

Challenges and opportunities for the global port and shipping industry

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Challenges and opportunities

Different sides of the same coin

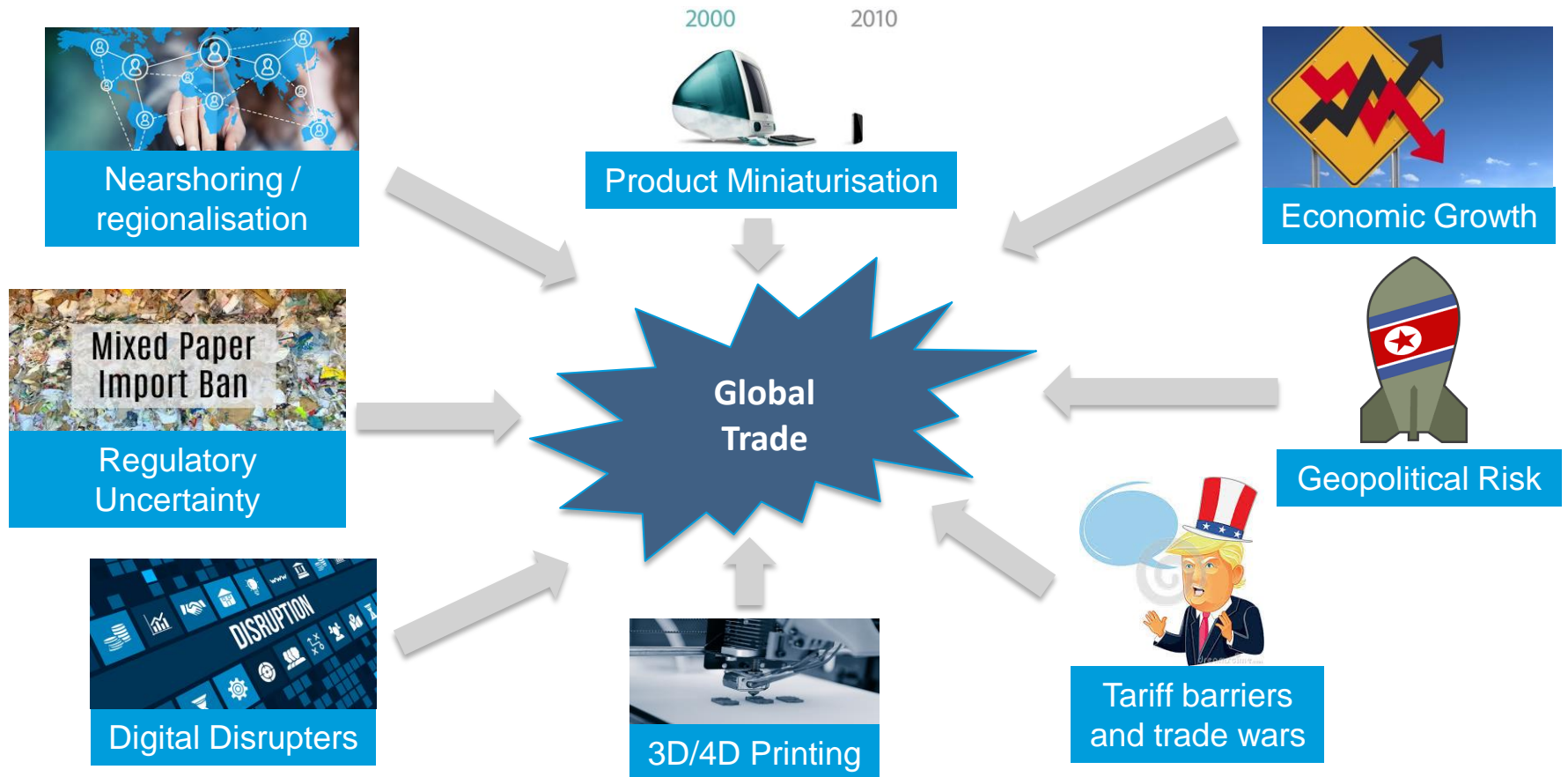


Agenda

Trade overview

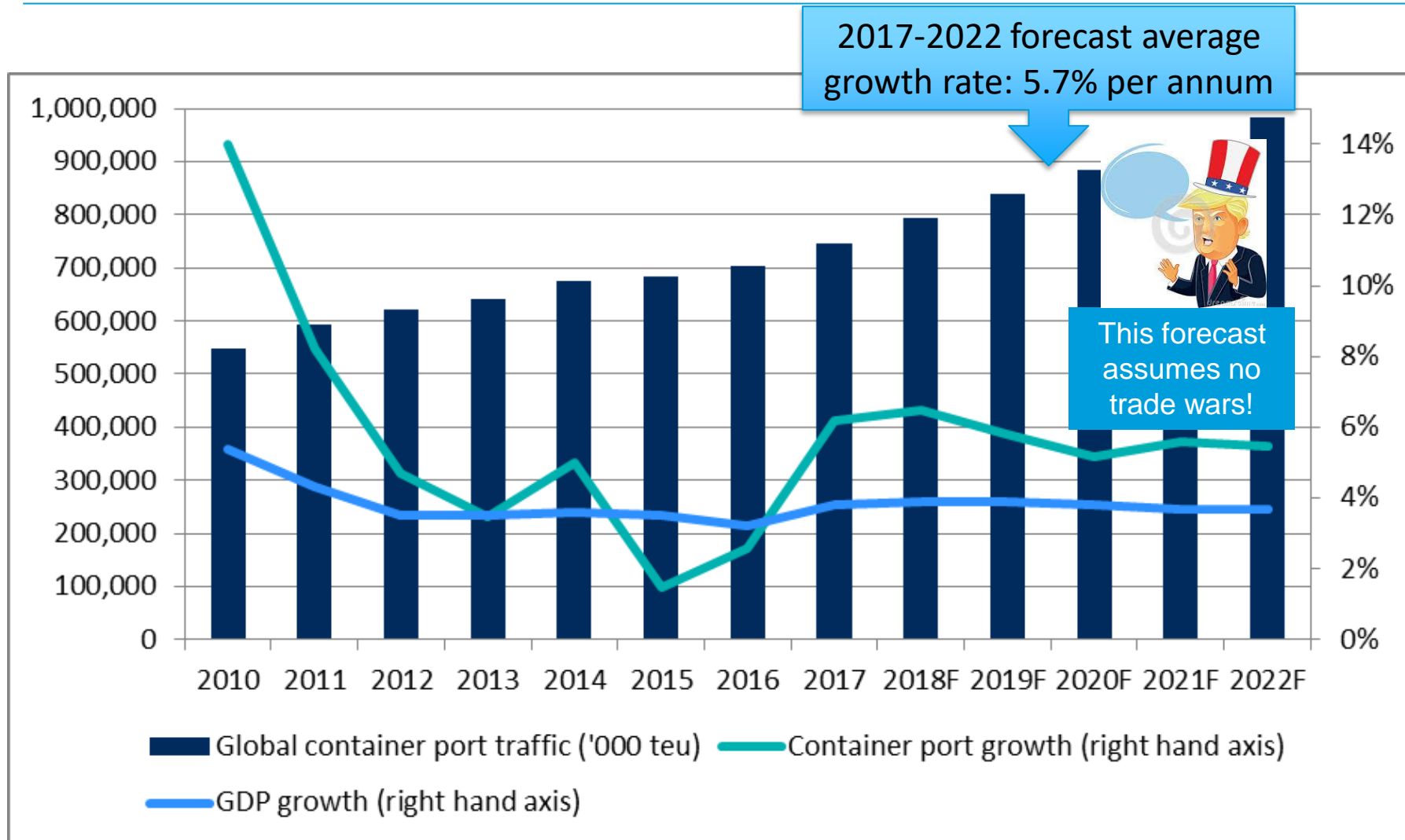
Trade wars, sanctions and protectionism

USA in danger of becoming increasingly isolated



Global container port demand

Trade and GDP growth rates are converging, but stabilising too



Belt and Road Initiative (BRI)

An overseas viewpoint: What is BRI in reality?

- ✓ Physical assets and investments based on a defined geographical range.....
- ✓but the concept is what matters more
- ✓ BRI is a name, a focus, a direction, a driver of action
- ✓ BRI is a reflection of Chinese confidence

Belt and Road Initiative (BRI)

An overseas viewpoint: Values and concerns



- Security concerns: Ports are strategic national assets
 - Monopoly concerns
- Danger that port investment decisions are based on geopolitics rather than market need

