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SHIPPING REPORT

INCLUDES 5-YEAR FORECASTS TO 2019

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BMI Industry View

BMI View: *Tanzania's location on the Indian Ocean enables it to serve as an entrypoint for the landlocked hinterland states of the EAC - namely Burundi, Rwanda and Uganda, and for the DRC additionally. As a result, we expect that Tanzania's shipping sector will continue to enjoy robust growth as it will benefit not only from domestic demand but also that of these states. Real GDP growth in the EAC is set to average more than 6% over the course of our forecast period, and a similar growth rate will be enjoyed by Tanzania itself, and this will drive both container and gross tonnage volumes upwards. At present, the Tanzanian shipping sector is somewhat constrained by the reliance on the port of Dar es Salaam, where development has lagged demand and problems with congestion are a frequent occurrence. However, over the medium term this will ease as a major new facility is being constructed at Bagamayo, with Chinese investment. Work on this began in H215.*

Recent Developments

Bagamoyo Port Construction Starts: Construction of the Bagamoyo Port project in Tanzania began on October 16. The project, estimated to cost USD10bn, will reportedly include a port, supporting infrastructure and a 17sq km industrial park. The first phase of the project will include building the port around an area of 8sq km in Bagamoyo District. 'Apart from the sea port and the port side industrial zone, the project includes support infrastructure in the form of railways, road network, electricity, running water, gas and communication network', said Florens Turuka, Permanent Secretary in the Prime Minister's Office Florens Turuka (allAfrica). The project, touted to be the biggest in Sub-Saharan Africa, is expected to transform the country into a transport logistics hub and gateway to regional and international trade.

Government Issues Operational Contract Warning: The news that the Tanzanian government has issued a warning that it will terminate the 24-hour operational contract awarded to Tanzania International Container Terminal Services (TICTS) by the Tanzania Ports Authority if the former does not adhere to the terms of the contract could pose substantial risk to our forecasts. The upheaval of the introduction of a new port operator, and the possible relaxation of new more stringent policing of thefts during the period of flux, could likely deter shipping lines from calling at the port in the interim. However, we believe that this risk is minimal owing to the strong geographical position the country offers to logistics and supply chain groups.

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Key BMI Forecasts

- We forecast Dar es Salaam port's total throughput will grow by 8.2% to 16.33mn tonnes in 2016. 2017 growth will be 7.4%
- We forecast that container throughput at Dar es Salaam will reach 275,771 TEUs in 2016, on growth of 26.1%.

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SWOT

Shipping

SWOT Analysis	
Strengths	▪ Tanzania is seeing strong growth in bulk and container volumes. ▪ Tanzania is a regional gateway and well-placed for trade with Rwanda, Uganda, the DRC and Burundi. ▪ Weaker shilling against the dollar supporting export levels. ▪ Continued economic growth supports consumer demand for imported goods. ▪ Lower oil prices encouraging higher imports.
Weaknesses	▪ Poor inland transport infrastructure leaves supply chains largely reliant on truck freight, with risks of higher costs and delays, which contribute to longer turnaround times at the country's ports. ▪ The country's port infrastructure is inefficient and despite modernisation, severe congestion increases delays and costs for supply chains. ▪ Weaker shilling against the dollar depressing import levels.
Opportunities	▪ The expansion of existing port facilities and the construction of new ports should enable Tanzania to rival the attractions of Kenyan ports. ▪ The streamlining of border crossings is reducing lead times for freighting goods between the port of Dar es Salaam and its neighbours. ▪ Strong domestic production levels across agriculture, metals production and manufacturing sectors will boost exports over the medium term.
Threats	▪ Proposed railway line linking Kenya, Rwanda and Uganda could siphon off significant transit cargo volumes from Tanzanian ports.

SWOT Analysis - Continued

- The country's agricultural exports vulnerable to price fluctuations, as are mineral commodities exports, which could result in a steep decline in supply at short notice, reducing the volume of cargo passing through the ports.

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Political

SWOT Analysis

Strengths	▪ Since becoming independent in the early 1960s, Tanzania has earned a reputation as one of the more stable political systems in Africa. ▪ Tanzania is largely free of ethnic enmity; an issue that has caused considerable strife in neighbouring Kenya and elsewhere in Africa.
Weaknesses	▪ The political system is not entirely free, and the opposition continues to claim elections have been rigged. ▪ Tensions on the semi-autonomous Zanzibar archipelago have been a source of instability in the past, although a power-sharing deal signed in 2010 between the Civic United Front and ruling Chama Cha Mapinduzi could see these risks dissipate. ▪ Corruption is endemic, with the government estimating that around 30% of the budget is lost to graft each year.
Opportunities	▪ Ongoing progress towards East African unification could present opportunities for better regional cooperation on economic policy and foreign affairs. ▪ Political stability provides reassurance to foreign investors, especially compared with more politically volatile neighbours. ▪ The ongoing redrafting of the constitution offers the opportunity to increase satisfaction with the state of the nation.
Threats	▪ Corruption remains an important problem; if not checked, it could seriously tarnish the country's reputation. ▪ The government is heavily reliant on foreign assistance for budget support, with the withdrawal of this support potentially having serious negative implications for the fiscal accounts.

Economic

SWOT Analysis

Strengths	▪ The country has significant underdeveloped natural resources, including mining deposits (gas, gold, diamonds, gemstones, industrial minerals, coal, kaolin, tin, gypsum and phosphate). ▪ There is room for productivity growth in the large agricultural sector. ▪ If key issues such as access to basic services and education can be resolved, the country has a large and potentially competitive labour force. ▪ Ongoing East African Community integration will provide a large, attractive market for foreign investors.
Weaknesses	▪ Heavy reliance on agriculture, which is subject to extremes of weather, means that periodic droughts can lead to crop failures and serious food shortages. ▪ The level of poverty is high - with GDP per capita at US$700 in 2014 - and a large proportion of the population has limited access to education, health and other basic services.
Opportunities	▪ Tourism is a significant growth industry, based on the country's vast natural resources base. ▪ Reforms to property ownership laws could allow better access to bank lending for the rural population. ▪ Development of the natural gas sector stands to be transformative for the economy by boosting growth, improving the balance of payments position and addressing persistent electricity shortfalls.
Threats	▪ Inclement weather not only poses a risk to economic growth due to the impact on agricultural production but also decreases efficiency as hydroelectricity is an important source of power. Droughts are often accompanied by high inflation and currency weakness which can undermine macroeconomic stability.

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SWOT Analysis - Continued

- The withholding of international donor funds over a scandal in the power sector in 2014 poses a threat to fiscal and external account stability.

Operational Risk

SWOT Analysis

Strengths

- There is limited risk of conflict with other states.
- The low cost of exporting from and importing to Tanzania makes the country competitive from a regional perspective and boosts the country's role as a transit point to landlocked countries.
- Tanzania has achieved nearly universal access to primary education.
- Increased regional integration, with Tanzania's participating in major sub-regional and regional trade agreements, benefits trade flows.

Weaknesses

- Porous borders leave the country vulnerable to regional terrorist groups.
- Access to water is poor, with some areas of the country experiencing just five hours of water per day. Sanitation rates are even worse, threatening the health of the labour force.
- A lack of resources for secondary and tertiary education lowers the quality of education received in Tanzania.
- A low number of bank branches per population means Tanzanian consumers have limited access to capital.

Opportunities

- Increased regional and international coordination may lower the threat of terrorism.
- The introduction of compulsory secondary education will boost the level of skill in the workforce.
- Rail is expected to play a growing role in freight transport owing to new routes between Tanzania and neighbours Rwanda and Burundi, as well as routes built out of the country's mining bases; this will decrease the pressure on road freight and aid in tackling congestion.
- The discovery of natural gas could significantly boost trade flows and foreign reserves.

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SWOT Analysis - Continued	
Threats	▪ An inability to prevent the expansion of cyber and financial crime means these crimes will pose greater threat to companies in the medium term. ▪ Projections indicate that by 2025, Tanzania will experience water stress (defined as average per capita water resources below 1,500 cubic metres) due to population growth and the resulting increase in consumption. This will place further pressure on the country's utilities. ▪ Growing unemployment, particularly among the youth population, could lead to growing discontent and political instability. ▪ Widespread corruption, particularly in the legal system, will continue to drive up the cost of doing business in the country.

Industry Forecast

Port of Dar es Salaam Throughput Outlook

Short Term: Positive Macroeconomic Headwinds

According to our forecasts, the Tanzanian port of Dar es Salaam will continue to see robust growth in 2016 in both its container and gross tonnage throughput, albeit at a more sedate rate than we estimate for 2015. According to our projections, box handling will expand by 26.1%, following an estimated 35.5% expansion in 2015, while gross tonnage will grow by 8.2%, following 2015's estimated 25.0% growth. A positive macroeconomic outlook for Tanzania will support this, but this is not the only driver of growth at the port; Dar es Salaam is, along with the Kenyan port of Mombasa, one of two major entrypoints for East Africa as a whole. As such, the growth prospects of landlocked hinterland countries such as the DRC, Burundi, Rwanda and Uganda are equally important.

If our forecasts are realised, Dar es Salaam would handle 16.33mn tonnes and 275,771 twenty-foot equivalent units (TEUs) by year-end. The port will continue to be the second-largest port in the region; according to our projections, Mombasa will handle 28.10mn tonnes and 1.29mn TEUs in 2016. It also caters for hinterland trade in addition to Kenyan demand.

Looking at domestic demand on Dar es Salaam, Tanzania's economic growth was strong in the first half of 2015, with GDP expanding 7.9% y-o-y in Q215, albeit down from the 10.1% y-o-y increase reported in Q214, according to data released by the National Bureau of Statistics. The manufacturing sector expanded by 6.9% y-o-y. Although Tanzania's consumer base is at present small, low statistical base effects and positive macroeconomic headwinds will see it expand rapidly. Private consumption will be the main engine of economic growth in 2016 and 2017, contributing 4.0 percentage points (pp) to headline growth of 6.4% this year and 4.3pp to 6.9% growth in 2017.

On the exports side, we see little scope for growth in traditional exports such as coffee, tobacco and cashew nuts as a lack of investment and competitiveness continue to hinder productivity. While agriculture accounts for a sizeable proportion of the economy, growth is constrained by a number of factors such as outdated farming techniques. Despite its size, outstanding credit to the sector is tiny by comparison, reflecting the challenges it faces. The one bright spot for exports is in manufactured goods such as textiles and fishing products which have posted strong growth of late.

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As noted above, the port of Dar es Salaam does not cater only to domestic demand. There are a significant volumes of commodities exports from Tanzania's neighbours, and these transit cargos will boost the overall bulk volumes passing through the port over 2015. Zambia is the largest destination of transit cargo through Dar es Salaam, and the DRC is the second largest. The DRC now accounts for just under 25% of all transit cargo, and nearly 10% of all cargo through the port, and we expect this will continue to be the case going forwards. Other key transit destinations are Rwanda, Burundi, Uganda, and Malawi, as all of these landlocked states have no ports and are entirely reliant on their coastal neighbours for access to international non-African trade routes.

Despite the positive growth outlook for Dar es Salaam, it must be noted that the expansion in volumes is likely to be constrained by ongoing issues with congestion at the facility. The port is prone to severe congestion, with up to 20 or 30 ships waiting to enter at any given time. In addition, in spite of new equipment, the cargo handling delays can be extensive. Moreover, a number of shipping lines are dissatisfied with the unofficial preference given to Maersk vessels and opt for rival port Mombasa instead. Plus, the possible revoking of Maersk's favoured status, with priority at all Tanzania Port Authority (TPA) ports, could have a severely detrimental impact on the short term container cargo volumes at Dar es Salaam. Maersk has accounted for the lion's share of the container throughput at Dar es Salaam (and across all TPA ports). If it was obliged to wait in queues, it could join those lines that were themselves antagonised by Maersk jumping ahead of them, and look to move to other, more amenable, ports. In particular, there is the ever-present threat of the nearby Kenyan port of Mombasa.

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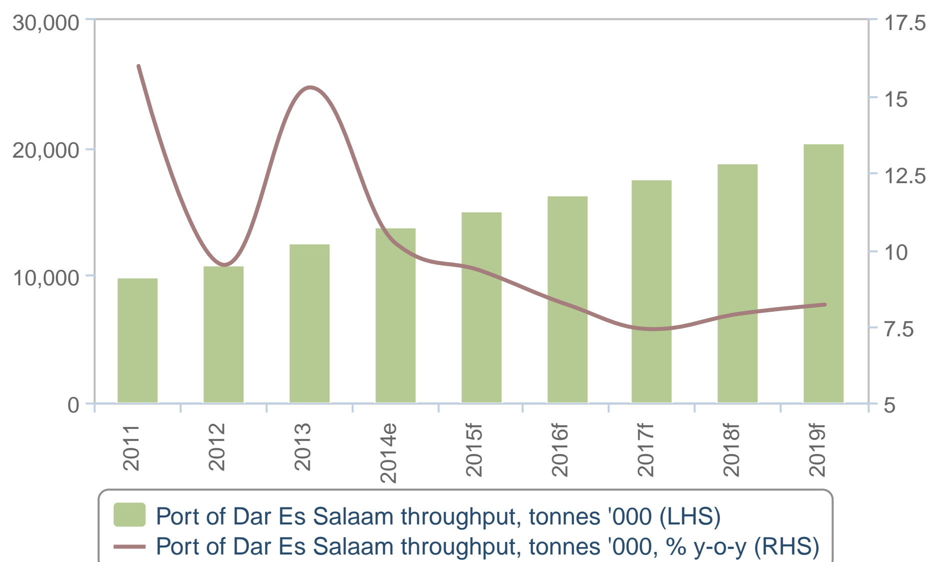
Port of Dar Es Salaam Throughput Tonnes



e/f = BMI estimate/forecast. Source: Tanzania Port Authority, BMI.

Medium Term: Slowing Growth Rates As Regional Rivals Pose Increasing Challenge

Over the medium-to-longer term, we highlight substantial risks to the port of Dar es Salaam's throughput from the proposed rail link between Kenya, Uganda and Rwanda, as this will offer a quicker, cheaper alternative to the lengthy road haulage from the latter two countries to Dar es Salaam, diverting goods to Mombasa instead. This has the potential to impede Tanzania's regional transport hub aspirations. The three East African Community (EAC) states are planning to complete the rail line by the end of 2018, and we expect from then on that a number of the logistics and supply chain firms will opt to use the railway instead of lengthy truck haulage over poor quality roads.

A key risk to our outlook is the possibility that the level of Rwandan imports passing through Dar es Salaam could well slow over the longer term, as the planned railway project could divert Rwandan trade away to Mombasa. That being said, Mombasa's port is extremely congested, and the proposed infrastructure development projects are a long way from completion, so over the medium term we see Rwandan imports as continuing to boost Dar es Salaam's traffic. This is largely based on our expectations that the promise to

remove all bottlenecks along the central corridor will prove to be a boon for Rwandan long haul truck firms (and their customers) who face numerous non-tariff barriers, such as roadblocks and weigh bridges. The bottle necks mean that at present, it takes 3.5 days to transport goods between the Rusumo border and Dar es Salaam. However, the Tanzanian transport minister has pledged to reduce this by a day in 2015. The government's plan to improve security should start to deal with another disincentive, namely the threat of theft and murder in some areas of the corridor following the murder of three truck drivers (two from Burundi and one from Tanzania, earlier in 2014).

The DRC is another key trade partner for Tanzania, and a vital contributor to Dar es Salaam's throughput levels, with the volume of DRC related cargos rising steadily for the past decade. The recent visit from the DRC officials to the port in order to further enhance trade ties leaves us extremely optimistic about the continued growth potential going forwards. We feel that the DRC will continue to boost throughput levels at Dar es Salaam. However, with the completion of the Angolan Benguela railway towards the end of our forecast period, there is a risk that DRC cargos will take the shorter route to the port of Lobito on the Atlantic, instead of the road to Dar es Salaam.

With regards to the planned ro-ro terminal at Dar es Salaam, which is about to close its tender, we take a particularly upbeat stance. At present, Tanzania's demand for vehicles is rising, and the total vehicle fleet size is seeing average annual growth of just under 4%. However, with no domestic production facilities, the country is entirely reliant on vehicle imports. As the majority of vehicles are imported, the ro-ro terminal will see strong demand, on completion, and will provide a good addition to the port's current infrastructure, boosting its attractiveness to shipping lines.

Additional risks will come following the completion of the Bagamoyo port construction. We expect that Dar es Salaam will start to see a decline in growth rates for its cargo tonnage as an increasing number of its customers look to the new, more capacious facilities at Bagamoyo. This is reflected in our forecast that growth will slow from recent years, averaging 8.0% in gross tonnage and 11.5% in container handling, down from 16.5% and 30.5% respectively over the five years to 2015.

