

## Secondhand bulkers undervalued by up to 50%, Clarksons boss says

Keith Wallis, correspondent | 21 November 2018

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Secondhand bulkers still represent good value in a climate of firming dry rates. Credit: IHS Markit

Secondhand bulkers are undervalued by up to half of what their value should be, given their earnings potential in what is expected to be an upbeat dry cargo market over the next several years, the head of Clarksons Platou in Hong Kong said on 21 November.

Bulkers are still cheap, even though the number of vessels swapping hands is among the highest since the height of the dry bulk boom in 2007.

"Secondhand bulk carriers are all undervalued, although it's probably more pronounced in Capesizes," said Martin Rowe, managing director of Clarksons Platou Asia HK.

"The price for a 10-year old Capesize bulk carrier is 30–50% of what it should be, based on its earning potential over the next two years or so," he told about 100 shipping executives at a Mare Forum conference at Hong Kong maritime week.

"Part of this is attributable to sentiment and part due to a lack of traditional ship finance for secondhand purchases. Either way, we feel it means secondhand bulkers still represent good value in a climate of firming dry rates," he told *Fairplay*.

The price of a 10-year old Capesize bulk carrier is currently about USD24 million. While ships are undervalued, this is nearly double the USD13.5 million a 10-year old Cape cost in 2015.

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While the dry cargo market has seen a softer tone in the past two months, with average Capesize earnings falling to about USD7,400/day last week against average 2018 earnings of USD14,000, "2019 will be a good year for dry bulk," Rowe said.

"If prices do go down further, you should buy," he advised, even though the number of secondhand bulker sales is likely to be close to an 11-year high. About 528 secondhand bulk carriers changed hands up to mid-November, compared with 650 bulkers last year, the highest number since the dry bulk boom in 2007, according to Clarkson figures.

"There is the steady drumbeat of deals being done every week," Rowe added, with about 15 transactions concluded last week.

While there is some negative sentiment in the market due to the ongoing China-US trade spat, dry cargo volumes have risen by 2% so far this year, while the dry cargo fleet has increased by 2.5%.

Vessel supply and cargo demand will be balanced in 2019 and beyond, Rowe forecast.

Delivery of dry cargo ships are at a 10-year low, while many vessels are earmarked as replacements for older tonnage.

Owners have avoided speculative ordering amid uncertainty over the technology needed to meet the International Maritime Organization's (IMO's) 2050 targets for shipping to lower greenhouse-gas emissions.

As engine manufacturers and owners mull the possibility of ammonia and hydrogen fuel cell-powered vessels, the technology does not exist yet to meet the IMO's targets.

"Ships ordered now won't be fit for purpose 10–15 years from now," Rowe said.

Meanwhile, scrapping has seen an expected increase as owners sell their ships for recycling rather than invest heavily in upgrades to meet new environmental rules.

These include about USD2 million to fit scrubbers to meet the [IMO 2020 sulphur cap](https://fairplay.ihs.com/special-topics/sulphur-cap-countdown) (https://fairplay.ihs.com/special-topics/sulphur-cap-countdown), regulations, about USD1 million to fit ballast-water treatment systems ahead of the 2019 deadline, and about USD3–4 million to cover steel replacement and other maintenance work to pass special survey requirements.

The current scrap price of a Capesize ship is about USD9 million, said Jamie Dalzell, senior trader at vessel buyer GMS in Singapore.

Current scrap prices are about USD450/tonne and, while financing and foreign exchange issues have made it difficult for some South Asian markets, tankers totalling about 20 million dwt have been sold for scrap so far this year, double the 11 million dwt of last year. By comparison, the dry bulk market has seen very little scrapping thus far in 2018, Dalzell said at the Mare Forum event.

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