

## Dry Bulk Shipping

Coal shipments rose; China's switch from dom to int'l ore + India's rising coal demand could mitigate China's coal drop

- **The BDI fell 9% w/w driven by weaker rates in the larger vessel segments:** Capesize daily earnings fell 20% w/w to \$12.5K/day for the week ending Sep 19, while Panamax daily earnings fell 12% w/w to \$5.0K/day. In contrast, Supramax/Handysize index rose 2%/4% w/w. No period fixture was done for the week vs two done at \$24.0K/day for 15-12 months previous week. The one-year Capesize time-charter rate fell 7% w/w to \$20.0K/day (*source: Clarksons*).
- **Forward curve points to a more moderate pick-up in 4Q:** FFA indications for Capesize time-charter are at \$20.1K/day for 4Q14 (current: \$14.3K/day), falling to \$12.5K in 1Q15 (low season), but rising again to \$17.4K for CY2015. FFA for Panamax TC are at \$9.2K/day for 4Q14 (current: \$6.6K/day), \$8.2K in 1Q15 and \$9.4K/day for CY2015. FFA for Supramax TC are at \$11.6K/day for 4Q14 (current: \$10.8K/day), \$9.6K in 1Q15 and \$10.4K/day for CY2015. FFA for Handysize TC are at \$8.7K/day for 4Q14 (current: \$7.2K/day), \$7.7K in 1Q15 and \$8.8K/day for CY2015 (*source: Clarksons, SSY*).
- **The number of Capesizes chartered in the spot market rose 21% w/w during the week, mainly driven by higher coal shipping demand** but were still 23% lower y/y. 65% will carry iron ore (vs 86% a week ago), 26% coal (11%), 9% unknown (3%). Jan-Dec 2013 split: 69% iron ore (vs 72% in 2012), coal 23% (flat), others 8% (5%).
- **China's share of shipping demand fell again while rest of the world's rose:** 65% of Capesize vessels were chartered to carry cargo to China (vs 78% last week), 91% carrying iron ore (from 91%), 9% coal (9%). Rest of Asia's share rose to 21% (from 11%). Europe's share of demand also rose, driving 14% of Capesize demand (11%). In Jan-Dec 2013, the split was China 70% (vs 70% in 2012), rest of Asia 16% (16%), Europe 13% (13%), other 1% (1%). China's iron ore inventories at ports rose 1% m/m, 48% y/y to 104Mt.
- **Panamax and Handymax ship chartering activity rose while Handysize fell:** In the Panamax spot market, the number of ships chartered rose 11% w/w to 50 vessels (as 2 more ships were added in the previous week) with coal/grain shipping demand driving 34%/27% of the ships chartered. Handymax chartering activity rose 10% w/w while Handysize chartering activity fell 57% w/w.
- **China's new policy restricting the use of more pollutive coal** (with more than 16% ash and 3% sulphur) effective 1st Jan 2015 could potentially reduce seaborne thermal coal imports from Australia due to the higher ash content. Indonesia's coal may help to fill part of the gap and there could be import upside if more low-quality China domestic coal needs to be substituted as well but the Indonesia-China voyage distance is shorter. China is the world's largest seaborne thermal coal importer, driving c.17.6% of demand, followed by India at c.16.8%. Thermal coal drives c.20% of global dry bulk shipping demand (Fig 10). We believe India's rising coal demand could help mitigate the negative impact from China, benefitting smaller vessels more due to port constraints in India. On the positive side, China's policy stimulus could help lift iron ore imports (which drives c.28% of global dry bulk shipping demand) and coking coal (c.6% of demand) as it continues to shut down the inefficient mines in the next 2 years in our view. **Top picks:** PacBasin Shipping and Precious Shipping.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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### Shipping

Corrine Png <sup>AC</sup>

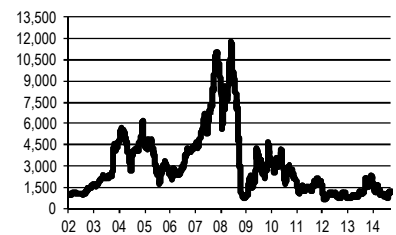
(65) 6882-1514

corrine.ht.png@jpmorgan.com

Bloomberg JPMA PNG <GO>

J.P. Morgan Securities Singapore Private Limited

### Baltic Dry Index



Source: Bloomberg

### Baltic Freight Indices – Summary

	Index	W/W	Y/Y
Baltic Dry	1,075	-9.0%	-42.2%
Baltic Handysize	498	4.4%	-10.1%
Baltic Supramax	1,029	2.3%	8.2%
Baltic Panamax	814	-7.0%	-42.5%
Baltic Capesize*	2,112	-17.0%	-46.2%
Baltic Dirty Tanker	612	-4.4%	5.5%
Baltic Clean Tanker	552	-1.4%	2.4%

Source: Bloomberg, as of Friday 19 Sep close. \*The Baltic Exchange introduced a new Capesize Index on 6th May 2014.