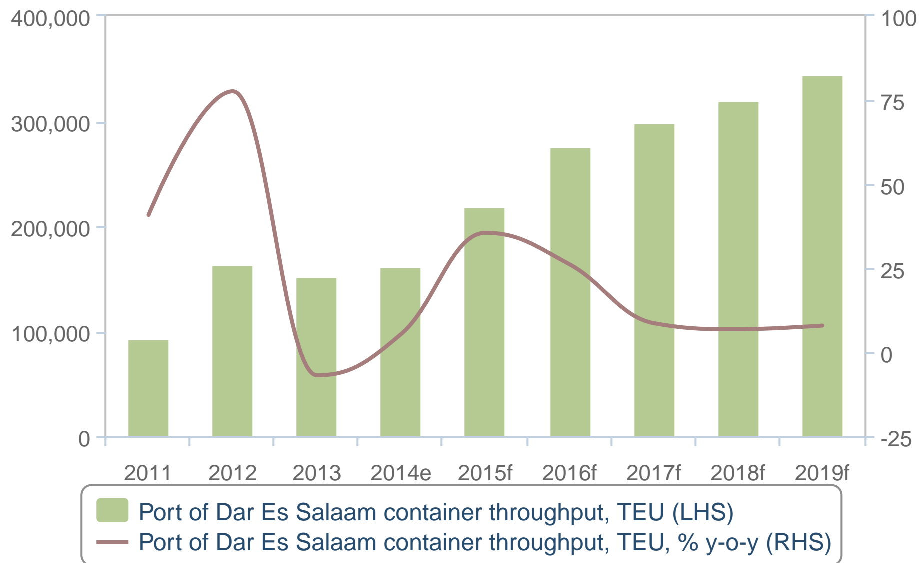
However, despite this development and the detractions with regards to overburdened infrastructure and potential risks from poor management, Dar es Salaam will continue to see steady cargo throughput levels owing to the continued requirement for a transit port evinced by many of its landlocked neighbours, who remain reliant on Dar es Salaam for their maritime import and exports. This position as a transit hub will be facilitated over the medium term by a number of transport infrastructure projects, which will improve road freight between Dar es Salaam and countries such as Rwanda and the DRC.

These plans include additional capacity at Dar es Salaam and extra equipment, and the streamlining of bureaucratic requirements for trading along with one stop border controls, and other methods to boost the ease of channelling truck freighted goods from countries such as Rwanda to and from the port. Cargo clearance has already dropped from seven days to 4.8 in March 2014, according to the chairman of the Dockworkers Union of Tanzania, and we see the additional nation-wide measures as offering the potential to substantially curtail lead times, and boost Tanzania's attractiveness as a trade hub.

Over the medium term, we expect to see slow but sustained growth in private consumption, both in Tanzania and other EAC countries. This will boost demand for consumer goods, and have a concomitantly beneficial impact on the manufactured consumer products imports, both those destined for Tanzania, and the transit cargos for its landlocked neighbours.

Port of Dar Es Salaam Container Throughput TEU

Port of Dar Es Salaam Container Throughput TEU & % Change y-o-y (2011-2019)



e/f = BMI estimate/forecast. Source: Tanzania Port Authority, BMI.

Long Term: Role As Trade Hub Assured, But New Ports Take Market Share From Dar es Salaam

Over the longer term, we do anticipate that agricultural exports might see an incremental decline, reducing the rate of growth for Dar es Salaam's bulk cargo volumes. This is due to our expectation that Tanzania will increasingly seek to migrate its economy from agricultural production (and its attendant vulnerability to crop price fluctuations) towards tourism and mineral/hydrocarbon extraction. However, this decline will be incremental as the countries neighbouring Tanzania will still have significant volumes of agricultural produce to export, and Tanzania might well seek to up its imports.

Equally, over the longer term, we anticipate a decline in liquid bulk imports, as exploratory projects and refining facilities for Tanzania's newly discovered hydrocarbon resources come online. This will reduce the need for fuel imports. Moreover, although there will be some fuel exports, we do not expect the majority of these to pass through Dar es Salaam. As well as the proposed expansion of the existing Mtwara facilities, there are also plans for the development of a Freeport. The Export Processing Zone Authority (EZPA) has signed an agreement with the TPA to develop a ten hectare Freeport zone, specifically targeting the oil and gas firms currently undertaking exploration in the Mtwara region. There has already been significant interest in the proposed Freeport. Should Mtwara reach the full proposed capacity levels (of 28mn tonnes per annum by 2030), this will have a significant impact on Dar es Salaam hydrocarbon throughputs. While boosting the quality of Tanzania's overall ports sector and potential trade flows, and augmenting the attractiveness for the shipping lines, the rise in oil production, and the Freeport zone in Mtwara could detract from Dar es Salaam cargo volumes as tankers opt for Mtwara's more specialist facilities.

Our positive long-term outlook for Tanzania's prospects is further supported by the extensive development of the country's wider transport infrastructure. As well as the improvement of the existing ports, and construction of new ports, there are also a number of road and rail projects in the pipeline. In particular we would highlight the advantages of the five year strategic plan for the Tanzania-Zambia railway, which would run from Dar es Salaam to New Kapiri Mposhi in Zambia. The successful completion of this project will, in our view, facilitate the influx of copper and coal from Zambia and the DRC into Dar es Salaam, boosting bulk throughput levels. The venture will also, we believe, go some way towards mitigating the potential impact of the Kenya-Rwanda-Uganda railway. Plus, by 2020, Dar es Salaam should have a capacity of 28mn tonnes a year and dispense with the current delays arising from under capacity, congestion and operational inefficiencies.

Meanwhile, with overall consumer demand rising, the long-term outlook for the demand for containerised imports to Tanzania is extremely positive. However, as noted previously, Dar es Salaam has bottlenecks and

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severe congestion, as well as potential theft risks, which can deter shipping lines. Therefore, we anticipate that a large portion of the box cargos will be rerouted to pass through the larger, more modernised facilities at the planned mega port Bagomoyo, resulting in a decline in overall container volumes at Dar es Salaam.

In addition, although not directly impacting Dar es Salaam, we anticipate that the Zanzibar port sector developments will benefit the wider Tanzanian supply chains, and augment the mainland's role as a transhipment hub to the small island. China Communications Constructions Company (CCCC) has an EPC contract worth USD200mn to construct a multi-purpose terminal and auxiliary facilities for the Zanzibar port project.

There are also plans to construct a port at Tanga, in the north of the country, along with a USD1.9bn railway from the port to Musoma and the shores of Lake Victoria. This will open up additional routes for Ugandan trade flows, with cargos being shipped across the lake from Uganda to Musoma, and then transhipped onto the rail network, though there are a number of stages to the realisation of this concept, including the construction of the new railway and the provision of container vessels by TPA for the lake. Moreover, given the number of transhipment delays this route entails (port to vessel to port to railway to vessel) and the additional costs ensuing, we feel that the majority of Ugandan firms would opt for Mombasa and new railway from there instead.

Table: Major Ports Data (Tanzania 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Port of Dar Es Salaam throughput, tonnes '000	10,866	12,530	13,808	15,093	16,330	17,539	18,924	20,476
Port of Dar Es Salaam throughput, tonnes '000, % y-o-y	9.5	15.3	10.2	9.3	8.2	7.4	7.9	8.2
Port of Dar Es Salaam container throughput, TEU	164,473	153,091	161,357	218,664	275,771	299,605	320,064	345,232
Port of Dar Es Salaam container throughput, TEU, % y-o-y	77.6	-6.9	5.4	35.5	26.1	8.6	6.8	7.9

e/f = BMI estimate/forecast. Source: Tanzania Port Authority, BMI.

Table: Trade Overview (Tanzania 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Real import growth, % y-o-y	-9.23	0.69	-2.32	17.86	17.26	7.65	6.40	4.40
Real export growth, % y-o-y	1.05	-7.91	0.96	27.00	18.09	4.25	3.06	8.20
Real total trade growth, % y-o-y	-4.09	-3.61	-0.68	22.43	17.67	5.95	4.73	6.30
Imports, USDbn	12.82	13.63	14.77	13.48	12.92	14.25	16.07	18.19
Import growth, % y-o-y	6.90	6.34	8.34	-8.75	-4.16	10.36	12.70	13.23
Exports, USDbn	8.24	7.74	8.39	7.58	7.20	7.80	8.71	9.86
Export growth, % y-o-y	19.31	-6.01	8.34	-9.61	-5.06	8.32	11.67	13.23
Total trade, USDbn	21.06	21.38	23.16	21.06	20.12	22.05	24.77	28.05
Total trade growth, % y-o-y	11.43	1.51	8.34	-9.06	-4.48	9.63	12.34	13.23

e/f = BMI estimate/forecast. Source: UN, BMI.

Table: Key Trade Indicators (Tanzania 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Food and agricultural products import, USDmn	1,244	1,025	1,178	1,200	1,269	1,390	1,524	1,648
Food and agricultural products import, % y-o-y	9.5	-17.6	14.9	1.9	5.8	9.6	9.6	8.2
Food and agricultural products export, USDmn	1,587	1,368	1,510	1,626	1,714	1,804	1,901	2,096
Food and agricultural products export, % y-o-y	49.1	-13.8	10.4	7.7	5.4	5.3	5.4	10.2
Chemical, industrial and fuel products import, USDmn	4,788	5,977	5,603	5,715	6,067	6,686	7,368	8,002
Chemical, industrial and fuel products import, % y-o-y	4.2	24.8	-6.2	2.0	6.2	10.2	10.2	8.6
Chemical, industrial and fuel products export, USDmn	1,112	633	925	1,111	1,251	1,395	1,550	1,861
Chemical, industrial and fuel products export, % y-o-y	-8.6	-43.1	46.1	20.1	12.6	11.5	11.1	20.1
Manufactured consumer goods import, USDmn	1,396	1,439	1,473	1,501	1,590	1,746	1,917	2,077
Manufactured consumer goods import, % y-o-y	9.2	3.1	2.4	1.9	5.9	9.8	9.8	8.3
Manufactured consumer goods export, USDmn	517	434	493	555	602	650	702	806
Manufactured consumer goods export, % y-o-y	32.9	-16.0	13.6	12.6	8.4	8.0	8.0	14.8
Metals and articles thereof import, USDmn	842	1,161	1,043	1,063	1,129	1,245	1,372	1,490
Metals and articles thereof import, % y-o-y	2.6	37.8	-10.2	2.0	6.2	10.2	10.2	8.6
Metals and articles thereof export, USDmn	2,010	1,712	1,918	2,120	2,273	2,430	2,599	2,938
Metals and articles thereof export, % y-o-y	8.2	-14.9	12.1	10.5	7.2	6.9	6.9	13.1
Machinery and complex manufactured products import, USDmn	3,443	2,922	3,334	3,411	3,652	4,077	4,545	4,980

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Key Trade Indicators (Tanzania 2012-2019) - Continued

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Machinery and complex manufactured products import, % y-o-y	2.7	-15.1	14.1	2.3	7.1	11.6	11.5	9.6
Machinery and complex manufactured products export, USDmn	318	264	301	338	365	394	424	486
Machinery and complex manufactured products export, % y-o-y	54.8	-17.0	14.1	12.1	8.2	7.8	7.7	14.4

e/f = BMI estimate/forecast. Source: Trade Map, BMI.

Table: Top 5 Trade Partners - Product Imports (2013), USDmn

	2008	2009	2010	2011	2012	2013
Total Product Imports	**8,087.74**	**6,530.82**	**8,012.87**	**11,184.22**	**11,715.59**	**12,525.41**
India	865.71	772.87	895.01	1564.95	880.63	2308.71
% change y-o-y	68.85	-10.72	15.80	74.85	-43.73	162.17
% of total product imports	10.70	11.83	11.17	13.99	7.52	18.43
Switzerland	139.80	134.59	562.59	1102.19	1581.60	1621.96
% change y-o-y	-45.08	-3.73	318.01	95.91	43.50	2.55
% of total product imports	1.73	2.06	7.02	9.85	13.50	12.95
China	721.34	692.07	876.53	1056.32	1162.89	1595.86
% change y-o-y	73.43	-4.06	26.65	20.51	10.09	37.23
% of total product imports	8.92	10.60	10.94	9.44	9.93	12.74
United Arab Emirates	978.94	631.57	672.18	1243.28	1025.69	1193.19
% change y-o-y	25.11	-35.48	6.43	84.96	-17.50	16.33
% of total product imports	12.10	9.67	8.39	11.12	8.75	9.53
South Africa	829.39	686.63	771.72	988.15	934.86	729.67
% change y-o-y	39.25	-17.21	12.39	28.05	-5.39	-21.95
% of total product imports	10.25	10.51	9.63	8.84	7.98	5.83

Source: Trade Map

Table: Top 5 Trade Partners - Product Exports (2013), USDmn

	2008	2009	2010	2011	2012	2013
Total Product Exports	**3,121.08**	**2,982.41**	**4,050.55**	**4,734.96**	**5,547.23**	**4,412.55**
South Africa	265.53	187.86	433.69	857.60	982.83	764.58
% change y-o-y	30.14	-29.25	130.86	97.75	14.60	-22.21
% of total product exports	8.51	6.30	10.71	18.11	17.72	17.33
India	172.97	187.83	226.50	210.18	480.64	752.17
% change y-o-y	118.83	8.60	20.59	-7.21	128.68	56.50
% of total product exports	5.54	6.30	5.59	4.44	8.66	17.05
Switzerland	629.96	584.69	710.37	916.32	798.58	404.71
% change y-o-y	43.83	-7.19	21.49	28.99	-12.85	-49.32
% of total product exports	20.18	19.60	17.54	19.35	14.40	9.17
China	270.44	387.27	656.69	677.37	525.02	309.42
% change y-o-y	72.58	43.20	69.57	3.15	-22.49	-41.06
% of total product exports	8.66	12.99	16.21	14.31	9.46	7.01
Democratic Republic of the Congo	144.64	85.46	156.08	128.10	187.35	237.56
% change y-o-y	72.57	-40.91	82.64	-17.93	46.25	26.80
% of total product exports	4.63	2.87	3.85	2.71	3.38	5.38

Source: Trade Map

Market Overview

Tanzania Container Shipping Overview

Container shipping demand in Tanzania will be driven by the strong growth in demand for consumer goods. This relates to both demand in Tanzania and the landlocked countries which rely on Tanzania for their imported goods. Of these, Zambia is the largest, the DRC is the second largest and both are seeing continued growth in the overall volume of transit goods through Dar es Salaam.

In Tanzania, the unemployment rate is extremely low, at just 4.8% in 2015, and the population is set to rise by around 3% a year through to 2019, reaching nearly 60mn by the end of this period. Of this, the majority fall into the key retail demographic of the 20-40 age bracket, which drives retail expansion and combines the demand for luxury goods as well as essentials, with the money to make large purchases. Rising household spending power will contribute to the growing consumer demand for luxury goods and imported products which is, in our view, going to continue to boost container volumes over the longer term. This is also true of the transit cargos being directed towards the DRC, Zambia and Rwanda, as they are experiencing similar economic and demographic developments.

However, with regards to exports, we would highlight that Tanzania's exports (and the transit cargos coming from the EAC states and other states which are reliant on Tanzania's ports) are largely limited to agricultural and mining commodities, with little in the way of existing container cargos or future potential container exports.

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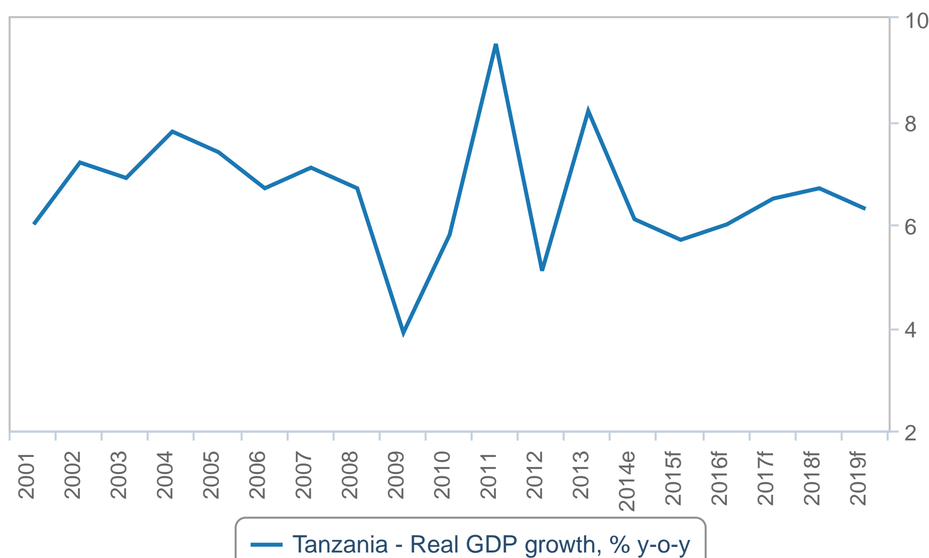
Strong Long Term Growth To Boost Container Throughput

Real GDP growth, % change y-o-y (2001-2019)



e/f = BMI estimate/forecast. Source: UN, BMI

Limited Connectivity But Strong Potential For Future

At present, the port of Dar es Salaam and the country's smaller container ports have comparatively poor liner connectivity, scoring just 10.6 on the UNCTAD Liner Connectivity Index. This is due to a combination of deterrents, including the favouring of **Maersk** over other lines, bottlenecks and prolonged delays. Given Tanzania's aspirations to become the regional trade hub for transit cargos, this performance will need to be improved substantially in order to realise these ambitions. Moreover, there are a number of rivals for this position of supremacy and it is telling that Kenya has a better connectivity score than Tanzania. Furthermore, only Dar es Salaam has the ability to receive large container vessels at present, resulting in the concentration of containerised goods in one area.

