spot rates on the principal east-west trades are expected to hold firm in the wake of July's successful price push, as the peak season finally kicks in. The latest Shanghai Containerised Freight Index, forecasting rates for the week ahead, shows only minimal rate erosion on both Asia-Europe and transpacific routes.

VLCC

VLCC spot rates have started the week on a solid note

VERY large crude carrier spot rates have kicked off this week with a strong push to above $22,500 per day for the benchmark Middle East to Japan route, on the back of strong enquiries and healthy crude demand. Monday's benchmark Middle East to Japan route was 21% up on a week ago, and helped push the benchmark VLCC time charter equivalent on the Baltic Exchange to $9,898 per day, up 40% from a week earlier.

HANDIES

South America is keeping handysize bulkers afloat

The handysize market overall strengthened during the week, led by gains in Atlantic trades. A clear divergence between Atlantic and Pacific trades is emerging as gains linked to South America while Pacific remains quiet

In Brief

Container losses at sea are shrinking

The number of containers lost at sea over the past three years declined compared to the previous three-year period, as major cargo loss incidents saw an almost twofold decrease. A survey conducted by the World Shipping Council found that between 2014 and 2016 vessels lost an annual average of 612 containers, recording a 16% drop compared to the period between 2011 and 2013.

Bourbon is backing a bid to build the world's first autonomous OSV

FRENCH marine offshore services company Bourbon has entered into a memorandum of understanding with UK-based Automated Ships Ltd to support the building of the world's first unmanned and fully-automated prototype vessel for offshore operations. The project is in collaboration with Bourbon's primary technology partner, Kongsberg, which signed an MOU in November 2016 with ASL in the contracting of Hrönn, the prototype vessel. Kongsberg will provide the equipment for operation, design and construction.

Supply growth is forecast to moderate in dry bulk and containership sectors

GROWTH in capacity for both the dry bulk and containership sectors may moderate over the next 12 months, according to Moody's Investors Service. It said there were signs of a recovery in the two sectors, albeit slow and choppy, and thus it had decided to change its overall shipping industry outlook to stable from negative in May this year.

DP World is teaming up with Cosco on Australian logistics

INTERNATIONAL Container Terminal Services and Dredging International have signed a Memorandum of Understanding to co-operate in the further deepening of the Congo River. Supported by the government of the Democratic Republic of Congo, Philippines-based ICTSI and Belgium-based contractor Dredging International are deepening the Congo River in phases to an eventual depth of 40ft and beyond, eliminating current draught restrictions in the Divagante area, near Boma.

ICTSI is looking to deepen the Congo River.

INTERNATIONAL Container Terminal Services and Dredging International have signed a Memorandum of Understanding to co-operate in the further deepening of the Congo River, eliminating current draught restrictions in the Divagante area, near Boma. The companies expect the project to require an initial investment of €35m ($39.9m), delivering extensive operational efficiencies and cost savings to the western Democratic Republic of Congo supply chain and the market.

For classified notices please view the next page

"Ozzy Navigation Company is summoned, through Nejem Company Marine Services, headquartered in Lattakia, Karaman St., Harujn Building, Syria, based on the summons of 15 May 2017 in the case dossier no 2316/118/2011, to attend the official hearing of **19 June 2017,** 9:00 A.M., to the Constanta Court of Appeal, 35c Traian St., Constanta. In case of absence of parties, a written instrument may be sent, judging following to be proceeded in absence."

"Ozzy Navigation Company a été cite, par Nejem Company Marine Services, à l'adresse Lattakia, rue Karaman, bâtiment Harujn, Syrie, en base du mandat de comparution du 15 Mai 2017 dans le dossier du cas n0 2316/118/2011, pour comparaître devant la Court d'appel de Constanta, rue Traian n0 35c, en audience officielle, le **19 Juin 2017,** 9:00 a.m.

En cas d'absence des parties, on peut transmettre un document écrit, le jugement pourrant être tenu en absence"