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Q2 2015
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IRAN
SHIPPING REPORT

INCLUDES 5-YEAR FORECASTS TO 2019

ISSN 2040-9958
Published by:BMI Research

Iran Shipping Report Q2 2015

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Part of BMI's Industry Report & Forecasts Series

Published by: **BMI Research**

Copy deadline: February 2015

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BMI Industry View

The outlook for the Iranian shipping sector is brighter than it has been in recent years, and we forecast a second consecutive year of growth at the primary container port of Bandar Abbas in 2015. The ongoing easing of sanctions - not least on the port operator itself - will boost throughput. However, we note increased risk to our projections since our last quarterly update, as plummeting oil prices will weigh on Iranian economic activity and port throughputs.

Our outlook for the Iranian shipping sector depends on the current rapprochement between the pariah state and the West, and the attendant relaxation of sanctions, continuing. The Iranian economy will expand slowly in 2015 as talks on the nuclear programme continue without reaching a breakthrough, and **BMI** projects real GDP growth of 2.8% in 2015, following our estimate of a 2.9% contraction in 2013 and 2.8% growth in 2014. The shipping sector will be a major beneficiary of an easing of sanctions, not only through a general recovery in the economy, but also from a fundamental perspective. The removal of port operator **Tidewater** from EU sanction lists means that international shipping companies are set to begin calling at Iranian ports such as Bandar Abbas once more. Growth will take time to recover, however, given the massive inflation seen in Iran in recent years, and the damage done to consumers' purchasing power as a result.

Headline Industry Data

- 2015 port of Bandar Abbas throughput forecast to grow by 6.7%, and average growth of 6.8% to 2019.
- 2019 port of Bandar Abbas throughput expected to reach 2.19mn twenty-foot equivalent units (TEUs) - still insufficient to match 2011 volumes.
- 2015 total real trade is forecast to return to contract by 0.4% as oil prices fall.

Key Industry Trends

Trade With India To Be Boosted By New Port: The development of the new Chabahar port in Iran is continuing apace. The facility is being constructed with an eye to increasing trade between Iran and India. In the latest development has been the announcement that India and Iran are to set up a direct shipping line between Iran's Chabahar and India's Mumbai Ports, according to the Chairman of the Iranian Chamber of Commerce Gholam Hossein Shafeyee. 'This is the best, the shortest and the most economical route for the export of Indian commodities to Central Asia, the Caucasus and Europe,' said Shafeyee.

Bulking Up Ports' Capacity: Iran plans to expand the capacity of its ports by 210mn tonnes, according to the Port and Maritime Organization's Managing Director Mohammad Saeednejad. The northern and southern ports have a reloading and loading capacity of 185mn tonnes, though more than 140mn tonnes of imports, exports, transit and tranship are currently handled at the ports. Saeednejad stated that during the first seven months of 2014, the ports reported an increase of 9% y-o-y in loading and reloading, which was expected to continue to end-2014. Saeednejad also mentioned the improved handling capacity at Bandar Abbas, which is expected to increase to 8.5mn containers annually through investment and development programmes. However, we believe that the port is currently handling less than 2mn TEUs per annum, and that it will be some time before it reaches such volumes.

EU Loses Court Battle: Things are looking up for Iranian shipping companies, in particular IRISL and the numerous subsidiaries set up by the company, as the EU High Court ruled in January 2015 that sanctions against it were not justified and that there was no evidence that the bodies were abetting the Iranian government's alleged nuclear weapons development programme. We expect that the company will ramp up its operations in the wake of this ruling.

Key Risks To Outlook

There are serious risks to all our forecasts for Iranian shipping, just as there are to our macroeconomic outlook for the country. Should the current rapprochement between Iran with the West and the US continue, there is serious upside risk to our outlook as sanctions continue to be removed. The lifting of sanctions on shipping insurance, for example, has already resulted in an increase in oil exports, and the Q314 removal of sanctions against port operator Tidewater will see container volumes at Bandar Abbas grow once more. Equally, it should be noted that if negotiations stumble, the end position could be worse than it currently is if even harsher restrictions on Iranian trade are imposed. This would generate downside risk to our forecasts.

The fall in the oil price at the close of 2014 also presents risk to our forecasts, as it will impede economic activity in Iran.

SWOT

Shipping

Iran Shipping Industry SWOT Analysis

Strengths	▪ The port of Bandar Abbas managed to defy the global downturn in shipping and sanctions, posting positive growth in 2009, 2010 and 2011. ▪ Iran's location on the Gulf allows it access to major shipping lanes between East and West via the Strait of Hormuz. ▪ Iran's navy is involved in protecting Iranian vessels from pirate attacks in the Gulf of Aden.
Weaknesses	▪ The Iranian economy has been seriously weakened by years of harsh sanctions, and massive inflation has reduced demand for imported container goods. ▪ Relations between Iran and the rest of the international community remain fraught.
Opportunities	▪ There is growing rapprochement between Iran and the US and the rest of the international community. ▪ India is developing a port in Iran. ▪ Insurance firms in Europe can once more insure Iranian vessels carrying crude oil, following the lifting of certain sanctions in January 2014. ▪ The removal of sanctions against port operator Tidewater in 2014 will boost container volumes at Bandar Abbas.

Iran Shipping Industry SWOT Analysis - Continued	
Threats	▪ The threat of conflict in the Strait of Hormuz remains, and Iran has threatened to close the Strait. ▪ Should talks fail once more, then further sanctions imposed by the international community could increase the damage to Iran's trade. ▪ The falling oil price could result in weaker growth at Bandar Abbas than we currently anticipate.

Political

Political SWOT Analysis

Strengths

- Since the overthrow of the Pahlavi family in 1979, there has been some reduction in the level of political corruption, while wealth distribution has improved marginally.
- The Revolutionary Guard and Basij militia are fiercely loyal to the supreme leader, helping to maintain social stability.

Weaknesses

- The country has one of the poorest human rights records in the region, and authorities do not hesitate to quell dissidents. A number of journalists and anti-government protesters are being held in custody.
- While decision-making ultimately rests with the supreme leader, the regime is heavily fragmented, and consensus is hard to reach.
- Widespread perceptions of electoral fraud during the course of June 2009's presidential elections have damaged the regime's legitimacy in the eyes of many Iranians.

Opportunities

- The Majlis (parliament) is more than just a rubber stamp; the move by 150 parliamentarians (out of 290) to hold former president Mahmoud Ahmadinejad accountable for his handling of the economy in March 2012 is a positive indication that checks exist.
- The victory of moderate cleric Hassan Rouhani in Presidential elections in June 2013 is leading to a significant improvement in relations with the West.

Threats

- Despite progress in nuclear talks, the prospect of further US and EU sanctions and the possibility of a military strike by the US or Israel cannot be dismissed.
- Youth unemployment is high.
- The strong influence of the Revolutionary Guards within the political and economic arena may present a challenge to reform over the long term.

Economic

Economic SWOT Analysis

Strengths	▪ Iran has the world's second largest proven oil reserves after Saudi Arabia, and the world's second largest proven gas reserves after Russia. ▪ Oil and gas aside, Iran is rich in other resources and has a strong agricultural sector.
Weaknesses	▪ Local consumption of hydrocarbons is rising rapidly; this, coupled with ageing technology in the sector, will have a negative impact on its oil and gas exporting capacity. ▪ International sanctions discourage foreign oil companies from bringing much-needed technical knowledge and equipment to maintain oil output levels.
Opportunities	▪ The gas sector remains underdeveloped, and there is considerable room to maximise this source of revenue. ▪ A growing population, combined with a shortage of housing, provides opportunities for investment in residential construction.
Threats	▪ A decline in global oil prices would have a marked impact on the economy. Although an Oil Stabilisation Fund exists to protect the economy at times of weaker oil prices, it has increasingly been used to fund government overspending and could be close to empty. ▪ Capital flight could continue, particularly should negotiations on the nuclear programme fail.

Operational Risk

SWOT Analysis

Strengths

- Iran boasts high numbers of skilled graduates in technical fields such as engineering, construction and science.
- The transport network offers good internal and cross-border connections, and is currently able to meet the country's supply chain needs.
- The banking sector is relatively well developed, allowing extension of finance and credit to citizens.
- A well established intelligence agency and robust counter-terrorist capabilities deter attacks in most areas of the country.

Weaknesses

- Costs of employment are increases because the Iranian Labour Code affords workers a high level of protection and generous benefits.
- The costs of inland transportation, as well as the risk of congestion and traffic accidents disrupting supply chains, is raised due to reliance on the road network as the dominant freight mode.
- There is widespread corruption and heavy handed censorship, which will pose unforeseeable operational costs and limit business activities.
- The expansion of IS in Iraq poses a significant risk to Iran's security.

Opportunities

- The literacy rate of the labour force is increasing as the benefits of investment in primary school education are filtering through.
- The development of road and rail connections with Iran's neighbours highlights the country's potential to develop into key transit point for East-West trade.
- Lack of external demand means that those who can invest in Iran are rewarded with cheap resources.
- Relaxing of sanctions is resulting in greater foreign direct investment inflows.

SWOT Analysis - Continued	
	▪ There is potential to combat the drug supply into Europe through programmes in Iran.
Threats	▪ The availability of highly skilled labour is restricted as the brain drain results in an exodus of technically qualified workers. ▪ The risk of electricity and water shortages will be enhanced due to growth in energy- and water-intensive agricultural, mining and manufacturing industries. ▪ Lax intellectual property protection carries the threat of patent theft, fraud or infringement, leading to profit losses. ▪ There is a risk of domestic hostility towards Westerners, triggered by international political events.

Industry Forecast

Port Of Bandar Abbas Throughput

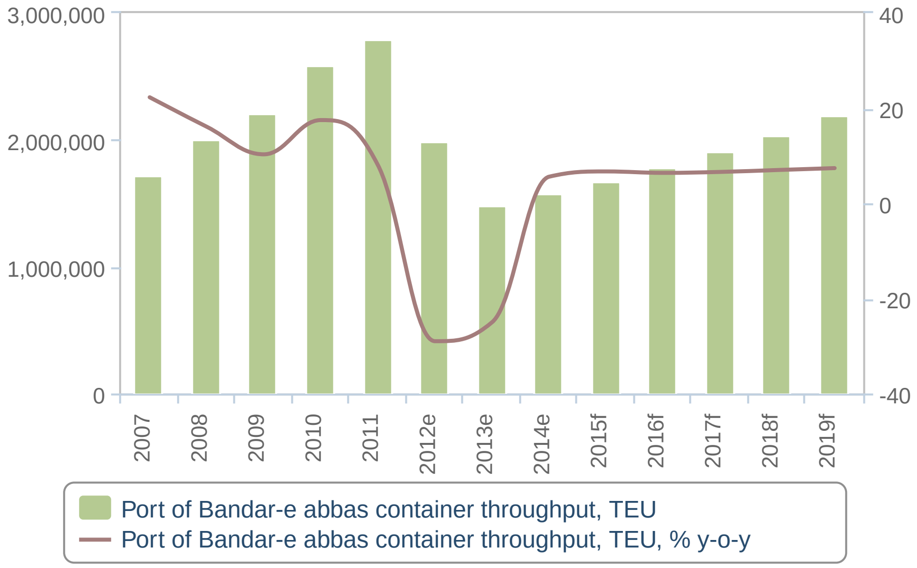
Short-Term: Growth Downgrade Due To Oil Price Fall

In 2015, we forecast that Iran's premier container-handling port of Bandar Abbas, also referred to as Shahid Rajaee since a name change in 2008, will enjoy a second consecutive year of growth, reflecting the turnaround in the country since the easing of sanctions imposed against it over the past several years. Throughput levels will remain far below previous highs however, and the dramatic fall in the oil price through the final months of 2014 and into 2015 - Brent crude more than halved in the six months to February 2015, to less than USD50 per barrel (/bbl) - presents significant downside risk to our outlook.

