

German auditor forecasts better days for boxship rates and values

New forecasting model highlights threefold rise in sub-panamax rates and hike in ship valuations

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London

Charter rates for sub-panamax containerships could rise threefold by 2022 and ship valuations should be considerably higher than existing estimates, according to German financial consultant Hansa Partner.

The firm argues charter rates for 1,700-teu, 2,700-teu and 3,500-teu containerships are too pessimistic and predicts an anticipated rally over the next five years will be stronger than some forecasters suggest.

Under Hansa Partner's new forecasting model, six to 12-month time charters for 1,700-teu boxships will rise from \$7,000 per day this year to between \$13,300 and \$16,400 per day by 2022.

Charter rates for 2,700-teu vessels will rise over that period from \$8,700 per day to between \$14,000 and \$24,000 per day.

In addition, rates for 3,500-teu vessels are predicted to more than double from \$7,700 to between \$15,700 and \$25,400 per day.



ROBIN ARP: A partner and auditor at Hansa Partner, and the creator of the ECM five-year forecasting model
Photo: Hansa Partner

The forecasts have been presented using revised figures for the third quarter of 2017.

Robin Arp, a partner and auditor with the Hamburg-based financial consultancy, says he decided to formulate his own forecasting

models in the belief that existing models are either expensive or lacking in transparency. For example, banks in Germany have since 2010 used the Long Term Asset Value model as an alternative to distressed sale-and-purchase prices.

But the model gives very low values in comparison with replacement costs. Five-year-old secondhand vessels are estimated at only 40% of the newbuilding price. "That's not a realistic value," Arp says.

ECONOMETRIC ANALYSIS

His answer is to use the Error Correction Model (ECM), which applies econometric techniques to forecast charter rates over the next five years.

Trade export figures are input from the International Monetary Fund, along with other parameters including data from shipbrokers detailing containership utilisation over 20 years.

The result is a model that produces higher charter rate valuations than rival assessments.

The differences are greatest in the 2,700-teu and 3,500-teu sectors. Estimated charter rates in 2022 are around \$7,000 to \$8,000 per day higher than rival forecasts, at around \$18,500 to \$20,000 per day.

The higher values produced by

his ECM model are "more plausible," Arp says. He adds that back testing over three to eight years shows it has been very reliable with an accuracy of between 70% and 90%, and highest in the smaller ship segment.

The model is not infallible. Its accuracy depends on the quality of data used to produce assessments of supply and demand, Arp says.

Recent predictions for 2015 to 2017 proved overly optimistic due to inflated demand expectations. Other variables such as the number of newbuildings ordered and changing economic cycles are also problematic.

Arp says the model is a useful tool for assessing valuations for annual audits and financial restructuring arrangements, as it reflects long-term revenue and debt coverage potential.

Many containership owners will hope the predictions are correct. But in many cases, the equity is already lost "and we are only talking about how much money the banks will lose", Arp says.



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