

SHIPPING MARKET REVIEW – NOVEMBER 2020

SØFARTSTEKNISK FORENING



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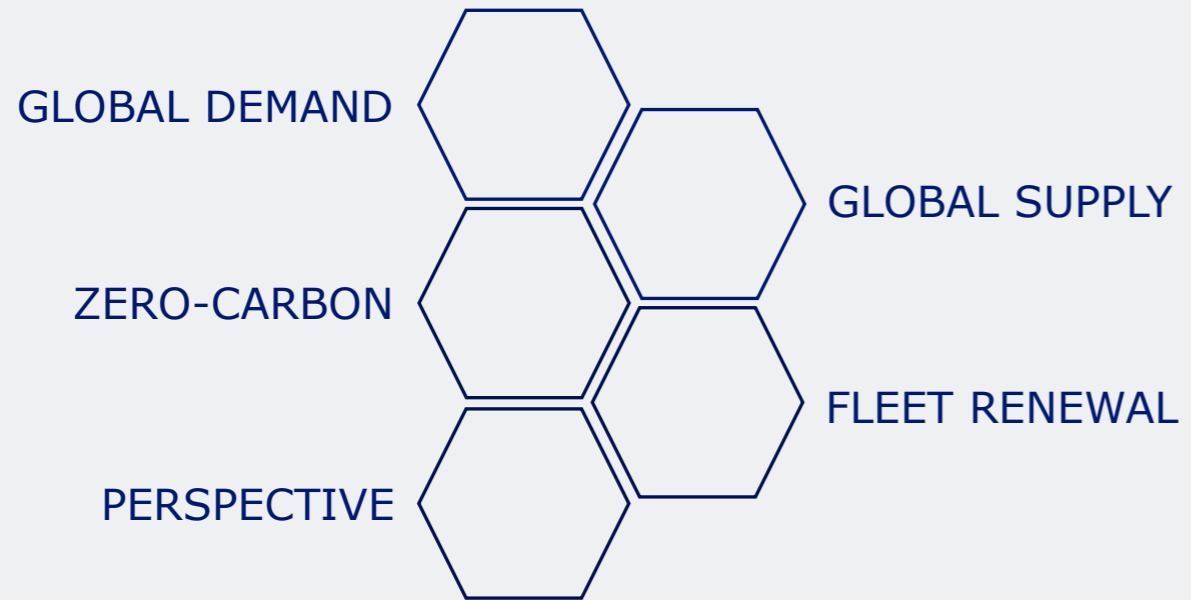
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GLOBAL DEMAND

The global economy is in a recession – some countries will return to 2019 levels in late 2021 others later



Pandemic effects:

- Reduced labour market outlook
- Spending and investment delays
- Consumption turns towards healthcare

Global trade megatrends:

- Demographic baseload: +0.5% per year (past: +1%)
- Aging global consumers
- Smart technology (including energy)
- Fossil fuels accounts for approximately 40% of annual movements
- Regional production including energy supply
- Renewable feedstocks (circular economy)

