Container Shipping Financial Insight

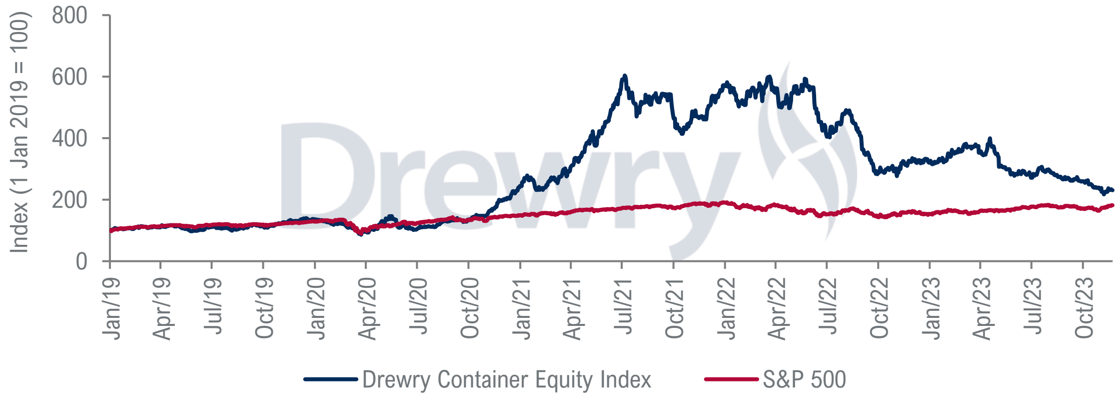
23 November 2023

Maritime Financial Research

financialresearch@drewry.co.uk

Container Shipping Financial Insight – November 2023

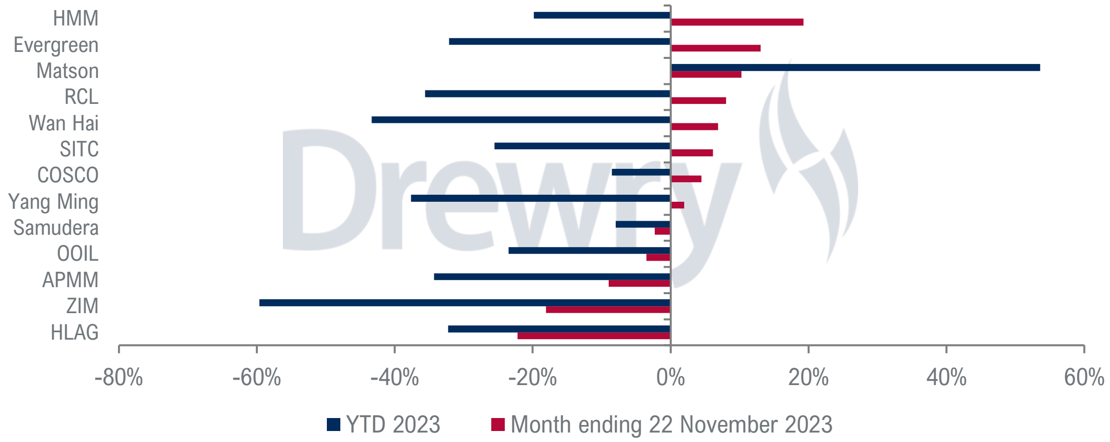
Drewry Container Equity Index vs S&P 500



**Note: Drewry Container Equity Index is a market capitalisation-weighted index of AP Moeller - Maersk A/S, Hapag Lloyd AG, Orient Overseas (International) Ltd, Evergreen Marine Corp Taiwan Ltd, Wan Hai Lines Ltd, Yang Ming Marine Transport Corp, HMM Co Ltd, Regional Container Lines, COSCO Shipping Holdings Co Ltd, SITC International Holdings Co Ltd, Matson Inc, ZIM Integrated Shipping Services Ltd and Samudera Shipping Line Ltd.*
Prices updated as of 22 November 2023. Source: Various Exchanges, Drewry Maritime Financial Research