We forecast growth of 6.7% in 2015. If realised this would see the facility handle 1.68mn twenty-foot equivalent units (TEUs) by year-end.

Return to Growth

Port of Bandar Abbas Container Throughput, TEUs, % Change y-o-y (2007-2019)



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

The increased risks are on the back of the changed macroeconomic situation. We forecast that the Iranian economy will expand slowly in 2015 compared to 2014, as oil prices are low and talks on the nuclear programme fail to reach a breakthrough. We have revised downward our real GDP growth forecast at 1.4% in 2015 and 2.2% in 2016, respectively, from 2.1% and 3.0% previously. The pace of growth will be marginally higher than demographic expansion, implying small productivity gains over the coming quarters, but should oil fall further, we could be forced to revisit our Bandar Abbas forecasts as private consumption levels - a key driver of container throughput - would be affected.

Declining oil prices will force the government to cut current spending and investment in the country's infrastructure sector, which will result in slow expansion of private consumption and fixed investment. Consumer spending will remain modest over the coming quarters, and we expect expansion of 3.0% and 3.5% in 2015 and 2016 respectively, from 4.5% in 2014. The government will cut current spending this year in a bid to reduce a widening fiscal deficit, a result of falling oil revenues, and will be unable to prop up consumer spending.

This is nonetheless a far brighter picture than has been seen in recent years. Indeed, a positive growth figure is a vast improvement after massive declines in recent years. In 2013, we estimate that container handling at the Gulf facility dropped by a painful 25.0%. This would mark a second year of massive box throughput declines after the 29.0% drop in volumes we estimate took place in 2012.

Our forecast for growth is predicated on fundamentals regarding the port itself. Bandar Abbas' port operator **Tidewater** has had sanctions against it eased. International shipping firms are set to return to Iranian ports. Iran-based **Tidewater Middle East Company**, operator of the Iranian port of Shahid Rajaee, or Bandar Abbas, was scheduled to resume its international container services at the port on July 20. In Q311, the Iranian ports sector was targeted directly when Tidewater was added to the US blacklist. Firms such as **Maersk Line** and **MSC** were forced to call at smaller Iranian ports which are not operated by Tidewater, such as the northern facility of Bushehr.

The move to resume operations came after EU sanctions against the operator were eased, which prohibited any EU person or entity from making direct or indirect payments in favour of Tidewater.

Foreign shipping companies have expressed eagerness to cooperate with the port of Shaheed Rajayee in Iran, according to Ali Jahandideh, deputy head of the Iranian Ports and Maritime Organisation. International shipping lines have commenced loading and unloading operations following the lifting of Western sanctions against the port. A Taiwanese vessel was the first to berth at Shaheed Rajayee, Jahandideh stated, and several international companies have suggested that they now plan to start loading and unloading consignments in the port on the strategically important Strait of Hormuz.

Medium-Term: An Improving Outlook

Over our forecast period from 2015 to 2019, we project that annual container throughput growth at Bandar Abbas will average growth of 6.8% per annum. This would take 2019's handling figure to 2.19mn TEUs. We note that the forecast average growth rate is considerably less than the 13.0% average between 2007 and 2011, and is indicative of the continuing structural challenges to the Iranian economic recovery.

Our core view sees negotiation over Iran's nuclear programme continuing over the next few years, with no major breakthrough on the cards and key oil and banking sanctions remaining in place (*see 'Nuclear Talks: Protracted Negotiations Likely', February 26 2014*). As a result, the Iranian economy will expand below potential in 2015. There exists considerable risk to this projection should sanctions be eased, though further escalations of political violence in the Gulf region could also have a negative effect on Bandar Abbas' throughput.

This outlook would make the work currently being undertaken at the port look premature. The port's capacity is being doubled to 6mn TEUs a year from the current 3mn. Given our pessimistic forecast, we do not believe the existing capacity will be changed for some time to come, let alone that a capacity of 6mn TEUs is warranted. However, given the previous expansion record at the port, with consecutive years of double-digit growth, it is possible this will be needed in the future.

There is some upside for the port. Bandar Abbas is set to become the biggest cotton transit terminal for Central Asia, following the establishment of a private sector loading and offloading unit. The authorities have completed 3km of railroads and work on the remaining 3km is 40% complete, according to Ali Estiri, the head of the Ports and Shipping Office in Hormuzgan province. The facility is set to cost IRR280bn (USD22.44mn) and will have loading and offloading capacity of 800,000 tonnes of cotton annually. The goods, including cotton, minerals, mazott, chemical fertilisers, oil derivatives and aluminium, will be transported to South East Asia and Persian Gulf countries.

Long-Term: Dependent On Ongoing Rapprochement

The long-term outlook for Bandar Abbas depends on how the current rapprochement plays out. Should the Iranian regime under President Rouhani continue to accede to the key demands of Western powers, thereby securing an easing of the economic sanctions in place against Iran, we could see activity at Bandar Abbas pick up considerably. However, should these talks fail, the result could be worse than the situation prior to this most recent thawing of relations. Sanctions could be escalated, hitting the Iranian economy, pushing up inflation and driving down throughput at Bandar Abbas.

Table: Major Ports Data (Iran 2012-2019)

	2012e	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Port of Bandar-e abbas conta iner throughput, TEU	1,986,886.8	1,490,165.1	1,573,614.4	1,679,559.1	1,786,410.5	1,904,313.5	2,037,615.5	2,188,399.0
Port of Bandar-e abbas container throughput, TEU, % y-o-y	-29.0	-25.0	5.6	6.7	6.4	6.6	7.0	7.4

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

Table: Trade Overview (Iran 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Real import growth, % y-o-y	-16.11	-15.99	-5.00	-1.00	2.00	4.00	4.00	4.00
Real export growth, % y-o-y	-13.26	5.00	6.38	0.20	0.50	-0.10	0.11	-1.05
Real total trade growth, % y-o-y	-14.68	-5.49	0.69	-0.40	1.25	1.95	2.06	1.48
Imports, USDbn	89.72	97.25	104.93	113.01	121.72	131.11	141.24	152.16
Import growth, % y-o-y	9.15	8.39	7.90	7.70	7.71	7.72	7.72	7.73
Exports, USDbn	111.42	120.25	128.85	138.33	148.79	160.29	172.83	186.43
Export growth, % y-o-y	8.17	7.93	7.15	7.35	7.56	7.73	7.82	7.87
Total trade, USDbn	201.14	217.50	233.78	251.34	270.51	291.41	314.07	338.59
Total trade growth, % y-o-y	8.61	8.14	7.48	7.51	7.63	7.72	7.78	7.81

Source: National statistical authority, BMI. e/f = BMI estimates/forecasts

Table: Key Trade Indicators (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Agricultural raw materials, exports, USDmn	267.58	255.31	255.55	238.04	239.45	240.93	242.07	243.35
Agricultural raw materials, exports, % y-o-y	-14.08	-4.59	0.10	-6.85	0.59	0.62	0.47	0.53
Agricultural raw materials, imports, USDmn	1,148.93	969.95	1,000.76	1,032.49	1,065.18	1,098.84	1,145.07	1,193.16
Agricultural raw materials, imports, % y-o-y	-27.44	-15.58	3.18	3.17	3.17	3.16	4.21	4.20
Ores and metals, exports, USDmn	3,801.25	2,875.59	2,893.04	1,639.45	1,740.40	1,846.57	1,928.26	2,019.31
Ores and metals, exports, % y-o-y	-20.80	-24.35	0.61	-43.33	6.16	6.10	4.42	4.72
Ores and metals, imports, USDmn	986.56	1,011.98	1,080.65	1,120.91	1,166.17	1,205.36	1,245.10	1,285.89
Ores and metals, imports, % y-o-y	3.23	2.58	6.79	3.73	4.04	3.36	3.30	3.28
Iron and steel, exports, USDmn	1,039.76	1,545.65	2,110.91	2,302.47	2,600.41	2,825.15	2,975.44	3,126.12
Iron and steel, exports, % y-o-y	33.73	48.65	36.57	9.07	12.94	8.64	5.32	5.06
Iron and steel, imports, USDmn	8,915.00	13,252.48	18,099.06	19,741.53	22,296.09	24,223.04	25,511.62	26,803.59
Iron and steel, imports, % y-o-y	-18.50	48.65	36.57	9.07	12.94	8.64	5.32	5.06
Manufactured goods, exports, USDmn	11,269.02	8,045.83	8,088.29	5,036.89	5,282.61	5,541.05	5,739.89	5,961.52
Manufactured goods, exports, % y-o-y	-13.12	-28.60	0.53	-37.73	4.88	4.89	3.59	3.86
Manufactured goods, imports, USDmn	47,679.15	38,114.92	39,225.72	40,369.84	41,548.29	42,762.09	44,429.04	46,162.67
Manufactured goods, imports, % y-o-y	-7.20	-20.06	2.91	2.92	2.92	2.92	3.90	3.90
Fuels, exports, USDmn	76,767.13	69,560.55	69,835.22	50,095.68	51,685.25	53,357.06	54,643.40	56,077.08
Fuels, exports, % y-o-y	-19.64	-9.39	0.39	-28.27	3.17	3.23	2.41	2.62
Fuels, imports, USDmn	2,691.91	2,897.71	2,897.58	2,897.44	2,897.29	2,897.15	2,896.94	2,896.73

Key Trade Indicators (Iran 2012-2019) - Continued

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Fuels, imports, % y-o-y	118.05	7.65	0.00	0.00	-0.01	-0.01	-0.01	-0.01

Source: UNCTAD, BMI. e/f = BMI estimates/forecasts

Table: Main Import Partners, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
United Arab Emirates, USDmn	8,980	10,081	14,762	12,629	22,446	28,956	30,767	30,482
United Arab Emirates, USDmn, % of total	22.1	22.3	25.3	25.4	33.8	30.2	33.4	36.3
China, Mainland, USDmn	2,585	3,883	5,122	4,276	5,733	16,277	12,766	15,828
China, Mainland, USDmn, % of total	6.4	8.6	8.8	8.6	8.6	17.0	13.8	18.8
India, USDmn	1,494	1,488	1,918	1,197	1,774	2,821	2,850	5,440
India, USDmn, % of total	3.7	3.3	3.3	2.4	2.7	2.9	3.1	6.5
Korea, Republic Of, USDmn	1,913	2,342	3,118	3,137	3,687	6,686	6,882	4,929
Korea, Republic Of, USDmn, % of total	4.7	5.2	5.3	6.3	5.6	7.0	7.5	5.9
Turkey, USDmn	804	1,147	1,510	1,794	3,806	3,949	10,914	4,612
Turkey, USDmn, % of total	2.0	2.5	2.6	3.6	5.7	4.1	11.8	5.5
TOTAL	40,686	45,168	58,343	49,741	66,395	95,923	92,210	84,080
TOTAL, top 5 countries, USDm	15,776	18,942	26,430	23,032	37,446	58,688	64,180	61,291
% from top 5 trade partners	38.8	41.9	45.3	46.3	56.4	61.2	69.6	72.9

Source: IMF. N.B. Total imports is from Direction of Trade Statistics, consequently there may be some discrepancy with data used elsewhere in this report