GLOBAL SUPPLY

The supply side looks manageable in the years to come

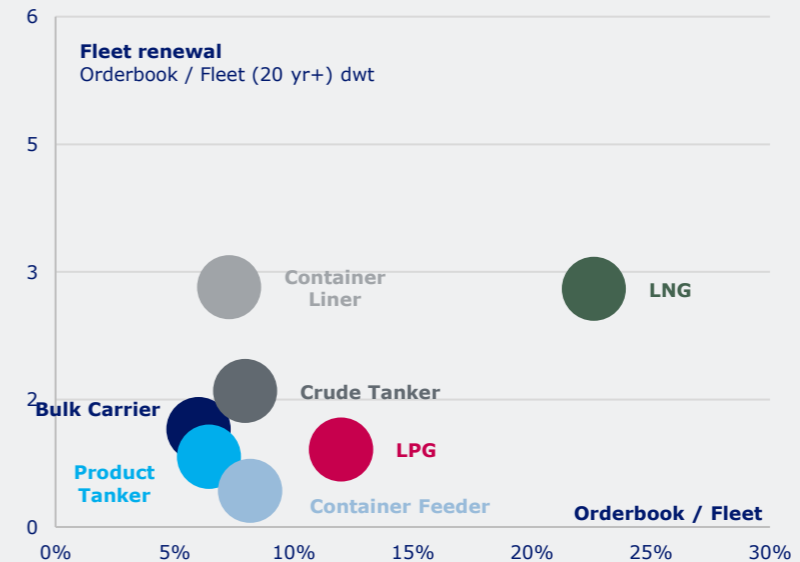


World fleet:

- Orderbook / fleet – lowest in decades (approximately 7%)
- Front-loaded orderbook
- Fleet renewal potential: improved balance
- Scrapping potential: Medium

Shipbuilding:

- Excess yard capacity
- Low contracting activity
- Two tier market (287 yards)
- But 58 first tier yards, covering 45% of global yard capacity and 70% of the orderbook
- Consolidation



STAGES OF CHANGE – A PATHWAY TO ZERO-CARBON SHIPPING

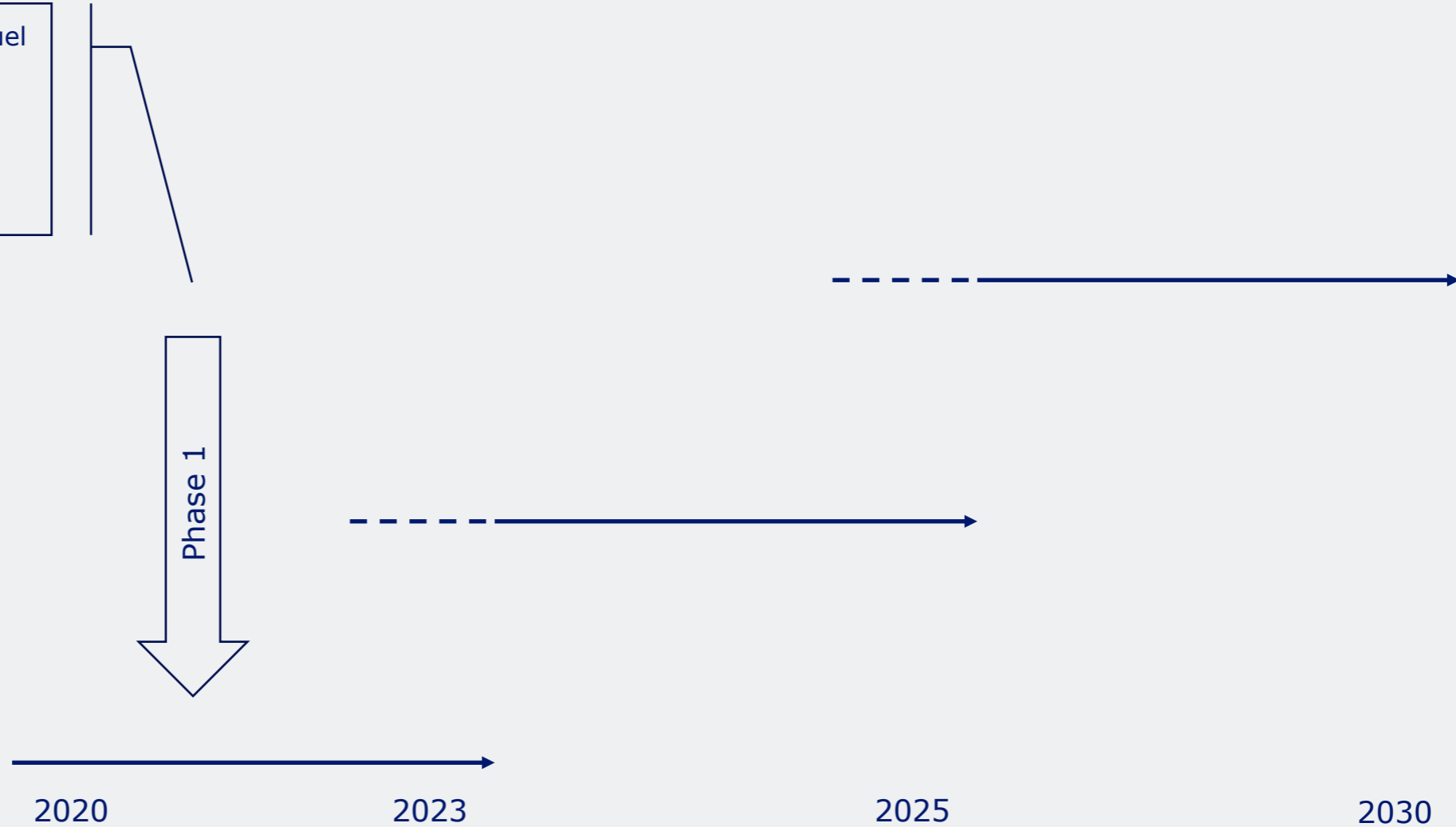
Phase 1 (2020-2023): Navigating the transition while protecting asset values