Table 1: Baltic Freight Indices – Summary

	Index	1W-Chg	1M-Chg	3M-Chg	12M-Chg	12M Hi	Date Hi	Chg Hi	12M Lo	Date Lo	Chg Lo
Baltic Dry	1,075	-9.0%	3.4%	19.2%	-42.2%	2,337	12-Dec-13	-54.0%	723	22-Jul-14	48.7%
Baltic Handysize	498	4.4%	26.4%	12.7%	-10.1%	821	17-Dec-13	-39.3%	355	31-Jul-14	40.3%
Baltic Supramax	1,029	2.3%	14.1%	45.3%	8.2%	1,562	12-Dec-13	-34.1%	659	18-Jul-14	56.1%
Baltic Panamax	814	-7.0%	-2.7%	71.7%	-42.5%	2,096	13-Dec-13	-61.2%	419	27-Jun-14	94.3%
Baltic Capesize*	2,112	-17.0%	-6.4%	10.1%	-46.2%	4,329	25-Sep-13	-51.2%	1,150	7-Aug-14	83.7%
Baltic Dirty Tanker	612	-4.4%	-19.4%	-14.0%	5.5%	1,344	20-Jan-14	-54.5%	584	19-Sep-13	4.8%
Baltic Clean Tanker	552	-1.4%	0.9%	8.0%	2.4%	636	17-Dec-13	-13.2%	483	29-Oct-13	14.3%

Source: Bloomberg. (Sep 19, 2014 closing). \*The Baltic Exchange introduced a new Capesize index on 6th May 2014.

Table 2: AP Dry Bulk Shipping Share Price Movements

Company	Cosco	CSD	Korea	PacBasin	Precious	Sincere	Sinotrans	Thoresen	U-Ming	Sector
Ticker	1919:HK	1138:HK	005880:KS	2343:HK	PSL:TB	2605:TT	368:HK	TTA:TB	2606:TT	
Current Price (LC)	3.29	5.04	25,050.00	4.45	25.25	26.90	2.19	23.90	46.55	
Chg From 12M Lo	10%	25%	43%	3%	36%	5%	4%	57%	1%	16%
Chg From 12M Hi	-20%	-19%	-44%	-21%	-14%	-9%	-25%	-4%	-14%	-20%
1M-Chg	-5%	-12%	-4%	-7%	-1%	-2%	-12%	12%	-5%	-4%
1W-Chg	-5%	-10%	-9%	-2%	-2%	-1%	-4%	1%	-3%	-4%

Source: Bloomberg. Share prices are as of Sep 23, 2014 closing.

Table 3: Dry Bulk Shipping Valuation Comparison

Company	Ticker	Price (LC)	MV (US\$B)	ROE (%)		P/E (x)		P/BV (x)		EV/EBITDA (x)		EPS growth (%)	
				2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	14/13	13/12
Cosco*	1919 HK	3.29	5.95	-18.6	-5.3	nm	nm	1.3	1.4	26.2	11.7	nm	-75.0
CSDdevelop	1138 HK	5.04	2.69	2.0	4.4	45.4	45.4	0.6	0.6	17.5	13.3	nm	192.0
Diana*	DSX US	9.74	0.81	-1.4	2.7	nm	27.7	0.6	0.6	17.3	8.8	5.8	nm
Dry	DRYS US	2.76	1.25	0.1	4.4	nm	6.9	0.5	0.3	8.2	7.1	-87.5	nm
Eagle	EGLE US	0.82	0.01	nm	nm	nm	nm	nm	nm	13.0	7.6	-23.7	-87.4
Golden Ocean	GOGL NO	7.64	0.54	2.5	8.5	34.3	10.5	0.9	0.9	11.4	7.9	-77.3	225.7
Kawasaki*	9107 JP	244.00	2.08	6.1	7.7	9.8	7.4	0.6	0.5	6.4	6.0	37.5	33.6
Mitsui*	9104 JP	361.00	3.94	7.5	8.4	9.0	7.5	0.7	0.6	11.6	9.5	-18.1	19.6
Norden	DNORD DC	154.40	1.12	-4.9	3.6	nm	15.3	0.7	0.7	nm	6.2	64.6	nm
Pac-Basin*	2343 HK	4.45	1.10	-9.7	6.8	nm	14.2	0.9	0.9	21.1	7.3	569.3	nm
Precious*	PSL TB	25.25	0.81	3.1	9.1	53.7	17.8	1.7	1.6	14.1	9.2	-7.8	202.1
Sincere	2605 TT	26.90	0.50	6.9	7.3	13.8	12.7	1.0	0.9	7.4	6.9	0.7	9.3
Sinotrans	368 HK	2.19	1.14	1.4	3.3	70.6	25.7	0.5	0.5	3.7	2.7	300.0	175.0
Thoresen	TTA TB	23.90	0.95	4.8	5.6	28.8	21.8	1.3	1.2	11.9	10.5	nm	32.0
Torm	TORM DC	0.49	0.06	NA	nm	nm	nm	0.5	nm	12.8	6.2	-38.7	nm
U-Ming*	2606 TT	46.55	1.32	5.4	8.0	29.3	19.9	1.6	1.5	21.3	14.4	-13.1	47.2
<b>Average</b>				<b>-2.2</b>	<b>3.6</b>	<b>16.1</b>	<b>13.6</b>	<b>0.9</b>	<b>0.9</b>	<b>15.4</b>	<b>9.7</b>	<b>35.2</b>	<b>32.3</b>

