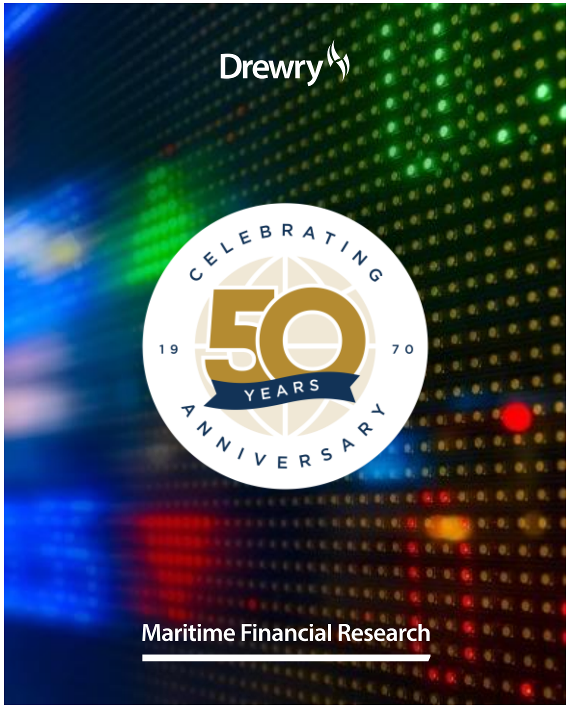
DMFR Insights

January 2021

Contents



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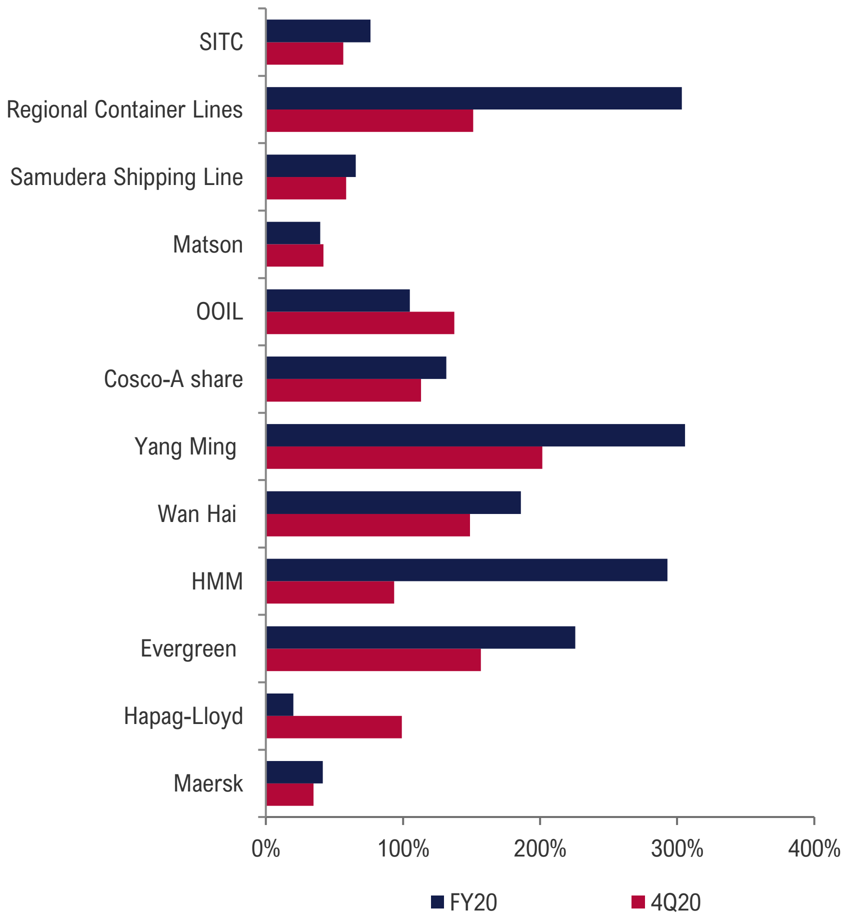
Summary

- **Container shipping:** The year 2020 was full of highs and lows for liner operators marked by a significant swing in fortunes. While carriers struggled in the first half not knowing how to deal with COVID-19 led downturn, in the second half, carrier conditions were boosted by sustained capacity discipline. By the end of the year, the idle capacity as a percent of the total fleet was down to 3.2% - a significant fall from 9.8% in June, reflecting the intense demand for tonnage. A key takeaway for carriers from last year is the lesson that it is more profitable to curb capacity than add capacity, which has been the norm over the last 15-20 years. Meanwhile, spot freight rates went through the roof which was mirrored by stock prices. Ironically, despite the fears of a market collapse due to the pandemic, the year concluded with a significant increase in ordering activity.
- **Port and terminal operators:** Despite recording third consecutive quarter of increase (4Q20: 18%, 3Q20: 4%, 2Q20 14% and 1Q20: -38%), port sector average return was unable to recover the loss it incurred during 1Q20 meltdown, ending the yearly return in negative territory (2020: -16%). Since the second quarter of 2020, both central bankers and governments around the world made synchronized efforts to uplift investor's confidence. The positive effects of which was clearly visible in later quarters. Even-though lower interest rates and vaccine rollout are currently supporting the rich equity valuations, higher consumer confidence along with the influx of liquidity can quickly bring back the inflationary pressures, requiring substantial uptick in corporate earnings to support the current up-move.
- **Dry bulk shipping:** Dy bulk shipping has seen a strong comeback after a dip due to the COVID-19 outbreak. The recovery was further fuelled by the recent surge in the demand for commodities after the stimulus package from various economies came into play. Furthermore, the ongoing winter has boosted heating demand in China, in turn, increasing coal imports from Indonesia and Russia. Moreover, due to the cold weather, energy demand has also strengthened in other Far Eastern countries and Europe. This, in tandem with multi-year high LNG spot prices, will be positive for non-coking coal imports. Hence, we expect the coming months to be of consolidation for shipping rates and stock prices.
- **LNG shipping:** DMFR LNG shipping index surged 29.3% in 4Q20 on account of robust spot LNG shipping rates. LNG shipping companies' stocks with spot exposure have gained the most, with Golar LNG increasing 59.1% and Flex LNG 52.5%. LNG spot shipping freight rates surged due to the cold snap in Asia, congestion in the Panama Canal and lower availability of LNG vessels in the spot market. DMFR LNG index declined 19% in 2020, with Nakilat being the only stock which recorded positive returns (up 39.5%).
- **LPG shipping:** VLGC freight rates were volatile in FY20, but moved up in 4Q20. Despite the holiday season in December, fixtures remained steady from the US and the Middle East, with fixing window getting extended to February. The congestion at the Panama Canal, wide US-Asia propane arbitrage and strong LPG demand in Europe and Asia are expected to further strengthen shipping rates in the second half of January, following which, we may see some consolidation.
- **Crude tanker shipping:** The three major indices – S&P 500, DJIA and Nasdaq Composite – surged 12.4% QoQ on average in 4Q20 with positive news on vaccine availability, giving hope that COVID-19 will finally be contained. However, stocks of crude tanker shipping companies in our portfolio declined 4.1% over the same period as unusually weak earnings across vessel classes kept these stocks under pressure. Ample tonnage availability, weak oil demand coupled with increased restrictions in several European countries led to a sharp decline in TCE rates of crude carriers. For instance, average VLCC earnings on Middle East-China (TD3C) in 4Q20 plunged 96.5% to ~USD 10,300pd from a record high of ~USD 250,000pd seen in mid-March. TCE rates on major trading routes are expected to slide further across vessel classes, weakening crude tanker stock earnings in 1H21.
- **Product tanker shipping:** DMFR product tanker index moved up 5.9% in 4Q20 as spot rates strengthened on the key trading routes amid seasonal demand. Second-hand asset prices of MR vessels remained flat over the same period as the uptrend in day rates arrested the decline in asset prices. However, the index plunged 53.5% YoY in 2020 as the fall in TCE rates across vessel class has substantially eroded the market capitalisation of product tanker companies. Meanwhile, the rollout of vaccines provides hope of potential recovery, but the product tanker market is expected to remain under pressure in 1H21.

Container shipping

2020 lessons: it's more profitable to control than add capacity

Price performance



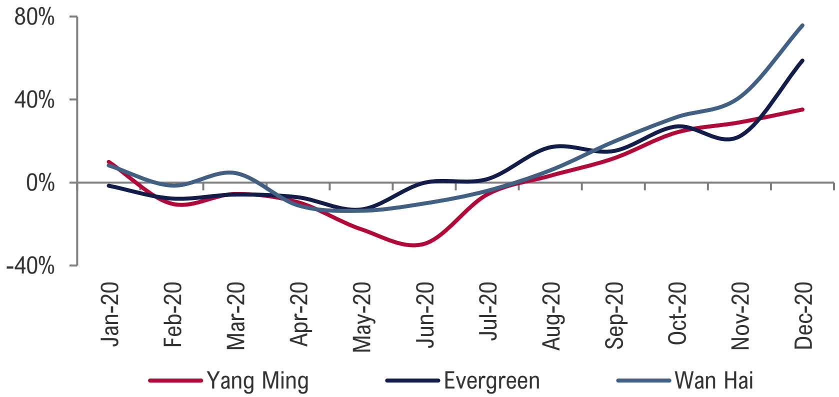
Source: WSJ, DMFR, note – share prices as on 31 December 2020

- Most people will be glad to see an end to 2020, but container shipping lines might look back fondly to a year in which all the important metrics such as freight rates, profitability and share prices have taken off vertically.
- The container shipping companies, especially since mid-2020 started turning the tide and reported profits defying expectations. This reflected in the positive stock performances which further gained momentum when positive news surrounding COVID-19 vaccine started doing the rounds in November. In addition, container freight rates continued to shoot up like never before creating an unprecedented trend. The rate increases, during a traditionally known slack period, has had an instant uplifting effect on carrier share prices. As such the valuations of container shipping companies have reached multi-year highs. The average share price return of the 12 selected operators for full year 2020 was 149%. That the stocks further gained 10% by 14 January 2021 speaks volumes about the strength of the market.
- A.P. Moller-Maersk (APMM)'s COO, Vincent Clerc, believes he does not see a big change in demand, even with new lockdowns in Europe and the current high container demand will continue at least for some weeks. The strength in demand and freights have resulted in the stock posting a gain of 41% in FY20 out of which 35% came in just 4Q20. As of 14 January 2021, the stock has breached DKK 15,000 mark, a first since 2015. Meanwhile, besides making repayments of USD 1.2bn towards debt and lease liabilities in 3Q, the group is using its excess cash by launching a new share buy-back programme of DKK 10bn (USD 1.6bn). The first USD 500mn tranche started in December and the remainder will be purchased over a 15-month period. While Maersk has no plans to invest in new ships it intends to invest in terminal automation and own more container boxes.
- Since peaking to an all-time high of EUR 186.6 on 15 May 2020, Hapag-Lloyd's (HL) stock price traded below EUR 100 until the end of the year and generated a modest full year return of 20%. But the stock has again surpassed the EUR 100 mark in the second week of January 2021. HL used a substantial part of its recent profit for the early redemption of bonds. The company spent EUR 150mn (USD 178mn) on acquiring, at a premium of 2.6%, 5.125% senior notes maturing in 2024. The debt was sold in July 2017. The company recently finalised its long-expected order for ships of 23,500 teu with DSME, the deliveries of which will be between April and December 2023. It is speculated that another six orders may follow later.