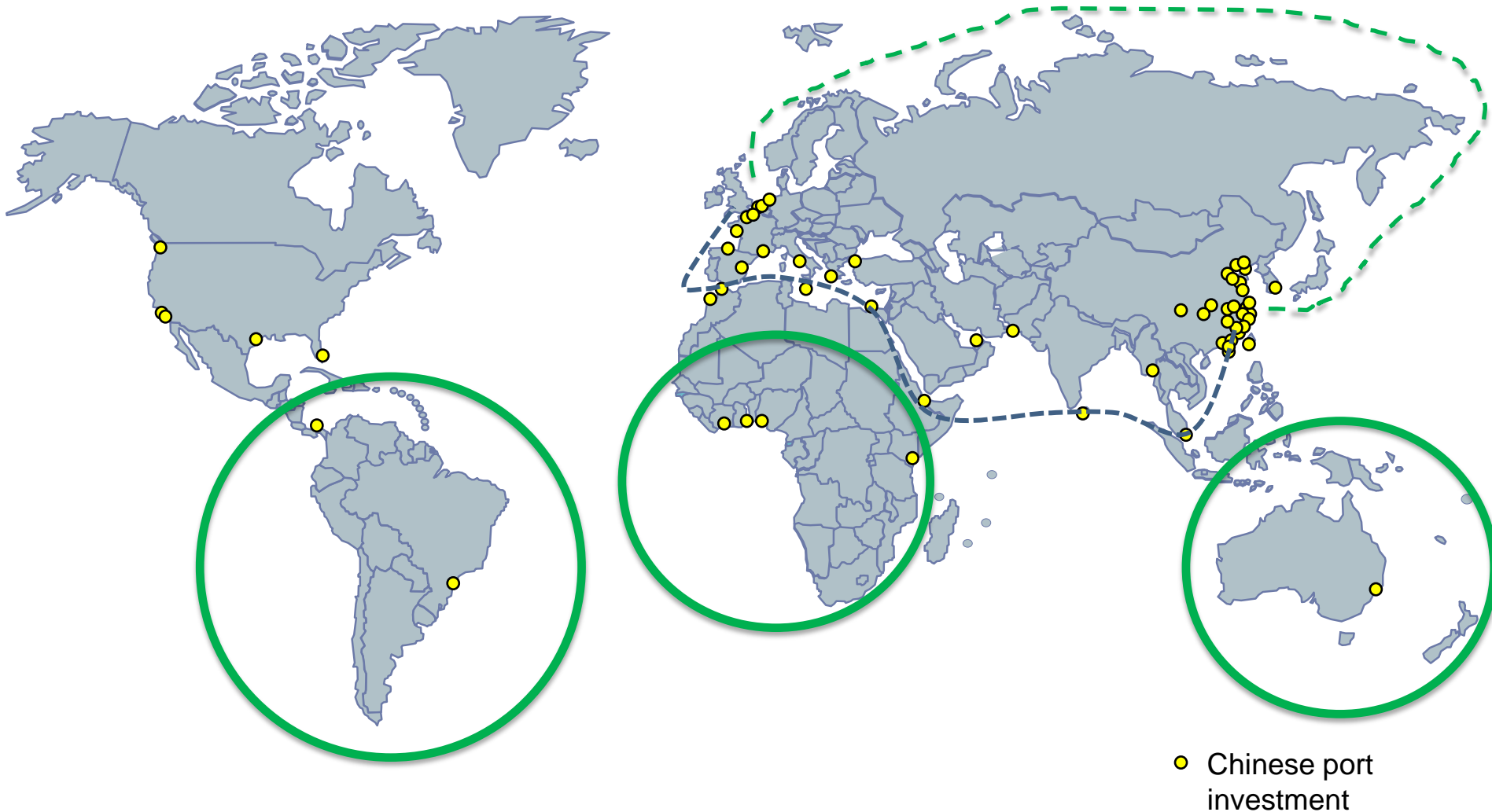


- Brings needed investment in infrastructure
 - Improves connectivity
 - Sharing of expertise
 - Good business partners



Belt and Road Initiative (BRI)

An overseas viewpoint: Go beyond BRI geography

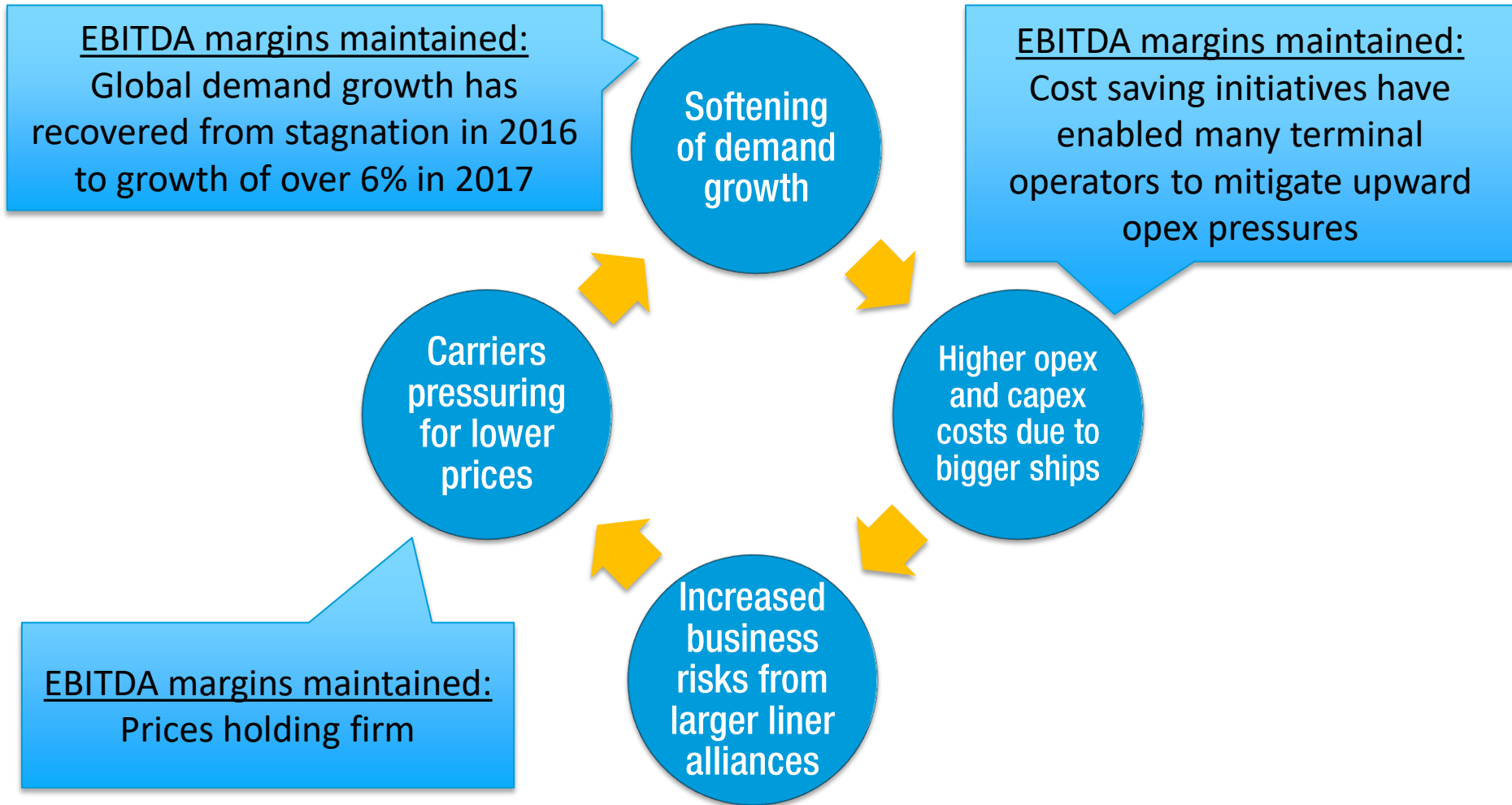


Agenda

Ports and terminals issues

Is the terminal industry surviving the “perfect storm”?