Source: Bloomberg for Not Covered companies and J.P Morgan estimates for covered companies. \*Companies covered by J.P. Morgan. Note: Share prices are as of Sep 23, 2014 closing.

\* FY15 and FY16 YE March year end for Kawasaki and Mitsui.

Table 4: Wet Bulk Shipping Valuation Comparison

Company	Ticker	Price (LC)	MV (US\$B)	ROE (%)		P/E (x)		P/BV (x)		EV/EBITDA (x)		EPS growth (%)	
				2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	14/13	15/14
CAPITAL	CPLP US	9.82	1.04	3.4	NA	31.8	22.1	1.2	1.3	12.8	10.8	-6.4	44.0
DHull	DHT US	6.29	0.58	-0.1	4.4	nm	17.8	0.8	0.9	15.4	6.2	-62.9	nm
Frontline	FRO US	1.25	0.12	nm	22.1	NA	NA	NA	NA	9.5	8.9	-57.7	-39.3
KB	VLCCF US	9.17	0.45	4.5	16.8	25.3	7.7	0.8	1.2	12.0	3.0	159.3	227.3
Nordic	NAT US	8.25	0.74	-2.0	1.2	nm	nm	0.8	0.9	11.6	8.6	-87.2	-104.9
Sh Fin	SFL US	17.52	1.63	9.4	11.9	15.5	13.5	1.4	1.3	8.6	8.3	36.1	14.4
TORM	TORM DC	0.49	0.06	NA	nm	nm	nm	nm	nm	12.8	6.2	-38.7	nm
TSAKOS	TNP US	6.51	0.54	2.4	4.7	15.2	9.0	0.4	0.4	9.3	7.9	nm	69.5
<b>Average</b>				<b>4.0</b>	<b>6.9</b>	<b>15.1</b>	<b>12.3</b>	<b>1.0</b>	<b>1.0</b>	<b>11.1</b>	<b>8.1</b>	<b>2.7</b>	<b>24.6</b>

Source: Bloomberg. Note: Share prices are as of Sep 23, 2014 closing.