A number of shipping lines are likely to be deterred by the severe congestion and prolonged delays at the port. In early 2014, there were between 20 and 30 vessels waiting at the outer anchorage at any given time. This congestion is due to the combination of under capacity, rising container line visits, lengthy naval vessel dockings, the prioritisation of vehicle carrying vessels and all Maersk Tanzania Limited vessels. This latter issue can cause dissatisfaction amongst other lines, and lead them to look elsewhere.

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However, if the prioritisation of its vessels were cancelled to appease other lines, Maersk could move elsewhere. In addition, there is a great deal of anecdotal evidence intimating that the services provided by the port of Dar es Salaam are not entirely reliable. While not necessarily true, concerns over the possibility that the 24-hour service is erratic, together with the possible loss of goods to thieves, could deter liners from calling at the port, and cause supply chain groups to direct their goods to alternative destinations. There are also hidden additional costs and delays, such as the container deposit fee, the reimbursement of which can be delayed.

Moreover, the Tanzanian government has issued a warning that it will terminate the 24-hour operational contract awarded to Tanzania International Container Terminal Services (TICTS) by the Tanzania Ports Authority, if the former does not adhere to the terms of the contract. The warning was issued after Deputy Minister for Transport Charles Tizeba paid a visit to the port and found congestion at the TICTS-managed gate no. 5 as a result of poor performance. According to the minister, cargo congestion at the port means an increased risk for the African country, specifically losing business from foreign customers, thus leading to a revenue loss and further impacting the country's economic growth. Should this move prove effective, it will not only facilitate trade flows, but also render the country more attractive to container lines, and potentially boost overall liner connectivity.

One key project to address these issues will be funded by TradeMark East Africa (TMEA), which has allocated more than USD60mn to boost the Dar es Salaam port's efficiency. The amount will be invested in various areas, including the port's logistics, infrastructure and operating system. Increased efficiency at the port is likely to help in reducing container dwelling time at the port by almost half; from nine to four days.

In addition, while Dar es Salaam's congestion might deter lines, we believe that Bagamoyo port, on which construction started in October 2015, will drive up overall liner connectivity as an increasing amount of supply chains and shipping lines will be attracted by the new, more capacious facilities at Bagamoyo. The various other projects planned, particularly the expansion of the Mtwara port, and the improvement of Dar es Salaam, and the construction of new container terminals at the planned Tanga port will also, in our opinion, enable Tanzania to improve its connectivity, particularly as the Bagomoyo will be able to cater to the largest vessels.

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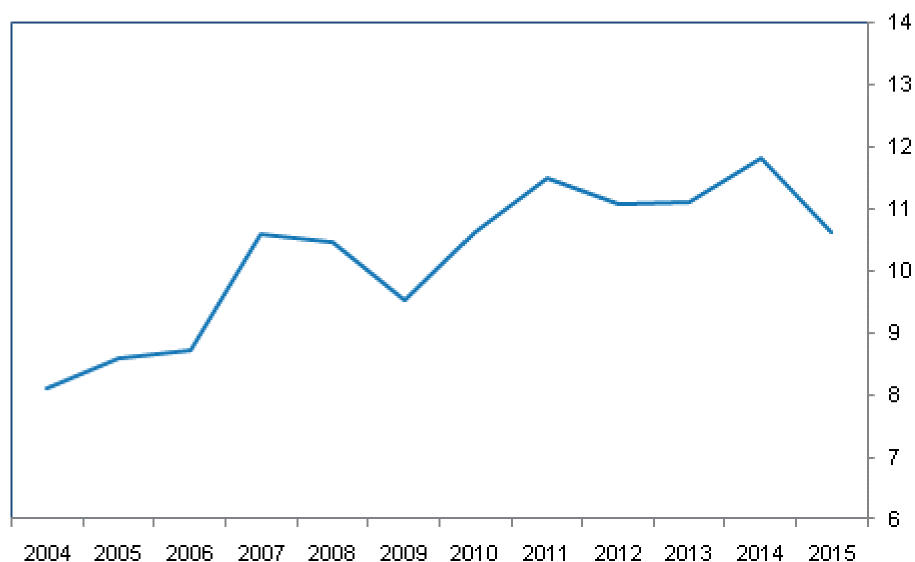
Connectivity Set To Improve When Bagomoyo Becomes Operational

Tanzania - Liner Connectivity Index Score



Source: UNCTAD

Meanwhile, border control delays for the road freight goods currently pose a significant risk to supply chains, which renders proposed railway developments such as that between Rwanda, Kenya and Uganda particularly attractive to the companies currently reliant on truck haulage to get their goods to Dar es Salaam. Projects such as this in turn jeopardise Dar es Salaam's future cargo volumes.

The Tanzanian government is looking to counter these threats by improving the speed of road freight lead times. One means of doing this is via the reduction of bureaucratic requirements at the border crossings into Rwanda and Burundi (and the DRC by extension). This will occur through the introduction of one-stop border posts (OSBPs) at the Kobero and Kabanga points, which have already reduced cross-border procedures to a single day. Another OSBP is being implemented at the Kasumulu and Songwe border posts between Tanzania and Malawi. This, in our view, provides a significant increase in the attractiveness of Tanzania as a regional trade hub, and will have a concomitant impact on its liner connectivity.

Shipping - Global Industry View

Bright Spot For Shipping: Low Bunker Prices

***BMI View**: We are positive on IFO and MGO prices in Q415, though expect underperformance in the long-term due to weak emerging market growth softening shipping fuels demand. We forecast IFO 180 to average USD366/tonne, and MGO to average USD505/tonne in 2015, though dip in 2016 and 2017.*

Table: BMI Bunker Fuel (IFO180 & MGO) Price Forecast

	2014	2015f	2016f	2017f	2018f	2019f
Rotterdam IFO 180 (in USD/bbl)	85.42	52.36	50.00	49.00	52.00	55.00
Singapore IFO 180 (in USD/bbl)	86.96	49.11	48.00	48.00	52.50	57.50
New York IFO 180 (in USD/bbl)	94.29	62.82	58.00	55.00	57.00	57.00
Average IFO 180 (in USD/bbl)	88.89	54.76	52.00	50.67	53.83	56.50
Average MGO (in USD/bbl)	111.97	67.42	67.00	66.50	71.00	74.50
Rotterdam IFO 180 (in USD/mt)	572.33	350.80	335.00	328.30	348.40	368.50
Singapore IFO 180 (in USD/mt)	582.63	329.01	321.60	321.60	351.75	385.25
New York IFO 180 (in USD/mt)	631.75	420.92	388.60	368.50	381.90	381.90
Average IFO 180 (in USD/mt)	595.57	366.91	348.40	339.47	360.68	378.55
Average MGO (in USD/mt)	839.77	505.62	502.50	498.75	532.50	558.75

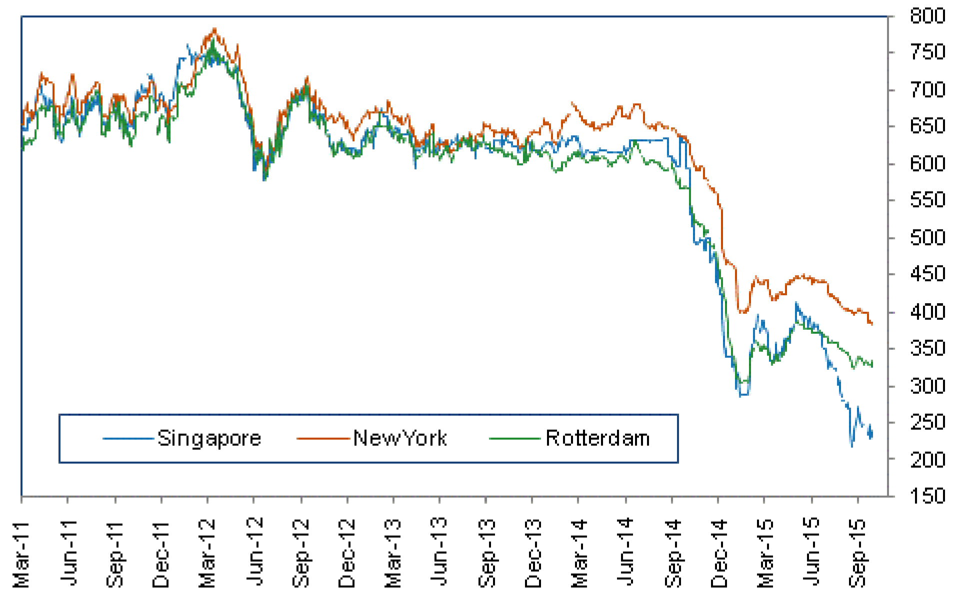
Note: IFO price reference taken from LQM Petroleum Price and Bloomberg Bunker Index. MGO price reference taken from Oceanconnect Houston, Rotterdam & Singapore. f = BMI forecast. Source: Bloomberg, BMI. Last updated: October 5 2015.

Short-Term Outlook (three-to-six months)

We have revised our intermediate fuel oil (IFO) 180 forecast for 2015 slightly to the downside due to a stronger than expected fall in Asian bunker prices over Q315. The fall was triggered following the uncertainty cast over Chinese economic growth, and the wider impact on shipping fuel demand. Prices will strengthen in Q415 as crude oil prices marginally improve and Asian bunker prices trend back towards the Rotterdam benchmark.

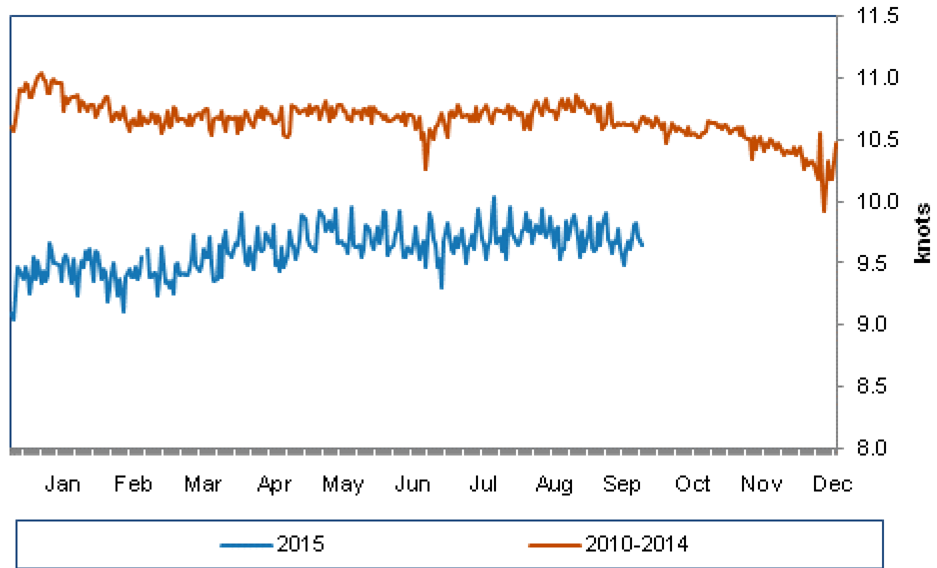
Regional Spreads To Come Back In

New York, Rotterdam & Singapore IFO 180 Spot (USD/tonne)



Source: Bloomberg

Despite the more positive price movement expected in Q415, weak demand will limit gains. Overcapacity in the freight and dry bulk sectors is supporting slow steaming and idling, resulting in lower and more efficient fuel consumption across the shipping sector. Also larger and more fuel efficient container and dry bulk ships are also improving overall efficiency in the shipping fleet. Greater scrapping of older capacity will be required to recover from this overcapacity trend and so drive up demand for shipping fuels.



Source: Bloomberg

We remain neutral on marine gasoil (MGO) prices which are more closely correlated with land-transport fuels, and forecast USD505/tonne in 2015. Over Q415 prices will improve on the back of better oil prices, though high stock levels and soft demand in the key European and North American markets will limit the upside.

The introduction of Emissions Control Areas (ECA) in parts of Northern Europe and much of the US from January 1 2015 have had little impact on MGO prices. Upgrades to ships to meet the 0.1% sulphur content in fuels have already been made, largely through the installation of scrubbing systems. On ships with more than 10 years of operational life remaining, the cost of installing scrubbers remains a more viable option than switching to MGO, supporting continued use of lower cost IFO.

Long-Term Outlook

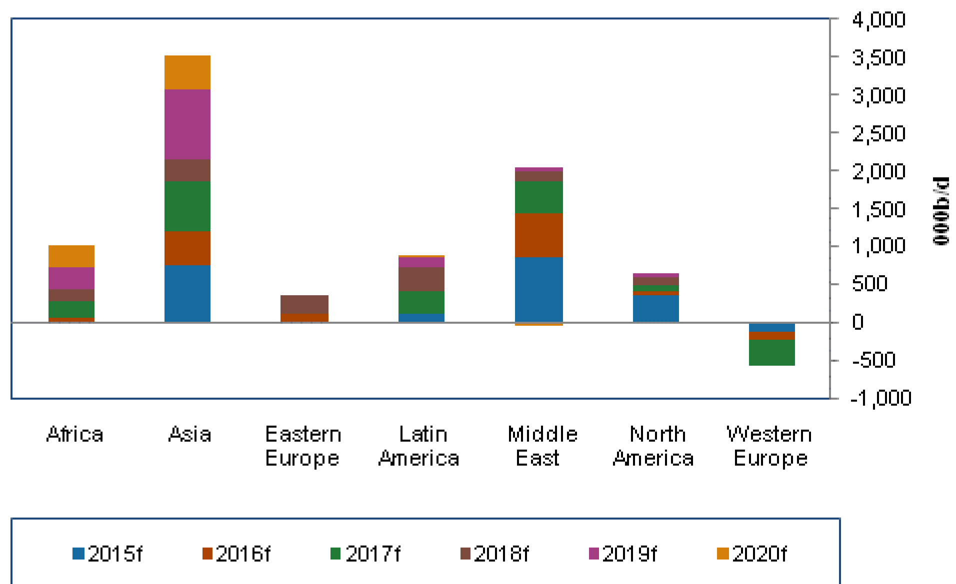
Strong Supply Of Heavier Fuel

Weak refining margins prior to 2015, and stricter fuels standards in Europe, North America and developed Asia over recent years, has driven investment in deeper refining complexity. This has resulted in greater low-sulphur fuel production and reduced residual fuel output. This will increase distillate fuel availability adding downside to the MGO price.

Refinery capacity expansions in emerging markets - particularly in the Middle East and in emerging Asia - are adding new supplies of heavy fuel oil to the market. This will not only offset the effect of a decline in developed markets, but even increase overall supplies on the global market, weighing on IFO prices. China's expected switch from net importer of diesel to an exporter is bearish for MGO prices.

Growing Global Capacity To Keep Things Well Supplied

Net Refining Capacity Change To 2020 By Region (000b/d)



f = BMI forecast. Source: BMI, EIA, national and company sources

We are also expecting slower economic growth in many of the emerging markets that had supported shipping fuel demand over recent years (*see 'September 2015 - Global Growth Weak As EM Squeezed From All Sides', September 18*). With the build up in new supply and softer than anticipated demand, we expect weakness in shipping fuel prices for at least the coming two years.

Fleet Overcapacity To Soften Demand

Over capacity in the shipping fleet will continue to limit fuel demand over the coming years as ships are idled and slow-steaming continues. We also expect greater intra-regional trade to shorten shipping routes, particularly in Asia. Larger ships utilising economies of scale are also reducing tonne mileage decreasing fleet usage.

These trends will lead to more efficient use of fuel in the shipping sector as vessels travel at slower speeds to maximise utilisation. Given our outlook for sluggish global economic growth of barely over 3% for the coming five years, we see limited upside to trade growth. Scrapping will need to be substantially increased to balance the oversupply of shipping capacity.