ACTIONS

1. Retrofit existing vessels to fuel save.
2. Buy, retrofit and operate middle aged vessels.
3. New regulation?

WHAT

1. Asset investment: Low ROE
2. Future regulation: Low visibility
3. (Global) carbon tax: Maybe but ...
4. Zero-carbon fuel: No obvious candidate at present



STAGES OF CHANGE – A PATHWAY TO ZERO-CARBON SHIPPING

Phase 2 (2023-2026): Zero-carbon fuels is some years ahead of us, but it is beginning to shape the strategic outlook

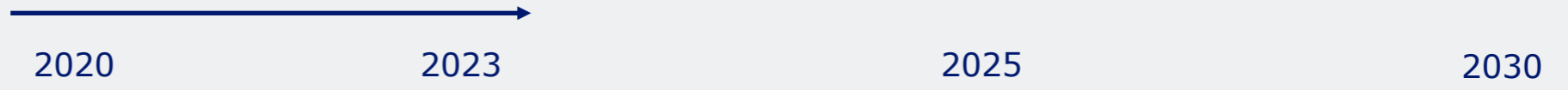
ACTIONS

1. Enjoy higher freight rates
2. Retrofit existing vessels to fuel save.
3. Buy, retrofit and operate middle aged vessels.
4. Scrap older or inefficient vessels