Figure 1: Baltic Handysize Index

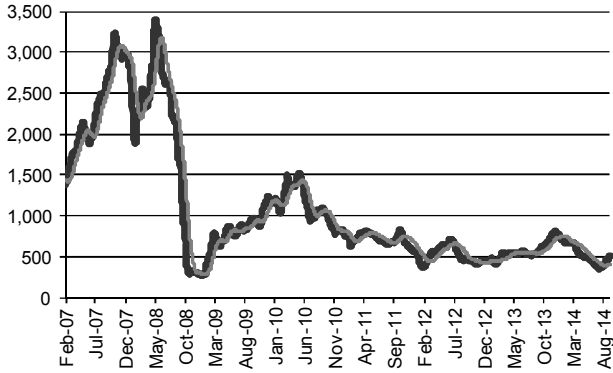


Figure 2: Baltic Supramax Index

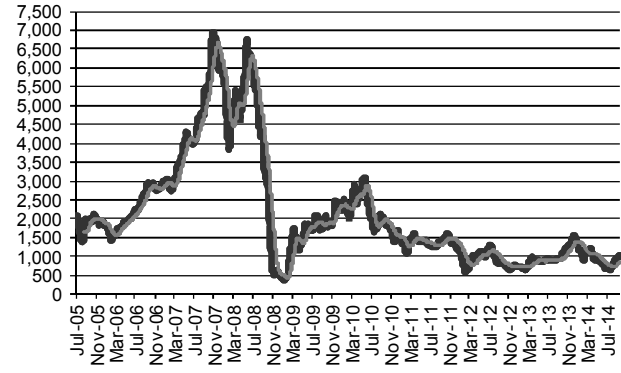


Figure 3: Baltic Panamax Index

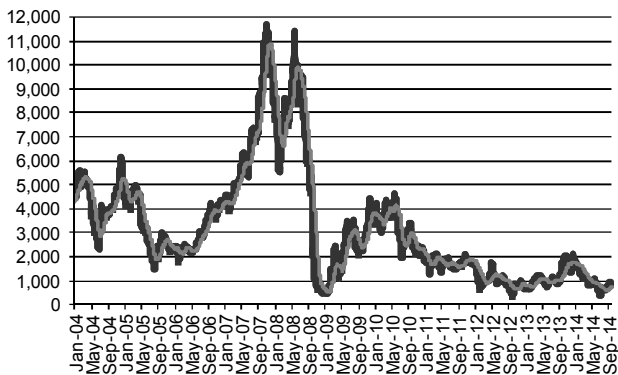


Figure 4: Baltic Capesize Index

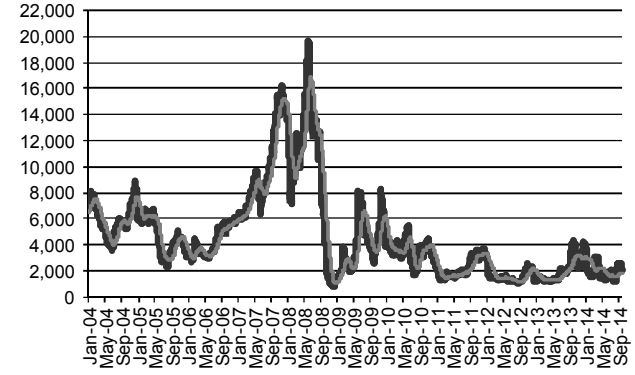


Figure 5: Baltic Dirty Tanker Index

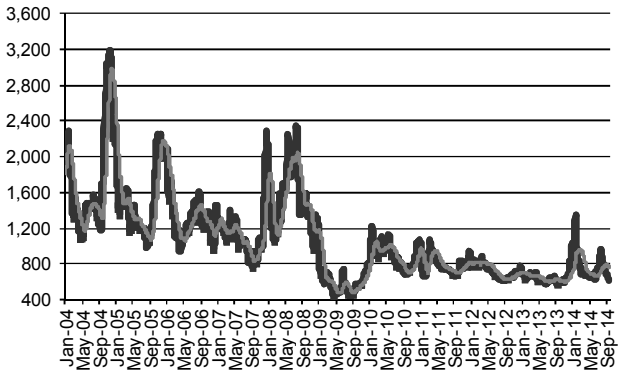
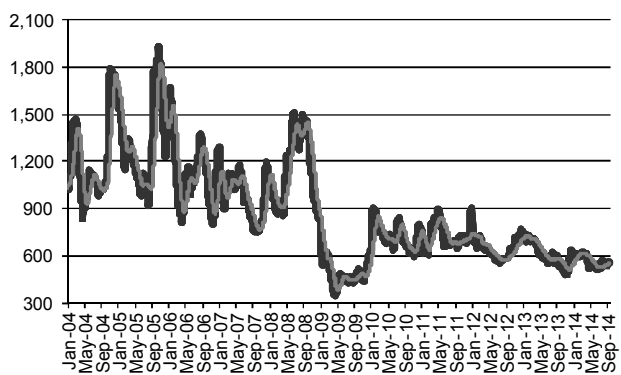


Figure 6: Baltic Clean Tanker Index



Source: Bloomberg.