Table: Main Export Destinations, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
China, Mainland, USDmn	9,042	12,118	17,801	12,021	16,578	27,514	22,663	23,088
China, Mainland, USDmn, % of total	11.9	13.6	14.9	16.2	16.8	21.2	22.1	26.8
Turkey, USDmn	5,115	6,013	7,454	3,096	6,950	11,329	10,877	9,439
Turkey, USDmn, % of total	6.8	6.7	6.2	4.2	7.0	8.7	10.6	11.0

Main Export Destinations, 2006-2013 - Continued								
	2006	2007	2008	2009	2010	2011	2012	2013
India, USDmn	5,360	9,176	12,730	9,613	10,101	10,469	12,232	9,094
India, USDmn, % of total	7.1	10.3	10.6	12.9	10.2	8.1	11.9	10.6
Japan, USDmn	9,887	11,599	16,587	8,461	10,147	11,688	7,238	6,305
Japan, USDmn, % of total	13.1	13.0	13.9	11.4	10.3	9.0	7.1	7.3
Korea, Republic Of, USDmn	4,590	5,893	7,476	5,223	6,309	10,303	7,768	5,059
Korea, Republic Of, USDmn, % of total	6.1	6.6	6.2	7.0	6.4	7.9	7.6	5.9
TOTAL	75,738	89,202	119,674	74,374	98,965	129,831	102,558	86,127
TOTAL, top 5 countries, USDm	33,994	44,798	62,048	38,414	50,085	71,302	60,778	52,985
% from top 5 trade partners	44.9	50.2	51.8	51.7	50.6	54.9	59.3	61.5

Source: IMF. N.B. Total exports is from Direction of Trade Statistics, consequently there may be some discrepancy with data used elsewhere in this report

Market Overview

Iran Container Shipping Market Overview

Iran's largest container handling facility is the port of Bandar Abbas, located on the Iranian northern bank of the Strait of Hormuz - the entrance to the Gulf. The facility has little trade as a regional transhipment hub given the well established Gulf Cooperation Council facilities in the region. Despite this, it has maintained a sizeable throughput and has managed to enjoy strong growth in the years up to 2011. However, with sanctions against Iran taking an ever-greater toll on the country's economy, we believe that the port's growth trajectory came to an end and that 2012 and 2013 were years of huge throughput declines. Nevertheless, we estimate that the recovery began in 2014 and that it will continue in 2015, as growing rapprochement between Iran and the international community has seen sanctions against the country softened.

Key Views

- Iran's score on the Liner Connectivity Index could return to growth in 2015 following recent dramatic falls.
- Islamic Republic of Iran Shipping Lines and its affiliates dominate Iran's container shipping, though they have suffered from numerous sanctions.
- Sanctions are also being directed at Iran's premier container ports.
- Demographics bode well for continued growth in containerised imports.
- The impact of sanctions on Iran's economy and the ports and shipping sectors will continue to drive down volumes until an agreement is reached with the West.

Connectivity Falling

Iran's connectivity with container shipping services as measured on UNCTAD's Liner Connectivity Index, had been, in tandem with container throughput at Bandar Abbas, climbing up to 2011. From a score of just 13.69 in 2004, when the index began (with China setting the base rate of 100), Iran's connectivity for container shipping rose to 30.27 in 2011 (having peaked at 30.73 in 2010). This slight fall indicates that the sanctions that had been imposed up to then had not made a huge impact upon Iran's container shipping sector.

However, in 2012 Iran's score on the Liner Connectivity Index had fallen down to 22.62. This is unsurprising given the escalation in sanctions against the country. The West has been exerting pressure upon the Islamic republic over its nuclear development programme. Although Iran maintains that this is for peaceful, energy purposes only, the concern in the US, EU and UN is that the country is looking to develop nuclear weapons, and sanctions against the country's banking and financial services, oil and gas and transport sectors have been implemented in a bid to prevent a nuclear Iran.

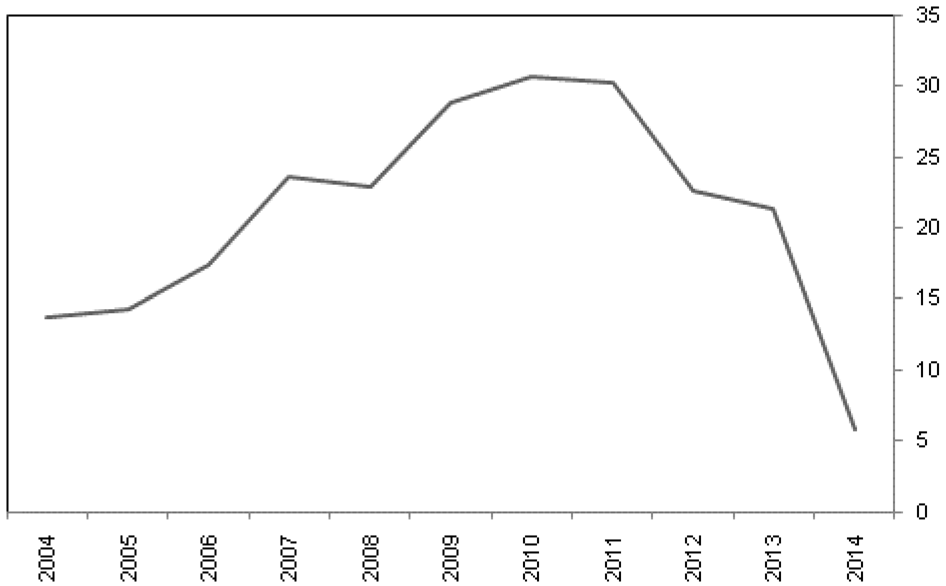
This decline continued in 2013, though not to the level that might have been expected given the country's ongoing problems. Iran's score dropped to 21.30 from 2012's 22.62. However, **BMI** notes that the score for the year is awarded early on in the calendar, and certainly before July 1, when the US strengthened its sanctions against the country, with new provisions specifically targeting the Iranian shipping and ports sectors. The result has been that all major container shipping lines have now ceased calling at Iranian ports, even those Chinese and Taiwanese firms that had carried on in spite of previous measures (European lines such as market leader **Maersk Line** and number-two **Mediterranean Shipping Company** (MSC) had ceased calling at the pariah state in 2012). As we predicted in previous reports, Iran's score took a dive in 2014, dropping to just 5.85.

At the time of writing, it looks like international shipping firms were set to return to Iranian ports. Iran-based **Tidewater Middle East Company**, operator of the Iranian port of Shahid Rajaee, or Bandar Abbas, was scheduled to resume its international container services at the port on July 20. In Q311, the Iranian ports sector was targeted directly when Tidewater was added to the US blacklist. Firms such as Maersk Line and MSC were forced to call at smaller Iranian ports which are not operated by Tidewater, such as the northern facility of Bushehr.

The move to resume operations came after EU sanctions against the operator were eased, which prohibited any EU person or entity from making direct or indirect payments in favour of Tidewater. The port will receive a Taiwanese vessel on July 20 and another on July 25, according to Ali Jahandideh, deputy director of the Ports and Maritime Organization of Iran. More ships from India, China and South Korea are expected to call at the port in the future. In 2014 we forecast that container throughput growth at 5.6%, following two years of massive contraction.

Losing The Connection

Iran's Liner Connectivity Index Score, 2004-2014



Source: UNCTAD

International Sanctions Easing

Improving relations with the West, more effective macroeconomic management under the presidency of Hassan Rouhani and low base effects will help the Iranian economy return to growth in 2014 after two consecutive years of recession. The Iranian economy will expand slowly in 2015 as talks on the nuclear programme continue without reaching a breakthrough, and project real GDP growth of 2.8% and 2.9% in 2014 and 2015 respectively, from our estimate of a 2.9% contraction in 2013.

Economic expansion will remain gradual over the coming quarters. We believe negotiations between the P5+1 (United States, Russia, China, United Kingdom, France and Germany) countries and Iran over its nuclear programme will continue over the coming quarters, with no major breakthrough on the cards. Moreover, key oil and banking sanctions are expected to remain in place (*see 'Nuclear Talks: Protracted Negotiations Likely', February 26 2014*). Oil sanctions in particular will continue to negatively impact Iran's shipping sector, through reducing throughput at its ports and reducing demand for its liquid bulk shipping companies.

Improving relations with the West, as well as Rouhani's pledge for macroeconomic reform, will contribute to an acceleration in consumer spending over the coming quarters. However, private consumption growth will only be gradual; we expect expansion of 5.0% in 2015. For one, we project consumer price index (CPI) inflation in Iran to average 25.0% in FY2014/15 (fiscal year running from March 21 2014 to March 20 2015) and 19.0% in FY2015/16, compared with 35.6% in FY2013/14. Despite the relative improvement, the inflationary environment will remain unfavourable to a rapid expansion of consumer spending, particularly as the government seeks to improve its fragile fiscal position by cutting energy and potentially food subsidies (*see 'Inflationary Environment Improving In 2014 and 2015', June 25 2014*). Moreover, nuclear talks will fail to produce a breakthrough over the coming quarters, a factor that will somewhat temper confidence in the economy in 2015. The slow recovery in consumer spending will prevent a rapid rebound in container throughput at Iranian ports.

Struggling Back to Growth

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

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

IRISL - Target For Sanctions

Iran's exposure to the container shipping sector is dominated by the country's state-owned shipping line, **Islamic Republic of Iran Shipping Lines** (IRISL), which operates in the dry bulk, general cargo and container shipping sectors. The line's box operations mainly link Asia and Europe to the Arabian Gulf and the Indian subcontinent. The national carrier ensures that rates are kept competitive, with other international lines serving Iran's trade needs.

However, the line's connection to the Iranian state is also its curse and it is normally the first target of sanctions. A set of sanctions agreed in May 2010 called for vigilance against Iran's main international freight transport companies, IRISL and **Iran Air**, with a ban mooted that would make it illegal for countries to harbour vessels suspected of shipping banned goods into Iran. In practice, **BMI** expects the call for vigilance to mean more stops and searches of IRISL vessels - a development that Iran has reacted strongly against. Iran's Majlis (parliamentary) speaker Ali Larijani has stated: 'I am warning the US and certain adventurous countries that in case they plan to inspect the cargo of Iranian ships and planes, they should rest assured that we will do the same.'

The threat of stops and searches in our view damages the growth prospects of the Iranian container shipping sector. We believe that shippers will not want to use a company that has effectively been blacklisted by a number of states. The US placed direct sanctions against the carrier in 2008, banning all transactions between the company and US citizens, and freezing IRISL assets that are under its jurisdiction. The UK in 2009 ordered all UK financial service firms to cease business with Iran under the Counter-Terrorism Act 2008. Reports have also emerged that UK and Bermuda-based insurance companies have stopped doing business with IRISL, with the company having to search elsewhere for insurance.

On October 27 2010, the US applied sanctions on 37 'front companies' related to IRISL. According to the US statement, the action 'targets IRISL's complex network of shipping and holding companies and executives and further exposes Iran's use of its national maritime carrier to advance its illicit weapons of mass destruction program and to carry military cargoes'.

This continued up to the end of December 2011, when the US Treasury Department imposed sanctions on 10 US shipping and front companies for having links to Iran's military and missile building programmes. The Malta-based companies have been linked to IRISL and its two subsidiaries, **Irano Hind** and **ISI Maritime** (we note here that Irano Hind, a joint venture (JV) between IRISL and the **India Shipping Corporation**, ceased operating in 2012 as a result of sanction pressures). Treasury official David Cohen said that the sanctions were an indication of the US government's avowed determination to stop the illicit transportation of military cargoes by the Iranian regime.