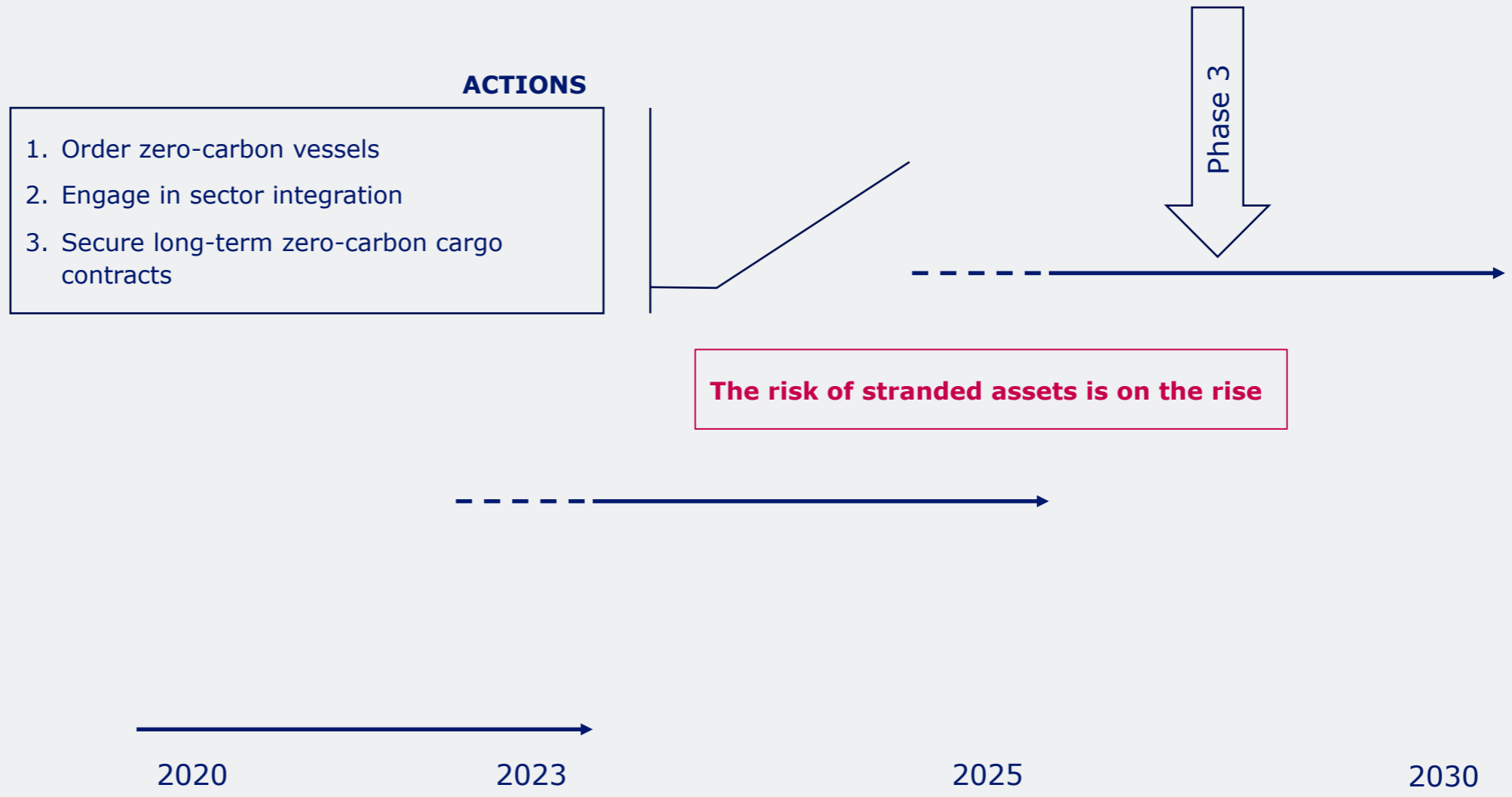
Phase 2

- ### ZERO-CARBON FUEL SUPPLY
- Chicken-and-egg problem
 - Explore sector integration
 - First mover advantage or high risk?