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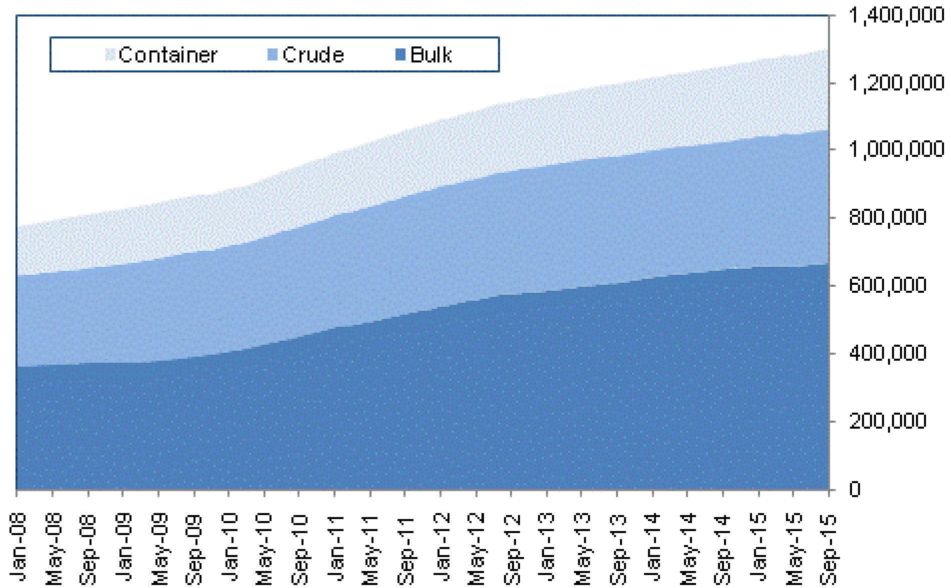
Shipping Capacity Outgrowing Trade Demand

Major Vessel Categories In Service (DWT)



Source: Bloomberg

Low-Sulphur Regulations Supports MGO Switching

From 2020, the International Maritime Organisation (IMO) will implement a global cap of 0.5% sulphur in marine fuels. There is scope for this to be delayed to 2025, though we believe the current schedule will be adhered to.

This change will have a greater impact than the ECAs introduced in North America and Europe in 2015, given lack scrubber retrofitting in intra-regional fleets in Asia and Africa and their greater use of heavier IFO grades. We believe a number of companies will be less well prepared for this change in regulations and will need to switch to MGO or lower sulphur fuel alternatives to comply, leading to a stronger increase in the MGO price over this time.

Risks To Outlook

- **Higher Crude Oil Prices**: Stronger crude prices than forecast will pull up marine fuel costs as higher feedstock prices filter through, presenting upside to our IFO and MGO price forecasts.
- **Improved Economic Growth**: Our weak outlook for the shipping industry is based on our expectations for slower growth in key areas, particularly China. However, should global economic growth surprise to the upside, this could boost shipping demand and marine fuel consumption.
- **Delay To Global Sulphur Cap:** If the global cap on sulphur in fuel is delayed to 2025, the regulation change will not impact in our 10-year forecast, as we currently expect it to.
- **Proliferation Of LNG As A Shipping Fuel**: The use of LNG in shipping will increase in the coming years displacing oil-based fuel. Uptake will be limited and likely restricted to areas with sufficient bunkering capabilities. This could surprise to the upside over the end-of our forecast.
- **Improved Scrubber Capability** - If scrubbing technologies can become lower cost and more effective, demand for lower-cost IFO fuel could strengthen. New scrubbing systems designed into vessels present upside risk to this view.

Global Company Strategy

Maersk Line

Overview

Maersk Line is the main container shipping unit of highly diversified shipping and energy conglomerate AP Moller-Maersk Group. The group's other box shipping subsidiaries and brands are MCC Transport, which operates its intra-Asia route network, Safmarine, which transports boxes to and from Africa and the Middle East, Mercosul (Brazil), intra-Europe carrier Seago Line and intra-Americas-dedicated SeaLand.

The company is based in Denmark but boasts a global presence, with offices in 116 countries and employing approximately 32,600 people.

Maersk is the largest container shipping company in the world, boasting a total fleet capacity of 3.05mn twenty-foot equivalent units (TEUs) and one of the largest box shipping networks. It is heavily exposed to Asia-Europe but is increasing its role in intra-Asia trade, where it already possesses expertise in the form of MCC.

SWOT Analysis	
Strengths	▪ As the world's largest container shipping line, Maersk has a greater share of global seaborne container volumes than any other carrier. ▪ Its large, expanding fleet offers it the ability to capture trade volumes. ▪ By participating in the 2M vessel-sharing agreement with the Mediterranean Shipping Company (MSC) the company plans to improve efficiency by better utilising vessel capacity to weather the slowdown in demand and overcapacity. ▪ Maersk is part of AP Moller-Maersk, a diversified company with activities in the oil & gas and terminal-operating sectors that synergise with its shipping operations. ▪ Flexibility as a result of fleet size and type.

SWOT Analysis - Continued	
	▪ The company has a raft of strategies it can call on during the current depressed environment in the container sector, including laying up vessels and super slow-steaming.
Weaknesses	▪ The dominance of the Asia-Europe trade route (accounting for 24% of volumes carried in 2012) in Maersk's service portfolio leaves the company heavily exposed to a downturn on this route. ▪ With such a large fleet, Maersk is constantly running the risk of overcapacity, which could be a drain on resources if business slows. ▪ Its presence in the oil & gas and terminal operating sectors means Maersk risks an overreliance on the sector as an integrated whole. This could be dangerous if one sector's activities fail to hedge the other (for example, if oil prices are at odds with bunker prices).
Opportunities	▪ The company is increasing its exposure to intra-Asia trade, which is widely considered to offer huge growth potential for the container shipping sector. ▪ It looks set to remain number one in the container shipping sector and has cemented its position as a global leader with an order for 11 19,630TEU vessels. ▪ The line's focus on emerging market routes is wise, not only as a diversification strategy from overexposure to the 'big money' routes, but also as a way to enter potentially high-growth markets early.
Threats	▪ Overcapacity fears still plague the container shipping market. ▪ The trend of alliances and partnerships could put pressure on Maersk Line's market share, as its rivals join forces. ▪ The company trades in kroner, which means it is vulnerable to changes in the US dollar. ▪ Although the group operates in the oil & gas sector, disparities in the price of oil and bunker costs threaten profits.

Strategy

Maersk continues to dominate the global container shipping sector, holding a 15.1% market share, according to AXS Alphaliner. This is some way above its nearest rival, MSC, which boasts a market share of 13.2%.

Routes

The company offers 10 transpacific services and six Asia-Europe services. Maersk is also heavily committed to intra-Asia trade, mainly through its subsidiary MCC Transport, which operates the group's intra-Asia services.

In terms of volumes handled on Maersk's services, Asia-Europe dominates. In 2012 (latest such data available) the route accounted for 24% of the total, the same as in 2011. West and Central Asia is the second largest route, accounting for 17% of the total. Africa accounts for 15% of the total; Safmarine operates in this area with a focus on the transportation of containers to and from Africa and the Middle East. Transpacific trade accounts for 15% and Latin America for 14%, while intra-Asia currently makes up just 7%. BMI expects intra-Asia's role in Maersk's service portfolio to increase over the medium term, with the company - along with its peers - putting huge emphasis on the growing demand between Asian states.

While holding its dominant position on the big money trade routes, Maersk is also increasing its exposure to emerging trade routes (ETRs). These include intra-Asia, intra-Europe and West Africa. BMI considers this a wise strategy, as competition continues to expand on the Asia-Europe and transpacific routes, pushing rates down. As well as offering diversification away from the big money routes, ETRs offer both less competition and high growth potential. There are, of course, obstacles, as there tend to be in emerging market-focused activities. However, Maersk's tactic of hiving off specific units, as in the case of intra-Asia MCC, is a sound strategy, in BMI's view. We also highlight the lack of infrastructure at many of the ports on ETRs and note Maersk's strategy of overcoming this by developing vessels with on-board cranes, thus negating a risk in operations.

2M Alliance

In October 2014 AP Moller-Maersk and MSC received US Federal Maritime Commission approval for a vessel-sharing pact - the 2M alliance. Federal approval was the last regulatory hurdle for the alliance, and it commenced operations in January 2015. The initial phase-in of 2M was completed by April 4 2015, with

the 193rd and final containership deployed in the new East/West network. By joining forces with MSC, Maersk Line expects to save USD350mn per year. According to a joint statement by Maersk and MSC, the alliance would cut costs for shippers and reduce harmful emissions.

The two companies unveiled the service routes under their 2M vessel sharing agreement (VSA) back in September. Under the VSA, Maersk Line and MSC will operate six Asia-North Europe services, five Asia-Mediterranean loops, four Asia-North America West Coast strings and two via Suez from Asia to the North American East Coast. In addition, Maersk Line plans to make direct calls from Shanghai to the Black Sea and from Japan to Le Havre and Gothenburg. The new routes are expected to lower disruptions by having multiple calls to reduce the impact of slack season blank sailings.

The 2M alliance is expected to handle nearly 30% of all cargo trade between Asia and Europe and across the Atlantic and Pacific oceans. Maersk Line and MSC entered a vessel sharing agreement on the Asia-Europe, transatlantic and transpacific routes in July 2014 following the failure of the P3 alliance. Under the initial plan for the 10-year VSA, a total of 185 vessels having a total capacity of 2.1mn TEUs considered to be deployed on 21 strings, with Maersk and MSC contributing some 110 and 75 vessels with capacity of 1.2mn TEUs and 0.9mn TEUs respectively.

Fleet

Maersk has the largest fleet in the world in terms of capacity with 3.04mn TEUs, comprising 596 ships. The fleet's dynamics are fairly evenly split between weighted slightly more towards chartered-in tonnage at present. While previously the split has been more even, currently 60.5% of the fleet is chartered in, compared to 39.5% owned. The chartered fleet comprises of 334 ships and a carrying capacity of 1.3mn TEUs. Owned vessels number 262, 1.7mn TEUs. Although the company charters in less capacity than it owns, it charters in more vessels. Maersk appears to have a strategy of chartering smaller vessels while owning and operating larger ones. This could be because of the prestige of owning a large fleet, but BMI believes it is also partly because there is a larger global supply of smaller vessels, which Maersk can charter in as needed.

The largest share of Maersk's fleet, both in terms of number of owned and chartered vessels and their TEU total, comprises 8,000TEU+ vessels. The company has also invested heavily in larger vessels and owns some of the world's largest container vessels afloat - twenty 18,000TEU Triple-E class, and eight 15,000TEU 'E' class.

Maersk is implementing a strategy that should, in the medium term, ensure it remains the market leader in terms of capacity. The company originally ordered 10 18,000TEU vessels, but later doubled that number. The 20th and last vessel was scheduled for delivery in June 2015. Maersk did have the option to take another 10 18,000TEU vessels, but decided to let it lapse. However, in June 2015 Maersk Line ordered 11 ships of 19,630TEU second generation Triple-E container vessels from Daewoo Shipbuilding & Marine Engineering (DSME), with an option for six more. According to Maersk Line Chief Operating Officer (COO) Søren Toft, these 'vessels will help us stay competitive in the Asia - Europe trade', being the key in the company's strategy to grow with the market. The 11 ships will be the largest in Maersk Line's fleet and will operate on the Asia - Europe service, gradually (between April 2017 and May 2018) replacing smaller vessels.

Earlier, at the beginning of 2015, in an interview with Bloomberg A.P. Moeller-Maersk A/S CEO Nils Smedegaard Andersen said that despite lower oil prices decreasing the attractiveness of larger ships, Maersk is still 'looking at both smaller and larger ships' and might place orders in both segments. BMI notes that while volumes on the Asia-Europe route have picked up after the downturn, ordering vessels that can only operate on one route heightens risk.

Financial Results

Q215

In the second quarter of 2015, Maersk Line recorded a 9.2% y-o-y decline in its revenues, from USD6.9bn to USD6.3bn. The company attributed this to global industry dynamics, with industry demand at the lowest since the financial crisis. Average freight rates had fallen from USD2,635/FEU to USD2,261/FEU.

Q115

Maersk Line posted a profit of USD714mn in Q115, up 57% on the Q114 figure of USD454mn. Such improvement was achieved despite a 5.1% decrease in freight rates, as the bottom line benefited from lower fuel cost and a stronger US dollar. Unit costs were up 2.1%, while container volumes decreased by 1.6% to 2.207mn forty-foot equivalent units (FEUs). Revenue was down 3.2% y-o-y to USD6,254mn.

According to Søren Skou, CEO of Maersk Line, Q115 saw the company's 'best Q1 result ever', with return on invested capital 'also very satisfactory and well above our targets'. However, the company is 'not satisfied' with lower volumes and increased unit costs.

2014

Maersk Line's net profit was up 55% y-o-y from USD1,510mn in 2013 to USD2,341mn in 2014. Revenue increased by 4.4% to USD27,351mn, compared to USD26,196mn in 2013. The company stated that it has achieved such results by lowering unit cost (down 4.3%) and increasing its volumes (up 6.8% to 9.442mn forty-foot equivalent units (FEUs)) while the average rate decreased by 1.6%. The lower unit cost was attributed to better vessel utilisation and network efficiencies.

Q314

Maersk Line reported net profit of USD685mn in Q314, compared to Q313's figure of USD554mn. The company attributed improved results to lower costs and increased rates, with the lower unit cost achieved 'through better vessel utilization and network efficiencies'. Maersk Line's Q314 revenue amounted to USD7,074mn, container volumes were up 3.7% to 2.401mn forty-foot equivalent units (FEUs).

Q214 & H114

Maersk Line reported a net profit of USD547mn in Q214, compared to Q213 figure of USD439mn. AP Moller-Maersk said that this improvement was achieved despite 2.7% lower total revenue per forty-foot equivalent unit (FEU) and thanks to 4.4% lower unit costs supported by higher bunker efficiency and a volume increase of 6.6% to 2.396mn FEUs.

This brought H114 net profit to USD1,001mn, with the liner increasing its expected full-year result from just 'being above 2013 result' of USD1.5bn to 'significantly above the 2013 result'.

Q114

Maersk Line posted a net profit of USD454mn in Q114, more than doubling the Q113 figure of USD204mn. Such improvement was achieved despite a 5.1% decrease in freight rates, as the bottom line benefited from lower bunker price and impairment reversal of USD72mn. Unit costs were down 9.0%, and container volumes increased by 7.3% to 2.2mn forty-foot equivalent units (FEUs).

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Q413 & 2013

Maersk Line's Q413 revenue was down 1.1% y-o-y to USD6.45mn, despite a 10% growth in volumes to 2.2mn FEUs as rates decreased by 6.5% to 2,662USD/FEU. As a result, Maersk Line reported a profit - net operating profit after tax (NOPAT) - of USD313mn for Q413, a y-o-y decrease of 6.6% compared to Q412.

Revenue for the year declined by 3.4% to USD26.2bn, despite volumes increasing from 8.5mn FEUs in 2012 to 8.8mn FEUs in 2013. NOPAT more than tripled, increasing from USD461mn in 2012 to USD1.5bn. The improvement was attributed to lower unit costs (USD2,731 per FEU including VSA income in 2013, compared to USD3,054/FEU in 2012) through the continuous focus on operational cost savings mainly from vessel network efficiencies, active capacity adjustments and improved vessel utilisation', and was also supported by lower bunker price (USD595 per tonne, compared to USD661).

Q313 & 9M13

Maersk Line's profit in Q313 was up 11.2% y-o-y from USD498mn to USD554mn. A.P. Moller-Maersk Group attributed such improvement to lower costs. Maersk Line's volumes increased by 10.6% to 2.3mn FEUs. Increased volumes and an average deployed fleet capacity decreased of 0.8% resulted in improved vessel utilisation and unit costs lower by 13.0%. Freight rates were down 12.2%.

Maersk Line was expecting their 'result for 2013 to be significantly above 2012 (USD461m) based on the strong result for the first nine months of USD1.2bn.'

Maersk Line's volume in the first nine months of 2013 was up 3.0% to 6.7mn FEUs, while the average freight rate decreased by 7.0%.

Q213 & H113

Maersk Line's profit amounted to USD439mn in Q213 - a y-o-y increase of 93.4% on USD227mn in Q212. The AP Moller-Maersk Group explained such significant improvement by lower costs during the period. Volumes were up 2.1% to 2.2mn FEUs, while average freight rate was down 13.1% and total cost per FEU fell by 12.7%. According to the group, the cost decrease was mainly due to vessel network efficiencies and lower bunker price. The total fleet capacity of Maersk Line decreased by 0.9%.

In the first half of 2013, Maersk Line's revenue was down 4.9%, y-o-y, from USD13.634bn to USD12.964bn. The company posted a USD643mn NOPAT for the period, compared to a loss of USD372mn in H112. As in the case of Q213 performance, the significant improvement in the financial performance in H112 was achieved, according to the group, through lower costs mainly driven by vessel network efficiencies and lower bunker price. The volume was down 1.0% to 4.3mn FEUs, while the average freight rate decreased by 5.0%.

Q113

Maersk Line posted a net profit of USD204mn in the first quarter of 2013, compared with net loss of USD599mn in the corresponding period of 2012. With revenue unchanged at USD6.3bn as a result of a y-o-y freight rate increase of 4.7% offset by a 4.0% decrease in volumes, such an improvement in the bottom line was attributed to lower costs.