The sanctions have also derailed IRISL's new-build strategy. The line has struggled to secure financing as banks around the world have become wary of violating any sanctions on dealing with the shipping company or its affiliates. This led to a number of its vessels being detained in Singapore at the end of 2010. The three ships, the *Tuchal*, *Sabalan*, and the *Shand* were all registered to different companies and were held over mortgage-default payments.

However, **BMI** notes that all three vessels were released in January 2011 on the order of Singapore's High Court, leading IRISL to claim to the Financial Times that it was in good health: 'We definitely face no risk in Asia,' said Mohammad-Hossein Dajmar, the company's managing director, though he acknowledged that IRISL is in effect shut out of European ports.

Adam Szubin, head of the US Treasury's Office of Foreign Assets Control, which is responsible for implementing the sanctions, insisted that the sanctions were working, and stated that the ships were only released after the company repaid in full the USD200mn outstanding on the debt: 'Its successive loan defaults and its threadbare insurance coverage have left it facing massive debts on the ships it is sailing, and unable to pay for ships it has ordered.'

Despite the considerable sanctions imposed upon it, IRISL had managed to continue to pull into European ports. But from February 2012, this became much harder. Of IRISL's 144 vessels, 60 have been sailing under flags of convenience from Malta and Cyprus. However, according to Reuters, the two Mediterranean island states were moving towards 'deflagging' IRISL ships to be in accordance with the wider sanctions programme. Maltese foreign minister, Tonio Borg, told Reuters: 'We believe that all services to IRISL should be prohibited. We are ready to make that sacrifice, provided that all countries also make the sacrifice.'

However, in July 2013 the company confirmed that the scope of its operations has been scaled back. The company has been forced to discontinue its trade routes between Europe, East Asia and the Persian Gulf, after the service lines were blocked by US sanctions restricting US-Iran trade. Following the sanctions, only the firm's Gulf-East Asia route has been unaffected.

As with all facets of Iran's container shipping sector, the growing rapprochement between it and the West provides upside potential for IRISL's business, should sanctions against it be lifted. Nevertheless, at present these sanctions remain intact, and the container carrier will have a long way to go to rebuild its business.

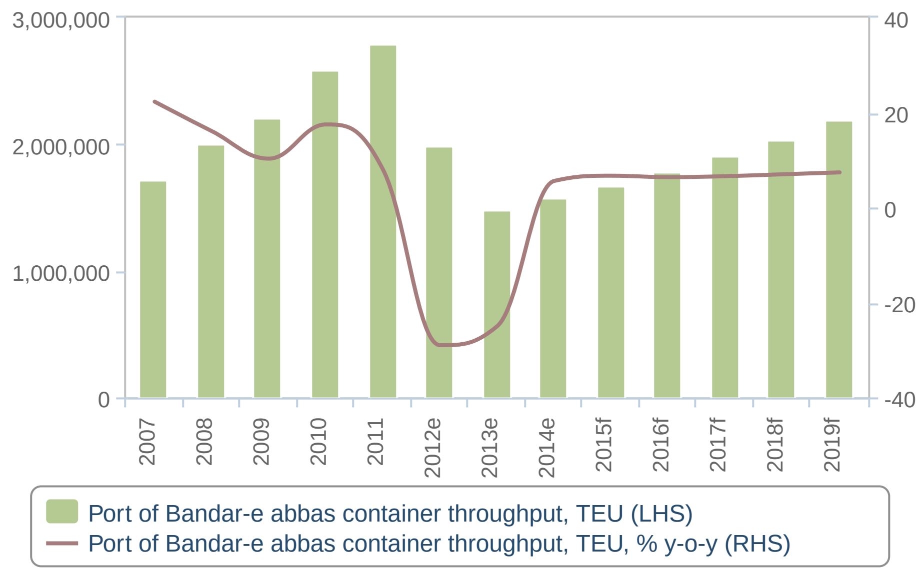
Potential For Rebound Once Sanctions Lifted

Until the marked ramp-up in sanctions pressures over the past two years, Iran's box shipping sector was looking strong. Iran's demand for containerised shipments defied the global downturn in box trade, with container throughput at the Port of Bandar Abbas increasing by an average 14.6% each year from 2008 to 2010, when facilities all around the world suffered drops in throughput as global containerised shipping declined for the first time since its advent in the 1960s. Even in 2011, when Bandar Abbas port operator Tidewater was added to US sanctions lists the port still managed to secure throughput growth of 8.0%.

When compared with the other major container ports in the Middle East, Bandar Abbas ranks fifth out of nine, behind the UAE's Jebel Ali, Oman's port of Salalah, Saudi Arabia's port of Jeddah and Egypt's East Port Said. **BMI** notes that the majority of these ports (Jebel Ali, Salalah and East Port Said) are transhipment hubs. Bandar Abbas has not developed its transhipment potential, so throughput at the port has been a good indication of the domestic demand for containerised goods in Iran.

Massive Impact of Sanctions

Port of Bandar Abbas Container Throughput, TEUs, % Change y-o-y (2007-2019)



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

Unsurprisingly, given that the country has an estimated population of 76.40mn in 2013 - the largest in the Middle East - demand for containerised goods was strong. Iran's demographics further support its positive consumer outlook, with the country boasting a young population - the demographic group that typically has more disposable cash and inclination to spend. According to **BMI** estimates, 63.5% of Iran's population is younger than 35 years old in 2013. By 2022, according to **BMI** forecasts, the total population will have risen to 82.00mn. The proportion of young consumers will have dropped, however, with just 51.3% of the population projected to be under 35 in 2022, with potentially negative implications for continued containerised goods demand. Iranian private final consumption accounts for much of the country's GDP, making up an estimated 42.6% of total GDP in 2012. This is low in comparison to many other countries, however, as a result of the contribution of hydrocarbon exports to the total, and so there is significant scope for growth.

While all of these factors are making less impact on the Iranian box shipping story at present, with the West-led sanctions being the driving force, we believe that they will help the sector recover once the current impasse is lifted and sanctions against the country cease. This recovery will not be immediate (as noted above, the Iranian consumer will remain weak for some time) but there is underlying support for container throughput growth from the underlying demographics in the Middle Eastern country.

Company Profile

Islamic Republic Of Iran Shipping Lines (IRISL)

Strengths

- Throughput at Iranian ports continued to grow through the downturn.
- IRISL is state-owned.

Weaknesses

- IRISL has had severe operational difficulties as a result of sanctions against it.
- The company has had a number of its ships impounded over payment issues.
- Iran's political isolation limits the company's ability to attract new investment funds and acquire the latest technology.
- Partly owned subsidiary Irano Hind Shipping Company has ceased operations.

Opportunities

- The return of Iran to the negotiating table could see sanctions against Iranian shipping companies slackened.
- EU sanctions targeting IRISL have been ruled non-justifiable by the EU High Court.

Threats

- Should current talks ultimately fail, sanctions against Iran and IRISL may be further strengthened, making it impossible for the company to operate at a profit.
- Middle East unrest continues. Should Iran undergo widespread political turmoil it would impact on IRISL's business.
- Given political and trade restrictions IRISL may lose market share to other Gulf and Middle Eastern shipping lines.
- 150 of IRISL's subsidiaries and affiliated companies have now been added to the US's blacklist.

Company Overview

Islamic Republic of Iran Shipping Lines (IRISL) was founded out of Aria Shipping in 1979 following the Islamic Revolution. Many of the company's vessels were lost during the Iran-Iraq war, and subsequently, IRISL's vessels have been named after the war's 'martyrs and cities', according to the liner's website. It is involved in container and dry bulk shipping and has some 7,000 employees.

Group subsidiaries include the Khazar Shipping Lines, which provides marine transportation services in the Caspian Sea area, calling at Bandar Anzali, Nowshahr and Amirabad to the ports of Aqtau, Astrakhan, Makhachkala, Turkmenbashi and Baku. Valfajre-8 Shipping Company transports cargo and passengers between countries in the Gulf and Oman Sea. The group has more than 110 representative offices. Until July 2012, the Irano Hind Shipping Company was run by IRISL as a joint venture with Shipping Corporation of India. The company owned eight ocean-going vessels that transported crude oil, bulk and general cargoes, however, the company's operations ceased as a result of pressures stemming from Western sanctions, and in April 2013 the company's vessels and debt were taken on by Shipping Corporation of India.

Strategy

Fleet

IRISL is involved in container and dry bulk shipping, though the company has been transferring its shipping operations to associated companies of late in a bid to evade Western sanctions. According to the company's website, its dry bulk arm has a fleet of varying sizes, from Panamax to Handysize. It is involved in the shipping of both clean and dirty products such as grain and rice and coal and iron ore.

In late 2009-early 2010, IRISL transferred its container shipping operations to hitherto unknown company Hafiz Darya Shipping Lines (HDS Lines). The company is said to be privately owned and separate from IRISL, though little information is available regarding its management structure. According to AXS Alphaliner, HDS Lines currently operates the 23rd-largest container shipping fleet in the world, with a total of 22 vessels making up a total of 88,608TEUs. This gives the company 0.5% of market share.

HDS Lines owns just three ships, having acquired one more in Q114, with a combined capacity of 6,864 TEUs. It charters in 22 vessels, however, with a total capacity of 88,608 TEUs. Its chartered vessels account for 92.3% of the fleet. Despite this disparity, there are no vessels currently on HDS Lines' orderbook, reflecting the poor position Iranian shipping companies are in when it comes to finding funding.

Iranian Ports Forced To Look For Investment At Home

Although the company has been active in trying to separate its shipping activities from the IRISL brand, it is still acting as an investment vehicle in the shipping sector. In 2010, it signed an agreement to control and invest in the Iranian Pars Port Complex. BMI believes Iranian ports now have no choice but to look for investment from domestic sources, especially with Tidewater, operator at Bandar Abbas, now the subject of sanctions. However, with sanctions against Iran set to continue it may be some time before investors see any returns.

Under the terms of the transfer, IRISL will take over the operation of seven docks and is to invest IRR400bn (USD40mn) in the port's infrastructure and establishments. The Pars

Port Complex is situated in the Pars Special Energy/Economic Zone (PSEEZ), in Bushehr Province in south-western Iran. The complex sits on 100 square kilometres of land and incorporates a number of petrochemical complexes and refineries. The contract between IRISL and PSEEZ will initially run for 15 years, and can be extended thereafter in five-year periods.

BMI believes that this contract has obvious benefits for the Iranian shipping company, giving it the chance to move up the supply chain and diversify into port management. The shipping line has been singled out as a target for sanctions, and is no doubt hoping the port will offer it an opportunity to diversify its revenue stream.

IRISL has had sanctions imposed directly against it by the US, which believes that the company provided logistical services to Iran's Ministry of Defence and Armed Forces Logistics (MODFL). Under the sanctions, the Iranian national carrier is banned from making transactions with US citizens, and all IRISL assets under US jurisdiction have been frozen.

BMI believes that the PSEEZ had no option but to sign the agreement with IRISL. Given the sanctions, and diplomatic pressure put on any companies still prepared to invest in Iran, there was little option but to look for investment at home. In January 2010, pressure from the Israeli government convinced German supply chain logistics consultancy Hamburg Port Consultancy (HPC) to pull out of a contract signed in January 2010 to renovate the Iranian Port of Bandar Abbas.