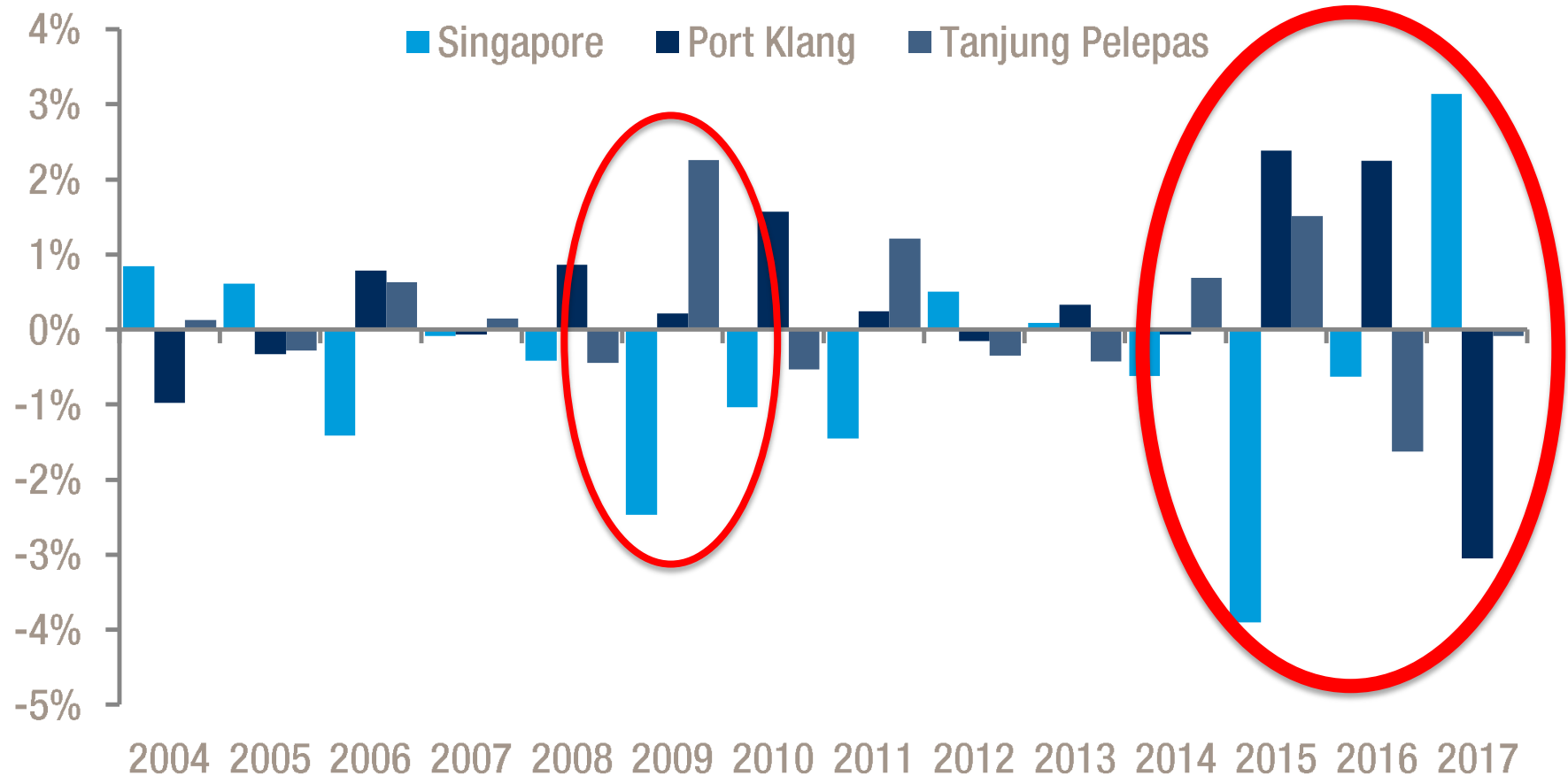
Industry EBITDA margins maintained: Typically ~ 35%



Is the terminal industry surviving the “perfect storm”?