Container shipping

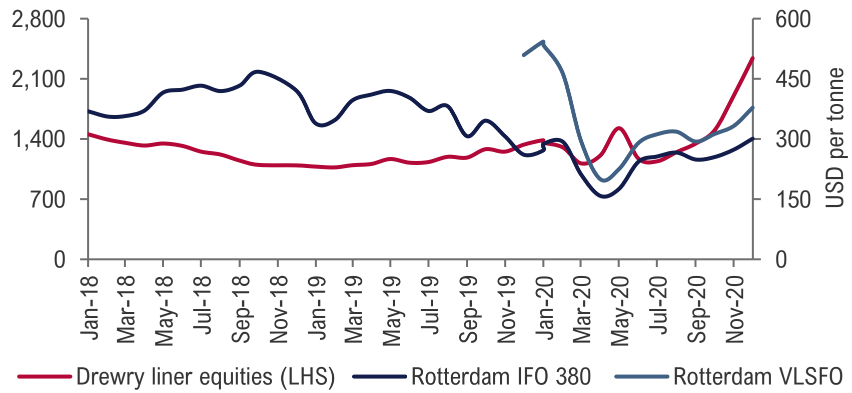
Container shipping stocks on the ascent

Taiwanese companies' monthly sales growth continue to rise



Source: MOPS, DMFR

Drewry liner equities vs bunker fuel prices



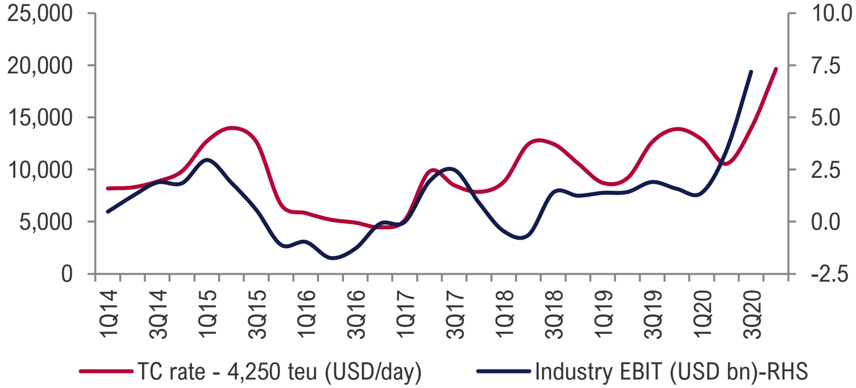
Source: Drewry Maritime Research, DMFR

- Cosco Shipping Holding's share price gained 132% in the 12 months ending 31 December 2020 and 113% in the last quarter. Cosco's subsidiary OOIL too registered gains of 105% and 137% in FY20 and 4Q20, respectively. The subsidiary ordered 7 x 23,000 teu ships from two Chinese yards in November at a total cost of USD 1.1bn, delivery of which is scheduled to start 3Q23. Separately, it registered a container shipping revenue growth of 51% YoY in 4Q20 to USD 2.4bn and 19% YoY for FY20 to USD 7.5bn. The shares of both Cosco and OOIL had further gained 26% and 35%, respectively until 14 January 2021.
- Yang Ming's revenue grew 24% and 25% YoY in the months of October and November last year, the highest in the previous months. The company recently has formed a joint venture with NAXCo Group to represent it in France. The new company, which started operations on 1 January, is styled Yang Ming (France) S.A.S. The stock grew more than 4x by end of 2020 from a year ago to NTD 29.25 generating 306% in FY20 and 202% in 4Q20.
- On the other hand, the board of Wan Hai has approved a USD 360mn budget to buy second hand tonnage. Wan Hai's shares were up 186% last year and 149% in 4Q20. Wan Hai's monthly revenue for December grew 76% YoY followed by 41% in November and 31% in October.
- Evergreen posted a robust monthly revenue growth of 59% YoY in December 2020. This was followed by 27% and 22% growths registered in October and November, respectively. All this augurs well for its upcoming full year 2020 results. The stock, too, registered a jump of 226% and 157% in FY20 and 4Q20, respectively. Reportedly, Evergreen through its subsidiary Green compass Marine, is currently in talks with an unnamed third party for the sale and leaseback of two 24,000 teu box ships. The company has already ordered a total of 10 large ships at China's Jiangnan Shipyard and Hudong Zhonghua, as well as South Korea's Samsung Heavy Industries.
- In his new year message to staff, HMM CEO Jae Hoon Bae has advised the carrier not to limit itself to the liner sector, but develop its interest in logistics sector for a better future. If the plan goes ahead then the company will be competing with the likes of Maersk and CMA CGM. HMM's stock surged 293% in 2020 and had gained further 9% by 14 January 2021 to KRW 15,200, something unseen since 2016. The stock surge is mirroring its solid financial results; HMM reported two consecutive quarterly profits of USD 23mn in 2Q20 and USD 21mn in 3Q20. The group will spend KRW 229mn (USD 20.6mn) on the purchase of 43,000 dry containers and 1,200 reefer boxes; delivery is scheduled for 1H21.

Container shipping

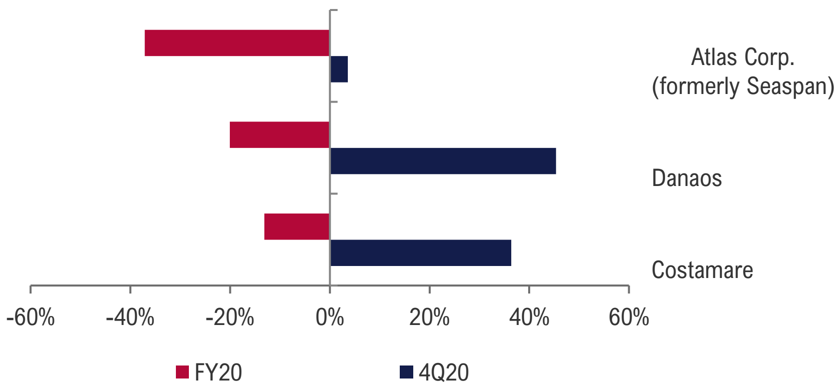
Non-operating owners' stocks generate positive returns in 4Q20

Liner industry EBIT has high correlation with Panamax TC rates



Source: Drewry Maritime Research, DMFR

Non-operating owners: price performance



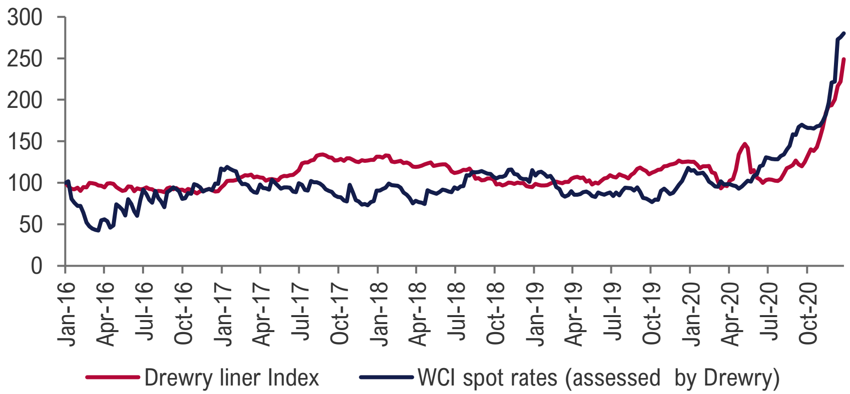
Source: WSJ, DMFR, note – share prices as on 31 December 2020

- CMA CGM, besides issuing bonds worth EUR 525mn, prepaid its outstanding bonds due to mature in 2021. In addition, and in line with its debt reduction strategy, the group will prepay USD 750mn of various debts in the coming weeks. These include the NOL (now CMA CGM Asia Pacific Limited) notes due to mature in 2021. Meanwhile, its subsidiary, CEVA Logistics has continued its strategic African expansion with an investment in a Moroccan freight forwarder named as the ASTI Group. According to CEVA, deal would expand its range of export capabilities, specifically reefer services and contract logistics activities. The takeover is CEVA's third investment in Africa in recent months. In December, the forwarder announced that it had taken a majority stake in Egypt-based IBA Freight Services and a minority stake in MACCFA, which is based in Ethiopia. And, in the summer CEVA announced it had acquired a controlling shareholding in third-party logistics provider AMI Worldwide, which has a presence in 12 countries in east and southern Africa through its brands AMI and Manica.
- Taking advantage of the improved container shipping market, aiming to raise USD 100mn, ZIM has filed for an initial public offering (IPO) and a New York Stock Exchange listing. It is the company's fourth attempt to list, after failures in 2008, 2011 and 2016. ZIM's current principal shareholders are: Kenon Holding (32%), Deutsche Bank (16.7%), Danaos Corporation (10.2%), whilst the state of Israel has a golden share, which gives it vetoing power on certain aspects.
- Elsewhere, the demand for tonnage continued through December and into 2021, despite some concern that the Golden Week holidays in China would have a negative impact. The sentiment for the largest tonnage remained strong with, in particular, tonnage in Asia seeing significant demand. The strong rebound in fortunes, notwithstanding the average stock returns for the three non-operating owners – Atlas Corp. (previously Seaspan), Costamare and Danaos – were in the red, by 23% collectively over the 12-month period ending 31 December. However, the three stocks together posted a gain of 28% in 4Q20. Meanwhile, Seaspan, now a subsidiary of Atlas Corp, has placed an order for five ships of 12,200 teu at an undisclosed shipyard. The company reports that the charters will bring in approximately USD 910mn of contracted cash flows over the period, which would translate into a charter rate of USD 27,700 per day. On the other hand, Costamare, too, is considering placing an order for six vessels of 15,000 teu capacity. Separately, it is widely speculated that Danaos, ZIM's third largest shareholder with 10.2% stake could look to exit ZIM once the shares are listed.