Latest Activity

EU Loses Court Battle

Things are looking up for Iranian shipping companies, in particular IRISL and the numerous subsidiaries set up by the company, as the EU High Court ruled in January 2015 that sanctions against it were not justified and that there was no evidence that the bodies were abetting the Iranian government's alleged nuclear weapons development programme. We expect that the company will ramp up its operations in the wake of this ruling.

NITC

Strengths

- NITC is the eighth-largest oil tanker company in the world.
- It has a diversified fleet with different classes of vessel, including a large number of very large crude carriers (VLCCs).

Weaknesses

- NITC's association with Iran causes problems for the company.
- The tanker operator struggled to renew its insurance in 2011 as a result of sanctions.
- Elevated bunker costs have impinged on shipping companies' profits.
- NITC has been targeted directly by Western sanctions.

Opportunities

- Iran could become a major exporter of liquefied natural gas (LNG) if it manages to develop the expertise in the face of sanctions.
- NITC has a major fleet expansion programme in motion.
- The exit of major tanker operators from Iran has seen demand for NITC's tankers soar.
- NITC once more has access to international insurance.
- EU sanctions against NITC have been annulled in October 2014.

Threats

- Middle Eastern political instability is a major concern.
- The liquid bulk shipping sector is already struggling with overcapacity and NITC's new VLCCs will exacerbate this.

Company Overview

NITC was formerly known as the National Iranian Tanker Company prior to its rebranding in 2010 in an effort to distance itself from the Iranian pariah state and the Western sanctions currently imposed upon it. It is a major tanker operator, primarily involved in the shipping of crude oil, and operates on the international stage.

Strategy

Fleet

According to Tanker Operator's top-30 tanker companies list, NITC's fleet makes it the seventh-largest in the world in terms of deadweight tonnage (DWT). However, there are question marks over the actual size of the company as its vessels are being renamed and reflagged in a bid to avoid sanctions.

According to NITC's managing director Ali Akbar Safaei, talking in February 2014, NITC's fleet now stands at 67 oil tankers, with a capacity of 16mn DWT. He said that the fleet had grown by 2mn DWT over the previous 18 months, despite ongoing US-engineered sanctions against it and Iranian oil exports.

BMI notes that the company did have the most ambitious expansion plans in the sector, with a programme that should have taken it into third place in the world in terms of DWT. This included the acquisition of 22 additional VLCCs by 2011-2013, six Caspimax shuttle tankers for use on the Caspian Sea, one LPG carrier and two product carriers.

However, we believe that the sanctions in place against the company and Iran will have made it difficult to operate; there are reports that many of its ships are being used as floating storage as Iran is unable to export all of its oil due to sanctions, and has not cut back on production entirely. As such the fact that the shipping company has still managed to increase its fleet by such a considerable amount over the 18 months to February 2014 is impressive.

Now that several sanctions against the company's operations have been suspended in January 2014 - namely those which prevented the firm from finding insurance for its vessels - NITC can resume exporting oil to China, India, Turkey, Japan, South Korea and Taiwan. As such, provided that ongoing negotiations do not hit a stumbling back, the future could well be bright for NITC.

The company also has long-term plans to become involved in LNG shipping. Iran has proven gas reserves and once the country has the technology to enter the sector, NITC has stated that it will develop a fleet to transport it. The company has previously stated that 80-plus vessels would be needed to cope with demand.

Sanctions Hit Crude Shipping Sector

NITC was finally added to the US's sanctions list in July 2012, having managed until then to avoid the ignominy shared by so many other Iranian shipping companies. The US and the EU have been steadily increasing sanctions against the Middle Eastern country in a bid to halt its alleged nuclear weapons development programme, a charge Iran denies. The other stalwarts of Iran's shipping sector, Islamic Republic of Iran Shipping Lines (IRISL) and terminal operator Tidewater had both been on the list for some time, as had numerous subsidiaries and front companies for IRISL's operations.

NITC's vessels had previously been flagged and registered in European countries Cyprus and Malta. The invigoration of the EU's Iranian sanctions necessitated a re-listing by the tanker operator in recent months, however, and since July half of NITC's fleet have been both renamed and flagged to new countries, notably Tanzania and

Pacific nation Tuvalu. Now those vessels flagged to these states have once again found themselves delisted as the US has brought pressure on the two countries and both have proceeded with deregistration. The Tuvalu ship registry stated: 'We expect the deregistration process to be completed in the shortest time practicable to ensure the safety of the vessels.' Thirty-six vessels had been flagged in Tanzania's semi-autonomous island of Zanzibar, meaning it will have become increasingly difficult for NITC to operate. The company's fleets will likely soon have to flag to Iran, with the problems that would bring.

Howard Berman of the US House foreign affairs committee said: 'Iran is learning the hard way that we will not relent in applying crippling sanctions on the regime, and others are learning that evading international sanctions is a losing strategy.'

Access To Insurance Market Regained

The EU Council Decision of January 23 2012 put a ban on the import, purchase or transport of Iranian crude oil and petroleum products for EU member states. Crucially, the decision, which came into force in July 2012, also banned the provision of finance, insurance or reinsurance related to these activities, whether that is directly or indirectly. Around 95% of crude oil tanker insurance is carried out by the European P&I Club of insurers, either directly or through the reinsurance market, and foreign companies formerly engaged in carrying Iranian crude found themselves unable to do so save those limited instance where national governments have provided state insurance.

However, with the growing rapprochement between Iran and the West since the election of relative moderate President Hassan Rouhani (who replaced hard-line nationalist Mahmoud Ahmedinejad), some sanctions against Iran have been eased. These include that which restricted Iranian access to international P&I insurance. As a result, things are looking brighter for NITC, and other firms that transport Iranian oil - such as Indian shipping company Mercator Lines. The easing of these sanctions will also help boost Iran's oil exports, and help rebuild its battered economy.

Latest Activity

EU Sanctions Annulled

Sanctions against NITC imposed by the EU in 2012 were annulled in November 2015. A court ruling by the General Court had declared that the sanctions were unlawful and there were no grounds on which to blacklist the shipping company. The EU had argued that the tanker firm was owned by the Iranian government or Revolutionary Guards, while the company had argued that it is privately owned. A failure by the EU to contest the court ruling meant that the sanctions against NITC have now been removed.

NITC managing director, Ali Akbar Safaie, said of the decision: ' We are relieved to see the lifting of these sanctions. We have always enjoyed good business relationships with our EU partners and look forward to resuming those now this difficult period has come to an end.' The shipping firm remains on US sanctions lists however.

Shipping - Global Industry View

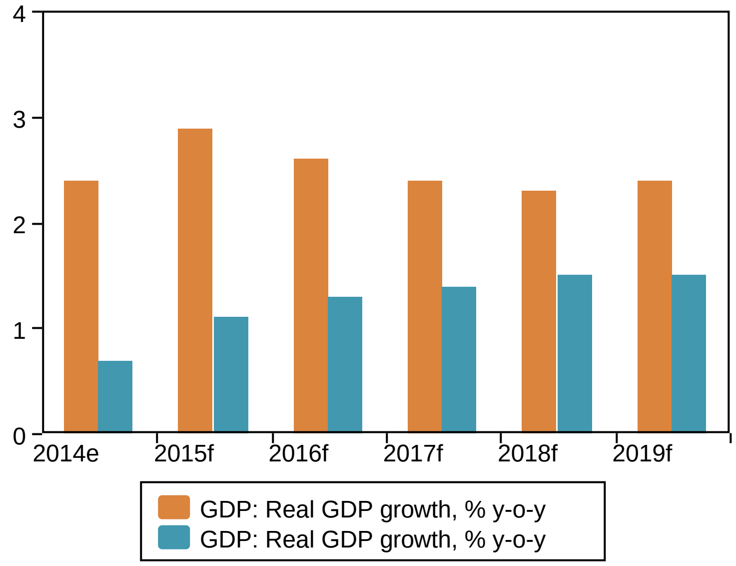
Container Lines To Prosper In 2015

The outlook for shipping lines in 2015 is brightening. Demand on the key trade routes is strengthening and capacity is becoming easier to manage; factors that will aid carriers in their drive to keep shipping rates elevated. On top of this, shipping firms are set to be some of the key beneficiaries of lower oil prices, as their operating costs will decrease.

BMI has revised down its global real GDP forecast for 2015 from 3.1% to 2.9% year-on-year (y-o-y). However, our growth projection for developed states remains unchanged at 2.1% y-o-y, marking a strengthening from the estimated increase of 1.8% in 2014. This is key for the container shipping outlook, as demand from the US and Europe dominates and container lines cater to this demand by operating the world's busiest trade routes, the Asia-Europe trade route and the transpacific route. Growth in emerging markets outperforms in terms of percentage change y-o-y, but is projected to slow at 4.1% in 2015 compared with an estimated 4.2% in 2014.

Strengthening Growth In 2015

US and Eurozone Real GDP % Change y-o-y

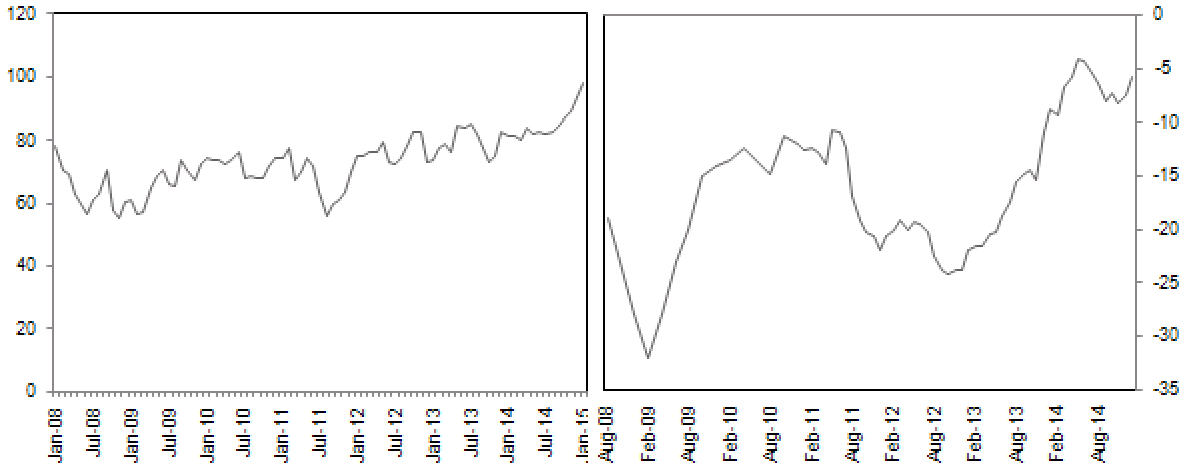


e/f= BMI estimate/ forecast. Source: Eurostat. BMI

We forecast increased demand on the transpacific trade route for 2015 on the back of strengthening US economic growth. **BMI**'s Country Risk team projects real GDP to expand by 2.9%, up from an estimated 2.5% in 2014. This growth is being supported by the US consumer, with sentiment continuing to tick up. At the end of January 2015 the University of Michigan Consumer Sentiment Index recorded y-o-y growth of 20% increase to 98.1, a level not seen since the beginning of 2004.

