

Handymaxes

Flood of newbuilding handymaxes to push secondhand prices down 20%

Increased chartering competition set to hit earnings and asset values in next two years

MICHELLE WIESE BOCKMAN

SECONDHAND prices for handymaxes are forecast to tumble by 20% in the next two years, as a deluge of new ships combined with uncertain Chinese demand for bulk commodities further depresses time charter rates in 2010 and beyond.

Second-half handymax bulk carrier earnings could also drop by as much as 40% from first-half levels, and fall further in 2011, based on fresh analysis from one of the world's leading shipping banks, DVB Group.

The largest group of geared bulk carriers in the global fleet, the world's 1,700 handymax vessels of between 40,000 dwt and 60,000 dwt, are viewed as the most flexible, able to carry a range of dry cargoes from port facilities.

This versatility has meant these ships are viewed as less reliant on the iron ore and coal trades than larger panamax or capesize bulk carriers, and therefore sheltered to a greater extent from the market volatility that has beset larger bulk carriers over the last two years.

But the bloated newbuilding orderbook is now placing pressure on rates in both time charter and spot markets in the handymax sector.

In the first half of this year, handymax one-year time charter rates averaged \$22,200 per day, while earnings on the spot market averaged \$25,700. This was much higher than average one-year time charter rates in 2009 of \$14,700 per day.



The 1991-built handymax product tanker *Salamina*: prices for secondhand handymaxes could fall by 20% in the next two years.

But second-half earnings in 2010 will now fall to just above these levels, and average between \$15,000-\$17,000, according to DVB Group.

"For 2011 even more newbuildings than in 2010 are expected, thus the handymax earning capability is unfortunately expected to reduce further," said DVB Group's Bulk Carrier Market Outlook-Handymax, written by Research & Strategic Planning's shipping division.

Some 129 new handymax vessels of 7.3m dwt have entered the fleet in the first seven months of 2010, according to DVB,

with a further 275 scheduled for the rest of the year, although some may be delayed.

On top of that, a further 69 handymax newbuildings of 3.85m dwt have been contracted in 2010.

The overall gloomier scenario would in turn reverse a rise in secondhand values for five-year-old vessels, which rose from \$29m in 2009 to average \$33m so far in 2010. This value has now surpassed the price of Chinese newbuildings, now at \$28.5m, according to brokers.

"However we believe this premium will be short-lived as pressure on freight rates

because of slowing demand and increasing supply returns to haunt owners," the report said.

"With a slowdown expected in freight earnings, handymax prices are expected to come off as well in second-half 2010, however on average they may still end up marginally higher than in 2009.

"In 2011 and 2012 as more newbuildings enter the market, we expect handymax prices to pull back by about 20%."

More than 330 bulk carriers were sold in the first half of 2010, including 91 of handymax size. ■

Eagle Bulk hit by value drop

NEW York-listed Eagle Bulk Shipping is the third-largest owner of handymax tonnage and one of the most affected by any further slump in asset values, writes Michelle Wiese Bockmann.

Eagle Bulk's fleet of 38 modern supramaxes averages 4.6 years and most of the ships are fixed against long-term time charters. But the company paid \$1.1bn for 26 newbuilding supramax vessels in July 2007, which have been progressively delivered since then with the final ship hitting the water in 2012.

With an average price of \$42.3m each, these vessels have each lost \$6.3m in value, and the fleet \$163m in total, based on the current price for a prompt re-sale Chinese-built supramax of \$36m. A further 20% fall in value over the next two years, as DVB Group forecasts, will shave another \$189m off total secondhand prices.

This would mean the overall fleet was worth \$750m, far less than the \$1.1bn price tag paid three years ago.

Although Cosco and China Shipping Group are the two largest owners of handymax tonnage, Cosco's owned fleet numbers 113, but has an average age of 13 years.

This suggests many were not ordered or acquired at high prices. China Shipping Group's 41 handymax vessels are also more elderly, with an average age of 10 years. ■