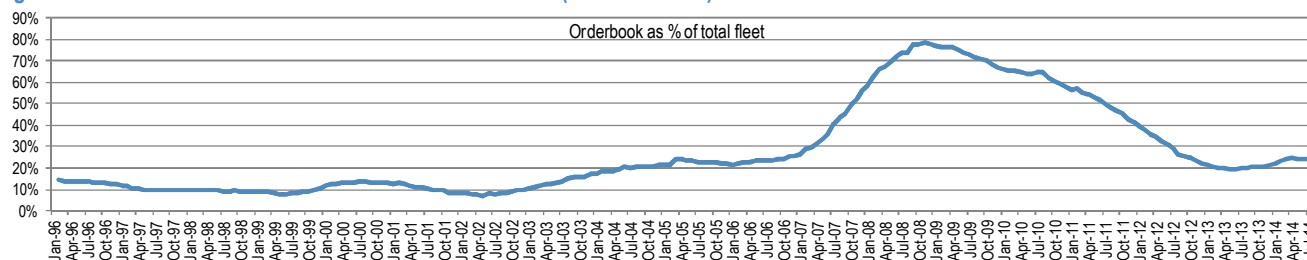
— 50 day moving avg.

Table 5: Current Time-Charter Rate and FFA Indications

	\$/Day				
	Current	Peak season 4Q14	Low season 1Q15	2Q15	CY2015
Capesize	14,313	20,125	12,500	14,500	17,388
Panamax	6,564	9,150	8,175	9,700	9,350
Supramax	10,772	11,600	9,575	10,525	10,350
Handysize	7,200	8,650	7,650	9,250	8,750
		<b>Versus current TC rate</b>			
Capesize	-	41%	-13%	1%	21%
Panamax	-	39%	25%	48%	42%
Supramax	-	8%	-11%	-2%	-4%
Handysize	-	20%	6%	28%	22%

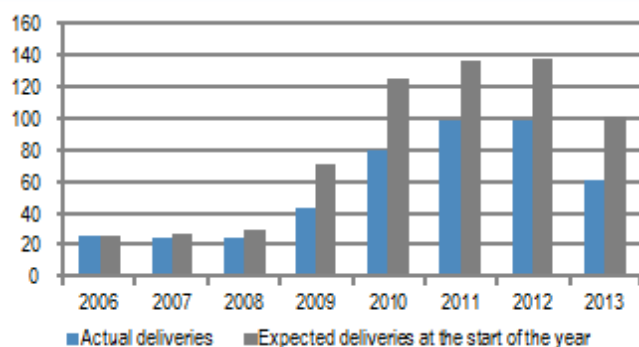
Source: Clarksons, SSSY, FIS and Bloomberg.

Figure 7: Global Bulk Carrier Order Book as % of Total Fleet (Based on DWT)



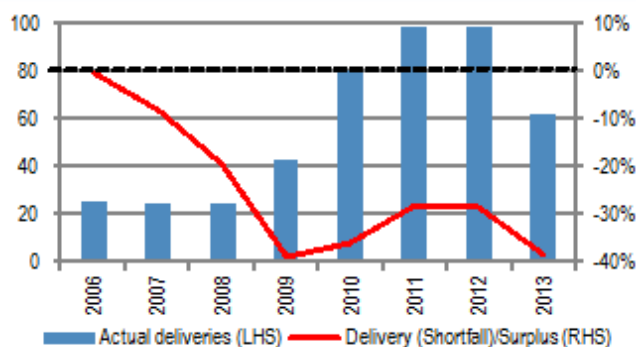
Source: Clarksons

Figure 8: Newbuild Dry Bulk Vessel Deliveries (Actual vs Expected)



Source: Clarksons.

Figure 9: Historical Newbuild Bulk carrier Delivery Slippages



Source: Clarksons.

Table 6: Global dry bulk vessel order book and implied capacity growth (in vessel terms)

Vessel Type	Current Fleet								
	capacity (in vessel terms as at 1st Sep, 2014)	Orderbook as % of existing fleet (in vessel terms)	Capacity growth in 2011 (in vessel terms)	Capacity growth in 2012 (in vessel terms)	Capacity growth in 2013 (in vessel terms)	Capacity growth in 2014E (in vessel terms)	Capacity growth in 2015E (in vessel terms)	Capacity growth in 2016E (in vessel terms)	Capacity growth in 2017E (in vessel terms)
Capesize	1,615	22.8%	17.3%	10.3%	3.8%	6.1%	8.1%	9.4%	1.0%
Panamax	2,432	13.7%	10.6%	10.0%	8.4%	8.5%	6.8%	0.6%	0.6%
Handymax	3,079	25.9%	15.3%	10.2%	6.4%	8.9%	10.7%	6.2%	1.8%
Handysize	3,111	14.9%	1.4%	-0.3%	-1.2%	6.3%	7.0%	3.3%	0.8%
<b>Total</b>	<b>10,237</b>	<b>19.1%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>4.0%</b>	<b>7.6%</b>	<b>8.2%</b>	<b>4.5%</b>	<b>1.1%</b>