Consumer Outlook Improving

LHC: University of Michigan Consumer Sentiment Index. RHC: European Consumer Sentiment



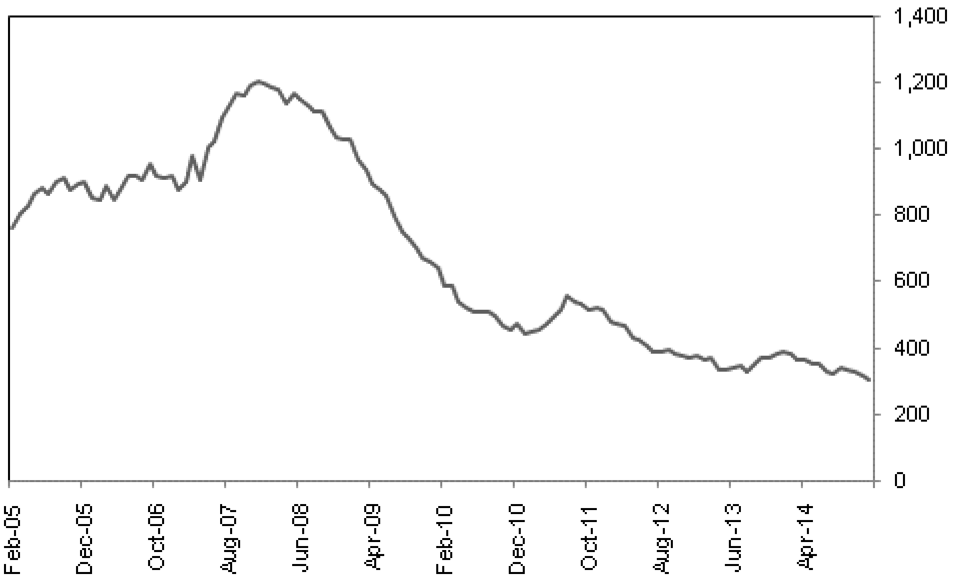
Source: University of Michigan / European Commission's Business and Consumer Survey

Demand on the Asia-Europe route is also forecast to increase, with the eurozone's real GDP projected to strengthen from an estimated 0.7% in 2014 to 1.1% in 2015. Consumer sentiment in the EU remains negative but is slowly improving, reaching -5.8 in January 2015 - up from -8.8 at the beginning of 2014.

The improving demand outlook is also helping to tackle the issue of overcapacity, which has plagued the container shipping sector since the 2008-2009 global downturn. The number of container vessels in operation continues to increase, reaching 228,193 dead weight tonne (dwt) in January 2015 up 5.9% y-o-y from 215,481dwt in the same month in 2014. As demand improves this supply is becoming easier to manage, and the shipping industry is still utilising its capacity management tactics of slow steaming (lowering the speed a ship sails at) the idling (laying up vessels for periods of time to decrease the available capacity in the market), which it developed during the 2008-2009 downturn.

The End Of The Influx

Container Ships On Order (Number of Vessels)



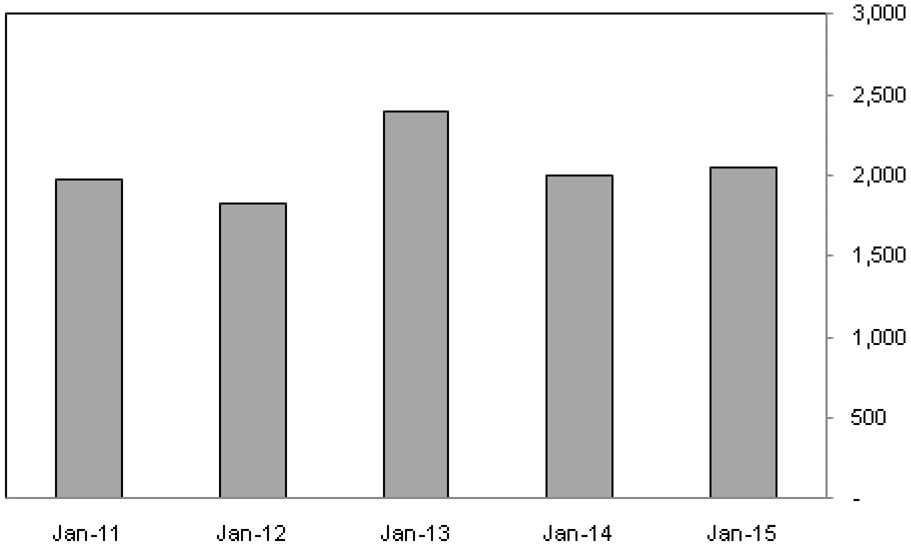
Source: Bloomberg

The supply demand imbalance is set to be further remedied by the slowing in the influx of new container ships entering the global fleet. The number of ships on order has shrunk by 20.7% from 386 ships in January 2014 to 306 vessels at the beginning of 2015. As a greater equilibrium between vessel supply and demand is reached shipping lines will be in a stronger position to push for higher freight rates and so increase their revenues.

The freight rate push is already under way on the transatlantic, with the Shanghai Containerised Freight Index (SCFI) increasing by 2% y-o-y in January 2014 to reach USD2,043 per forty foot equivalent unit (FEU) up from USD2,002 per FEU on the shipping route linking Asia with the US West Coast. Rates on the Asia-Europe trade route remain muted, but with demand picking up lines will be looking to increase rates as 2015 progresses.

Rates Ticking Up

SCFI USWC Rate Average (USD per FEU)

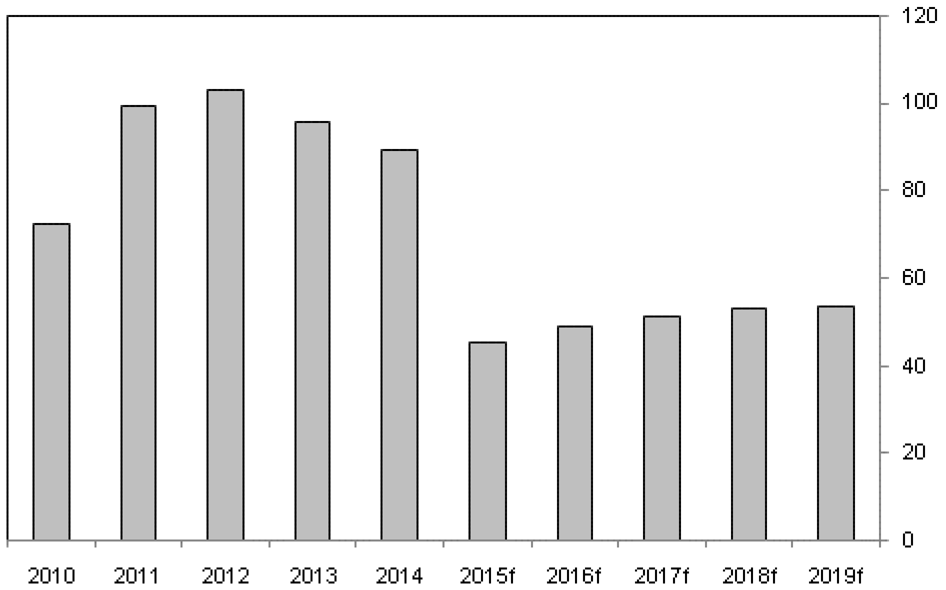


Source: SCFI

Upticks in freight rates will aid revenue generation for container lines, but carriers' bottom lines are also projected to benefit from lower operating costs on the back of the declining oil price. In line with the drop in the crude oil price, bunker fuel (the fuel used to power ships) is also decreasing. In 2015 **BMI**'s oil and gas team project that the global bunker fuel price (IFO180) will average USD45.5bbl, a fall from the global average of USD89.2bbl in 2014.

Lower Bunker Fuel To Cut Costs

Bunker Fuel 180, Global Average, USD/bbl



f= BMI forecast. Source: Bloomberg/ BMI.

The decline in prices will not be felt immediately, as it will take some time for the drop in the crude oil price to feed through the refining process to the price of fuels, due to lead times and hedging. However, shipping lines will start to feel the benefit of lower fuel costs as we move further into 2015. Fuel accounts for around 20%-25% of container lines' total costs and so there is a considerable saving to be made, although carriers will be aware that their clients, the shippers, will be expecting the cost savings to be passed on in the form of lower rates. Therefore, a balance will have to be struck.

After years of battling weak demand, heightened oil prices and overcapacity (which has forced rates down), 2015 looks set to be the year that will offer shipping lines some breathing space and the time required to get on top of capacity management.

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 32,000 people.

Maersk is the largest container shipping company in the world, boasting a total fleet capacity of 2.9mn 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.
- 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 20 18,000TEU 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 15.6% market share, according to AXS Alphaliner. This is still some way above its nearest rival, MSC, which boasts a market share of 13.5%.

Routes

The company offers six 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 has commenced operations in January 2015 thanks to the approval. Under the pact, the companies will deploy 185 containerships, allowing Maersk Line 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 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 10-year VSA, a total of 185 vessels having a total capacity of 2.1mn TEUs will be deployed on 21 strings. Maersk and MSC will contribute 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 2.9mn TEUs, comprising 608 ships. The fleet's dynamics are fairly evenly split between owned and chartered, at 55% and 45% respectively. Although the company charters in less capacity than it owns, it charters in more vessels, with the chartered fleet standing at 356 ships, compared with its owned fleet of 252 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 14 of the world's largest container vessels afloat - three 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 first 14 vessels were delivered by January 2015; the remaining six are scheduled for delivery by Q315. Maersk did have the option to take another 10 18,000TEU vessels, but decided to let it lapse. 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

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 brings 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).

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.

Q312 & 9M12

In Q312 Maersk Line's revenue increased by 5.7% y-o-y to USD6.96bn. The main driver behind this increase was a 5.7% increase in the freight rate, which averaged USD3,022 per FEU over Q312, as volumes carried remained static y-o-y, at 2.1mn FEUs.

On the back of this, Maersk Line recorded a profit of USD498mn - an improvement on the USD289mn loss in Q311. The profit was accomplished not only by increased revenue, but by a fall in operating costs, specifically the bunker fuel price - down 1.2% y-o-y to an average of USD648 per tonne in Q312.

The positive result in Q312 enabled Maersk Line to record a profit of USD126mn in 9M12. Over the first nine months of 2012 the firm's revenue increased by 9.9% to USD20.6mn, with volumes growing by 10.2% and freight rates by 0.24%. Bunker prices, while down in Q312, were elevated for the other two quarters, up 11.9% for the period.

Q212 & H112

Maersk Line's net profit in Q212, while a positive signal, was not enough to drag the carrier back into the black for the first six months of 2012. The profitable second quarter was achieved due to success in pushing up rates on the Asia-Europe route, to which the company is most exposed. The limited success of the sectorwide rate increase the company implemented on the route in Q312, however, offered downside risk to the firm's ability to turn a profit for the whole of 2012.

In Q212 Maersk Line recorded a net operating profit of USD227mn, up from a USD95mn loss in Q211. The Q212 profit was enough to wipe out the loss in Q112, with the line recording a net operating loss of USD372mn, down from a profit of USD329mn in H111.

Maersk Line's revenue in Q212 increased by 16.7% y-o-y to USD7.3bn, with Q212 results outperforming those the company posted in Q112 and with H112 revenue increasing by 12.2%.

Maersk Line's revenue increase in Q212 was driven by the increase in volumes, with the carrier shipping 10% more boxes than in Q211, and the uptick in rates, with the company's average freight rates increasing by 4.2% y-o-y in Q212. Operating costs remained high, as although the bunker price ticked down in Q212, it was still up y-o-y, with Maersk Line posting an average bunker price increase of 10.3% in Q212 and 19.6% in H112.

Vitally for Maersk Line, Q212 rate increases were successful on the Asia-Europe route, the trade route to which it is most exposed, accounting for 24% of its operations. Maersk Line boosted rates on the route by 14%, but this was not enough to wipe out the rate declines in Q112, with rates on the trade route down 8% y-o-y.