Risk on the up – especially for transshipment ports

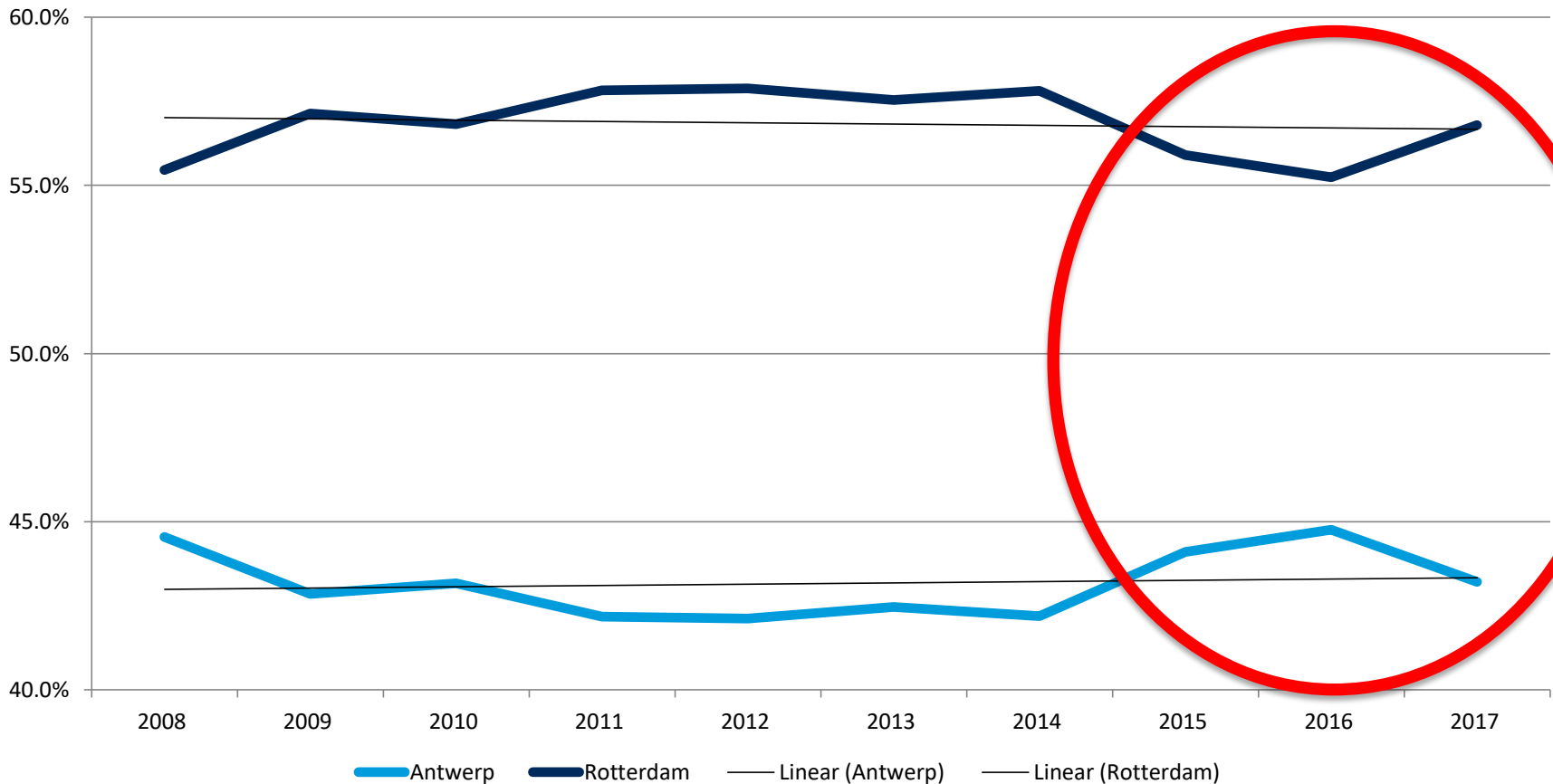
Change in market share: SE Asian transshipment hubs, 2004-17



Is the terminal industry surviving the “perfect storm”?

Risk on the up – for gateway ports too

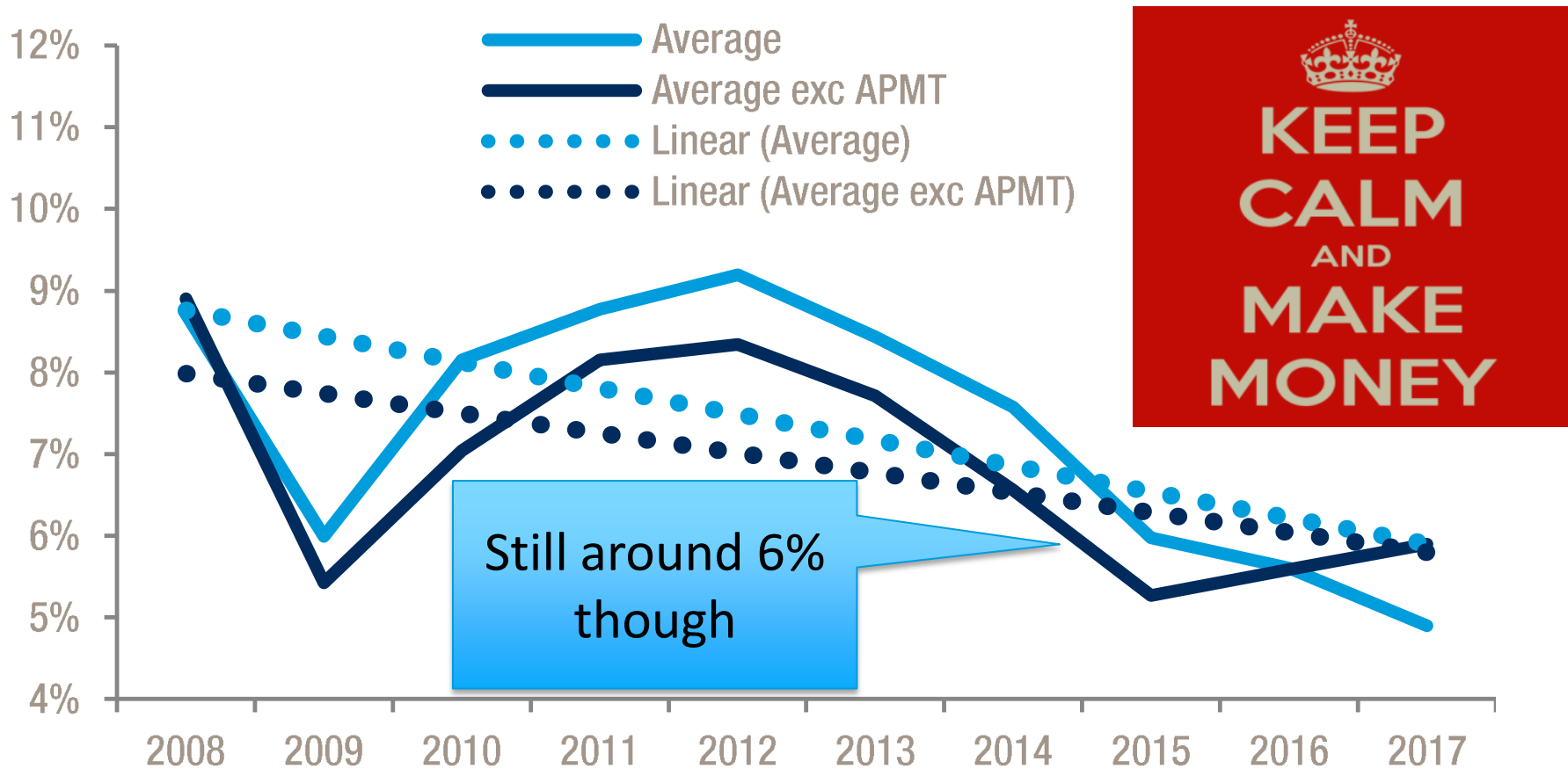
Antwerp and Rotterdam volume share (%)