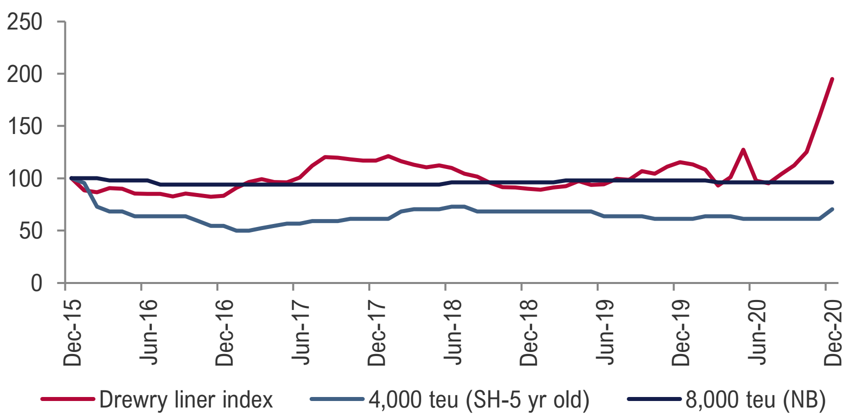
Container shipping

Good run continues for freight rates and asset prices

Drewry liner equity index vs WCI spot rates



Drewry liner index vs asset prices (New build and Second hand)



Source: World Container Index (WCI) assessed by Drewry

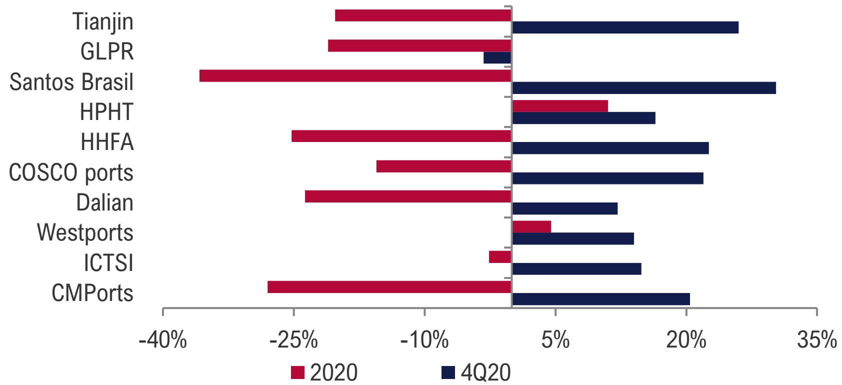
Container asset prices and freight rate

- Container spot freight rates continued its surge further into the new year 2021, led by both Asia-Europe and Asia-US trade routes but rates to the Europe saw a greater increase than those to the US. These high rates have made shippers and forwarders uncomfortable, so much so that they have lodged complaints with regulators in China, Europe and the US who in turn have raised questions over the performance and practices of container lines. As of 14 January 2021, the World Container Index (WCI), a composite spot rate index comprising eight major trade routes, assessed by Drewry, was up 194% year-on-year at USD 5,238, highest recorded till date. Also, during the same period, Shanghai-Rotterdam and Shanghai-Genoa trades, each reported rate of over USD 8,000 per feu for the first time. Alongside the high rates are a severe shortage of equipment and delays at ports and in inland distribution, all of which are causing additional costs.
- Container freights may remain elevated, if not at record levels, at least through the first quarter of 2021 as demand is expected to grow till the Chinese New Year. Some retailers are ordering in advance for upcoming spring and summer merchandise early in order to avoid delays while demand for household items looks well-placed to continue on the back of the recent US government approval of a stimulus package.
- With rates increasing manifold for container ships, there was a knock-on effect on ship valuations. Valuations for five-year-old container ships – 3,500-teu and 4,000 teu units – recovered from their historic lows in June 2020, increasing in value by 26.1% and 14.8%, respectively in December 2020. As the cash flows are so strong at the moment and can be locked for a minimum of 12 months in most cases, the prices for older and younger ships are converging, as keeping OPEX aside, the older ships currently generate the same cash flow as younger ones.
- Due to the coronavirus crisis, the fuel oil prices in 2020 were very volatile. Starting the year at USD 600 per ton, VLSFO was twice as expensive as HFO. This difference, however, narrowed to less than USD 50 per ton when the effects of the crisis kicked in and the price of VLSFO dropped to below USD 200 per ton. With prices inching up in the course of the year, VLSFO reached USD 381 per ton in December, growing the price gap to approximately 80 USD per ton. This is just a fraction of what carriers accounted for when they made the decision whether or not to install scrubbers. However, as oil prices head north again driven by Saudi Arabia's pledge to cut output, we see further increase in freight rates. At the same time carriers such Evergreen Marine and MSC with high investments in scrubbers will stand to benefit.

Ports and Terminals operators

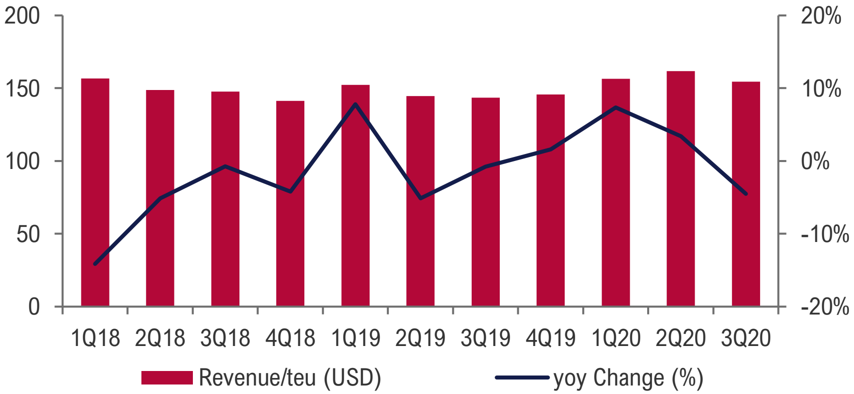
2020 witnessed tectonic shift in sentiments from extreme despair to heightened optimism

Price performance



*Note: *Data as on 31 December 2020*
Source: WSJ

Revenue per teu (USD)



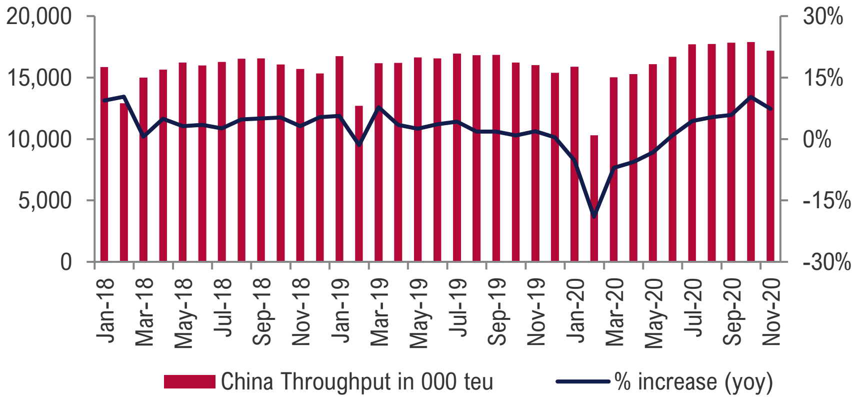
**Sample include Dalian, HHLA, ICT, Santos and Westports*
Source: DMFR

- Supportive fiscal and monetary policies remain the central theme. Following the pandemic-led meltdown in 1Q20 in the global financial markets, governments and central banks around the world coordinated well to mitigate the crisis. On the one hand, central banks resorted to loose monetary policies (opening the liquidity tap) while on the other side governments resorted to large fiscal firepower to propel their respective economies. These measures helped induce the much-needed optimism in the equity markets and allowed the bulls to dominate the financial streets yet again.
- The market sentiment has switched from extreme despair in March 2020 to optimism as we move into 2021. Even though lower interest rates and vaccine rollouts are the main reasons for the surge in equity valuations, the influx of liquidity can quickly bring back inflationary pressures. Under such a scenario, sustained up-move will require a substantial uptick in corporate earnings.
- The port sector has also joined the recent rally with Dewry's port portfolio posting positive returns (4Q20: 18% vs 3Q20: 4%, 2Q20: 14% and 1Q20: -38%) for the third consecutive month. Despite this strong up-move, the sector valuation is below the levels seen at the starting of 2020 (YTD: -16%). Apart from Hutchison Ports and Westports, all other stocks in our portfolio ended 2020 with negative returns.
- Hongkong Seaport Alliance (HKSPA), of which Hutchison Port Holding Trust is a member, is currently benefitting from its higher cold chain capabilities. The alliance has deployed more than 7,800 reefer points, twice the capacity of other terminals in South China. At present the alliance's terminals manage more than USD 3tr of fresh fruits annually, of which 60% are re-transported to Mainland China. With fruit imports into the Mainland forecast to grow 55% by 2025, the potential seems significant. Hutchison Port Holding Trust's share price jumped 16% in 4Q20 after recording a high return of 71% in 3Q20. For full-year 2020, the stock was up 11%, the highest gains among companies under our coverage.
- Westports reported robust 3Q20 numbers. The company's consolidated revenues jumped 23% (QoQ) and 15% (YoY) in the third quarter, led by a 24% (QoQ) and 11% (YoY) surge in its container segment revenues (88% to the consolidated top line). Container throughput increased 29% (QoQ) and 6% (YoY) mainly led by the growth in gateway and transhipment traffic. Operating cost on the other hand increased 4% (QoQ) and declined 5% (YoY), resulting in a 38% (QoQ) and 21% (YoY) increase in EBITDA. Margins increased to 70.7% (vs 63.5% in 3Q19 and 63.2% in 2Q20). The company's share price gained 15% in 4Q20 and 5% in 2020.

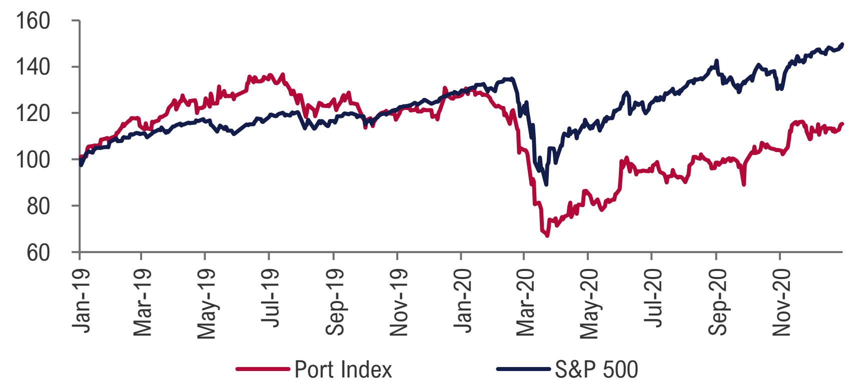
Ports and Terminals operators

Optimism around vaccine rollout fuelled the current stock valuation upsurge

Volumes of major Chinese ports (% YoY)



S&P 500 vs Drewry's port Index



** Drewry's port index is an equal weighted index of 10 port stock covered by Drewry*
*** Both indices are indexed to 100 at 01-Jan-2019*
Source: DMFR, WSJ

- On 14 December 2020, International Container Terminal Services Inc. (ICTSI) announced that it has raised PHP 4.7bn (USD 97mn) from the sale of 40mn treasury shares to partly fund its capex and acquisitions. The treasury shares were issued at a 3.9% discount to the closing share price of the same date. The offering was oversubscribed by both foreign and local institutional investors. This also marked ICTSI's first equity follow-on offering since 2013. With USD 800mn raised in senior debt (USD 400mn in June 2020), hybrid equity (USD 300mn in July 2020) and common shares, ICTSI stated that with the start of 2021, it will increasingly focus on organic and inorganic growth over the next five years. The company's share price increased for the third consecutive quarter (4Q20: 15%, 3Q20: 7% and 2Q20: 37%) recouping most losses it incurred during the pandemic-led fire sale in 1Q20 (YTD: -3%).