According to AP Moller-Maersk Group CEO Nils Andersen, as reported by American Shipper, Maersk Line has controlled expenses by reducing capacity and had 28 idle ships at the end of Q113 - the equivalent of some 6.5% of its fleet.

Q412 & 2012

Maersk Line's revenue in Q412 increased by 2.5% y-o-y to USD6.52mn, despite a 9.1% fall in volumes to 2mn FEUs and thanks to a 6.6% growth in the freight rate. As a result, Maersk Line recorded a NOPAT of USD335mn, compared with the USD593mn loss it recorded in Q411, and was also helped by fall in the bunker fuel price from USD658 to USD604 per tonne.

Revenue for the year was up 8.0% to USD27.1bn, and volumes increased from 8.1mn FEUs in 2011 to 8.5mn FEUs in 2012. Cost reductions, surcharges collection and 1.9% higher average rate y-o-y led Maersk Line back to the black, posting a NOPAT of USD461mn in 2012 compared to a loss of USD553mn in 2011.

According to the company, it gained market share for the full year, but saw a declining share through H212.

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Latest Activity

Hazira And Mundra Ports Benefit From Congestion At JNPT

Hazira and Mundra ports in the Indian state of Gujarat have been benefiting from the congestion at the Jawarharlal Nehru Port Trust (JNPT). Constant congestion at JNPT has prompted national and international container carriers such as Simatech Shipping, X-Press Feeders, Maersk Line, CMA CGM and Orient Overseas Container Line to add direct calls at Adani Hazira port in FY13/14 and FY14/15. Mundra port registered double digit growth in container cargo in FY12/13, FY13/14 and FY14/15. Meanwhile, JNPT container cargo growth declined in FY12/13 and FY13/14, and posted an increase of 7.21% in FY14/15.

Mediterranean Shipping Company (MSC)

Overview

Mediterranean Shipping Company (MSC) was founded in 1970 in Geneva, Switzerland. It launched its first service between the Mediterranean and South and East Africa in the mid-1970s. In 2003, it became the second-largest container shipper in the world, and remains in that position.

The carrier operates 200 direct and combined services weekly, calling at 315 ports. It has 480 offices in 150 countries and employs more than 24,000 staff.

SWOT Analysis

Strengths

- MSC is the second-largest container shipper in the world.
- The company has a forward-thinking strategy, with a fleet of 14,000-twenty-foot equivalent unit (TEU) vessels, and in 2015 started receiving 19,224TEU ships.
- MSC is not averse to chartering, which has allowed it to expand its fleet.
- The line is managing its capacity and exposure during volatility in the container shipping sector via link-ups with other carriers and by participating in the 2M vessel-sharing agreement with Maersk Line.
- The company is increasing its exposure to the US, operating 14,000TEU vessels on the transpacific trade route.

Weaknesses

- With such a large fleet, MSC is constantly running the risk of overcapacity, which could be a drain on resources if business slows. It has 55 vessels on order, at a time when overcapacity remains such a major issue for container lines.

Opportunities

- The shipping sector has proved lucrative in the past two decades, with trade volumes growing year-on-year since 1982. Although the downturn affected the company, the medium- to long-term opportunity for trade growth is ever present, and MSC is well positioned to capture these volumes.

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SWOT Analysis - Continued	
	▪ The company is seeking greater exposure to emerging trade routes, specifically in South America, which offer new growth opportunities.
Threats	▪ MSC is heavily exposed to Europe, not only on its Asia-Europe routes, but also its intra-Europe portfolio. The slow growth outlook in the region will be a threat to demand, and growth in volumes on these routes is likely to remain sluggish. ▪ MSC's desire to become number one could be hampered by Maersk Line, which, having taken delivery of its 18,000TEU fleet, ordered eleven 19,630TEU newbuilds with an option for six more. ▪ Overcapacity is set to remain a major threat for lines in the short term.

Strategy

MSC continues to snap at Maersk Line's heels, with a global market share of 13.2% compared with Maersk's 15.1%, according to AXS Alphaliner. BMI believes that MSC will continue to battle for the top position.

By some measures, it has overtaken Maersk Line to claim top position, with Containerisation International reporting in February 2011 that it had overtaken the Danish carrier in terms of capacity. This measurement takes into consideration only Maersk Line and not the whole Maersk Group, which includes Safmarine and MCC Transport. Taking the group as a whole into account, Maersk Line still holds the top position.

In December 2011, the US-based Journal of Commerce reported that, based on US import and export trade, MSC had replaced Maersk Line as the top container line serving the US in the first nine months of 2011, with MSC's operations almost balanced between imports and exports.

BMI highlights that MSC operates the largest vessels on the transpacific route. The company now utilises vessels with capacities of between 11,600TEUs and 14,000TEUs on the trade route and in October 2011 docked its largest box ship ever into the port of Long Beach, with the *MSC Beatrice*, a 14,000TEU capacity vessel, calling there.

Routes

MSC is heavily exposed to the 'big money' routes, particularly the transpacific, with the line operating five services from Asia to US West Coast ports. The line also caters to the US East Coast market with an all-water service.

As the rates on both the Asia-Europe and the transpacific routes remain volatile, container lines are still battling the threat of overcapacity and are linking up to better manage the problem. In October 2014, MSC and AP Moller-Maersk received US Federal Maritime Commission approval for a vessel-sharing pact - the 2M alliance. The US approval was the last regulatory hurdle for the alliance, which has commenced operations in January 2015. The initial phase-in of 2M was completed by April 4 2015, with the 193rd and final containership deployed in the new East/West network. According to a joint statement by MSC and Maersk, the alliance would cut costs for shippers and reduce harmful emissions.

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The two companies have unveiled service routes under their 2M vessel sharing agreement (VSA) in September. Under the VSA, MSC and Maersk Line will operate six Asia-North Europe services, five Asia-Mediterranean loops, four Asia-North America West Coast strings and two via Suez from Asia to the North American East Coast. In addition, Maersk Line plans to make direct calls from Shanghai to the Black Sea and from Japan to Le Havre and Gothenburg. The new routes are expected to lower disruptions by having multiple calls to reduce the impact of slack season blank sailings.

The 2M alliance is expected to handle nearly 30% of all cargo trade between Asia and Europe and across the Atlantic and Pacific oceans. MSC and Maersk Line have entered a vessel sharing agreement on the Asia-Europe, transatlantic and transpacific routes in July 2014 following the failure of the P3 alliance. Under the initial plan for the 10-year VSA, a total of 185 vessels having a total capacity of 2.1mn twenty-foot equivalent units (TEUs) considered to be deployed on 21 strings, with MSC and Maersk contributing some 75 and 110 vessels with capacity of 0.9mn TEUs and 1.2mn TEUs respectively.

MSC also caters for intra-Asia trade, with its New Shogun service linking China and Japan and its TongKing Service connecting China with Vietnam. Some of the line's other services serve a number of countries in Asia before linking elsewhere in the world. The Cheetah Service links Chinese ports with the Taiwanese port of Kaohsiung, before travelling on to Africa. In April 2014, MSC launched Africa Express, a dedicated weekly service between Asia and West Africa, with cargoes being shipped directly to West Africa with an improved transit time to Tin Can-Lagos of 28 days from Chiwan and 23 days from Singapore. From November 2014, Africa Express' rotation is Shanghai, Ningbo, Nansha, Chiwan, Singapore, Port Louis, Cape Town, Lome, Coega, Singapore and back to Shanghai. In March 2015 MSC added direct call at Piraeus, the only direct call into Greece available at the time from the Australian market to its new Australia Express Service calling at Sydney, Melbourne, Adelaide, Fremantle, Singapore, Chennai, Colombo, King Abdullah Port (Saudi Arabia), Piraeus, Valencia, Fos, La Spezia, Naples, Gioia Tauro, Port Louis, Pointe des Galets and Sydney. Also MSC provides services between Asia and the West Coast of Latin America.

BMI believes that there is room for expansion in MSC's intra-Asia portfolio, with the potential for more intra-Asia specific routes either operated solely or in partnership. In comparison with its peers, MSC has only a small exposure to the intra-Asia market, which is set to be a major growth area for box carriers in the medium term.

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Fleet

MSC has the second-largest container fleet in the world, operating 500 vessels with a total capacity of 2.66mn TEUs. The fleet's dynamics are slightly weighted toward the charter market, with chartered-in ships accounting for 60.5% of the total.

It has an owned fleet of 190 vessels with a capacity of 1.05mn TEUs, while its chartered fleet of 310 vessels has a combined capacity of 1.6mn TEUs.

An exact breakdown of MSC's fleet is unavailable, but since H115 the line boasts the world's largest containerships, the 19,224TEU *MSC Oscar* and *MSC Oliver*. *MSC Oscar* edged out China Shipping Container Lines' *CSCL Globe*, a 19,000TEU vessel from the position. It went on its maiden voyage in January 2015, while another vessel of the same size, *MSC Oliver*, was delivered in March 2015.

While the carrier has been a member of the ultra-large container ship club, operating a fleet of 14,000TEU vessels for a number of years, up until 2014 it did not appear to be prepared to order larger ships, with MSC's founder and chairman Gianluigi Aponte stating in an interview with Lloyd's List that the company had no intention of following Maersk Line's lead and ordering 18,000TEU vessels. Aponte said that he was 'only interested in ships up to 14,000 TEUs'. BMI, however, were not completely ruling out the development of vessels larger than 14,000TEUs by MSC in the future, noting that Aponte initially denied interest in ordering 14,000TEU vessels, yet his company has since done so.

MSC is preparing to take on more box ship tonnage, both owned and chartered. The company's order book currently stands at 55 vessels with a total capacity of 701,086TEUs.

Financial Results

2014

MSC does not publish its financial results.

2013

Not available. Quantity of TEUs carried was 13.7mn.

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2012

Not available. Quantity of TEUs carried was 13.2mn.

2011

Not available. Quantity of TEUs carried was 13.1mn.

Latest Activity

Mediterranean Shipping Company and Maersk Line, which make up the 2M Alliance, have entered a cooperation agreement with the Israeli port of Haifa. Under the terms of the agreement, M2 Alliance shipping vessels will dock at the port once a week en route from China, South Korea and Singapore to the Adriatic Sea. The *Gustav Maersk*, the largest container ship owned by the alliance, will be the first ship to call at the Haifa Port on October 15.

MSC Opposes Publicising Tariffs

While surcharges and general rate increases tend to be publicised, the shipping industry has traditionally kept the base tariffs for the transport of a container from one port to another secret. This is being challenged by the Vietnamese government, which has proposed a decree which would mean shipping companies must publicise their tariffs.

A number of shipping firms, including MSC, APL, and CMA-CGM, have opposed the potential move, and expressed this through a statement issued by a law firm. The reasoning behind the publication of the tariffs is that a study found that shippers were being hit by a number of different surcharges on their cargos, and that the pricing was unclear. However, the shipping firms argue that the decree would only harm Vietnamese trade, as information about costs would be taken advantage of by rivals - other countries would still enjoy confidential pricing.

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CMA CGM

Overview

CMA CGM is the world's third-largest shipping line. Compagnie Générale Maritime (CGM) was formed in 1977 by the merger of Messageries Maritimes (MessMar) and Compagnie Générale Transatlantique (Transat). Compagnie Maritime d'Affrètement (CMA) was founded the following year.

In 1996 CMA CGM was privatised and the following year made its first acquisition, Australian National Lines (ANL). This was followed by a spree of acquisitions, beginning with UK-based MacAndrews in 2002. In 2006 CMA CGM purchased Delmas, an African shipping line previously owned by Groupe Bolloré. The acquisition propelled CMA CGM to third place in the ranking of the world's largest container shipping lines. Strong growth enabled it to make three purchases in 2007, with the acquisition of Taiwan-based Cheng Lie Navigation, Moroccan line COMANAV and US-based US Lines.

Turkey's Yildirim Group has a 24% stake in CMA CGM and has voting rights, but the Saadé family remains in charge, with a majority of both shares and voting rights. Fonds Stratégique d'Investissement (FSI) holds a 6% stake in the company following its USD150mn equity injection in 2013.

The group has operations in container shipping, with a focus on reefer cargo. It also operates in the tourist industry through subsidiary Croisières et Tourisme. CMA CGM Logistics boasts 55 branches in Asia, Europe, the Middle East, North and South America and Africa. In 2012 CMA CGM Group combined five of its multi-modal subsidiaries (CMA Rail (Rail Link Europe); French River Shuttle Containers; ocean freight forwarder LTI France (Land Transportation International); Progeco - the repair arm of CMA CGM's container business; and TCX Multimodal Logistics - a bonded warehouse company that operates in many French ports) into one entity - tri-modal operator Greenmodal Transport. Terminal Link is the group's terminal operating business.

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SWOT Analysis

Strengths

- The group has the third-largest container fleet in the world.
- CMA CGM has a number of diversified subsidiaries, catering for different markets across the globe.
- Terminal Link supports the growth of the shipping division and the group's subsidiaries.
- Its multimodal divisions also bolster growth, providing clients with an integrated 'door-to-door' service.
- The line is managing its capacity and exposure during volatility in the container shipping sector via link-ups with other carriers. Being a member of the Ocean Three alliance will ensure that CMA CGM retains its role within the container shipping sector.
- The company was back in the black in 2012-2014.

Weaknesses

- With such a large fleet, the risk of overcapacity is ever present.
- The firm is not as diverse as competitors such as Maersk, COSCO and China Shipping, which also operate in the bulk and tanker sectors.

Opportunities

- The three-pronged acquisition of US Lines, COMANAV and Cheng Lie Navigation offers the opportunity to capture traffic volumes to and from three different regional markets.
- CMA CGM is increasing its exposure to Russia, which BMI believes in the long run will be a high-growth market.
- The company is increasing its exposure to Africa, a high-growth market, and expanding its services.

Threats

- The company must ensure it does not place the importance of its market share above recovery.

SWOT Analysis - Continued	
	▪ Overcapacity and sluggish demand are still major issues facing the box shipping sector. ▪ Debt restructuring is leading to less diversity in the company's operations portfolio, with the group selling stakes in one of its major terminals and its cruise ship company.

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Strategy

CMA CGM is the third-largest global container shipping company, with a 9.1% market share, according to AXS Alphaliner. This puts it considerably behind second-placed MSC with its 13.2% market share, but significantly ahead of fourth-place Evergreen, on 4.7%.

CMA CGM managed to ride out the 2009 downturn, despite a period where it looked likely that the French government would be required to bail it out. The shipping line was determined to remain a family concern. It found an investor in Yildirim Group, which agreed to invest USD500mn and take a 20% stake in the shipping line. This has since been increased to 24%, but left the Saadé family in charge, with a majority of both shares and voting rights. Yildirim was seeking to increase its stake in CMA CGM from 24% to 30%, however, at the end of 2014 revealed its plans to re-evaluate this strategy in 2015 and possibly divest the stake. At the time of writing in October 2015 there is no apparent update on this.

Debt restructuring is affecting CMA CGM's diversity of operations, with the company selling its stake in the Marsaxlokk Malta Freeport terminal and its cruise ship company Compagnie du Ponant.

Routes

As rates on the Asia-Europe and transpacific routes remain volatile, container lines are still battling the threat of overcapacity. Lines are continuing to link up in a bid to manage the problem. In September 2014, CMA CGM formed the Ocean Three alliance with China Shipping Container Lines (CSCL) and United Arab Shipping Company (UASC), which encased vessel sharing agreements, slot exchange agreements and slot charter agreements on their Asia-Europe, Asia-Mediterranean, Transpacific and Asia-US East Coast maritime trades. Also, a vessel sharing and slot charter agreement between Hanjin Shipping and the members of the Ocean Three Alliance has been in effect from January 2015. The Ocean Three alliance will ensure CMA CGM remains competitive in the face of a tough container shipping market. The formation marks the fourth major east-west alliance involving three major carriers, joining the G6 and CKYH-E alliances and the 2M Alliance of Maersk Line and Mediterranean Shipping Co. (MSC), an alliance that left CMA CGM to fend for itself following the June 2014 rejection by China of the P3 Network Agreement involving Maersk Line, MSC and CMA CGM.

CMA CGM is a major player in Asia-Europe trade, boasting a service network of 13 routes. It is exposed to the transpacific with a route network of 10 services and is heavily involved in intra-Asia trade. CMA CGM offers 15 intra-Asia trade routes. These are, however, feeder services, and it is the company's Asian

subsidiary CNC Line that operates direct intra-Asia services. BMI expects CMA CGM to continue its strategy of developing its exposure to intra-Asia trade, as the region is deemed to offer major box shipping growth potential.

The group itself announced that in 2014 it was 'especially focusing on fast growing regions with the launch of new services and the development of port infrastructure', underlining that this 'is notably the case in Africa with the strengthening of its lines, the development of overland corridors and the opening of new agencies and logistical terminals'.