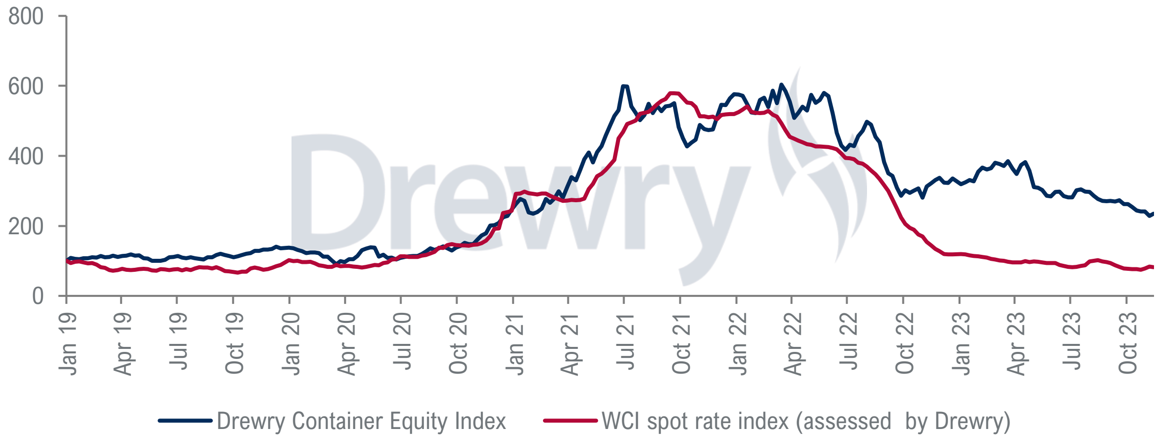
- Container shipping companies' 3Q23 financial results showcased a sharp dip in profits or even losses. On a group level, eleven liners (which report quarterly results) among our portfolio of 13 companies reported an average slump of 54.6% YoY in their 3Q23 topline. Operating costs declined 18.1% YoY amid falling chartering costs and lowering bunker prices. However, the cost reduction was insufficient to offset the plunge in topline; thus, EBIT contracted 94.1% YoY on average.
- The Drewry Container Equity Index tumbled 28.1% YTD 2023 (ending 22 November), driven by lowering freight rates (WCI: -30.7% in YTD 2023), which squeezed earnings over the quarters. On the contrary, the S&P 500 posted an 18.4% growth. The Drewry Container Equity Index declined 3.4% in the month ending 22 November 2023. Talking about equity prices individually. APMM's stock price fell 9.0% amid EBIT loss for its Ocean segment in 3Q23, staff cuts and reduced capex guidance, highlighting APMM's efforts toward reducing costs faced with the bleak industry outlook. Hapag-Lloyd's stock price slumped 22.2% as its EBIT margin (3Q23: 5.1%) slid below its pre-pandemic level (3Q19: 7.8%). ZIM became the first carrier to report impairment of assets worth USD 2.0bn in 3Q23, and its stock price fell 18.1%. Meanwhile, China-exposed container companies benefitted from the positive sentiment arising from the proposed fiscal stimulus by the Chinese government, possibly boosting the out-of-China and intra-Asia trades. Asian stocks in the broader index rose 2.0% to 19.4% in the month ending 22 November 2023.
- Mainly driven by weak earnings prospects, the Drewry Container Equity Index trades at a P/B of 0.5x, a 47.5% discount to its pre-pandemic average (2013-19). We expect freight rates to fall sharply in 2024 and increasingly incur losses. Thus, we expect the multiple to remain suppressed.

Container shipping stock price performance



Source: Various exchanges, Drewry Maritime Financial Research, Note – prices updated as of 22 November 2023