- The stock of Santos Brasil showed high volatility throughout 2020. It declined steeply (45%) in 1Q20 before surging 25% in 2Q20 and thereafter dipping 27% in 3Q20 before gaining 30% in 4Q20. Cumulatively, on YTD basis, it posted negative return of 36% in 2020. In 3Q20, the company posted a 11.9% decline in its net revenue, representing a slump in performance across business segments. Port Terminals (71% of top line) declined 10.5%, Logistics (25% of top line) fell 13.3% and Vehical terminal (4% of top line) slumped 22%. Adjusted EBITDA declined 29.5% translating into a margin reduction of 5.2 percentage points to 21.1% (vs 26.3% in 3Q20).

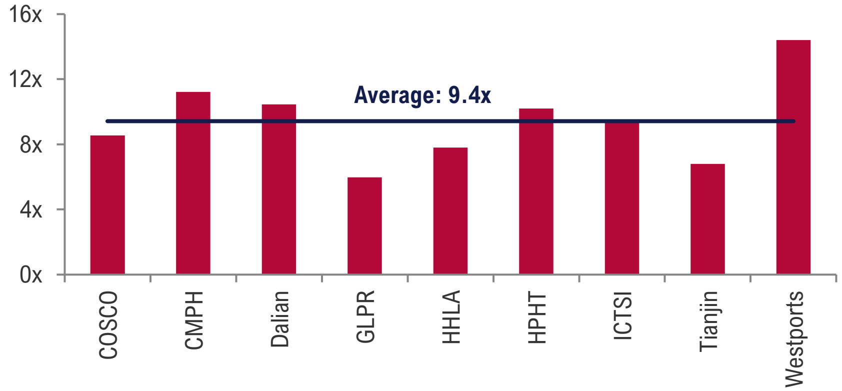
- Global Ports Investments PLC (GLPR) recently announced that its 100% subsidiary Vostochnaya Stevedoring Limited Liability Company (VSC) has successfully priced RUB 5bn (USD 67mn) non-convertible interest-bearing bonds for a 5-year term with a fixed coupon rate of 6.55% per annum. The company said that the proceeds from the issuance will be used to refinance existing debt, mainly with the aim to lower the interest expense. The company stock price declined in 4Q20 (-3%) as well as in full-year 2020 (-21%).

- Recently DP World Dakar, a joint venture between DP World and the Port Authority of Dakar, has signed a deal with the government of Senegal to develop 300 ha Port du Futur at Bargny, 20 km to the east of its current terminal. The total investment will be USD 1.13bn, of which USD 837mn is for the first phase. Earlier in 2020, DPW decided to delist from Nasdaq Dubai.

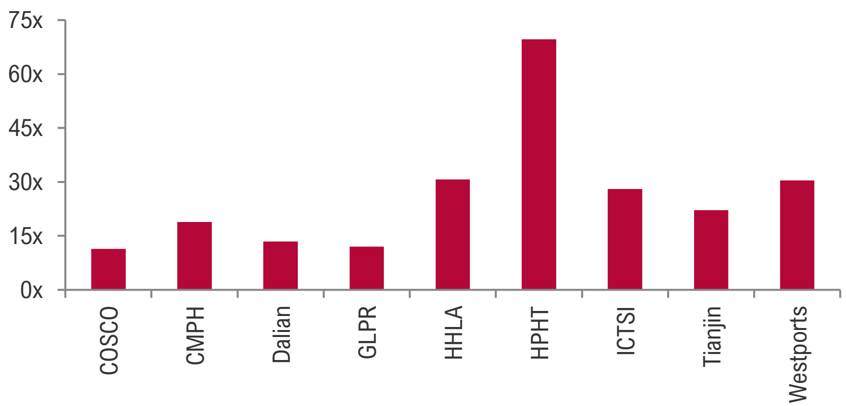
Ports and Terminals operators

Stocks surged in 4Q20 but unable to cover the lost ground, ending 2020 in negative territory

Enterprise value / LTM EBITDA Multiple



Price / LTM Normalised Earnings



Note: Values as on 31 December 2020
Source: Drewry Maritime Financial Research

- COSCO SHIPPING Ports' (CSPL) November throughput (excluding QPI) grew 2% YoY. Excluding the disposed assets of Yangzhou Yuanyang, Zhangjiagang Win Hanverky and Nanjing Longtan Terminals, CSPL's throughput increased 6.3% YoY mainly led by the 6.9% and 4.9% increase in the company's Greater China and overseas portfolios, respectively. On YTD basis, the throughput is still down 1.1% when compared with the last year (1Q20: -5.7%, 2Q20: -3.2%, 3Q20: +2.7%). The company's stock increased 22% in 4Q20 but remained 16% below the figure recorded at the beginning of 2020.

- HHLA reported an 8.1% YTD decline in revenue in 3Q20 mirroring the drop of its largest subgroup – Port Logistics, which also reported a revenue decline of 8.1% to EUR 937.4 mn (USD 1.2bn) in 3Q20 YTD. Consequentially, EBITDA fell 22.1% to EUR 215.9 mn (USD 265mn) translating into a 4.2 percentage point drop in margin to 23%. In the Container segment, the throughput dropped 11.2% to 5 mteu. While throughput volume at the three Hamburg container terminals was down in double digits (11.8% YoY), the container terminals in Odessa and Tallinn recorded a moderate decline of 5% each. Real estate subgroup on the other hand witnessed a decline of 5.7% to EUR 28.2mn (USD 35mn). EBITDA declined 13.3% to EUR 15.6mn (USD 19mn) resulting in a 4.9% percentage point drop in the margin to 55.2%. Recently the company acquired a 50.01% stake in the multi-function terminal "Piattaforma Logistica Trieste". This will be HHLA's third participation in a port outside Hamburg after Odessa (Ukraine) and Tallinn (Estonia). The company stock jumped 23% in 4Q20 but lagged 25% from the level on 1 January 2020.

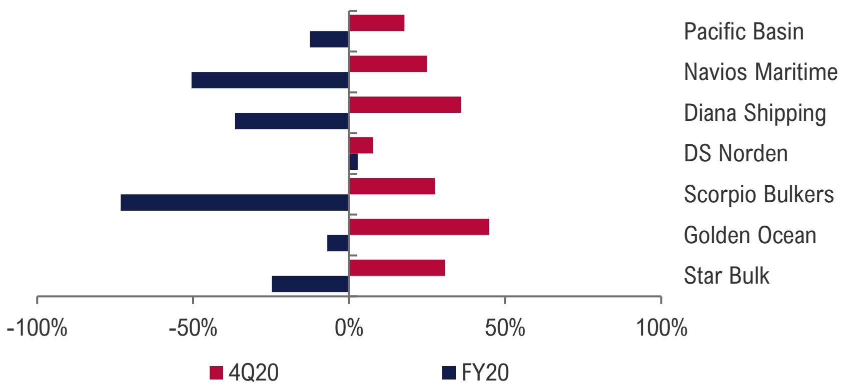
- Recently, Dalian port's proposal to merge Yingkou Port Liability Co has been approved by the stock market regulators. Also, the company plans to change its name to Liaoning Port Co reflecting its new role in promoting port integration in northern China's Liaoning province. Dalian port is now controlled by China Merchants Group, after an agreement was signed between the state conglomerate and the provincial authority to consolidate the local port industry. Its stock price jumped 12% in 4Q20 but crashed 24% in 2020.

- On 15 December 2020, Tianjin port development holding company increased its stake in Haifeng Logistics (a warehousing and logistics business) from 51% to 100%. The stock price jumped 26% in 4Q20 but still generated negative returns of 20% in 2020.

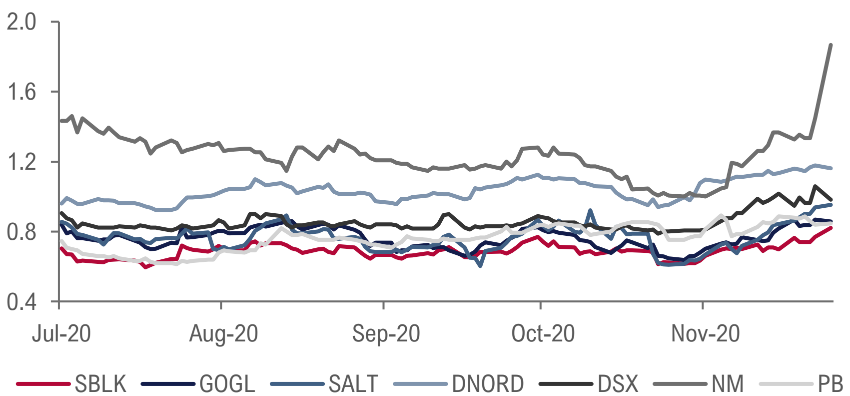
Dry bulk shipping

Dry bulk stocks start the year on a high

Price performance



Stock price to NAV



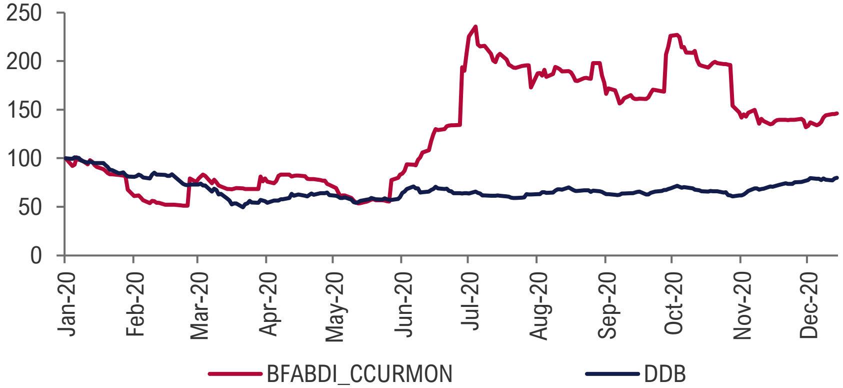
Source: WSJ, Baltic exchange, DMFR, Drewry Maritime Research, as of 31 December 2020
DDB Index is an equally-weighted index comprising of SBLK, GOGL, SALT, DSX, DNORD, NM, 2343:HK.