Is the terminal industry surviving the “perfect storm”?

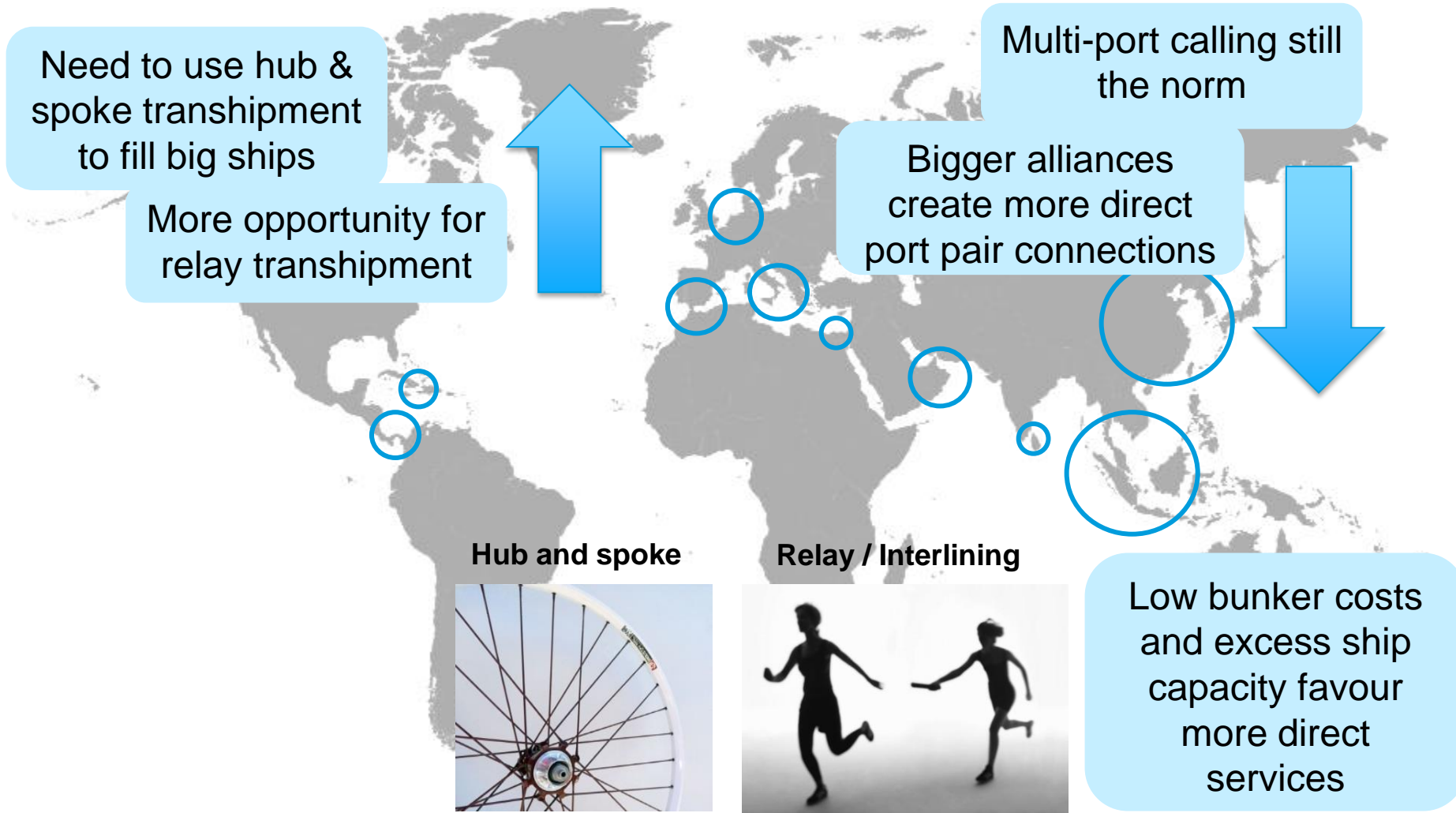
Returns going down – but still around 6%

Sample Port Operators: Return On Invested Capital (ROIC), 2008-17



Future of transshipment

Bigger ships and alliances = more (or less) transshipment?