Q112

Despite freight volumes increasing by 22.2% in Q112, enabling Maersk Line's revenue to grow by 7.4% y-o-y, the company remained in the red, recording a loss of USD599mn. The company was dragged down by the 9% decline in rates and the high price of bunker, with the price of fuel increasing by 30.9% in Q112.

BMI believes that the depth of Maersk Line's loss was mainly due to its exposure to Asia-Europe. In terms of revenue generation, the trade route was the worst-hit, with the average rate declining by 21% y-o-y. In fact, Maersk Line's main route exposure, measured in distribution of volumes across its networks, in all but one case recorded rate declines in Q112. Rates on the Asia-Europe trade route, which accounts for 37% of Maersk Line's operations, fell 21%. The Latin America and transpacific routes, which account for 14% and 11% respectively of Maersk Line's network, recorded y-o-y rate declines of 8% and 5% respectively. Africa coverage, which accounts for 15% of Maersk Line's operations, posted a rate increase, but this was just 2% y-o-y.

2011

Despite Maersk Line's revenue increasing by 4.5% y-o-y from USD24bn to USD25.1mn, and transported volumes increasing by 11%, the company still posted a loss of USD532mn; in 2010, it had recorded a profit of USD2.8bn.The loss can be attributed to the sharp decline in freight rates, as a rate war between the major box carriers played out in 2011, forcing Maersk Line's average freight rate down 7.7% y-o-y, to USD2,828 per TEU. This was coupled with the negative impact from spiralling fuel costs, with the bunker price average increasing by 35.4% y-o-y to USD620 per tonne.

Maersk Line's exposure to the Asia-Europe trade route was a key factor in its 2011 loss. The route dominates the company's operations, accounting for 39% (the operator in fact lifted its market share in this route by 1 percentage point over the year, from 38%). While the route recorded solid throughput growth of 16% in 2011, a y-o-y decline in rates of 19% made turning a profit impossible.

Other key areas of growth for Maersk Line, in terms of container volumes, were Africa and Latin America, which recorded throughput increases of 19% and 17% respectively. These regions also increased their role in the carrier's distribution of volumes, with Africa accounting for 16% of the total and Latin America accounting for 14%. Unfortunately, rates also declined on both routes. The three areas in 2011 where rates did not decline were the transatlantic, Oceania and intra-Asia. Intra-Asia in our view, remained Maersk Line's stand-out performer, seeing 5% volume growth. Intra-Asia still only accounted for 6% of Maersk Line's total volume distribution, but with demand increasing and the fact that it has proved itself relatively protected from the rate decline, BMI expected Maersk Line to continue expanding its coverage.

2010

Maersk's revenue increased by 30.65% y-o-y to USD26bn in 2010, compared with USD19.9bn in 2009. The increase enabled the carrier to return to the black, with a full-year profit of USD2.6bn, following a loss of USD2.1bn in 2009. The recovery in revenue was driven by the global uptick in both volumes and demand in the container shipping sector. In terms of total volumes carried, Maersk's box levels shipped increased by 5.0%. The major driver of Maersk's recovery, however, was its ability to raise rates. Rates grew 29% y-o-y in 2010; Asia-Europe saw the greatest rise, at 52% y-o-y, followed by the transpacific, where rates increased by 33%.

The trend BMI noted from Maersk's results is that rates increased considerably more than volumes in all but one case. The exception to the rule was intra-Asia, where volumes grew by 37% while rates rose 19%. This growth in volumes further cemented BMI's view that intra-Asia trade routes hold massive growth potential for the box shipping sector.

The company achieved its recovery in 2010 mainly through rate rises but, like its peers, the line struggled in 2011 to implement planned increases.

We note that it was not simply the uptick in volumes and rates that enabled Maersk to improve its financial position. The firm has continued its strategy of slow-steaming, ensuring a saving on bunker fuel. BMI expected this strategy to continue as demand in the market for express services had not yet materialised.

Latest Activity

Munkebo Maersk To Join Asia-Europe Loop Under 2M Alliance

Maersk Line's *Munkebo Maersk* ship will join the Far East-Europe AE-5/Albatros loop offered by the company and Switzerland-based Mediterranean Shipping Company under the 2M alliance. The vessel has a capacity of 18,340TEUs and is the 14th of 20 Triple E-class vessels ordered from South Korea-based Daewoo Shipbuilding and Marine Engineering in 2011, reports Alphaliner. Maersk is set to receive the remaining six Triple-E units by Q315.

Prior to this, Maersk Line received its 13th Triple E-class containership. The vessel, named Morten Maersk, will be deployed on the Asia-Europe (AE) 2 service and replaces the 13,092TEU *Maersk Edmonton*, which has been shifted to the AE-1 service. The containership, built at Daewoo shipyard in South Korea, is the first 18,340TEU vessel to be assigned to the AE-2 route and will be the first 18,000TEU vessel to call at the Dalian and Hamburg ports.

In November 2014 Maersk CEO Soren Skou revealed that in the next six months Maersk Line may purchase more Triple-E class vessels as part of the company's planned ship orders. Speaking to the Wall Street Journal, Skou said 'Over the next three years, the bulk of the capacity we will be buying is going to be big ships that may include Triple-E size.' Predicting shipping demand to increase globally by around 4-5% during the next few years, he stated that it will become difficult to survive in Asia-Europe trades with small vessels.

Call At Subic Port Added

Maersk Line has upgraded its Intra-Asia 4 (IA4) service with the addition of a new call at the Subic port in the Philippines. The addition comes as a result of ongoing port congestion in Manila. 'With port calls in Subic, Manila and Batangas, we now have three weekly port calls in Luzon, which provides our customers with multiple options to choose from,' said Managing Director, Maersk Line Philippines, Erry Hardianto, Seatrade Global reported at the beginning of January.

Chennai Express Service Commenced

Maersk Line has commenced its Chennai Express Service with the arrival of *MV Hammonia Virginia* at the L&T Kattupalli International Container Terminal (KICT) from the Indian port of Chennai on December 16. The fortnightly service connects Kattupalli with the Far East. At the terminal, the vessel was loaded with 1,011TEUs including 586 empty boxes. The vessel then, according to The Hindu, departed for the Indian port of Visakhapatnam.

TP5 & Taiwan Express Scrapped; MESAWA & Indian Ocean Service Launched

Maersk Line has decided to scrap two transpacific services - the TP5 service and Taiwan Express - owing to unprofitable results for nine of the last 10 years, the company said in December 2014. The TP5 service, connecting the Chinese Bohai Bay area and some of the Japanese major ports with the Dutch Harbour, Oakland and Los Angeles, was scheduled to shutdown on January 15, as Maersk intended to launch a revised TP5 product with reduced capacity on January 16 for the Japan market. Maersk's Taiwan Express calling at Kaohsiung, Taipei, Oakland and Los Angeles, was to be stopped on January 1. Meanwhile, the company has announced its plans to launch two Middle East, Indian and African services - the MESAWA and Indian Ocean services. The weekly MESAWA service was scheduled to launch on January 24 with deployment of 10 3,500TEU vessels. The service will call at Jebel Ali, Mundra, Jawaharlal Nehru, Durban, Luanda, Apapa, Tincan, Cotonou, Port Elizabeth, Durban and Port Louis. The weekly Indian Ocean service was scheduled to launch on January 28 with deployment of three 2,000 TEU vessels. The service will call at Reunion, Mauritius, Madagascar and the Seychelles.

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 316 ports. It has 452 offices in 155 countries.

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 53 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.
- 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 is taking delivery of its 18,000TEU fleet.
- 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 13.5% compared with Maersk's 15.6%, 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

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. MSC has formed an alliance with France's CMA CGM on the trade routes of Asia-Europe, Asia-Southern Africa and South America. The alliance will maintain considerable influence on the market share of lines on the Asia-Europe route: the two carriers are operating a four-route service, including 44 ships with capacities of over

11,000TEUs. The effect of the alliance on this route was immediately felt, with the members of the Grand Alliance and New World Alliance announcing at the end of 2011 that they would join together to form a mega alliance of six operators, called the G6 Alliance.

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.

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. Under the pact, the companies will deploy 185 containerships and, according to a joint statement by MSC and Maersk, the alliance would cut costs for shippers and reduce harmful emissions.

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 10-year VSA, a total of 185 vessels having a total capacity of 2.1mn twenty-foot equivalent units (TEUs) will be deployed on 21 strings. MSC and Maersk will contribute 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.

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.

Fleet

MSC has the second-largest container fleet in the world, operating 497 vessels with a total capacity of 2.5mn TEUs. The fleet's dynamics are weighted toward the charter market, with chartered-in ships accounting for 58.8% of the total.

It has an owned fleet of 188 vessels with a capacity of 1.05mn TEUs, while its chartered fleet of 309 vessels has a combined capacity of 1.5mn TEUs.

An exact breakdown of MSC's fleet is unavailable, but since January 2015 the line boasts the world's largest containership, the 19,224TEU *MSC Oscar* which edged out China Shipping Container Lines' CSCL Globe, a 19,000TEU vessel from the position. *MSC Oscar* went on its maiden voyage in January 2015, while the delivery of another vessel of the same size was expected in April 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 53 vessels with a total capacity of 676,276TEUs.

Financial Results

2013

MSC does not publish its financial results. Quantity of TEUs carried was 13.7mn.

2012

Not available. Quantity of TEUs carried was 13.2mn.

2011

Not available. Quantity of TEUs carried was 13.1mn.

2010

MSC does not publish its financial results. However, its operating fleet and the amount of cargo carried increased in 2010. In that year, the line operated 432 vessels - a y-o-y increase of 14.3% from the 387 ships operated in 2009 and above the company's pre-downturn fleet of 410 vessels. Despite the downturn in 2009, the fleet's capacity continued growing, from 1.4mn TEUs in 2008 to 1.47mn TEUs in 2009 and 1.82mn TEUs in 2010.

However, the real indicator of improvement in MSC's operations is the volume of containers carried. This grew by 17.6% y-o-y to reach 12.1mn TEUs in 2010, following a y-o-y decline of 10.5% in 2009. In 2010, levels reached and surpassed the pre-downturn handling level of 11.5mn TEUs, indicating that MSC had recovered from the downturn. Coupled with rate increases during the year, which were implemented across the board, this meant that the company was in the black in 2010.

Latest Activity

World's Biggest Containership Delivered

MSC is about has received delivery of the world's biggest containership, *MSC Oscar* - a 19,224TEU capacity vessel. *MSC Oscar* becomes the world's largest containership after edging out China Shipping Container Lines' *CSCL Globe*, a 19,000TEU vessel from the position. *MSC Oscar* has been under construction in South Korea at the Daewoo Shipbuilding and Marine Engineering shipyard. The vessel went on its maiden voyage in January 2015. The new vessel will be registered in Panama and will join the Albatross service, stated the company in a press release. MSC is also expected to receive the delivery of another vessel of the same size in April 2015, according to gCaptain.

MSC Switches From Felixstowe To London Gateway

Britain's now one year old hub port, DP World London Gateway, has won several contracts from shipping companies including MSC and Hamburg Süd. MSC has switched from the Felixstowe port to DP World London Gateway to expand its service from South Africa to the UK/Northwest Europe. In addition, Hamburg Süd has selected DP World London Gateway for its Europe-Mexico-Caribbean Service (EMCS), which connects the North European market with Mexico, Central America and Colombia.

