Business

For Sabrina Chao, vice-chairman of Wah Kwong Maritime Transport Holdings, current market conditions have seen too many ships chasing too little cargo so far this year. Photo: May Tse

Shipping titans encounter stormy weather

Keith Wallis

For owners of large dry-bulk cargo ships and tankers, the first two months of this year have not been the best of times to be a shipping titan.

Almost three years ago, shipowners toasted their luck as they saw the daily charter rate for an 180,000 deadweight tonne dry bulk capesize ship soar to close to US$300,000 as the mainland fuelled global demand for coal and iron ore.

Now, with too many ships chasing too little cargo, the owner-charterer roles are reversed as capesize owners are in the invidious position of paying charterers to take their ships.

For Sabrina Chao Sih-ming, daughter of shipping magnate George Chao Sze-kwong, the current market conditions are her first taste of the shipping sector in serious distress since entering the industry in 2001. But while she recognised the market was "very bad" and the "supply side is still a concern", the volatility in the dry bulk and tanker markets did offer opportunities to expand the business.

Chao, vice-chairman of Wah Kwong Maritime Transport Holdings, said: "We have a very sound business model and good cash flow."

It was also important to remember after six years of rising charter rates, new ship orders and commodities growth, how quickly the markets turned bad from about September 2008 and had remained volatile since then.

"Wah Kwong has been around a long time and I'm quite sure we will weather the storm," she said, adding that the company last year had a "busy year" taking delivery and ordering "quite a few new buildings". These included a 319,000 deadweight tonne supertanker ordered at a cost of US$98 million last August and the delivery of two 180,000 deadweight tonne capesize ships.

The company is also set to take delivery this year of a further five of the about 10 vessels it has on order. The deliveries will strengthen Wah Kwong's position as one of Hong Kong's largest privately owned shipowners with an existing fleet of 24 tankers, dry cargo ships and gas tankers.

"We are always looking for new projects," she said.

Chao said the current volatility in the shipping market would bring opportunities as financially stressed owners were unable to take delivery of the ships they might have ordered at the top of the commodities boom.

Chao said there was room for the price of new ships, at about US$100 million for a supertanker and US$55 million for an 180,000 deadweight tonne capesize ship ordered from a reputable Chinese shipyard, to come down.

Chao, who has taken stronger control of running and planning the future of the company since her father was admitted to hospital last autumn, said Wah Kwong was "constantly looking for new charterers".

They had included Noble, the commodities group, which took the 180,000 deadweight tonne Aqua Venture on a five-year charter when the ship was delivered to Wah Kwong late last year.

Chao said MUR Shipping in Australia would charter the last vessel, a 32,000 deadweight tonne handysize bulk carrier built by China's Chengxi Shipyard that was ordered by her father before he fell ill.

Wah Kwong had also teamed up

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Fleshing out fleet

Wah Kwong is set to take delivery this year of five more vessels

It has an existing fleet of this number of tankers, dry cargo ships and gas tankers

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Owners have to pay charterers to take ships

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with New York-listed tanker company, Teekay Tankers, to jointly own the supertanker ordered last year.

She said Wah Kwong would "always like to maintain a mixed fleet" of dry cargo, tankers and gas carriers as a "balance" or "hedge" against varying conditions in each of the markets.

Chao said in the current market "tankers and bulkers are underperforming" but the liquefied petroleum gas carriers were seeing charter rates increasing.

Wah Kwong could succeed in securing better rates for these gas carriers if plans to tie up with owners of other gas carriers in Asia came to fruition.

Chao said talks to establish the pool of vessels were under way and an announcement could be made next month. The firm's existing 10 ships, which can carry between 3,500 and 5,000 cubic metres of gas, are operated in a joint venture with European outfit, Exmar.

Chao said pools typically generated "better rates" for owners because there were fewer owners that charterers could negotiate with to charter ships, while there were also economies of scale by having a larger fleet.

Chao, who joined Wah Kwong in 2002 after a financial career at Jardine Fleming and PricewaterhouseCoopers and gaining shipping experience from tanker, ship safety and insurance companies, is also keen to widen the firm's IT use.

She said the move would improve efficiencies by helping to link the firm's various offices and making more operational data available online to more people. Asked how she thought Wah Kwong's computerisation compared with other shipping companies, Chao said: "We are definitely not a dinosaur, but we're definitely not advanced, so we have definite room for improvement."

One move that Chao ruled out as the company geared up to celebrate its 60th anniversary in 2012 was a revival of the initial public offering initially planned in 2008.

Chao said the proceeds of the listing planned three years ago were earmarked for new vessels that had already been ordered and which had now been financed by bank loans.

The Bank of China had provided US$170 million to finance the cost of two supertankers that cost US$136 million each, while the Dalian branch of the China Construction Bank had also provided cash for the firm's vessel building.

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> **Sabrina Chao, talking about the company's use of IT**

She said Wah Kwong chartered out its tankers and large dry bulk vessels for about five years which provided a steady income stream but little excitement or mystery for investors.

Chao also felt that money raised from the offering put pressure on the company to spend it. "We do not want to feel that as soon as we have raised the money we have to spend it. We want to invest according to the shipping cycle."