Need to use hub & spoke transshipment to fill big ships

More opportunity for relay transshipment

Multi-port calling still the norm

Bigger alliances create more direct port pair connections

Hub and spoke



Relay / Interlining

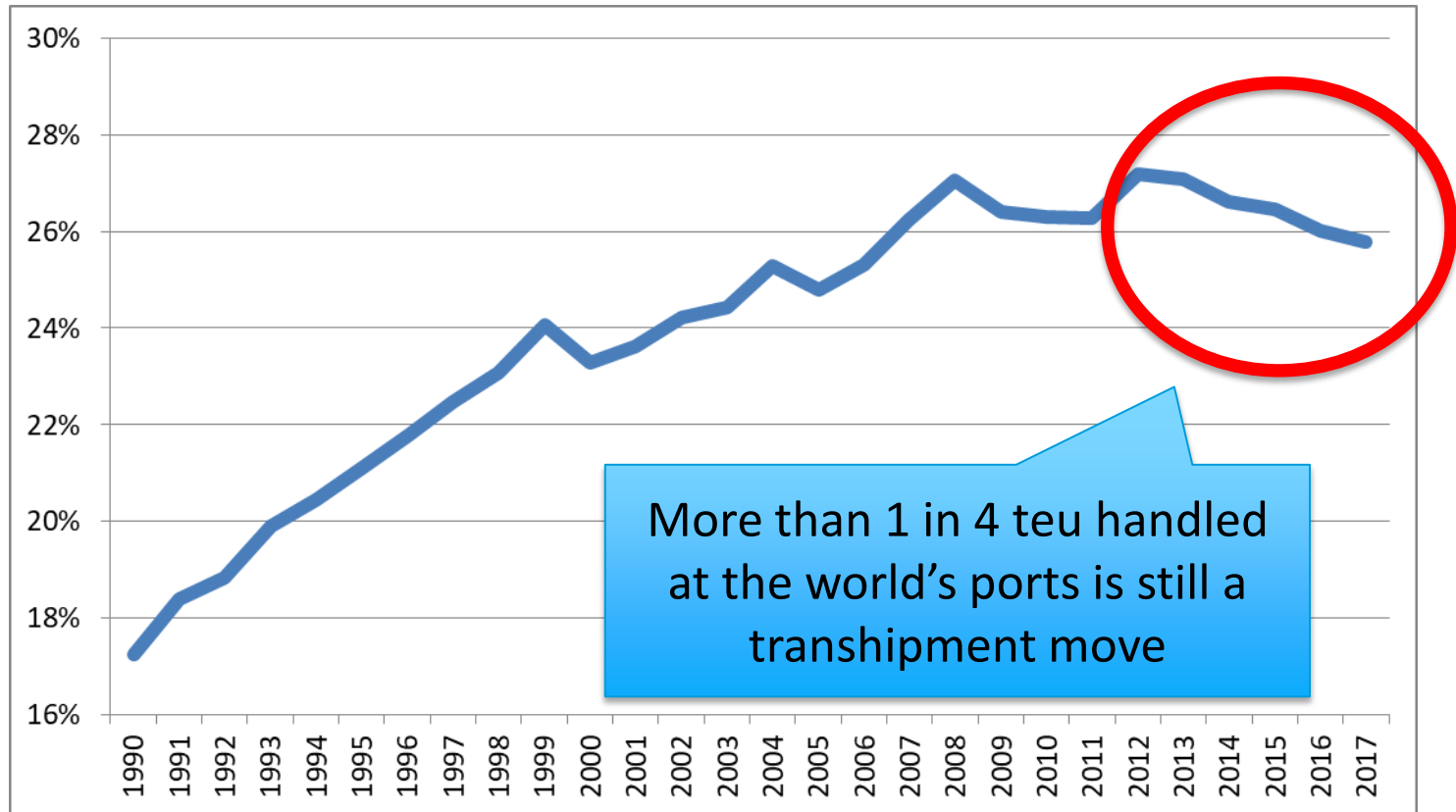


Low bunker costs and excess ship capacity favour more direct services

Future of transhipment

Slow decline in transhipment incidence appears to be underway

Global Transhipment Incidence, 1990-2017 *



* Proportion of global container port throughput that is transhipment activity (the balance being gateway import-export traffic)

Strategies of terminal operators

Trend towards terminal operators with shipping line connections

- ✓ Liner-affiliated terminal operators are increasing in prominence
- ✓ More JV agreements for terminals between non-liner affiliated terminal operators and shipping lines

Individual shipping lines are not in complete control of port/terminal choices due to liner alliances

- Liner alliance politics is complex
- Aims of terminal operator and line may conflict