STAGES OF CHANGE – A PATHWAY TO ZERO-CARBON SHIPPING

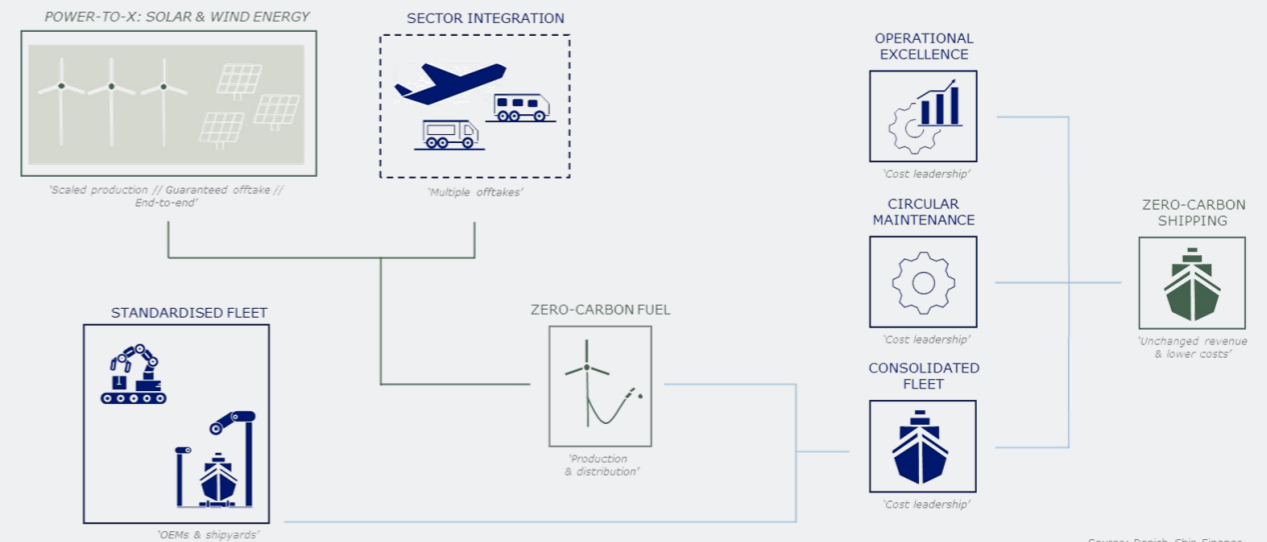
Phase 3 (2026+): The licence to operate is up for renewal, access to capital, cargo and ports could be impacted



WHAT THE FUTURE HOLDS FOR SHIPOWNERS

The future competitive landscape

- Difficult to unlock the first wave of commercial-scale zero-emission shipping pilots without clear regulatory guidance
- No obvious investment candidate currently exist
- The introduction of **more expensive fuels** that are not as widely available seems unlikely to support additional value creation.
- Nevertheless, the advent of zero-carbon fuels may open a window of opportunity to establish **partnerships** that were not previously possible.
- The next generation vessels not yet ordered could be **super standardized** and controlled by fewer players that harvest the cost benefits of economies of scale, standardization and the value potential of the data exhaust from a standardized asset base