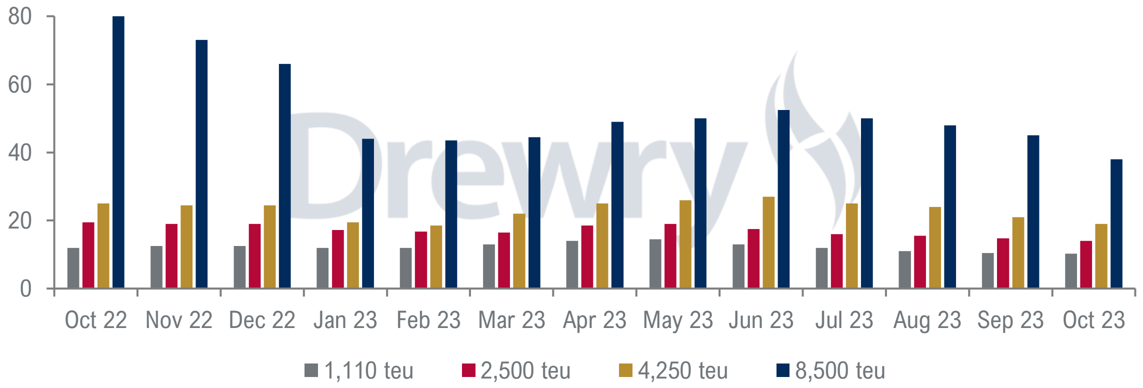
Drewry Container Equity Index vs WCI



Note: Prices updated as of 22 November 2023. Source: Drewry Supply Chain Advisors, Drewry Maritime Financial Research

Container Shipping Financial Insight – November 2023

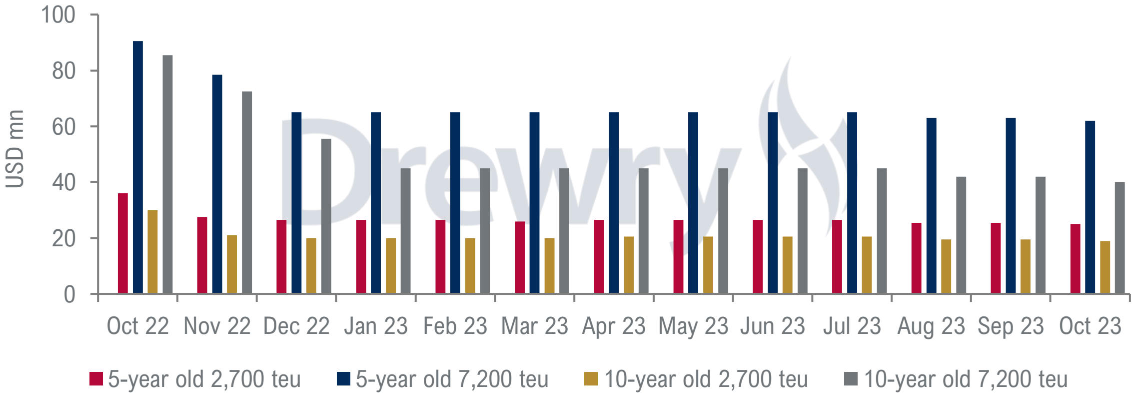
1-year TC rate trend



Source: Drewry Maritime Financial Research, Refinitiv

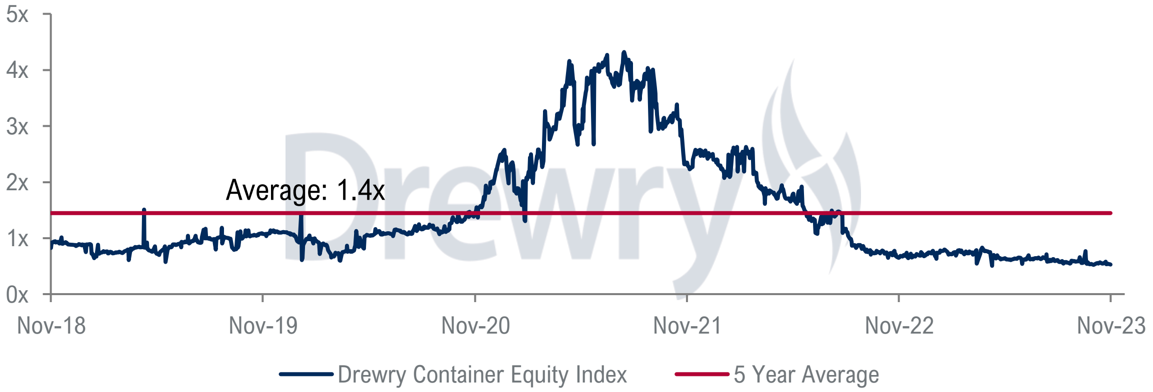
- As the fleet of container shipping companies expands, the charter market softens. For instance, 1-year TC rates declined 14.2% and 52.5% YoY in October for vessels sized 1,110teu and 8,500 teu. Rates declined more for larger vessels as these constitute the majority of the orderbook and new deliveries. The YoY decline has continued since October 2022, but rates improved slightly during April-May 2023. However, this was not due to the fundamentally strong market but MSC and CMA CGM's aggressive chartering of vessels to expand their fleets. Now that the two companies have stopped chartering in vessels, the charter market continues to decline.
- Driven by the softening charter market, second-hand asset prices are also weakening. In October, on a YoY basis, prices for five-year-old vessels (2,700 teu and 7,200 teu) contracted 30.6% and 31.5%, and for 10-year-old ships, prices tumbled between 36.7% and 53.2%. Contrary to the sale and purchase market, newbuild prices (1,500 teu and 14,000 teu) continue to increase and rose by an average of 2.2% YoY, led by a shortage of capacity in shipyards.
- The charter market and the S&P market have a direct impact on container shipping companies' earnings. Costs related to chartering-in slots or vessels from other non-operating vessel owners form a significant portion of container shipping companies' cost structure. In the 3Q23 results, this cost was reduced, marginally relieving downside pressure on the operating margin of container shipping companies. In line with the declining charter market, we expect this trend to continue in 4Q23. We also expect other companies to follow ZIM in reporting impairment losses as prices for older vessels continue to fall.