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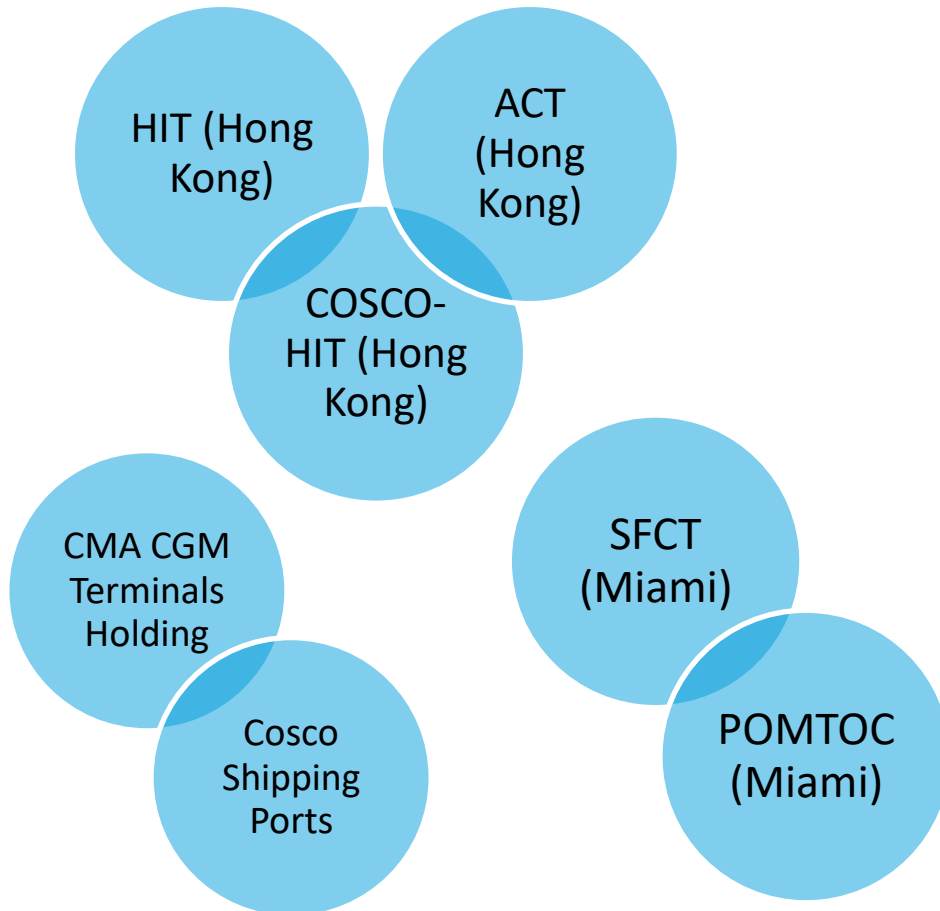
MOL Mitsui O.S.K. Lines



Terminal operator alliances

Challenging task to make it work

Exploit synergies, share resources,
increase bargaining power



Unlike ships, terminals are
not homogenous

Cooperating terminals
ideally need to be next
door to each other

All terminals in the same
port are likely to suffer
from same peaks

M&A and (ideally)
physical consolidation
is the best option

Diversification by port operators beyond the port gate

Wide range of possibilities

Links back to
BRI

Trucking

Warehousing
and distribution

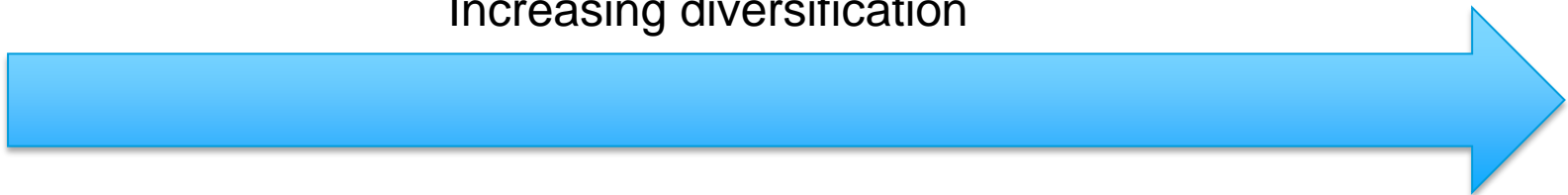
Supply chain
management

Industrial and
free zones

**Port-Park-City
concept**

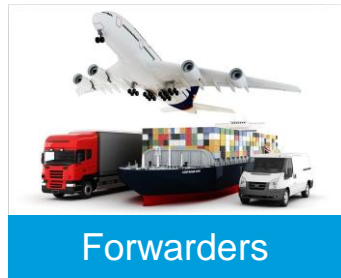


Increasing diversification

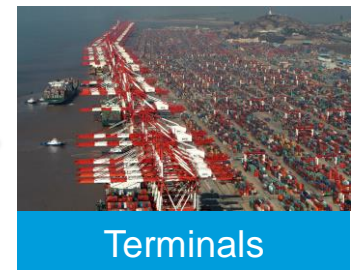


Getting closer to the cargo owners.....

....but that's what everyone wants to do!



Cargo is king!



Conclusions

- Outlook for container trade growth is healthy.....
.....but this depends on severity of trade wars
- BRI offers many opportunities....
.....but don't overlook the market demand!
- EBITDA margins are being maintained by terminal operators.....
.....but risk is up, returns are down
- Strategies such as affiliation with shipping lines and terminal alliances make sense.....
.....but aren't straightforward
- Diversification by port operators makes sense.....
.....but all parties must remember that "cargo is king"!

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