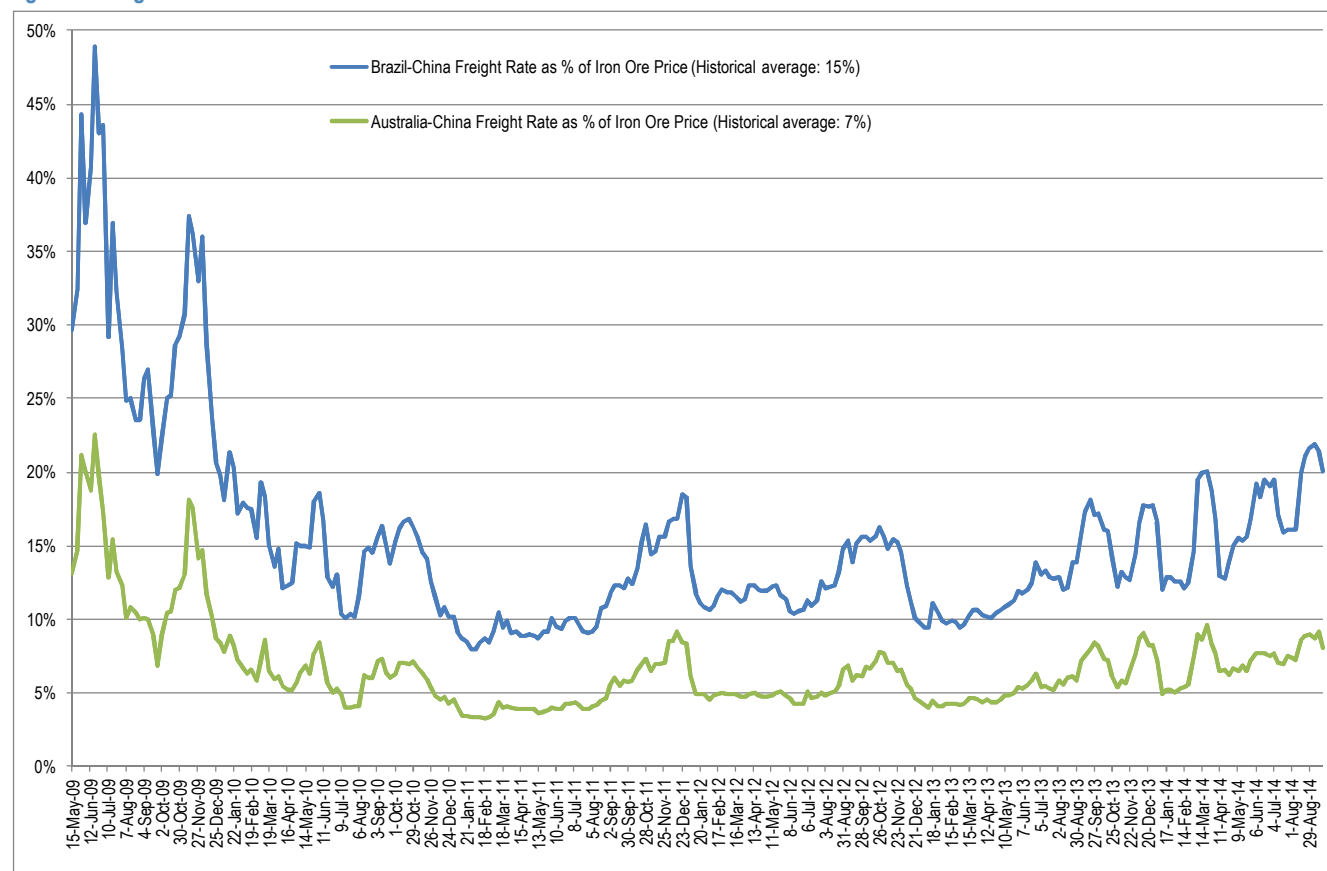
Source: Clarksons.