Second-hand prices trend



Source: Drewry Maritime Research, Drewry Maritime Financial Research

Historical average P/B trend of Drewry Container Equity Index



**Values updated as of 22 November 2023*
Source: Company filings, Drewry Maritime Financial Research

Drewry Maritime Financial Research: Disclaimer

About Drewry Maritime Financial Research

- Drewry Maritime Financial Research (DMFR) is the marketing name of Drewry Financial Research Services Ltd. DFRS is incorporated in the UK and is authorised to provide investment advice in accordance with and pursuant to the UK Financial Services and Markets Act of 2000 (the "FSMA"). Drewry Financial Research Services Ltd is a wholly owned subsidiary of Drewry Shipping Consultants Holdings Limited, which as a group is focused on maritime research and advisory services.
- Drewry Financial Research Services Ltd. is authorised by the Financial Conduct Authority (FCA). Firm FCA Ref No - 572297

Disclaimer: Important Information to recipients

- This email has been sent by Drewry Financial Research Services Ltd (DFRS or the "Company") solely for the DFRS clients who are qualified parties as per FSMA guidelines. Whilst the Company believes the information it uses for research is from sources believed to be reliable, the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. The opinions and estimates included herein reflect the analysts' views based on available information on the dates specified and these views may have changed without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific client. The information herein is published for clients only and is not to be taken in substitution for the exercise of judgement by the client, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the Company, accepts no liability for any direct, special, indirect, consequential, incidental damages, or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and employees may have positions or other interests in, and may effect transactions in, securities mentioned herein. DFRS does not seek to do business with any of the companies mentioned other than sell them these reports. However, other related parts of Drewry Shipping Consultants Holdings Limited may seek to provide "advisory services or the sale of other group research products" to companies mentioned in this report.

Jurisdictions

- The distribution of this email is governed by the UK Financial Services and Markets Act of 2000 (the "FSMA") and is restricted to qualified parties as defined by the FSMA. The distribution of this email may be restricted by rules and regulations in certain jurisdictions. Persons into whose possession the email may come are required to inform themselves about and to comply with all applicable laws and regulations in force in any jurisdiction in or from which it invests or receives or possesses this email and must obtain any consent, approval or permission required under the laws and regulations in force in such jurisdiction.

For US Investors

- Drewry Financial Research Services (DFRS or the "Company") is an independent research company and is not a registered investment adviser and is not acting as a broker dealer under any US federal or state securities laws. The Company does not provide individual investment advice or hold client money. As such, the Company is not required to be registered as an investment adviser.

Drewry Maritime Financial Research

financialresearch@drewry.co.uk

Analyst certification: The research analyst(s) set out below certifies that a) all views expressed in this report accurately reflect his or her personal views about any and all of the securities or issuers and b) that no part of the analysts remuneration was, is, or will be directly or indirectly related to the specific implicit or explicit recommendations or views expressed by the research analyst(s) in this report.

Maritime Financial Research

Drewry Maritime Financial Insight

November 2023

Drewry

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