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Maersk Megaship Order Hits Capacity Sweet Spot: Freight Markets
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By Christian Wienberg

March 10 (Bloomberg) -- Maersk Line, the world's largest container shipper, may extend its market share and lift earnings by taking delivery of the 10 biggest cargo vessels ever built just as a global shortfall in capacity increases carriage rates.

The price of transporting manufactured goods by sea is likely to jump 10 percent in 2013 as demand outpaces new vessel supply by the third-widest margin in a decade, according to Drewry Shipping Consultants Ltd. Maersk will begin receiving a fleet of the world's largest and most cost-effective container ships the same year following a $1.8 billion order last month.

"The timing was optimal," Eivind Kolding, chief executive officer of A.P. Moeller-Maersk A/S's container unit, said in an interview at his Copenhagen headquarters. "Many other container lines have difficulties placing new orders at present as they're still under some financial pressure after the crisis."

The contract with Daewoo Shipbuilding & Marine Engineering Co. includes vessels able to carry 18,000 containers, enough for 18 million flat-panel televisions. They'll have a 26 percent per-box cost advantage over the largest ships currently used on Asia-Europe routes because of improved fuel efficiency and the higher number of customers sharing expenses such as port fees.

Demand for container transport will increase 9 percent in 2013 as vessel capacity grows 6.4 percent, according to Drewry. In the previous decade a 2.6 percentage-point margin would rank after only 2010, when shipping rebounded from the recession, and 2004, when Chinese exports surged.

'Great Year'

"The gap between supply and demand will be big enough for rates to go up at least 10 percent, even with Maersk's big ships coming into the market," Philip Damas, a London-based director at Drewry, said in a March 4 interview. "It should be a great year for container lines."

Maersk Line has 14.5 percent of the global container market when measured in capacity, followed by Mediterranean Shipping Co., or MSC, which has its headquarters in Geneva, at 12.9 percent and Marseille, France-based CMA CGM SA with 8.2 percent, according to data from Alphaliner. Both rivals are closely held.

Kolding, whose Feb. 21 Daewoo deal is worth $5.4 billion including options for 20 more megaships, said Drewry's capacity estimate for 2013 is "fair," while declining to comment on price developments. Maersk predicts that the container market will grow by 6 percent to 8 percent annually and possibly more if demand from emerging markets counters more sluggish expansion in the U.S. and Europe.

Oil, Supermarkets

“We need orders of this size,” Kolding said on March 7. “Our target is first of all to maintain our market share. But our ambition over time is also to grow it. We have the advantage of the group’s strong balance sheet and our good funding options which enable us to act now.”

Parent A.P. Moeller-Maersk is Denmark’s biggest company and owns the Nordic region’s second-biggest oil explorer, a supermarket chain, a ports business and a rig operator. The group reported the second-highest annual profit in its 106-year history on Feb. 23. It also sold bonds for the first time in 2009 and has said it will continue to do so.

“It’s Maersk’s ability to make huge investments that makes it a long-term earnings winner compared to peers,” said Jacob Pedersen, an analyst at Aabenraa, Denmark-based Sydbank A/S, whose recommendation to buy the stock has yielded investors a 22 percent return in the past year, according to Bloomberg data.

Kolding predicts that freight rates will fall this year compared with 2010 as new tonnage enters the market and takes a few months to absorb.

“We’ll have reasonable rate levels throughout the year, but with a difficult start and a pickup in mid-2011,” he said.

Order Decline

Container capacity will advance 8.2 percent this year, the same as in 2010, before growth slows to 6.5 percent in 2012, Drewry predicts. Ship orders have dropped for the past three years and currently stand at 452, down from a peak of 1,245 in January 2008, according to Lloyds Register-Fairplay data.

Maersk Line has orders for 61 ships able to carry almost 500,000 20-foot containers -- the industry standard, known as 20-foot equivalent units or TEUs -- according to Alphaliner data as of March 8, with the 20 megaship options taking the total to 860,000. MSC has orders for 51 ships with a capacity of 550,000 TEUs and CMA for 25 vessels able to carry 260,000 TEUs.

Bjorn Vang Jensen, vice president for global logistics at Stockholm-based Electrolux AB, said he’s not convinced that buying larger vessels will have the predicted effect.

‘Gutsy’

“I think it’s a very gutsy decision,” said the Singapore- based executive, who oversees about 150,000 box shipments a year. “These megaships make container lines less flexible as they tie vessels to specific routes. In the end that almost inevitably leads to lower rates.”

Still, Maersk last year earned $395 per 40-foot container, before interest and tax, according to the Feb. 23 statement. That’s $100 more than its largest peers and amounts to an Ebit margin about 5 percentage points higher, Kolding said.

“We’re the biggest and should be the most efficient container line and have some balance sheet options that others don’t, so it’s clear that we have to be more profitable,” the executive said.

CMA declined to comment when e-mailed by Bloomberg, while MSC didn’t respond.

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