Table 7: Global Dry Bulk Vessel Order Book and Implied Capacity Growth (in million dwt)

Vessel Type	Current Fleet	Orderbook as % of	Capacity growth in	Capacity growth in	Capacity growth in	Capacity growth in	Capacity growth in	Capacity growth in	Capacity growth in
	capacity (in m dwt as at 1st Sep, 2014)	existing fleet (in m dwt)	2011 (in m dwt)	2012 (in m dwt)	2013 (in m dwt)	2014E (in m dwt)	2015E (in m dwt)	2016E (in m dwt)	2017E (in m dwt)
Capesize	303	24.1%	17.7%	12.0%	5.0%	6.7%	8.2%	9.9%	1.1%
Panamax	192	18.3%	15.4%	12.0%	9.3%	8.9%	7.0%	4.4%	0.6%
Handymax	163	29.3%	13.9%	12.0%	7.4%	9.7%	12.1%	7.1%	2.0%
Handysize	88	18.5%	3.0%	1.2%	-0.4%	7.0%	8.8%	4.2%	1.0%
<b>Total</b>	<b>747</b>	<b>23.1%</b>	<b>14.1%</b>	<b>10.5%</b>	<b>5.9%</b>	<b>8.0%</b>	<b>8.8%</b>	<b>7.2%</b>	<b>1.2%</b>

Source: Clarksons.

Figure 9: Freight Rate as % of Iron Ore Price



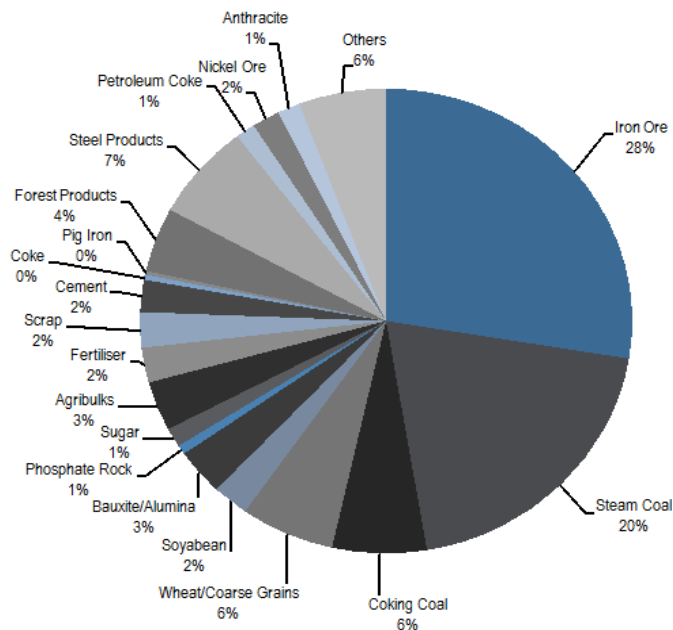
Source: Bloomberg and Clarksons.

Table 8: Top Global Capesize Fleet Owners

Current Owner	Number	mn DWT	Market Share	Avg Size (DWT)	Age (years)	Country
Nippon Yusen Kaisha	63	12.2	4.1%	193,857	7.0	Japan
Mitsui O.S.K. Lines	57	11.2	3.7%	197,100	5.4	Japan
K-Line	54	10.6	3.5%	196,237	5.0	Japan
Angelicooussis Group	48	8.4	2.8%	174,147	8.0	Greece
COSCO Group	45	8.9	3.0%	198,111	6.6	China P.R.
Hanjin Shipping	33	5.6	1.8%	168,606	11.9	South Korea
Vale	31	9.2	3.0%	295,248	9.9	Brazil
Berge Bulk Ltd.	30	7.6	2.5%	254,457	14.4	Bermuda
Polaris Shipping Co	24	6.2	2.1%	259,673	20.3	South Korea
Pan Ocean	24	5.8	1.9%	241,875	4.5	South Korea
Shoel Kisen K.K.	24	4.5	1.5%	188,098	4.1	Japan
Sinokor Merchant Mar	24	4.7	1.6%	196,376	17.0	South Korea
NS United K.K.	23	4.8	1.6%	209,600	4.5	Japan
Nissen Kaiun K.K.	22	3.7	1.2%	166,364	4.3	Japan
Zodiac Maritime Agy.	21	4.9	1.6%	234,162	14.1	United Kingdom
CMB N.V.	21	3.8	1.3%	180,408	5.7	Belgium
Enterprises Shpg.	19	3.3	1.1%	171,419	8.5	Greece
China Shipping Group	18	4.4	1.5%	246,825	2.3	China P.R.
Cardiff Marine Inc.	18	3.2	1.1%	178,125	6.7	Greece
Navios Group	18	3.2	1.1%	177,987	4.2	Greece
<b>Top 20 Total</b>	<b>617</b>	<b>126.2</b>	<b>41.9%</b>	<b>206,434</b>	<b>8.2</b>	
<b>Global Total</b>	<b>1,605</b>	<b>301.0</b>		<b>187,539</b>		

Source: Clarksons.

Figure 10: Global Bulk Shipping Demand Breakdown By Commodity



Source: Clarksons.

