Introduction to Shipping sector analysis

Summary

The industry suffers from overcapacity, which affects different shipping fleets in different ways. Consolidation, larger vessel sizes and slower sailing speeds have masked ever lower and lower margins and declining values. Future bankruptcies and mergers are likely, especially amongst container fleets.

Changes in global growth, demand and technology will need to be absorbed and adaptations made. This will cost.

Cycles exist within the industry. We are currently at the bottom of a cycle. A number of factors affect performance, price and value, these can change on a daily basis. Parts of the industry will fare better than others in these changes. Opportunities exist for investors. Soon to be implemented regulations affecting fuel and ship handling will exaggerate these differences. Now is a good time to look.

Before We Start

Before you even start thinking about investing in shipping, I strongly suggest reading two short novels, by author Matthew McCleery, an expert on shipping. 'The Shipping Man' and 'Viking Raid', in that order. Aside from being funny and enjoyable they will tell you, everything you need to know about the industry.

In short, the following is what we need to look at:

Moving parts when analysing the shipping industry:

- Overcapacity, depending on global economic growth, can make prices go down.
- Shipyards backlogs
- Fuel costs
- The shipping war – competition and lower costs
- Technology and development – automatization
- Age of ship and cost advantage
- Amazon shipping (sea vessels, not prime)
- Blockchain technology
- Climate change, new versus old routes – Panama, Arctic

Factors to consider when analysing a shipping business:

- Market cycles for the specific shipping sector
- Liquidity of the company
- Ownership and owner's interest – limited partnerships are horrible
- Freight and charter rates (spot or long-term contract.
- Ship size and location
- Daily running costs
- Fuel (bunker) costs
- Cost of building ships, selling price of ships, designing shipt
- Scrappage value of ships
- Debt covenants
- Competition

Too much work, ahhh, not if you don't like gambling. Eliminating speculation makes things easy, we just need one buy every 5 years, not more.

What and where to look for?

It is a high risk, high reward environment – I'll be looking for a high uncertainty, low risk, high reward opportunity – margin of safety, allow for volatility!

The market is ready, 10 years of nobody looking at this, boring, banks have fired analysts, nobody is recommending investing in shipping…. The whole story, and 10 years have been really bad. In 2016 life really left shipping, there was a bit of hope in 2010 and 2014, but 2016 was the final blow, pure capitulation. Since then, frustration and selling.

I am going to assume, a working knowledge of how to apply Auto Regressive Conditional Heteroskedasticity classic models into worldwide shipping in order to capture volatility, as per Kavussanos (1996). Personally, I have additionally used 10 years of data, with BEKK parameters, in a multivariate GARCH model (BEKK GARCH) to capture the volatility transmission effect from the freight market, new build and second hand vessel markets, especially as it applies to the global dry bulk fleet.

Eh…. alternatively, we could just have a cup of coffee and apply a little common sense to the matters in hand! I prefer the second option😊

Why do I say this? Because, people will tell you shipping is complex. And, it can be. In a briefing note of this type it would be impossible to write a detailed account of the industry, with its own language, laws and traditions. But actually, we don't need to, it's common sense.

So, at best, I will talk in general terms and concepts, in an attempt to keep technical jargon to a minimum. But, be aware, there will always be some arse out there on YouTube or the Forum who will enjoy saying things, like, 'yes, but you failed to take into account the maximum load rate on a dry bulk carrier is 16,000 tonnes an hour...blah, blah,blah.' They are right, but for our purposes, it's not actually important. As will become apparent, shipping fits the value investing model, as long as we take a step back and apply that previously mentioned common sense.

I’ll do short overviews of specific sectors by looking at individual stocks, each report should give you a good overview of the sector and a laconic approach, best approach to Viking or Greek owned businesses.

Let’s start!