- The stock of Star Bulk Carriers Corp. (SBLK), the largest operator under our coverage, lost 24.6% market cap in FY20 after the pandemic took its toll. However, we saw a massive comeback in 4Q20 as the stock gained 30%. This gain can be attributed to the expanding fleet and higher freight rates, especially for larger vessels, owing to the robust shipping demand after the Chinese stimulus package was declared. On 17 December 2020, SBLK announced its agreement to acquire three capsize vessels, which will be delivered in February 2021. Post this acquisition, SBLK will operate a fleet of 119 vessels with a total capacity of 3.4 million dwt.
- Golden Ocean (GOGL), a company known for limiting its downside exposure through diversification, outperformed its peers under our coverage with a massive 45% gain in the stock price in 4Q20, bringing its FY20 losses down to just a little over 7%. One of the key driving factors for GOGL's remarkable stock performance, apart from its operational efficiency, has been the recent stock option purchases by two unknown buyers. Post these two deals, which resulted in the selling of 150,000 options, GOGL's treasury shares came down to 845,000. The sale of the shares boosted GOGL's liquidity at the end of the year, where most operators were burning cash, which increased the demand for GOGL's shares.
- DS Norden (DNORD) was the only stock that saw a positive FY20 in terms of stock prices, gaining 2.7% in FY20 after adding 7.7% to investors' wealth in 4Q20. This performance was due to diversification in the product tanker shipping sector. The recent surge in the dry bulk spot market has led the operator to revise the full-year guidance to USD 70-100mn up from USD 40-80mn as the dry operator segment is expected to have the best year since its creation in FY18. DNORD launched a Handysize service in the Pacific out of Singapore in November, expanding its fleet beyond Panamaxes and Supramaxes. Also, the sale of two tanker vessels in December may indicate that DNORD is shifting its focus on the dry cargo, especially, smaller dry cargo.
- Pacific Basin (2343:HK), the stock known for its stability, registered a loss of 12% in FY20, the losses being narrowed post gaining 17% in 4Q20. Pacific Basin stated in a press release in November that the company plans to resume its vessel acquisition spree. Following the press release, on 27 November, the company acquired four 2015-built Ultramax vessels. The company intends to acquire more Supramax and Ultramax vessels while it will sell its Handysize vessels. Interestingly, Pacific Basin funded the deal with cash reserves, unlike its previous acquisitions that involved substantial share offering. This indicates a strong liquidity position after the Chinese trade pushed the recovery of the entire dry bulk shipping sector.

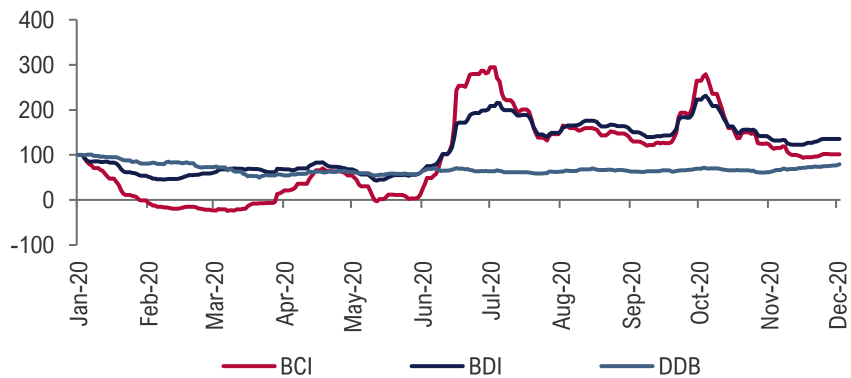
Dry bulk shipping

Dry bulk stocks start the year on a high

Current month Baltic FFA contracts vs Drewry Dry Bulk (DDB) stock index



Baltic indices vs Drewry Dry Bulk stock index



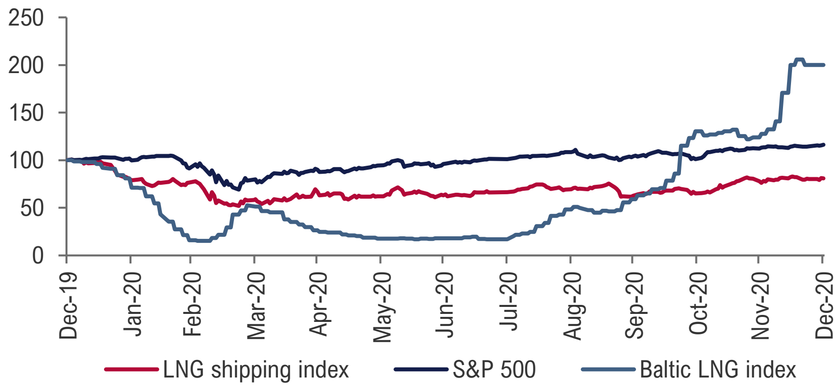
Source: WSJ, Baltic exchange, DMFR, Drewry Maritime Research, as of 31 December 2020
Indexed to 100 as of 1 January 2020.
DDB Index is an equally-weighted index comprising of SBLK, GOGL, SALT, DSX, DNORD, NM, 2343:HK.

- Diana Shipping (DSX) lost more than 36% in FY20, even after gaining 35% in 4Q20. The long-term fixtures and refinancing at low LIBOR rates are likely to have a positive impact on the bottom line in the coming quarters and are yet to reflect in the stock performance. DSX has fixed six long-term charters since December (as of 15 January 2021) at relatively higher rates, given the surge in the spot market. To further aid the stock price, DSX commenced a self-tender offer to purchase up to 6,000,000 shares at USD 2 per share, which was a little higher than the stock price as on date (USD 1.96 per share on 15 December 2020), and after the jump in stock prices, on 12 January 2021, increased the offer to USD 2.50 per share. DSX closed trade on 12 January 2021 at USD 2.35. Therefore, we may see a further uptick in stock prices in the coming weeks.
- Scorpio Bulkers (SALT) or, Eneti Inc, as of 8 January 2021 has declared its intention of switching from the dry bulk shipping business to wind turbine installation business, after conducting an accelerated sale of its vessels in 2H20 and submitting a notice of termination to its partners and managers. The stock of SALT has bled the most in companies under our coverage, losing over 73% in FY20 despite gaining 27% in 4Q20. SALT is expected to take the delivery of its first wind turbine installation vessel in 2023.
- The highly volatile Navios Maritime Holdings (NM) also wiped out more than half of its investors' money in FY20 as the share lost just a little over 50% after gaining 25% in 4Q20. Despite the losses, NM's stock price continues to trade at an average premium of 8% to NAV. NM joined the vessel-selling club in the first week of October, after selling two 2014-built vessels, owing to its widening losses and liquidity constraints. A substantial portion (USD 33mn of USD 51mn) from the proceeds was used to settle its maturing debt. NM continues its struggle to break even, reporting a loss of USD 25mn in 2Q20, up from USD 1.5mn in 2Q19. The outlook for NM's stock remains bleak, with the latest P/NAV at 1.12x as of 12 January 2021.
- The Baltic FFA curve seems to have entered the consolidation state in the last week of December, whereas the Baltic spot indices have continued to gain in the first two weeks of January. This trend shows that the dry bulk spot market may enter the consolidation phase as we move deeper into 1Q21. Fundamentally, this trend checks out, as one of the key drivers of this rally has been the recent surge in the coal demand due to an extended winter, which may not last beyond January. However, demand for other dry bulk commodities will persist as various fiscal stimulus measures will continue by major global governments in response to the pandemic.

LNG shipping

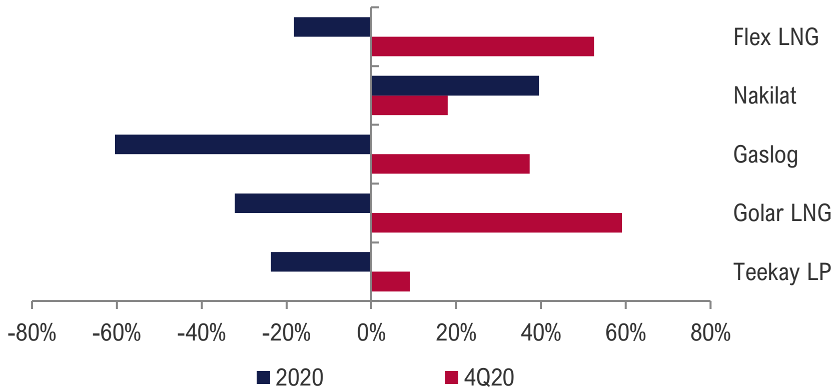
LNG shipping stocks surge due to the buoyant spot market

Drewry LNG shipping index vs S&P 500 and Baltic LNG index



Source: Baltic, DMFR, Note – LNG shipping index includes Gaslog, Golar LNG, Teekay LNG, Flex LNG and Nakilat, Indexed as of 31 December 2019. Priced as of 31 December 2020

LNG stocks' performance – 4Q20 and 2020



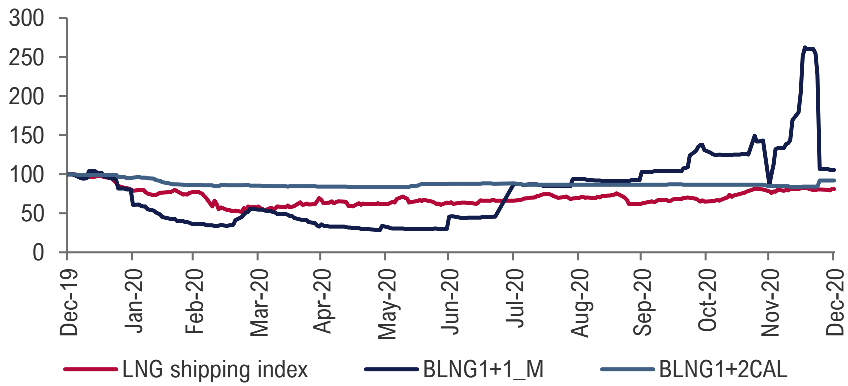
Source: DMFR, various exchanges, Note – priced as of 31 December 2020

- LNG shipping stocks have reacted positively to the buoyant freight rates in 4Q20 taking the DMFR LNG shipping index higher by 29.3% in 4Q20 – Golar LNG increased 59.1%, Flex LNG 52.5% and Gaslog 37.3%. However, while the Baltic LNG index outperformed the DMFR LNG index, growing 238.1% during the same period, S&P 500 underperformed with growth of 11.7%. LNG spot shipping freight rates have surged since November 2020 on account of the cold snap in Asia, congestion in the Panama Canal and few LNG ships available in the spot market. Increased LNG spot buying by Japan, China and South Korea following severe winter has led to higher demand for LNG vessels.
- In January 2021 (as of 13 Jan), LNG shipping stock prices and spot LNG shipping rates have continued to strengthen. LNG prices have rallied due to colder-than-expected winter in Asia and Europe, supply outages and low spot availability of LNG cargos. Higher arbitrage between Asian and US LNG prices has promoted the long-haul trade with the spread increasing to USD 18 per MMBtu in January 2021 from USD 5 per MMBtu in October 2020. Electricity demand for heating has jumped in Japan due to the extremely low temperature, drawing down the thermal generation of fuels, especially LNG. In Beijing, the temperature has plunged to the lowest level since 1966 driving more LNG demand for heating.
- The DMFR LNG index declined 19% in 2020 as global LNG demand was adversely impacted by the pandemic. Nakilat was the best performing LNG shipping stock with returns of 39.5% which benefited from the strong revenue backlog and fixed charter of all of its 29 wholly owned vessels. Share prices of LNG shipping companies with exposure to the spot market were impacted the most. Gaslog's share price declined 60.4% in 2020 with increasing spot exposure as more of the company's vessels came off-charter while Golar LNG's declined by 32.2%. The Baltic LNG index (up 100.1%) outperformed the DMFR LNG shipping index as LNG equity investors awaited more signs of recovery.