**Companies Discussed in This Report** (all prices in this report as of market close on 24 September 2014)  
 Pacific Basin Shipping (2343.HK/HK\$4.39/Overweight), Precious Shipping (PSL.BK/Bt24.80/Overweight)

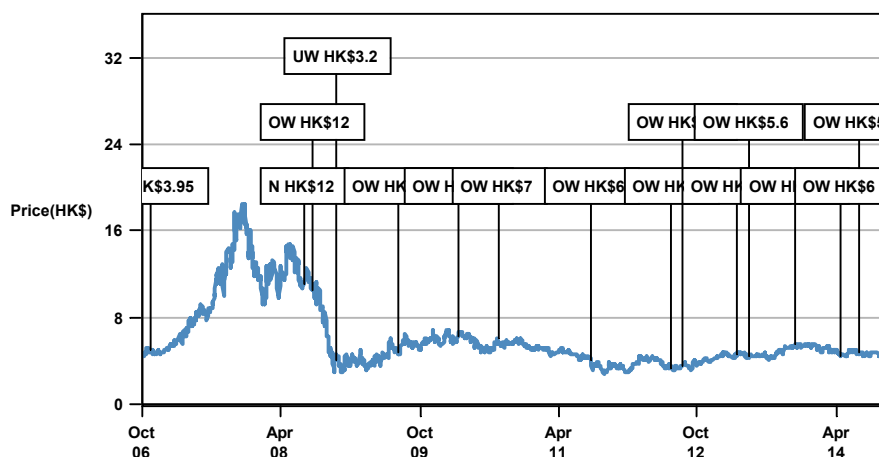
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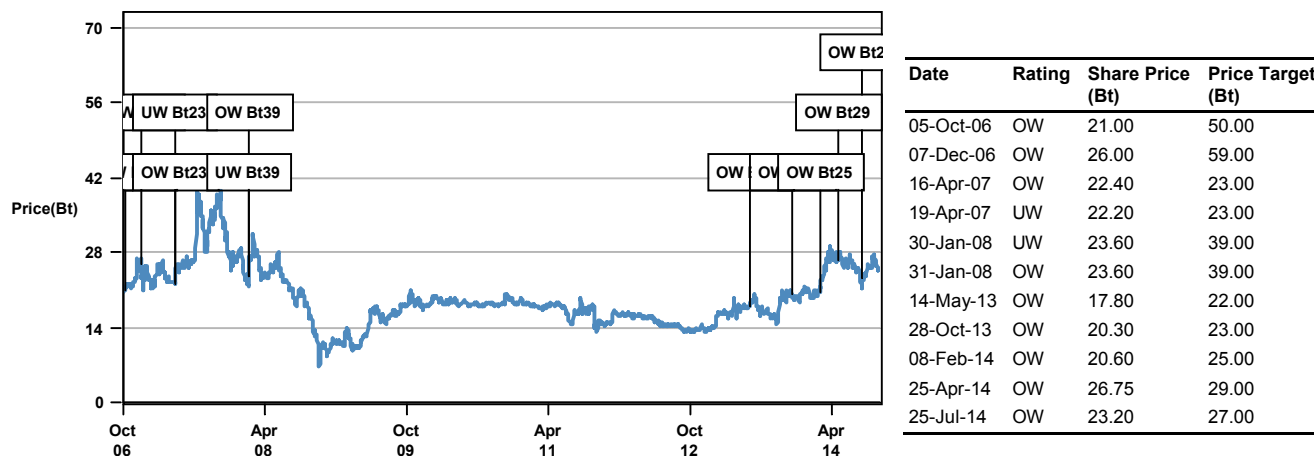
Pacific Basin Shipping (2343.HK, 2343 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
02-Nov-06	UW	4.99	3.95
03-Jul-08	N	11.08	12.00
05-Aug-08	OW	10.60	12.00
05-Nov-08	UW	4.15	3.20
07-Jul-09	OW	4.78	6.30
02-Mar-10	OW	6.24	7.20
03-Aug-10	OW	6.01	7.00
03-Aug-11	OW	4.11	6.00
19-Jun-12	OW	3.25	5.00
02-Aug-12	OW	3.43	4.50
01-Mar-13	OW	4.57	5.30
18-Apr-13	OW	4.36	5.60
18-Oct-13	OW	5.50	6.50
15-Apr-14	OW	4.47	6.00
26-Jun-14	OW	4.72	5.80

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 02, 2006.

Precious Shipping (PSL.BK, PSL TB) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Oct 05, 2006.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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IB clients*	55%	49%	34%
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