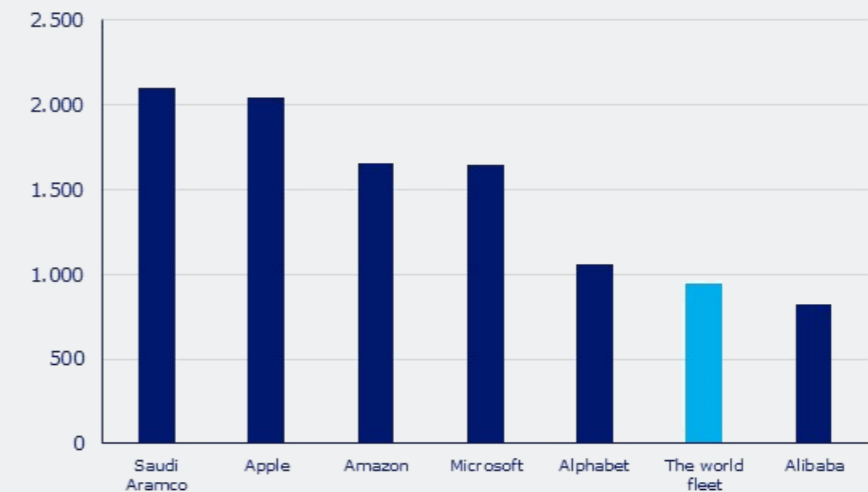


INVESTMENT NEED: 1 TRILLION DOLLAR

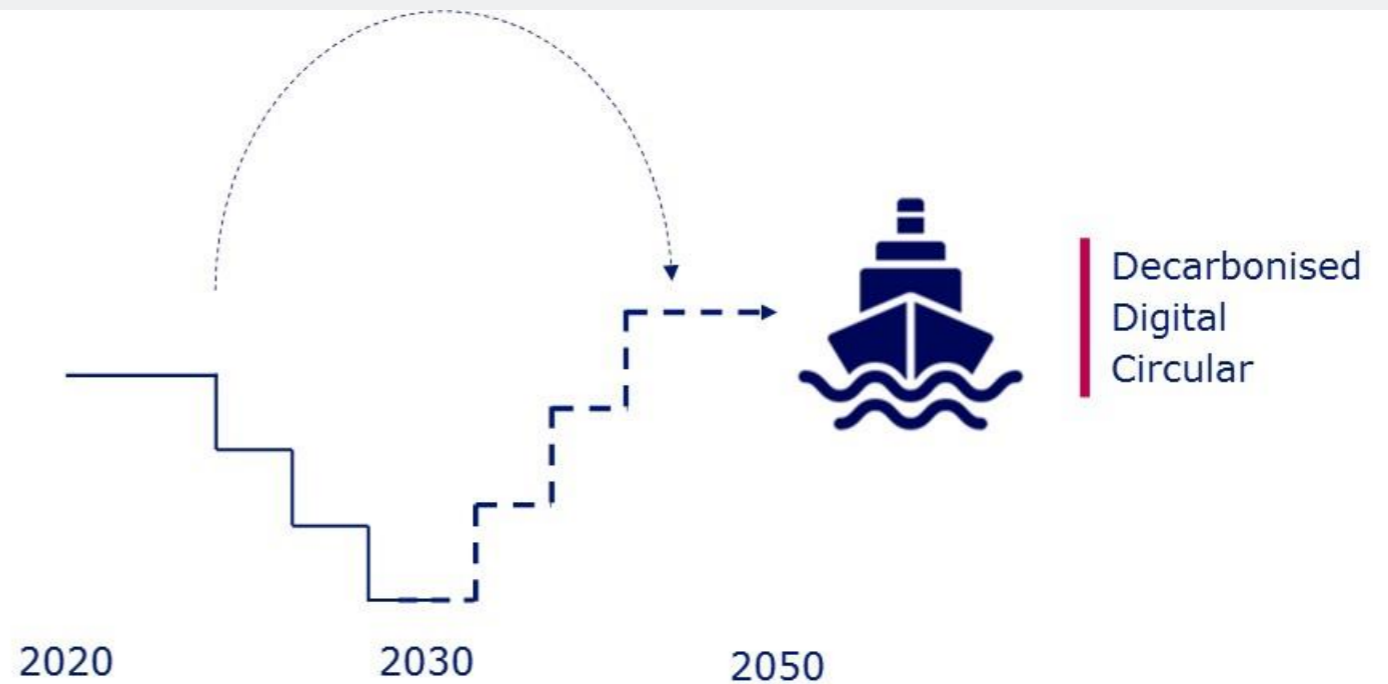
The length of the transition period is uncertain

- We expect the transition towards zero-carbon shipping eventually to lead to a massive shift in the asset base.
- The transition will be gradual: not all assets can be replaced quickly, and not all vessel segments are equally likely to be replaced.
- The land-based infrastructure producing the zero-carbon fuel of the future needs to be developed. It may take three, five or eight years before it can deliver scaled production with a global reach.
- The remaining lifetimes of the vessels in the current fleet do not need to be determined by their age.
- If a zero-carbon fleet that offers more value for the same freight rate can be brought to the market, there could be little to stop it from cannibalising the current fleet.

LARGEST COMPANIES BY MARKET VALUE (USD BILLION)



Ships could become an attractive infrastructure investment supplying low-cost zero-carbon cargo mobility to the market at cost parity with the carbon alternative



Q & A

GLOBAL DEMAND

ZERO-CARBON

PERSPECTIVE

GLOBAL SUPPLY

FLEET RENEWAL



DANISH SHIP FINANCE

www.shipfinance.dk