LNG shipping

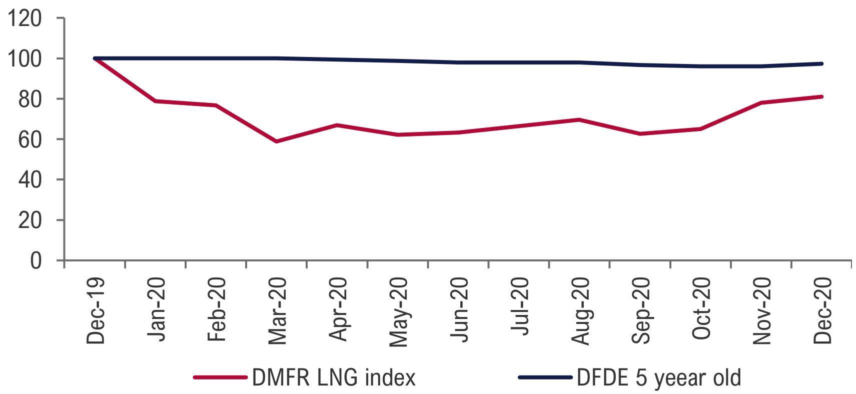
Golar LNG plans to exit utility business

LNG FFA vs DMFR LNG equity index



Source: DMFR, Drewry Maritime Research, Note – Indexed as of 31 December 2019, priced as of 31 December 2020

DMFR LNG equity index vs Second-hand asset prices



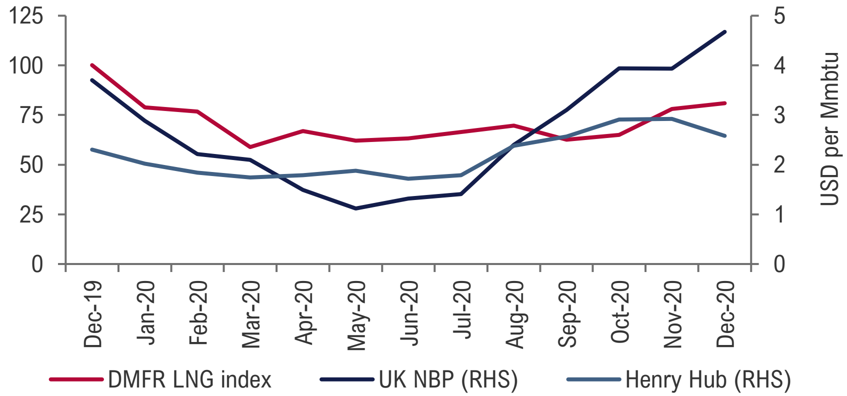
Source: DMFR, Drewry Maritime Research, Note - Indexed as of December 2019

- Golar LNG's stock price surged 59.1% in 4Q20 mainly driven by an increase in spot shipping rates, beef up of liquidity and termination of the class action against the company and its CEO. The company completed a follow-on offering of 11mn shares at USD 8.75 per share in December 2020. Also, the underwriters exercised an option to purchase an additional 1mn shares. The company plans to use the net proceeds to partially repay the term loan facility, to fully repay the margin loan facility and for general corporate purposes. The company stands to benefit from the ongoing strength in spot shipping rates as the majority of the company's fleet is on spot charter.
- On 13 January 2021, Golar LNG announced that along with Stonepeak Infrastructure it has entered into a definite agreement and plan of merger to sell 100% of Hygo Energy to New Fortress Energy (NFE) in a cash and stock deal. Golar LNG owns a 50% stake in Hygo Energy and the transaction values Hygo Energy at an enterprise value of USD 3.1bn. Also, NFE will acquire 100% of the common units and general partner units of Golar LNG Partners at USD 3.55 per unit (compared to USD 2.79 per share price on 12 January 2021). Golar LNG owned 30.8% stake in Golar LNG Partners. In 3Q20, Golar LNG's revenue declined 3.6% YoY to USD 95.2mn and the company's adjusted EBITDA declined 2.8% YoY to USD 57.3mn. The company reported an operating profit of USD 30.6mn compared with an operating loss of USD 13.7mn in 3Q19.
- Nakilat has been the best performing LNG shipping stock in 2020 having gained 39.5% with 18% gain in 4Q20. In January 2021, the company took delivery of a newbuild Global Star, the second of four newbuilds on the orderbook. According to different media reports, the company has chartered Global Star and Global Energy for one year at USD 50,000pd, which is in line with the prevailing short-term charter rates. The company has a revenue backlog of about USD 12bn which extends between 2032 and 2035. The company's stock was recently included in the MSCI Qatar index, which we believe will lead to more passive funds including this stock in their portfolio.
- Flex LNG stock has gained 52.5% in 4Q20. The company's 1Q21 results should benefit from surge in spot shipping rates given its high spot exposure. The company has eight of its vessels (from the total fleet of 11 vessels) trading in the spot market. The company has bought back 300,000 shares since announcing their share buyback program on 19 November 2020. The company reinstated its dividend of USD 0.10/ share back in 3Q20. The company's revenue increased 11.2% YoY to USD 33.1mn in 3Q20 mainly due to the delivery of three vessels. The company's operating income declined 20.4% YoY to USD 11.2mn.

LNG shipping

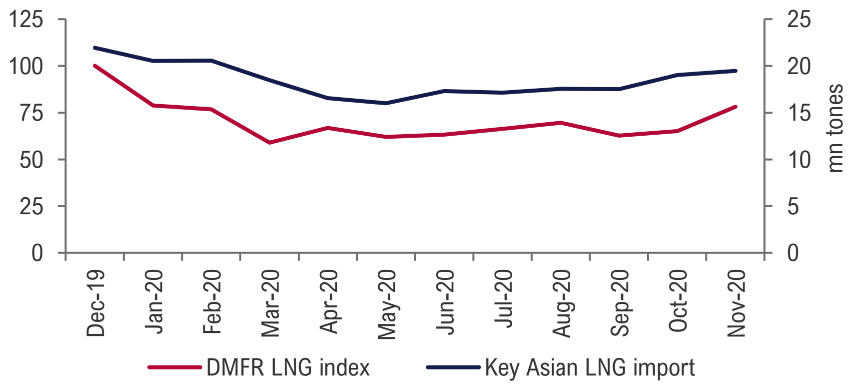
Severe winter demand drives Asian LNG import

DMFR LNG index vs. LNG spot prices



Source: DMFR, Drewry Maritime Research, Indexed as of 31 December 2019

DMFR LNG Index vs. Key Asian LNG import



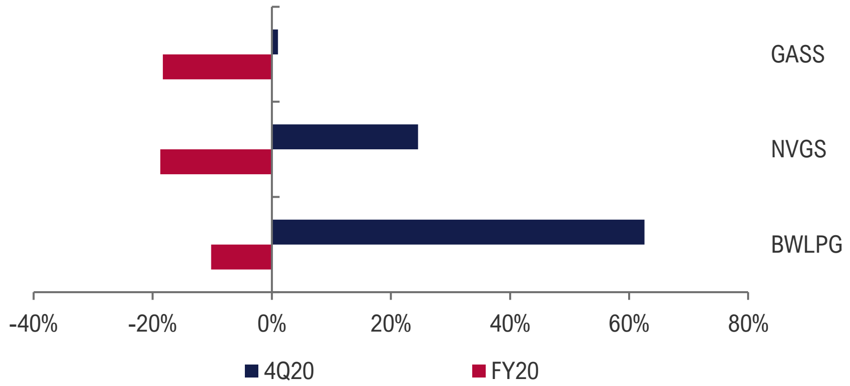
Source: DMFR, Drewry Maritime Research, Note – In Key Asian LNG import, LNG import of South Korea, Japan, China, India and Thailand has been included

- Gaslog LNG has eight vessels in the spot market (of the 31 vessels in its fleet) and stands to benefit from the present strengthening of the spot charter rates. In 3Q20, the company's revenue declined 5.3% YoY to USD 156.7mn and adjusted EBITDA declined 11.2% YoY to USD 102.1mn. The company's TCE on variable rate charters declined 48.3% YoY to USD 30,231pd due to the weak LNG market. Gaslog added four vessels to its fleet in 2020, and in January 2021, it has taken delivery of GasLog Galveston, which has started a long-term charter with Cheniere.
- Teekay LNG's stock price increased 9.1% in 4Q20, although it declined 23.7% in 2020. In 3Q20, the company's revenue declined 0.5% YoY to USD 148.9mn, while the company's total adjusted EBITDA increased 3.7% YoY to USD 186.9mn. The company has fixed 96% of its LNG revenue days in 2021.
- 1M LNG FFA (BLNG1+1_M) increased 2.3% and two calendar years' FFA (BLNG1+2CAL) increased 6.2% in 4Q20, much lower than the 29.3% increase in DMFR LNG index and 238.1% increase in the Baltic LNG index. We believe lower return in LNG FFAs suggest that the recent increase in spot LNG shipping freight rates is temporary.
- The DMFR LNG index has moved in tandem with increasing LNG prices. Higher Asian LNG prices have promoted arbitrage trade between the US and Asia. Asian spot prices rose in December owing to the spike in residential and industrial heating demand caused by the severe winter. Congestion at the Panama Canal squeezed prompt vessel availability while supply disruptions in the US, Norway, Nigeria and Australia propelled LNG prices. We expect spot LNG prices and shipping rates to remain firm in January.
- Equity prices have continued to react positively to the increasing Asian LNG trade. Asia's LNG imports were estimated at 27 million tonnes in December, rising 14.4% MoM. China's LNG imports for December were estimated at a record 9 million tonnes while Japan imported 8.1 million tonnes of LNG during the month. Meanwhile, European LNG imports have reduced MoM even as the storage withdrawal rate has increased. Higher Asian spot prices have resulted in cargos getting diverted from Europe to Asia.