Fleet

Like its peers, CMA CGM's fleet is getting bigger, not only in terms of vessel numbers but also in terms of capacity. It operates a fleet of 13,000TEU vessels, with 34 vessels of 10,000TEU-plus capacity. The company has also welcomed three 16,000TEU ships to its fleet, with the vessels operating on the Asia-Europe trade route from the end of 2012 and from April and May 2013. In 2015 CMA CGM started receiving its fleet of 17,000TEU+ vessels, with two such vessels, including 17,722TEU CMA CGM *Georg Forster*, delivered by the beginning of summer.

The company has 26 vessels on its order book with a total capacity of 292,521TEUs, according to AXS Alphaliner. This is equivalent to 15.9% of the current fleet, and suggests that strategy will be concentrated on bigger vessels for the time being.

The company has concentrated on developing its fleet via chartering in tonnage and is expected to continue this strategy. Chartered tonnage accounts for 67.1% of CMA CGM's total TEU capacity, the highest proportion in the top ten. This offers the company considerable flexibility. During periods of decline in volumes, it can return chartered vessels when the charter period has finished, reducing the size of its fleet and operating costs.

Financial Results

Q115

CMA CGM's consolidated revenue increased by 1.8% y-o-y in the first quarter of 2015, from USD3,941mn in Q114 to USD4,013mn. Volumes were up 10.5% from 2.8mn TEUs in Q114 to 3.1mn TEUs in Q115. The growth in volumes was primarily attributable to the increase in volumes on CMA CGM's East-West lines, mainly to and from the US, and to the launch of the Ocean Three Alliance.

Consolidated net profit in the first quarter more than quadrupled from USD97mn in Q114 to USD416mn in Q115.

2014

CMA CGM's consolidated revenue was up 5.3% y-o-y in 2014, from USD15.9bn in 2013 to USD16.7bn. Volumes were up 8.1% y-o-y from 11.3mn TEUs in 2013 to 12.2mn TEUs in 2014, largely outpacing market and achieving historic high due to gains on the leading East-West lines and the strong sales performance by the Group's regional and speciality brands, according to CMA CGM.

Consolidated net profit was up 44.3% y-o-y to USD584mn, compared to USD408mn a year ago, which then included the sale of 49% of Terminal Link. In addition to the operating performance, this sharp increase in 2014 was driven by a reduction in net finance costs from USD445mn to USD222mn, including the USD70mn positive impact of the euro-dollar exchange rate.

9M14

CMA CGM's consolidated revenue increased by 4.3% in the first nine months of 2014, from USD11,990.2mn in 9M13 to USD12,509.1mn. The growth, according to CMA CGM, was mainly due to a 4.3% increase in shipping revenue. The liner's volumes were up 7.4% from 8.479mn TEUs 9M13 to 9.11mn TEUs in 9M14. Profit for the period decreased by 8.8%, from USD451.1mn to USD411.5mn.

Q214

CMA CGM posted a y-o-y increase of 3.7% in consolidated revenue in the second quarter of 2014, from USD4,050mn in Q213 to USD4,200mn. The carrier's volumes were up 8.0% to 3.1mn TEUs in Q214, compared to 2.9mn TEUs in Q213, with the average per TEU falling by 3.9% over the period.

CMA CGM attributed growth in volumes mainly to 'the development of the Group's Asia-Europe and Africa lines, and of the Asia-Pacific lines of its subsidiary ANL, reflecting CMA CGM's enhanced services portfolio in these regions'.

Consolidated net profit for the period amounted to USD94mn in Q214, below the USD268mn achieved in the corresponding period of 2013. The Q213 result, however, included non-recurring elements such as USD248mn brought by the sale of the 49% stake in port terminal operations subsidiary Terminal Link.

Q114

CMA CGM's consolidated revenue was up 2.7% y-o-y in the first quarter of 2014, from USD3,835.9mn in Q113 to USD3,940.9mn, mainly due to a 5.8% (or 154,400TEU) increase in volumes to 2.802mn TEUs in Q114 and despite average revenue per TEU falling by 2.9% to USD1,407 per TEU. Over the same period market freight rates as measured by the average SCFI compound have declined by 8.6%, according to the company.

The 154,400TEU increase in volumes was primarily attributable to a 76,000TEU (5.1%) increase in volumes on CMA CGM's main East West lines, to a 2,600TEU (3.7%) increase on main North South lines, and to a 52,000TEU (12.0%) increase by CMA CGM's subsidiaries, with the most of the increase brought in by ANL, the subsidiary specialising on intra-Asia trade.

Profit for the period was up 0.68% y-o-y from USD102.4mn to USD103.1mn.

2013

CMA CGM's consolidated revenue decreased by 0.1% y-o-y in 2013, from USD15,923.2mn in 2012 to USD15,901.5mn, mainly due to a 2.2% decrease in other activities revenues reflecting deconsolidation of CMA CGM's terminal activities subsidiary Terminal Link combined with a 0.03% increase in container shipping revenue, which amounted to USD14,751.9mn, compared to USD14,748.1mn in the previous year.

Volumes were up 7.5% y-o-y from 10.603mn TEUs in 2012 to 11.397mn TEUs in 2013. Average shipping revenue per TEU (shipping revenue divided by total carried TEU volumes) decreased 6.9% or USD96 per TEU from USD1,391 per TEU in 2012 to USD1,294 per TEU in 2013.

Consolidated net profit was up 22.8% y-o-y to USD408mn, compared to USD332mn a year ago, in part as a result of the sale of 49% of Terminal Link in June.

Q313& 9M13

CMA CGM's consolidated quarterly revenue was down 2.4% y-o-y from USD4.2bn to USD4.1bn in Q313. Net profit attributable to shareholders decreased significantly - from USD363mn to USD70mn. The year-to-date figures, however, improved, with a 0.3% y-o-y increase in revenue - from USD11.9bn to USD12.0bn - and a 52.6% growth in net profit - from USD284mn to USD434mn.

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Container volumes were up 11.1% y-o-y to 3.0mn TEUs in Q313, the year-to-date box volumes increased by 6.3% from 8.0mn TEUs in January-September 2012 to 8.5mn TEUs.

Q213 & H113

CMA CGM's consolidated revenue increased by 1.7% y-o-y to USD7.9bn in the first half of 2013, compared with USD7.8bn in H112, despite Q213 revenue at USD4.0bn being 2.4% below the USD4.1bn achieved in Q212. The group's net profit was at USD364mn in H113, compared to a net loss of USD79mn in H112. Most of the profit (USD268mn, +58.6% y-o-y) was achieved in Q213 and included USD249mn related to the reorganisation of port operations, including the disposal of Terminal Link.

CMA CGM's container volumes were up 6.9% y-o-y to 2.9mn TEUs in Q212; however, the average freight rate was down 8.6% over the period. H113 box volumes were up 4.9% from 5.3mn TEUs in H112 to 5.6mn TEUs.

CMA CGM once again reported a significant reduction of its net debt - by USD385bn - to USD3.8bn at June 30, following USD1.1bn and USD0.4bn contractions over two previous quarters.

Q113

CMA CGM reported improved consolidated financial results for the first quarter of 2013. The group posted a net profit of USD102mn in Q113, compared to a net loss of USD240mn in the corresponding quarter of 2012. CMA CGM's container volumes were up 3.0% y-o-y, from 2.6mn TEUs in Q112 to 2.7mn TEUs in Q113, resulting in a 6.0% growth in consolidated revenue, from USD3.6bn to USD3.8bn, which was also affected by a 3.0% increase in freight rates.

CMA CGM also reported a significant reduction of its net debt to USD4.2bn at March 31 2013, which is USD1.1bn less than, at the end of Q112 and USD0.4bn less than at December 31 2012.

2012

CMA CGM's consolidated revenue increased by 7.0% y-o-y in 2012, from USD 14.9bn in 2011 to USD15.9bn, driven by container volume growth of 6.0%, from 10mn TEUs in 2011 to 10.6mn TEUs in 2012. The company said it achieved USD800mn of savings over the year - well above target. It posted a consolidated net profit of USD361mn in 2012, compared to a net loss of USD5mn a year before.

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The company managed to reduce bunker costs per TEU by 12.0% and charter expenses by USD200mn. In 2013 it expects a similar level of profitability, helping it to cut its net debt by USD1.1bn to USD3.5bn.

A company press release mentions the strengthening of CMA CGM's balance sheet thanks to the sale of 49% of Terminal Link for EUR400mn, the closing of USD100mn equity injection from Yildirim, the signing of USD150mn equity injection from Fonds Stratégique d'Investissement (FSI) and the closing of the agreement with company's banks regarding its debt restructuring.

Latest Activity

Hazira And Mundra Ports Benefit From Congestion At JNPT

Hazira and Mundra ports in the Indian state of Gujarat have been benefiting from the congestion at the Jawarharlal Nehru Port Trust (JNPT) in August. Constant congestion at JNPT has prompted national and international container carriers such as Simatech Shipping, X-Press Feeders, Maersk Line, CMA CGM and Orient Overseas Container Line to add direct calls at Adani Hazira port in FY13/14 and FY14/15. Mundra port registered double digit growth in container cargo in FY12/13, FY13/14 and FY14/15. Meanwhile, JNPT container cargo growth declined in FY12/13 and FY13/14, and posted an increase of 7.21% in FY14/15.

CMA CGM Opposes Publicising Tariffs

While surcharges and general rate increases tend to be publicised, the shipping industry has traditionally kept the base tariffs for the transport of a container from one port to another secret. This is being challenged by the Vietnamese government, which has proposed a decree which would mean shipping companies must publicise their tariffs.

A number of shipping firms, including CMA CGM, APL, and MSC have opposed the potential move, and expressed this through a statement issued by a law firm. The reasoning behind the publication of the tariffs is that a study found that shippers were being hit by a number of different surcharges on their cargos, and that the pricing was unclear. However, the shipping firms argue that the decree would only harm Vietnamese trade, as information about costs would be taken advantage of by rivals - other countries would still enjoy confidential pricing.

Evergreen Line

Overview

Evergreen Line is the name and global brand under which five shipping companies operate. The brand was established in May 2007 and encompasses Evergreen Marine (Taiwan), Italia Marittima (Italy), Evergreen Marine (Hong Kong) and Evergreen Marine (UK). A fifth carrier, Evergreen Marine (Singapore), signed a joint service agreement in May 2009.

Evergreen Line's main routes focus on the delivery of goods from Asia, particularly Taiwan, Hong Kong, China, South Korea and Japan. It operates to and from the US East and West Coasts, South America, Europe, the Mediterranean, the Middle East and Africa. It also provides a container service between the east coast of South America and the East Coast of the US, as well as a service linking Panama with the US West Coast. The carrier provides regular feeder services in the Caribbean, the Mediterranean, South East Asia and around the Indian subcontinent.

Evergreen is engaged in the port operating sector, with terminals including the Taichung Container Terminal and the Kaohsiung Container Terminal in Taiwan, the Colon Container Terminal in Panama, and the Taranto Container Terminal in southern Italy, in which Hutchison Port Holdings also has a stake.

SWOT Analysis

Strengths

- Evergreen operates one of the most globalised route networks, with strong coverage of major Latin American and Middle Eastern ports in addition to its core Asian, US and European services.
- Its route-sharing agreements allow it to reduce capacity while still meeting client demands.
- Highly exposed to the intra-Asia trade route, which is widely considered a major growth market.
- Membership of the CKYHE Alliance (made up of COSCON, 'K' Line, Yang Ming, Hanjin Shipping and Evergreen Line) allows the line to better compete with other alliances.

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SWOT Analysis - Continued	
	▪ Has increased its routes through alliances, despite the difficult operating environment. ▪ Evergreen Marine (Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries) returned back to the black in 2014, posting consolidated profit for the year of TWD2.06bn.
Weaknesses	▪ With a large container fleet and little diversification into other sectors, the risk of overcapacity is ever-present. This threat is especially relevant as the company has a large newbuild fleet currently on order, at 23 ships. ▪ Flagship services are focused on Asia, so a shift in the dynamics of this region could make Evergreen vulnerable.
Opportunities	▪ The company is currently conducting the 'rejuvenation' of its fleet, which will give it a younger and more modern fleet and will optimise unit costs. ▪ Ordered newbuilds at the bottom of the market, so has been able to expand more cheaply than its peers. ▪ Well placed to take advantage of the growth in cargo traffic brought about by the opening of direct routes between China and Taiwan. ▪ Is expanding its emerging trade route coverage, with new services connecting Asia and Africa.
Threats	▪ While the company has built up intra-Asian history and expertise, the region's growth potential is luring new players, increasing the competition Evergreen will face.

Strategy

Evergreen Line is the fourth-largest container shipping company in the world in terms of container-carrying capacity. According to AXS Alphaliner, it has an overall capacity of 953,555 twenty-foot equivalent units (TEUs), representing market share of 4.7%). This is a considerable 880,455TEUs behind the third-largest container shipping company CMA CGM (9.1% market share) and 33,796TEUs ahead of fifth-placed COSCON (4.3%).

Routes

Evergreen Line boasts a strong presence on intra-Asia trade routes, and continues to launch new routes. The latest service to be included in its intra-Asia portfolio is a new weekly China-Surabaya Express (CSX) Service, launched in May 2015 in partnership with COSCO and China Shipping, with the port rotation of Qingdao-Shanghai-Xiamen-Shekou-Pasir Gudang-Singapore-Surabaya-Singapore-Qingdao. The high growth potential of intra-Asia routes has seen a number of lines expand into this area. BMI believes Evergreen Line is positioned better than most, as intra-Asia is its traditional operating area and it has built up considerable expertise and a client base there.

In March 2012 the line announced its return to the North America-South America route, in conjunction with a number of other lines. Evergreen, NYK Line (NYK), Hanjin Shipping and Hyundai Merchant Marine (HMM) jointly launched a new service between the US East Coast and South America, the Atlantic North South Service (ANS). However as of June 2015 Evergreen does not offer any services between North and South Americas.

The company has also developed a role on the 'big money' routes, and has 14 Asia-Europe and 17 transpacific services.

Fleet

Evergreen Line has a fleet of 201 vessels, with a capacity of 953,555TEUs. The company owns 106 and charters 95 vessels. This translates to a total 405,564TEUs chartered containers, equivalent to 42.5% of the company's total fleet. The capacity of Evergreen-owned vessels is 547,911TEUs.

In terms of vessel capacity, its fleet is much smaller than its peers', with vessels mainly ranging from 1,038TEUs to 8,508TEUs, although in October 2014 it chartered Thalassa Axia for 10 years, its 10th and

last 13,800TEU that was part of a 10-vessel charter agreement with Greece's Enesel, according to the terms of which all vessels had to be delivered to Enesel and chartered by November 2014. Ten more 14,000TEU vessels were chartered as per charter agreements signed with Costamare and Shoei Kisen Kaisha, with each company providing five vessels to be delivered in 2016 and 2017 respectively. Evergreen's strategy of maintaining a large fleet made up of smaller vessels ties the carrier with intra-Asia routes, to which it is highly exposed. The company had previously seemed unprepared to make the leap into the mega-vessel class, a move undertaken by most of its peers. However, its orderbook shows it is prepared to take more vessels with an average capacity of 9,609TEUs.

The line's avoidance of ordering mega vessels appeared to be due to reservations by chairman and founder Chang Yung-fa. He has been reported to be 'a noted sceptic about the industry trend towards far larger ships, believing that the need to fill them would end up driving down earnings'. This scepticism, however, appears to have been overcome, with Evergreen chartering significant number of 14,000TEU and 18,000TEU vessels. BMI notes that Evergreen is ensuring some protection, as it is chartering the vessels instead of owning them.

BMI believes Evergreen's decision to join the mega-vessel club will enable it to optimise its costs. It will also help the company to remain the number one container line in Asia.

Evergreen's orderbook, at 394,000TEUs or 41.3% of its current fleet, is 46,614TEUs greater than that of COSCON, meaning Evergreen should retain its lead. The change in strategy will also help the company move toward Chang's reported goal of 'steering Evergreen into becoming the world's largest container line in his lifetime'.

The company calls its current fleet development a 'fleet rejuvenation programme', which it started in 2010 by ordering twenty 8,000TEU-plus L-type vessels from Samsung Heavy Industries and followed by an order for 10 vessels of the same type from Taiwan's CSBC Corp in 2011. Evergreen also took delivery of five 8,800TEU and 10 13,800TEU chartered vessels, with another ten 14,000TEU ships to be delivered in 2016-2017. 28 of the thirty L-Type vessels were delivered by April 2015, while two more newbuilds are to be delivered by Q315. With the delivery of all these 66 vessels of medium to ultra-large size its currently chartered ships will be gradually redelivered as their charters expire.

Evergreen previously planned to build 100 container ships, but these plans have been put on hold until after the Panama Canal expansion project is completed, which is due in 2016.

Financial Results

2014

Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries recorded a consolidated profit for the year of TWD2.06bn in 2014, an improvement on the TWD2.05bn loss in 2013. Consolidated operating revenue was up 3.6% y-o y to TWD144.3bn.