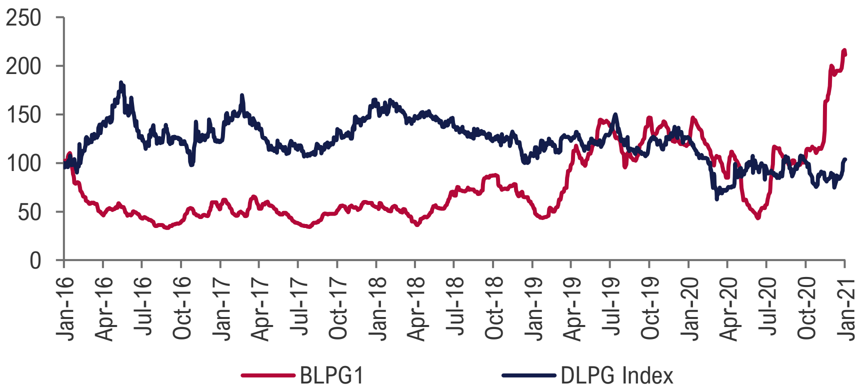
LPG shipping

Share prices recover after a surge in demand

Price performance



Benchmark vs Drewry LPG stock index



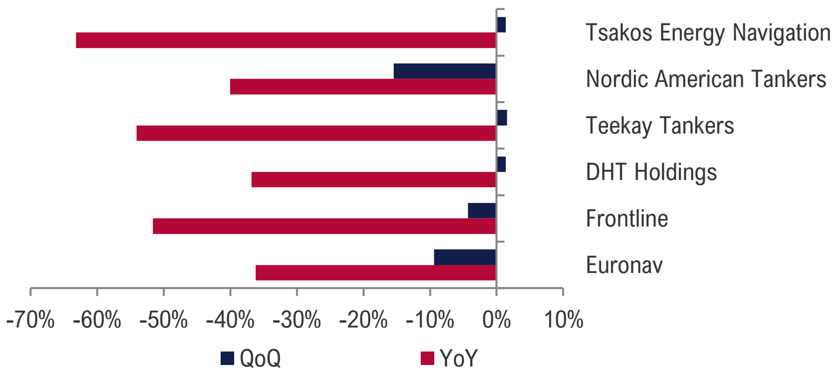
Source: WSJ, Baltic exchange, DMFR, Drewry Maritime Research, as of 12 January 2021
Indexed to 100 as of 15 January 2016.
DLPG is an equally weighted index comprising of BWLPG, NVGS and GASS.

- The stock of BW LPG (BWLPG) was the worst hit among LPG stocks, losing about 45% of its value in 9M20. However, VLGC spot rates improved drastically, and so did BWLPG's stock performance, registering a recovery of 63% in 4Q20. BWLPG has been working steadfastly to move to LPG dual-fuel propulsion. On 14 December 2020, the vessel BW Gemini completed the first-ever Transpacific voyage, following which the company committed to retrofitting three more vessels, bringing the total to 15 vessels with the dual-fuel technology. BW LPG has also engaged in the sale of two of its older vessels (13 and 14 years of age), with delivery scheduled in 1Q21. Following the sale, BW LPG will operate a total of 45 vessels. Given the VLGC rate expectations as we move further in 1Q21, the stock will further consolidate in the next couple of months.
- The stock of Navigator Holdings (NVGS) took the biggest hit in FY20, losing about 19% in the full year, despite gaining 25% in 4Q20. NVGS has only one debt maturity in 2021, thereby, easing off the pressure on the liquidity. The most notable update from NVGS is the sale of 39.1% equity interest, previously held by WL Ross, to BW Group. The transaction, which took place on 22 December 2020, provides BW Group with enough rights to choose two of its board members.
- Stealthgas (GASS) lost only about 18% in FY20, despite gaining just 1% in 4Q20. Our outlook on GASS remains strong, as it has continued to impress with a high fleet utilisation, owing to its mixed chartering strategy. Based on the last report (3Q20 results, released on 25 November), GASS already had over 33% charterers fixed for FY21. The operator is expected to report a 95%+ utilisation in FY21, a stable cash flow and stronger liquidity.
- Drewry LPG index (DLPG) and the benchmark Baltic LPG index (BLPG1) showed remarkably high correlation (0.72) in 9M20. However, the surge in the spot market in 4Q20 is yet to be seen in NVGS and GASS, and therefore, the stock index has fallen behind. The outlook remains bright for the LPG shipping companies in the coming months, especially as the surge in the shipping rates is yet to reflect in the stock prices of many operators.

Crude tanker shipping

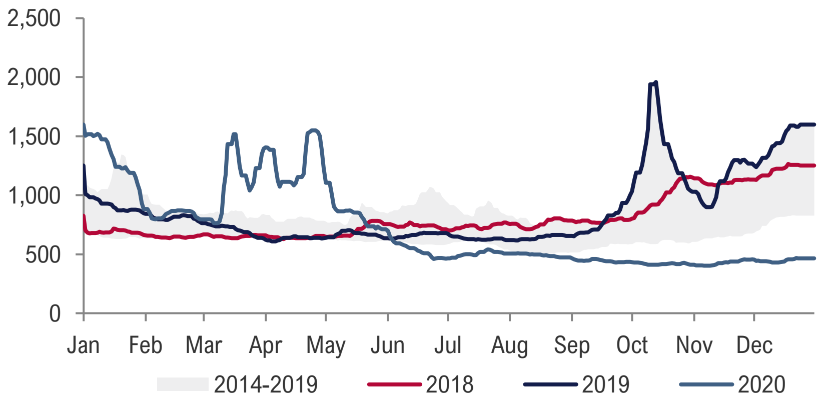
Weak day rates drag crude tanker shipping stocks in vaccine-driven bull market

Price performance



Note: Share prices as on 31 December 2020
Source: WSJ, DMFR

BDTI seasonality



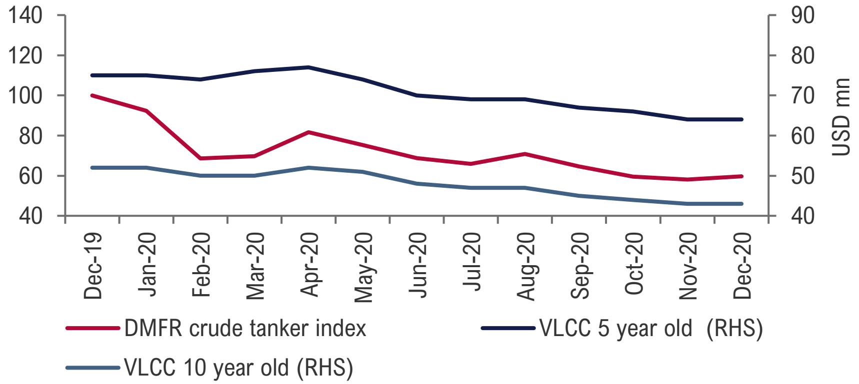
Source: Baltic Exchange, DMFR

- Euronav (EURN) acquired ~1.58mn of its shares in December at an average price of USD 8.23 per share as part of the company's capital allocation strategy and returns to shareholder policy. However, the stock price gain of 1.3% during the month is too little to arrest the declining trend due to weak demand and greater uncertainty because of COVID-19. Overall, the stock registered a drop of 9.4% in 4Q20 with value erosion of 36.2% in 2020. We expect the stock to remain under pressure in 1H21.
- Frontline's (FRO's) stock slide 4.3% QoQ in 4Q20, but its market cap plunged 51.6% in 2020 as FRO's earnings came under pressure with the sharp decline in TCE rates in the spot market in 2H20 coupled with the company's high exposure to the spot charter market. Unusually low vessel earnings in winter prevented any rally despite positive news on the vaccine front. As a result, the stock is expected to continue declining in 1H21.
- DHT Holdings' (DHT's) stocks inched up 1.4% QoQ in 4Q20 on the back of the company's balanced chartering strategy and improved VLCC day rates in spot market. However, shareholders saw value erosion of 36.8% in 2020 as VLCC day rates were substantially lower in December 2020 compared to their earnings a year ago. DHT has covered 79% of its 4Q20 total operating days at an average rate of USD 38,400pd, indicating a net profit for the quarter. However, the share prices may feel the heat in 1H21 due to weak shipping demand of crude tankers.
- Nordic American Tankers' (NAT's) stocks fell 15.5% QoQ and the market cap of the company plunged 40% in 2020 due to high spot market exposure and continued decline in TCE rates of Suezmaxes. Occasional share purchase by the board members in the past six months failed to arrest the slide in the company's share prices. The expected decline in earnings will squeeze dividend payouts, and NAT's stock prices will slide further at least in 1H21. NAT has entered into an agreement with Ocean Yield ASA to secure financing for its two newbuilding Suezmaxes with a commitment of 10-year bareboat charter for each vessel – a prudent move at a time when tanker earnings are expected to remain under pressure.
- Teekay Tankers (TNK) preferred debt repayment over dividend pay-out or share buyback and reduced its net debt by ~50% to USD 502mn and enhanced its liquidity to USD 470mn in 3Q20 from USD 95mn a year ago. TNK's stock moved up 1.6% QoQ with some seasonal firmness in 4Q20, but its market cap slumped 54.1% in 2020 as the earning potential of the company's fleet plunged substantially with the decline in TCE rates across vessel classes. Moreover, it seems that investors have penalised the company for not paying dividends when earnings were elevated in 1H20. We expect TNK's stock to slide further in 1H21 due to weak demand of crude tankers.

Crude tanker shipping

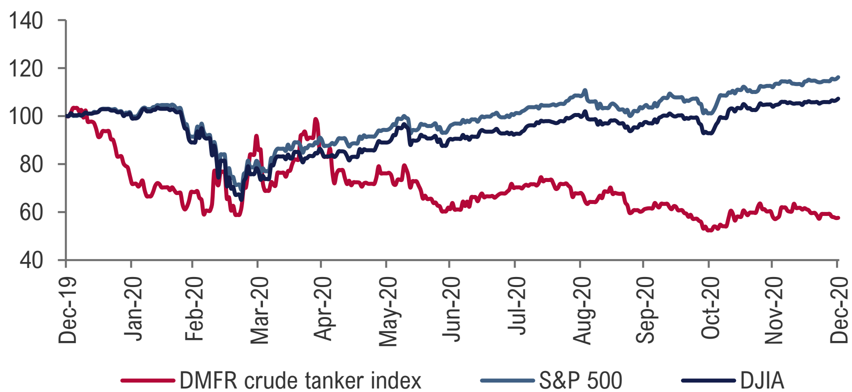
Surprise move of Saudi Arabia to support oil prices in a challenging market

Crude tanker index vs second-hand VLCC prices



Note: Indexed on 31 December 2019
Source: WSJ, DMFR

DMFR crude tanker index vs major indices



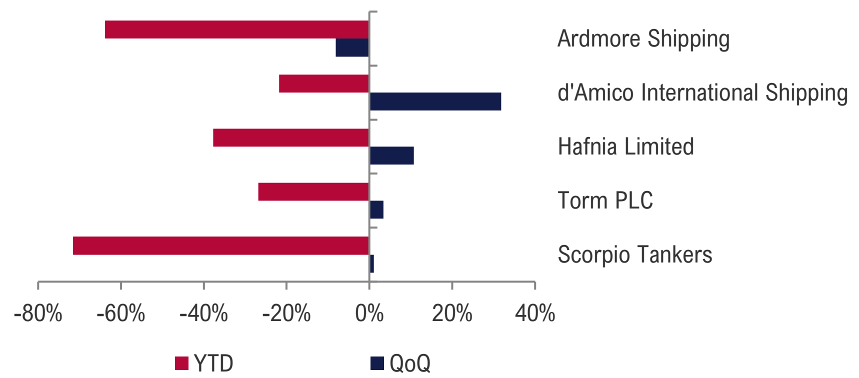
Note: Indexed on 31 December 2019
Source: WSJ, DMFR