9M14

Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries' operating revenue was up 1.2% to TWD107.1bn in the first nine months of 2014, compared to TWD105.9bn in 9M13. Profit for the period amounted to TWD960.09mn, an improvement compared to the TWD2,436.6mn loss in the first nine months of 2013.

H114

Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries posted a loss for the period in the amount of TWD1.51bn in the first six months of 2014, an improvement compared to the TWD2.53bn loss in H113. Operating revenue decreased by 0.5% y-o y to TWD69.5bn.

2013

Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries recorded a consolidated net loss for the year of TWD2.05bn in 2013, an almost ten-fold increase on the TWD211.7mn net loss in 2012. Consolidated operating revenue decreased by 1.3% y-o y to TWD139.2bn.

2012

Evergreen Marine returned to the black in 2012, posting a net income of TWD128.53mn, compared to a TWD3.09bn loss in 2011. The company said it would not pay dividends.

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Latest Activity

South Asia-Oman Shipping Service Launched

Evergreen Line and UAE-based ocean freight services provider Simatech Shipping launched a new direct South Asia-Oman service in June, with the vessel Messini making its maiden call in the Omani port of Sohar on May 29. The new weekly service, titled the Chennai-Colombo-Gulf Service (CCG), deploys four vessels. The new service is aimed at offering Omani importers and exporters more options in terms of shipping. CCG's port rotation will be - Colombo, Vizakhapatnam, Krishnapatnam, Chennai, Colombo, Cochin, Jebel Ali, Sohar, Cochin and Colombo.

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COSCO Container Lines Company (COSCON)

Overview

COSCO Container Lines Company (COSCON) is one of the world's biggest container shipping lines and is the largest Chinese carrier, exceeding rival China Shipping Container Lines (CSCL) in terms of fleet capacity.

COSCON is the container-transporting arm of China COSCO Holdings Company. The company dates back to 1961 and was originally engaged in transport solutions. It did not become a shipping company until 1993. In 2005 the firm issued an initial public offering (IPO) and now trades on the Shanghai and Hong Kong stock exchanges. China COSCO Holdings Company is the flagship and integrated platform of COSCO. The group is owned by the People's Republic of China.

SWOT Analysis	
Strengths	▪ COSCO has a good relationship with the Bank of China, which has provided the company a source of credit since the 1960s. ▪ Its investment in a number of shipyards gives it the flexibility to adapt its order book to the economic climate. ▪ The carrier has a well-diversified fleet.
Weaknesses	▪ COSCON is facing growing competition from fellow Chinese shipping line CSCL, which is rapidly expanding its fleet.
Opportunities	▪ The opening of direct shipping routes between China and Taiwan is likely to provide long-term growth opportunities for COSCO's container operations. ▪ The group is well placed to take advantage of growing intra-Asia trade. ▪ A coming merger with CSCL is rumoured.
Threats	▪ Ongoing overcapacity in 2015 will continue to drive down rates.

Strategy

According to COSCON's website, the liner operates 84 international shipping routes and 23 domestic services, connecting 192 principal ports in 64 different countries and regions.

COSCON plays a key role in domestic Chinese shipping, both coastal and on inland waterways. It operates six coastal services, 16 coastal feeder lanes and 72 routes on the Pearl River Delta and Yangtze River.

As a Chinese company, COSCON is heavily exposed to the intra-Asia market, which BMI believes is a growth area for shipping, particularly at a time when the more traditional routes are suffering from overcapacity. In addition to its domestic Chinese services, it also has a large number of services connecting Chinese ports with ports in other Asian countries, such as Vietnam and Indonesia. COSCON also has high exposure to the traditional East-West 'big money' routes of Asia-Europe and transpacific.

As well as unstable rates, the company has faced volatile bunker fuel prices. In an effort to combat this, it has introduced a number of bunker adjustment surcharges. It has also tried to introduce a peak season surcharge, but with vessel supply continuing to outweigh demand, this did not hold.

Alliances

BMI's view of an increase in link-ups between lines continues to play out, with the CKYH Alliance (also known as the Green Alliance) - made up of COSCON, 'K' Line, Yang Ming and Hanjin Shipping - first forming a partnership with Taiwan's Evergreen Line and later creating the CKYHE Alliance. BMI believes the development of alliances will put further pressure on carriers on the Asia-Europe route alone, leaving them with two options: join up or drop out.

The CKYH Alliance's link-up with Evergreen came into force in Q212, with the carriers operating a 12-loop service using between 96 and 132 vessels. In February 2014 the creation of the CKYHE Alliance was announced, with members agreeing in principle to establish a shipping alliance, which will be operational only on the trades between Asia and Europe, including the Mediterranean region. The CKYHE Alliance commenced operations in the middle of April with six joint services operating between Asia and Northern Europe and four loops on the Asia-Mediterranean route.

In October 2014, the alliance announced plans to expand its cooperation scope to U.S. trades, with the CKYHE submitting a formal letter to the Ministry of Transport (MOT) of China, filing an agreement to

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cover U.S. trades with the U.S. Federal Maritime Commission (FMC), and informing the EU Commission of developments. All regulatory approvals were later received. CKYHE plans to follow the same pattern of cooperation in U.S. trades that its members use in the Asia/Europe, Mediterranean trades.

Alliances are nothing new. They enable comparatively smaller players to operate on major trade routes, which they would normally be priced out of, if operating by themselves. In 2009 link-ups between lines became common and, as BMI projected, with the global economic environment once again turning sour, lines were joining up once more; although it should be noted it is now on a scale we have never before witnessed. The launch of the G6 Alliance highlighted this, with members of the Grand Alliance (Hapag-Lloyd, NYK Line and OOCL) joining with members of the New World Alliance (APL, Hyundai MM and MOL) to create a super alliance of six members.

BMI believes it is due to the launch of this mega alliance, along with the link-up of MSC and CMA CGM on the Asia-Europe route, the continued dominance of Maersk Line and the attempt at creating the P3 Network by the world's three largest liners - Maersk Line, MSC and CMA CGM - that the CKYH Alliance has joined up with Evergreen.

Also, in Q412, further cooperation was announced between the two Chinese liners, when CSCL and COSCON announced that they were to operate their first joint domestic service linking north east China with Fujian and Shantao in the south. The move will protect the firms, as by working together they will dominate the country's coastal shipping sector, making it harder for outside shipping lines to break into the market. More news on cooperation between the two came at the beginning of 2014, when COSCO Group and China Shipping Group signed a strategic cooperation framework agreement, according to which the companies will cooperate in different areas, including shipping.

Fleet

According to AXS Alphaliner data, as of September 29 2015, COSCON was the fifth-largest container shipping line in the world, with a market share of 4.3% - down marginally from 4.4% three months earlier. The company's container fleet has a capacity of 857,751 twenty-foot equivalent units (TEUs), down 0.7% from 864,237TEUs on June 2015. COSCON's fleet is made up of 167 vessels. The majority are Post-Panamax vessels with capacities of more than 4,500TEUs. The largest vessels in the COSCON fleet are the nine 13,000+TEU-capacity vessels, delivered in 2013 and 2014.

COSCON slipped from fourth position in 2012, when it was overtaken by fellow Asian container shipping company Evergreen, and later, in 2014, by Hapag-Lloyd also. COSCON has a massive orderbook, which

will see it move up the rankings. This is equivalent to 40.5% of its fleet at present, 23 ships on order totalling container capacity of 347,386TEUs. Evergreen will remain ahead, however, as its orderbook is of a similar size, equivalent to 41.2% of its fleet.

Of its 164 vessels, COSCON has a fairly balanced ratio of chartered vessels, accounting for 45.9% of the fleet at 393,339TEUs. COSCON's own fleet of 85 vessels makes up the remaining 464,412TEUs.

Financial Results

2014

China COSCO Holdings Company's total revenue from container shipping and related business was up 4.1% y-o-y, to CNY50,324mn in 2014. The segment posted a profit of CNY1,016mn, compared to a loss of CNY988.1mn in 2013. Box shipping volumes were up 8.5% y-o-y, to 9.438mn TEUs. Average container freight rate increased by 1.7% to CNY4,558 per TEU compared to 2013.

In 2014 COSCON, a wholly owned subsidiary of China COSCO, posted a revenue of CNY47,743mn, operating profit of CNY651.1mn, gross profit of CNY297.2mn and net profit of CNY91.4mn. Net profit attributable to the parent company's equity holders was CNY52.0mn, compared to a net loss of CNY1,426mn in 2013.

9M14

China COSCO Holdings Company's consolidated total revenue from operations increased by 2.9% y-o-y, to CNY47.427bn in the first nine months of 2014. The company recorded a net profit of CNY297.7mn, a y-o-y drop of 19.4% compared to a net profit of CNY369.3mn recorded for 9M13.

Revenue from container shipping and related business increased by 10.5% y-o-y to CNY35.054bn in 9M14 as container shipping volumes were up 8.8% y-o-y to 6.992mn TEUs.

H114

China COSCO Holdings Company's consolidated operating revenue was up 4.6% y-o-y, to CNY32.492bn in the first half of 2014. The company recorded a profit attributable to equity holders of CNY2.277bn, compared to a restated CNY0.99bn loss recorded for H113.

Revenue from container shipping and related business was up 5.5% y-o-y to CNY24.006bn in H114 but the segment posted a loss of CNY868.6mn for the period. Container shipping volumes were up 9.2% y-o-y, to 4.489mn TEUs. The average revenue was at CNY4,412 per TEU, down 2.5% on H113.

Q114

China COSCO Holdings Company's consolidated operating revenue dropped by 6.8% y-o-y, to CNY14.209bn in the first quarter of 2014. The company recorded a net loss attributable to equity holders of CNY1.880bn, compared to CNY1.988bn loss figure recorded for Q113.

Container shipping volumes were up 7.2% y-o-y, to 2.079mn TEUs in Q114.

2013

China COSCO Holdings Company's revenue from container shipping and related business decreased by 0.6% y-o-y, to CNY48,312mn in 2013. Box shipping volumes increased by 8.5% y-o-y, to 8.702mn TEUs. Average container freight rate was down 10.4% to CNY4,482 per TEU compared to 2012; in US dollars the decrease was at 8.8% to USD723 per TEU.

The company attributed its results to low freight rates as a result of continuing weak market demand and gradual delivery of large vessels creating oversupply.

Transpacific trade revenue decreased from CNY14.9bn in 2012 to CNY14.2bn in 2013; revenue brought by Asia-Europe trade including the Mediterranean dropped from CNY12.3bn to CNY10.7bn; Intra-Asia and Australia revenue also decreased - from CNY7.6bn to CNY7.4bn; while domestic Chinese revenue was up from CNY12.1bn to CNY13.8bn and revenue brought by other international trades, including the transatlantic increased from CNY1.7bn in 2012 to CNY2.3bn in 2013.

China COSCO Holdings Company's container shipping and related business remained unprofitable in 2013, with the segment recording a loss of CNY988.1mn, compared to a restated CNY1,528.7mn loss figure recorded for 2012.

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2012

COSCON's revenues increased by 16.9% y-o-y to CNY48,446mn in 2012, compared to CNY41,437mn in 2011. Capacity grew by 13.3% and box volumes transported by the company were up 16.0%, from 6.91mn TEUs in 2011 to 8.02mn TEUs in H112. The highest revenues were earned by the transpacific trade services (CNY14,863mn, up 21.5% y-o-y), followed by Asia-Europe, including Mediterranean (CNY12,067mn, up 30.7%) and intra-Asia, including Australia (CNY7,318mn, up 14.3%).

Latest Activity

North Europe Feeder Network Enhanced

In July, COSCON announced the strengthening of its feeder network through the introduction of two new feeder loops for Northern Europe which began operating at the close of that month. The first of the two weekly services is the PLX1 [Poland-Lithuania-Express], which calls at Hamburg, Gdynia and Klaipeda before returning to Hamburg. The SNX1 [Sweden-Netherlands-Express] has the rotation Rotterdam, Oslo, Gothenburg, Rotterdam.

Merger On The Cards

There are growing talks of a potential merger between CSCL and China COSCO. Although there has been no official word, and neither of the companies mentioned the issue in recent H2 financial releases (which were widely different, with COSCO reporting a significant improvement in fortunes, while CSCL posted a 97% decline in net profits), speculation continues. This has been fuelled by COSCON stating that it was in the 'planning process' for a 'material event.'

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Macroeconomic Forecasts

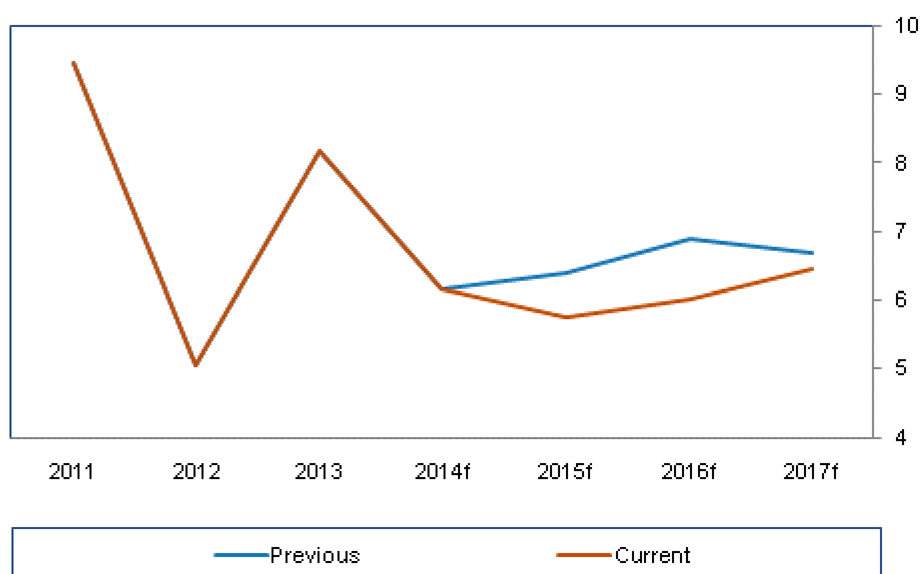
Economic Analysis

***BMI View:** Economic growth in Tanzania will feel the effects of policy uncertainty in the energy and mining sectors up to, and likely well beyond, the general election on October 25. While we expect growth to return to trend from mid-2016 onwards, risks to the medium-term growth picture are increasingly to the downside.*

Events in recent months have strengthened our conviction that the pace of economic growth in Tanzania will slow in 2015. Having averaged 6.9% annually between 2010 and 2014, we now expect real GDP growth in the country to come in at a more modest 5.7% in 2015 - a downward revision from the 6.4% we forecast last quarter. While strong by regional standards - we forecast average growth of 4.0% in Sub-Saharan Africa this year - it is still a notable deceleration and one that merits scrutiny. At present we believe this is mostly a temporary dip in form and that growth will return to trend from mid-2016 onwards. Even so, we caution that downside risks to the medium term picture have increased over the past nine months.

Near Term Picture Dims

Tanzania - Real GDP Growth Forecasts (Revised And Previous), %



e/f=BMI estimate/forecast. Source: National sources, BMI

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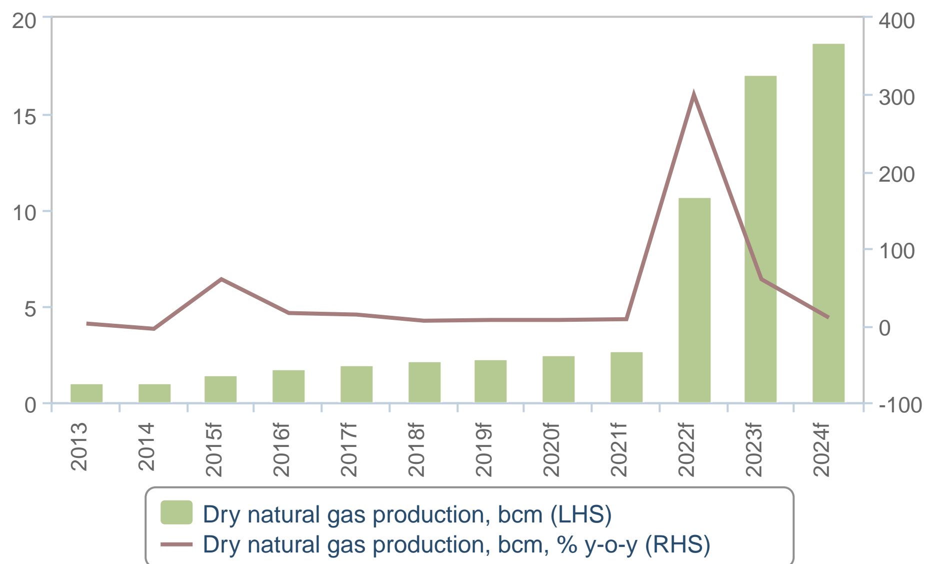
A number of factors are responsible for this softening of the near term growth outlook. The first and most important of these is uncertainty in the extractive sector. We noted at the start of the year that a weak oil price environment and an uncertain regulatory picture would hinder progress in Tanzania's natural gas sector in 2015 and delay investment decisions on key projects (*see 'Political Risk Factors Will Dent Growth In 2015', March 5*). While the fast-tracked passage of the Petroleum Act 2015 in July was a positive step following years' of delay, our Oil & Gas team expect it to have limited impact on the development of the natural gas sector over the next 12-18 months due to lingering regulatory uncertainties (*see 'Petroleum Act Holds Little Upside To Proposed Gas Development', July 7*).

This, allied to a negative outlook for oil prices - **BMI**'s oil & gas team recently revised down its average Brent crude forecasts for 2015, 2016 and 2017 to USD57/barrel, USD56 and USD55 respectively - will continue to dampen investor sentiment over the coming quarters (*Oil: No Brent Recovery Until 2018, August 17*).

Risks Rising



Source: National Sources, BMI

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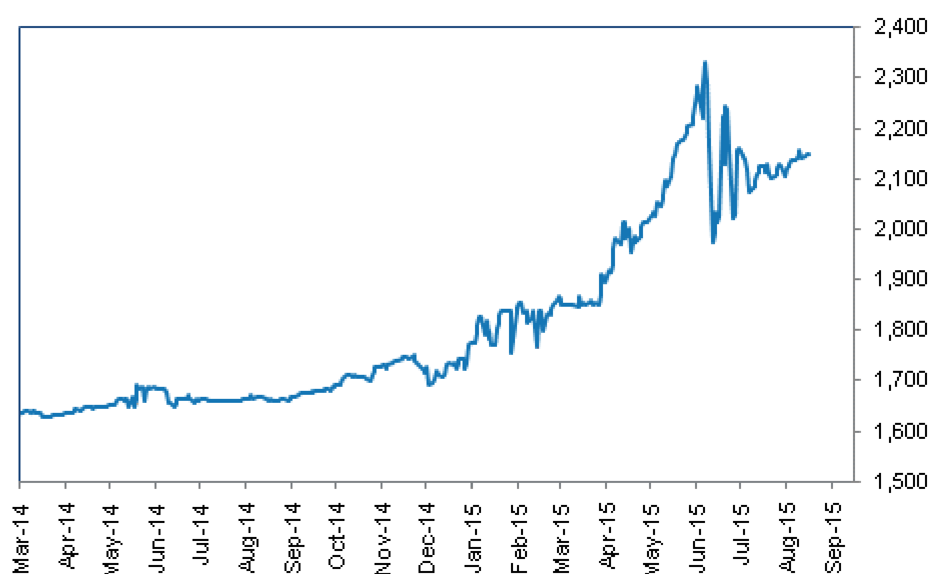
In addition to these oil and gas sector-specific issues, we believe that investment in the wider extractive sector will suffer from increased political risk levels in the run-up to the general election on October 25 and likely beyond. Although we maintain our view that a win for the ruling party is the most likely outcome, the odds of an opposition victory have been bolstered by the defection of the popular but controversial figure of Edward Lowassa to CHADEMA, the largest opposition party (*see 'Lowassa Defection Will Weaken Ruling Party', July 29*). Electoral uncertainty, along with recent comments by Lowassa that he planned to 'review all major energy and mining contracts' and 'eliminate unnecessary tax exemptions', will keep most energy and mining investors on the sidelines over the coming months. Even in the case of an incumbent victory, the decision to appoint a relative unknown in John Magufuli as President Kikwete's successor could see some investors await clearer signs on policy direction before committing to new projects.

More Weakness Ahead

Tanzania - Exchange Rate, TZS/USD



Source: Bloomberg, BMI

Finally, currency concerns will remain to the fore over the near term. The Tanzanian shilling (TZS), like its Kenyan and Ugandan counterparts, has come under severe pressure in 2015 - it has depreciated nearly 20% against the US dollar year-to-date - and though it has fared better than its East African neighbours since

July, it will continue to buckle under the pressure of a strong US dollar. Electoral jitters could also weigh on the unit over the coming months. We expect the lag effects of heavy currency depreciation to exert upward pressure on prices over the coming months and we have nudged up our average inflation forecasts for 2015 and 2016 to 5.8% and 6.7% respectively. While the acceleration in headline inflation since the start of the year - from 4.1% year-on-year (y-o-y) in January to 6.4% in July - was in part down to a seasonal jump in food prices, currency pass through will keep inflation in the 6.0-7.0% range over the next six months.

Expenditure Breakdown:

Private Consumption: Private consumption is the largest contributor to headline GDP growth in Tanzania and this will remain the case over our 2015-2019 forecast period. Rising per capita incomes will see increasing numbers of lower-middle class Tanzanians purchasing consumer goods, boosting the sector, and they will be supported in this by relatively benign levels of inflation. Rising financial inclusion, accelerated by the spread of mobile financial services, will also play an important role in consumer empowerment.

Government Consumption: General elections in October will be a key factor driving government consumption in 2015 - we are forecasting real growth of some 4.0%. While a recently galvanised and unified opposition is unlikely to prevent the ruling Chama cha Mapinduzi (CCM) from securing another term in office, we believe it will make for a heated pre-electoral environment that will exert strong popular spending pressures.

Investment: Our positive long-term growth outlook for Tanzania over the next decade is in large part predicated on continued heavy investment into the nascent offshore gas sector. While this view remains broadly intact, weakening market conditions could impact the pace of investment into the sector, particularly over the short-to-medium term.

Net Exports: Net exports will remain a drag on headline growth over the coming years. Rapid investment and robust private consumption growth will see demand for non-substitutable imported capital and consumer goods remain strong. The external sector, meanwhile, will continue to suffer from a dearth of domestic productive capacity. Despite possessing a relatively diversified export base, the performance of exports will be hampered by weak global commodity prices and an uncompetitive agricultural sector.

Table: Economic Activity (Tanzania 2010-2019)

	2010	2011	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Nominal GDP, USDbn	29.3	32.2	37.9	44.2	48.5	44.5	42.7	46.5	51.3	56.5
Real GDP growth, % y-o-y	5.8	9.5	5.1	8.2	6.1	5.7	6.0	6.5	6.7	6.3
GDP per capita, USD	652	694	793	898	955	850	793	838	898	961
Population, mn	45.6	47.1	48.6	50.2	51.8	53.5	55.2	56.9	58.6	60.4

e/f = BMI estimate/forecast. Source: National Sources, BMI

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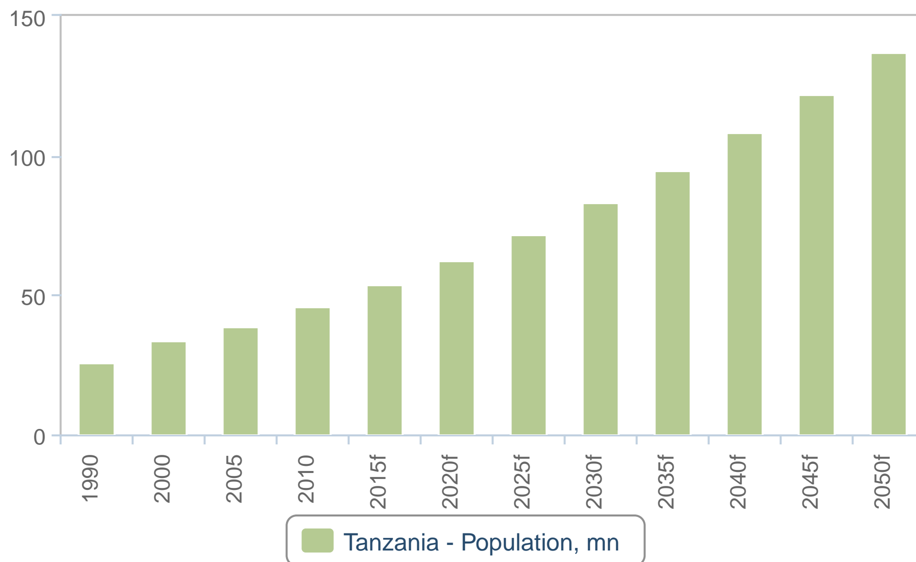
Demographic Forecast

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail the population pyramid for 2015, the change in the structure of the population between 2015 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population

(1990-2050)



f = BMI forecast. Source: World Bank, UN, BMI

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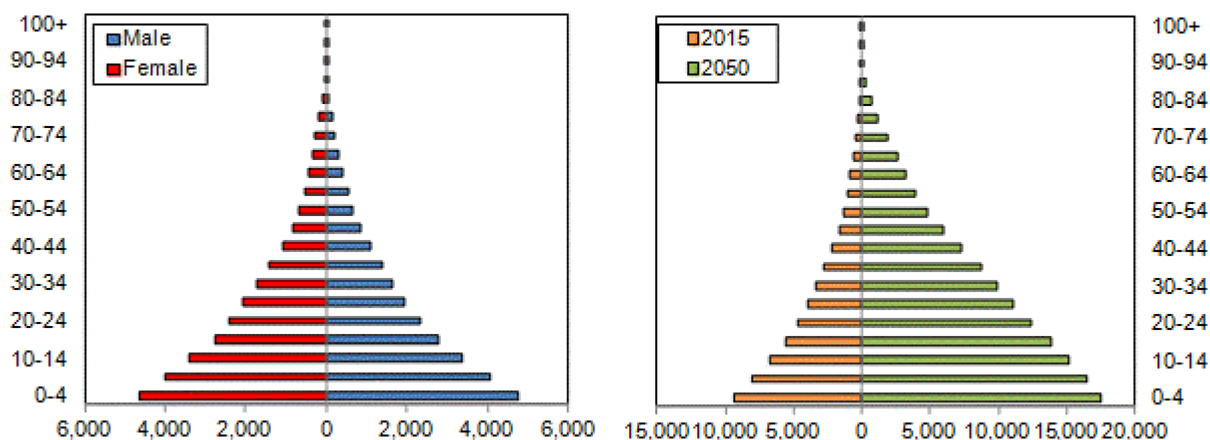
Tanzania Population Pyramid

2015 (LHS) & 2015 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Table: Population Headline Indicators (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, total, '000	25,458	33,991	39,065	45,648	53,470	62,267	72,032
Population, % y-o-y	na	2.6	3.0	3.2	3.2	3.0	2.9
Population, total, male, '000	12,608	16,910	19,394	22,665	26,574	30,992	35,900
Population, total, female, '000	12,849	17,080	19,671	22,982	26,896	31,275	36,132
Population ratio, male/female	0.98	0.99	0.99	0.99	0.99	0.99	0.99

na = not available; f = BMI forecast. Source: World Bank, UN, BMI

Table: Key Population Ratios (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Active population, total, '000	13,054	17,744	20,295	23,641	27,590	32,573	38,575
Active population, % of total population	51.3	52.2	52.0	51.8	51.6	52.3	53.6
Dependent population, total, '000	12,403	16,247	18,769	22,006	25,880	29,693	33,457
Dependent ratio, % of total working age	95.0	91.6	92.5	93.1	93.8	91.2	86.7

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Key Population Ratios (Tanzania 1990-2025) - Continued							
	1990	2000	2005	2010	2015f	2020f	2025f
Youth population, total, '000	11,713	15,283	17,606	20,578	24,167	27,686	31,072
Youth population, % of total working age	89.7	86.1	86.7	87.0	87.6	85.0	80.6
Pensionable population, '000	690	963	1,163	1,428	1,712	2,007	2,384
Pensionable population, % of total working age	5.3	5.4	5.7	6.0	6.2	6.2	6.2

f = BMI forecast. Source: World Bank, UN, BMI

Table: Urban/Rural Population & Life Expectancy (Tanzania 1990-2025)							
	1990	2000	2005	2010	2015f	2020f	2025f
Urban population, '000	4,807.5	7,583.2	9,705.8	12,833.6	16,900.9	21,879.5	27,804.7
Urban population, % of total	18.9	22.3	24.8	28.1	31.6	35.1	38.6
Rural population, '000	20,650.7	26,408.4	29,359.8	32,814.9	36,569.5	40,387.8	44,228.2
Rural population, % of total	81.1	77.7	75.2	71.9	68.4	64.9	61.4
Life expectancy at birth, male, years	48.5	49.9	55.1	60.6	64.1	66.2	67.6
Life expectancy at birth, female, years	51.5	51.1	56.1	62.8	66.9	68.6	70.4
Life expectancy at birth, average, years	50.0	50.5	55.6	61.6	65.5	67.4	69.0

f = BMI forecast. Source: World Bank, UN, BMI

Table: Population By Age Group (Tanzania 1990-2025)							
	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, total, '000	4,641	5,907	7,008	8,135	9,398	10,427	11,486
Population, 5-9 yrs, total, '000	3,822	5,031	5,695	6,816	8,019	9,297	10,337
Population, 10-14 yrs, total, '000	3,249	4,344	4,901	5,625	6,750	7,961	9,248
Population, 15-19 yrs, total, '000	2,722	3,733	4,191	4,811	5,540	6,663	7,880
Population, 20-24 yrs, total, '000	2,247	3,166	3,599	4,107	4,717	5,441	6,559
Population, 25-29 yrs, total, '000	1,844	2,590	3,031	3,502	4,005	4,614	5,333
Population, 30-34 yrs, total, '000	1,510	2,066	2,429	2,917	3,393	3,900	4,507
Population, 35-39 yrs, total, '000	1,222	1,646	1,897	2,309	2,797	3,282	3,792
Population, 40-44 yrs, total, '000	1,036	1,322	1,488	1,786	2,194	2,687	3,175
Population, 45-49 yrs, total, '000	836	1,062	1,215	1,404	1,695	2,101	2,591

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Population By Age Group (Tanzania 1990-2025) - Continued							
	1990	**2000**	**2005**	**2010**	**2015f**	**2020f**	**2025f**
Population, 50-54 yrs, total, '000	676	891	976	1,142	1,329	1,615	2,014
Population, 55-59 yrs, total, '000	539	709	821	903	1,077	1,259	1,538
Population, 60-64 yrs, total, '000	416	555	643	755	839	1,006	1,181
Population, 65-69 yrs, total, '000	303	412	485	564	677	758	913
Population, 70-74 yrs, total, '000	200	279	339	408	476	577	650
Population, 75-79 yrs, total, '000	114	163	199	257	309	366	448
Population, 80-84 yrs, total, '000	51	76	96	141	163	200	240
Population, 85-89 yrs, total, '000	16	26	33	44	67	80	100
Population, 90-94 yrs, total, '000	3	5	7	10	14	22	27
Population, 95-99 yrs, total, '000	0	0	0	1	1	2	4
Population, 100+ yrs, total, '000	0	0	0	0	0	0	0

f = BMI forecast. Source: World Bank, UN, BMI

Table: Population By Age Group % (Tanzania 1990-2025)							
	1990	**2000**	**2005**	**2010**	**2015f**	**2020f**	**2025f**
Population, 0-4 yrs, % total	18.23	17.38	17.94	17.82	17.58	16.75	15.95
Population, 5-9 yrs, % total	15.01	14.80	14.58	14.93	15.00	14.93	14.35
Population, 10-14 yrs, % total	12.76	12.78	12.55	12.32	12.62	12.79	12.84
Population, 15-19 yrs, % total	10.70	10.98	10.73	10.54	10.36	10.70	10.94
Population, 20-24 yrs, % total	8.83	9.32	9.22	9.00	8.82	8.74	9.11
Population, 25-29 yrs, % total	7.25	7.62	7.76	7.67	7.49	7.41	7.40
Population, 30-34 yrs, % total	5.93	6.08	6.22	6.39	6.35	6.26	6.26
Population, 35-39 yrs, % total	4.80	4.84	4.86	5.06	5.23	5.27	5.26
Population, 40-44 yrs, % total	4.07	3.89	3.81	3.91	4.10	4.32	4.41
Population, 45-49 yrs, % total	3.29	3.12	3.11	3.08	3.17	3.37	3.60
Population, 50-54 yrs, % total	2.66	2.62	2.50	2.50	2.49	2.59	2.80
Population, 55-59 yrs, % total	2.12	2.09	2.10	1.98	2.01	2.02	2.14
Population, 60-64 yrs, % total	1.64	1.63	1.65	1.66	1.57	1.62	1.64
Population, 65-69 yrs, % total	1.19	1.21	1.24	1.24	1.27	1.22	1.27
Population, 70-74 yrs, % total	0.79	0.82	0.87	0.89	0.89	0.93	0.90
Population, 75-79 yrs, % total	0.45	0.48	0.51	0.56	0.58	0.59	0.62
Population, 80-84 yrs, % total	0.20	0.23	0.25	0.31	0.31	0.32	0.33

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Population By Age Group % (Tanzania 1990-2025) - Continued

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 85-89 yrs, % total	0.07	0.08	0.09	0.10	0.13	0.13	0.14
Population, 90-94 yrs, % total	0.01	0.02	0.02	0.02	0.03	0.04	0.04
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

f = BMI forecast. Source: World Bank, UN, BMI