- Tsakos Energy Navigation's (TNP's) stock gained 1.4% QoQ on the back of some improvement in its vessel earnings, but the company's stock nosedived 63.2% YoY in 2020 primarily due to a sharp decline in TCE rates across vessel classes following the historic production cut by OPEC+ in May 2020. The plunge in vessel earnings limited the profit-sharing components of revenue of time-chartered vessels in addition to the decline in earnings of vessels operating in the spot market. The stock could slide further in 1H21 due to weak oil demand in an oversupplied tanker market.
- Revenue and profit of crude tanker shipping companies plunged in 2H20 as TCE rates declined sharply on account of weak demand in the aftermath of COVID-19 and due to an oversupplied tanker market. Although oil demand has improved gradually in 2H20, it is still well below the pre-pandemic levels which led to ample supply of tonnage that put pressure on vessel earnings. The record earnings in 1H20 on the back of the surge in vessel earnings led to increased dividend payments in 2020, but we expect the dividend payment of tanker companies to drop substantially in 2021 as low TCE rates in a weak tanker market will reduce cash inflow which will limit the dividend pay-out.
- Crude tanker companies also preferred to repay debt to improve their balance sheet in addition to rewarding their shareholders with higher dividends. The net leverage (net debt-to-equity ratio) of companies under our coverage has dropped by an average 30% in the past one year. However, we expect the leverage of these companies to increase over the next one year as they may raise new debt to manage liquidity in a challenging market.
- OPEC+ has agreed to further raise production by 75,000 bpd from 1 February which will be followed by an additional 75,000 bpd from 1 March. The move is aimed at raising supply with a gradual increase in oil demand. However, in a surprise move Saudi Arabia announced an additional production cut of 1 mbpd in February and March above its current quota. Brent as well as WTI surged following the announcement marking the return of the Kingdom as a swing producer. The move is aimed to support crude oil prices at a time when recovery in demand is uncertain amid increased restrictions in several European economies.

Product tanker shipping

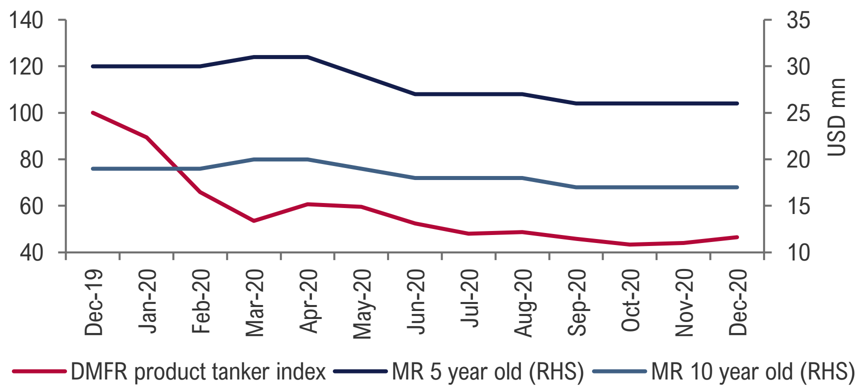
Product tanker companies on an uptrend amid improved seasonal demand

Price performance



Note: Share prices as on 31 December 2020
Source: Various exchanges, DMFR

Product tanker index vs second-hand MR prices



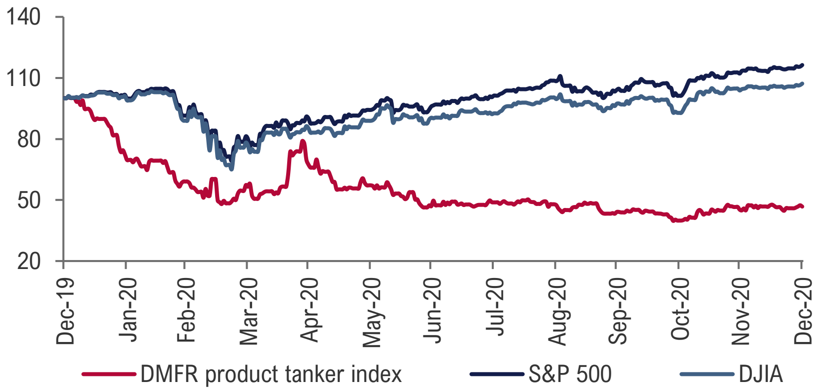
Note: Indexed on 31 December 2019
Source: Various exchanges, DMFR

- Scorpio Tankers' (STNG) stock inched up 1.1% QoQ in 4Q20 on the back of seasonal firmness in the last two months of the year, coupled with share buyback. However, the company is the worst hit by COVID-19 among its peers and its market value eroded by 71.6% YoY in 2020 compared to the average decline of 44.4% of its peers. STNG's stock could gain further over the next one month due to improved vessel earnings; however, the stock will slide in the latter months of 1H21 due to weak demand and ample tonnage availability on all major routes.
- Hafnia Limited (HAFNIA) in October 2020 placed an order for two LNG powered LR2 vessels, which will be chartered by Total on long-term contracts with fixed earnings upon their delivery in 2023. The company's stock gained 10.7% QoQ in 4Q20 on account of the seasonal uptrend in vessel earnings, but it registered a plunge of 37.7% YoY in 2020 as a downward trend in spot TCE rates since May 2020 pulled down the company's stock. The uptick in the stock could last for a while before decreasing in the latter months of 1H21.
- Torm PLC's (TRMDA) stock moved up 3.4% QoQ in anticipation of increased profits following the seasonal firmness in 4Q20; however, the stock slumped 26.8% YoY in 2020 as the revenue and net income plunged in the latter half of the year with a steep decline in TCE earning of products tanker across vessel class, following a transient peak in April 2020. The stock is expected to improve in winter on the back of firm seasonal demand, before sliding in the latter part of 1H21.
- d'Amico International Shipping's (DIS) stock surged 31.9% QoQ in 4Q20 on the back of seasonal improvement in products tanker earnings coupled with a series of share buyback during the quarter. DIS acquired ~5.36mn of its own shares for a total consideration of EUR 0.5mn, which represent ~0.43% of its total outstanding shares. However, the stock prices dropped 21.8% in 2020 amid weak demand outlook and a plunge in vessel earnings in 2H20. The recent gain in share prices seems unsustainable, and the stock is expected to undergo corrections in 1H21.
- Ardmore's (ASC) stock price nosedived 63.9% YoY in 2020 and declined 8.1% QoQ in 4Q20. The company's new capital allocation policy focussed on strengthening the balance sheet, maintaining the fleet and pursuing accretive growth opportunities over dividends. In September 2020, the company put in place a share repurchase plan of USD 30mn by September 2023. However, the sharp decline in spot TCE rates of products tankers, fall in asset prices and net losses in 3Q20 took a toll on ASC's share price. The company's stock may be on an uptrend at the beginning of the year but will remain under pressure in 1H21.

Product tanker shipping

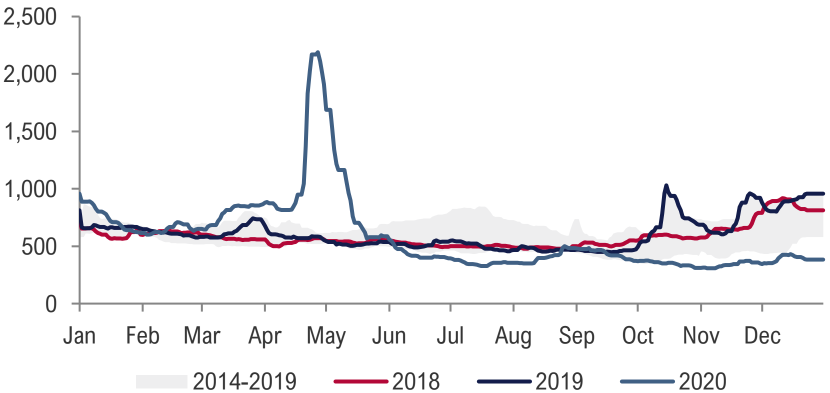
Product tanker market to remain under pressure in 1H21

Drewry Product tanker index vs major indices



Note: Indexed on 31 December 2019
Source: Various exchanges, Baltic Exchange, Drewry Maritime Financial Research

BCTI seasonality



Source: Baltic Exchange, DMFR

- In 4Q20, stock prices of key product tanker companies moved up 5.9% on average, owing to a seasonal uptick in TCE rates of clean tankers. Key market indices such as S&P 500 and DJIA jumped 11.7% and 10.2% respectively over the same period as the gradual resumption of economic activities and rollout of COVID-19 vaccines in the US, Europe and other countries provided the much-needed boost to the markets. The BCTI also strengthened 3.2% QoQ in 4Q20 on the back of increased activity on key routes due to winter demand. However, the gain is substantially lower than the average 53.1% in last quarter of the year in past five years, indicating that restrictions to contain the spread of COVID-19 has substantially limited the transportation demand for refined petroleum products.
- Asset prices of a five-year-old MR vessel remained stable in 4Q20 as improved TCE rates arrested the declining trend in vessel values between May and September 2020. Furthermore, the asset prices of a 10-year-old MR also remained flat in 4Q20. While second-hand asset prices of clean tankers increased during March-April on the back of strong earnings, prices dropped on average 15% over the next five months as spot TCE rates tumbled on account of weak demand and ample tonnage availability. This led to substantial erosion in the market cap of product companies in 2020.
- The IEA in its recent monthly report has revised down the global oil demand of 2020 by 50 kbpd on account of a resurgence in COVID-19 infections in the US, Europe and Russia which led to increased restrictions in key European economies. Revised estimates indicate a fall of 8.8 mbpd in 2020. Global oil demand growth estimate for 2021 was also revised down by 110 kbpd to 5.7 mbpd primarily because of lower estimates for jet fuel demand, accounting for ~80% of the total 3.1 mbpd drop in consumption in 2021 compared to the consumption in 2019. Meanwhile, demand for gasoline and diesel is expected to return to the 97-99% level as in 2019.
- Global mobility indicators reflect a sharp slowdown in the latter months of the year, overall mobility has declined in the US due to a surge in COVID-19 cases. Key European economies such as the UK, France and Italy were the most impacted by the second wave of the pandemic and containment measures led to a sharp decline in mobility. The launch of the vaccination programme in several countries and the expected wide availability of vaccines raised the expectation of a faster recovery in economic activities in most regions. Global GDP is estimated to return to pre-pandemic levels by the end of 2021, but it will not be the case for oil demand, and the product tanker market will remain under pressure at least in 1H21.

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