Asia-West Africa Service Upgraded

MSC has decided to further upgrade its dedicated service between Asia and West Africa, according to a press release by the company. The shipping company aims to change the way it serves West Africa by calling at one direct port only - that of its new hub of Lomé, the capital city of Togo - and by deploying a strong feeder network dedicated to Asian cargo to ensure stability in its weekly sailing schedule. The Africa Express service boasts 10 vessels with a nominal capacity of 6,000TEU each and the rotation is Shanghai, Ningbo, Nansha, Chiwan, Singapore, Port Louis, Cape Town, Lome, Coega, Singapore and back to Shanghai. The first sailing commenced on November 14 by Catherine Rickmers FY 447A from Shanghai. The feeder network will include one vessel each serving Tincan Island-Lagos, Cotonou, Tema, Abidjan, Libreville, Douala, Freetown, Monrovia and Takoradi.

Continued Services To Boston & Philadelphia Confirmed

MSC will continue to provide direct shipping services from Northern Europe to Boston and Philadelphia ports in the US, according to the company's press release. MSC stated that its vessel-sharing alliance with Maersk did not include direct services to the two US ports. The service will have a 14-day transit time from Antwerp to Boston and a 16-day transit time from Antwerp to Philadelphia, with port calls in Bremerhaven, Rotterdam and Le Havre. The revised service is scheduled to start in early 2015.

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 (which it is seeking to increase to 30%) 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 57 branches in Asia, Europe, the Middle East, North and South America and Africa and owns TCX Multimodal Logistics - a bonded warehouse company that operates in many French ports. CMA CGM's multimodal subsidiaries include French River Shuttle Containers; ocean freight forwarder LTI France (Land Transportation International); as well as CMA Rail (Rail Link Europe) and Progeco - the repair arm of CMA CGM's container business. In 2012 CMA CGM Group combined five of its multi-modal subsidiaries (Rail Link Europe, River Shuttle Containers, Land Transportation International, Progeco and TCX) into one entity - tri-modal operator Greenmodal Transport. Terminal Link is the group's terminal operating business.

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 and 2013.

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.
- The partnership with Yildirim Group will enable the company to return to a strategy of growth rather than being preoccupied with the threat of insolvency.
- CMA CGM is increasing its exposure to Russia, which BMI believes will be a high-growth market.
- 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.
- 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.

Strategy

CMA CGM is the third-largest global container shipping company, with an 8.8% market share, according to AXS Alphaliner. This puts it considerably behind second-placed MSC with its 13.5% market share, but significantly ahead of fourth-place Evergreen, on 5.1%.

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. However, Yildirim is making its presence felt, blocking a planned new build strategy. Yildirim is seeking to increase its stake in CMA CGM from 24% to 30%.

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 proposed 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 12 routes. It is exposed to the transpacific with a route network of 12 services and is heavily involved in intra-Asia trade. CMA CGM offers 20 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 for 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 30 vessels of 11,000TEU-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.

The company has 36 vessels on its order book with a total capacity of 349,348TEUs, according to AXS Alphaliner.

The company has concentrated on developing its fleet via chartering in tonnage and is expected to continue this strategy. Chartered tonnage accounts for 67.2% of CMA CGM's total TEU capacity. 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

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.

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.

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.

Q312 & 9M12

CMA CGM reported improved earnings for Q312. This left it on course for a full-year profit after a hugely challenging four years for the global container sector. However, while this provides some much-needed respite and underscores the success of its cost-cutting programme, ongoing issues of overcapacity and a weak global growth outlook do not give cause for much optimism.

CMA CGM posted a net profit of USD371mn in Q312, bringing 9M12 profit to USD310mn, compared to just USD13.2mn in the first nine months of 2011. An improved Q3 was attributed to internal cost-reduction measures, as well as some rates relief and the benefits of reduced fuel costs. The ongoing challenges of overcapacity and weak global growth saw the company state that Q4 would be weaker. Yet it remained on track to post a full-year net profit.

Reasons for optimism for CMA CGM come in the form of the successful cost-control measures. In the first nine months of the year it realised savings of USD550mn, equivalent to a 5% y-o-y reduction in operating costs and well ahead of the target of USD400mn in savings for the full year. Planned asset sales, including the disposal of a 49% stake in terminal operator Terminal Link and the sale and leaseback of some of its self-owned vessels, should help keep operating costs under control moving into 2013. Furthermore, planned investments from FSI (USD150mn) and Yildirim (USD100mn) should help alleviate operating pressures. Finally, perhaps most importantly and related to the aforementioned planned capital injections, CMA CGM reached a restructuring deal with its lenders to help manage its 2013 debt obligations.

While providing respite and putting the company on a firmer footing, all this did not prevent CMA CGM from having another challenging year in 2013. The external operating environment was simply too difficult. On the supply side, issues of overcapacity only became greater, and indeed CMA CGM contributed to this with its own ordering strategy. On the demand side, a weak outlook for global economic growth acted as a further headwind.

BMI estimates global real GDP growth of 2.9% in 2013, revised down from a previous forecast of 3.0%. While high frequency indicators suggest the outlook for global growth is weak rather than recessionary, a Chinese hard landing, eurozone debt woes, the US fiscal cliff, the ever more marginal gains to be realised from expansionary monetary policy and the increasing difficulty with which governments can pursue expansionary fiscal policy - all mean this outlook remains precarious.

Q212 & H112

In Q212 CMA CGM bounced back into the black with a USD178mn net profit. Revenue increased by 12% to USD4.15bn. In H112 CMA CGM made a saving of USD294mn, putting it on course to realise its 2012 cost-cutting plan of USD400mn.

Q112

Although the carrier's volumes increased by 13.4% y-o-y to 2.6mn TEU and revenues grew by 2.6% to USD3.6bn, it posted a loss of USD248mn, with the relatively high bunker fuel price being blamed.

2011

CMA CGM reported a USD30mn loss in 2011, but this was considerably lower than that being posted by the company's peers. The loss was despite a 4.0% increase in revenue to USD14.87bn and 11.0% growth in container volumes carried by the liner to 10mn TEUs. The loss was attributed to overcapacity in the market, which forced rates down, and a rise in oil prices, which saw the bunker fuel price rise 34% y-o-y.

CMA CGM planned to get back into the black in 2012 via a cost-saving strategy, with USD400mn in savings planned. In terms of expansion, the carrier planned to increase its coverage of Russia, India, Latin America and Africa, as well as expand its reefer coverage.

Latest Activity

CMA CGM & Hapag-Lloyd Enter Slot Exchange Agreement

CMA CGM and German shipping company Hapag-Lloyd are set to exchange space with each other on the northern Europe/West Africa trade. The move comes under a new slot exchange agreement, which came into effect from mid-January 2015. Under the agreement, CMA CGM will be taking space on Hapag-Lloyd's WAX 1 service and the latter will have access to space on CMA CGM's EURAF 1 loop. The move is part of several other scheduling changes that the companies have planned in order to boost service levels in the market and to improve connectivity with other services to/from the region and the Far East, Middle East/South Asia and Latin America, reports World Cargo News.

EURAF 1 & EURAF 2 Upgraded

CMA CGM has decided to upgrade the EURAF 1 and EURAF 2 services between Europe, the Mediterranean and West Africa. The shipping company has decided to offer two weekly services from Europe and the Mediterranean to Africa instead of one. In addition, the company plans to improve reliability and punctuality, with new calls distribution between the different EURAF services. The EURAF 1 service, operated from January 22 2015, has a weekly port rotation of Dunkirk, Antwerp, Le Havre, Montoir, Tangiers, Dakar, Abidjan, Dakar, Tangiers and Dunkirk. The EURAF 2 service follows a weekly rotation between Antwerp, Hamburg, London Gateway, Tangiers, TinCan, Tema, Abidjan and Antwerp starting January 25 2015.

FMC Approves Hanjin Shipping Tie-Up With Ocean Three Alliance

A vessel sharing and slot charter agreement between South Korean shipping line Hanjin Shipping and the Ocean Three Alliance has secured approval from the US Federal Maritime Commission (FMC), according to William Doyle, commissioner of FMC. The agreement between Hanjin and the members of the Ocean Three Alliance - CMA CGM, China Shipping Container Lines and United Arab Shipping Company - is effective from January 2 2015. Under the agreement, nearly 15 containerships with up to 9,500TEU capacity each will be deployed on shipping trades between the UAE, Pakistan, India, Saudi Arabia, Egypt, France, Spain, Morocco and the US East Coast, TradeWinds reported.

CMA CGM TIGRIS Added To Fleet

CMA CGM has added a new containership *CMA CGM TIGRIS* to its fleet after its delivery in China on December 23 2014, according to the press release of the company. *CMA CGM TIGRIS* is the fourth in a series of 28 vessels with a capacity of 9,400-10,900TEUs to be delivered by Q316. The new vessel measures 300 metres (m) in length and 48m in width. The new containership will be sailing under the Malta flag and will be placed on the SEAS2 Line service with a port rotation of Shanghai, Ningbo, Yantian, Hong Kong, Singapore, Santos, Paranaguá, Buenos Aires, Montevideo, Rio Grande, Paranaguá, Singapore, Hong Kong and Shanghai.

The second and the third of a series of twenty eight 9,400-10,900TEU vessels, *CMA CGM ELBE* and *CMA CGM LITANI*, entered the company's fleet in October and December 2015 respectively.

Services Between Indian Subcontinent, Middle East & East Africa Upgraded

CMA CGM upgraded Noura Express and Swahili Express services to accompany East African markets' growth. The upgraded Noura Express from December 5 2014 deploys four 1,800-2,200TEU containerships. The service follows a port rotation of Jebel Ali - Khor Fakkan - Mombasa - Mogadishu - Jebel Ali. The improved Swahili Express service from December 11 2014 deploys six 2,800TEU vessels and follows a port rotation of Nhava Sheva - Jebel Ali - Khor Fakkan - Dar es Salaam - Zanzibar - Nacala - Nhava Sheva.

CMA CGM Acquires OPDR

CMA CGM has acquired German short-sea operator Oldenburg-Portugiesische Dampfschiffs-Rhederei (OPDR), CMA CGM announced at the end of November 2014. OPDR, previously owned by Bernhard Schulte Group, operates, according to Seatrade Global, three chartered-in vessels of between 690TEU and 1,008TEU on a network of liner services between North Europe, Spain, Portugal, the Canary Islands and North Africa. It also owns five 700TEU containerships and two con-ro vessels, which operate between the Canary Islands and Spain. 'This is a continuation of our strategy to broaden our regional network, a strategy which began with the acquisition of MacAndrews in 2002,' said Group CEO of CMA CGM, Farid T Salem, as quoted by Seatrade Global. The financial terms of the deal were not disclosed and are subject to regulatory approval. Container volumes transported by OPDR in 2013 amounted to 200,000TEUs.

ASEA Service Split Into Two

CMA CGM has decided to upgrade its services on the Asia-East Africa (ASEA) route from December 2014, by splitting the single service into two. The two new services are ASEA Kenya and ASEA Tanzania. ASEA Kenya will reduce the transit time to Kenya by four days, while the ASEA Tanzania service will reduce the transit time to the African country by eight days. The port rotation for ASEA Kenya is Singapore, Tanjung Pelepas, Port Kelang, Colombo, Mombasa, Colombo and Singapore. The port rotation for ASEA Tanzania is Singapore, Tanjung Pelepas, Port Kelang, Colombo, Male, Port Victoria, Dar Es Salam, Colombo and Singapore. The two services deploy 2,800 vessel fleet, making weekly calls to Somalia, instead of the bi-weekly country call operated until December. The new services also cover the Indian Ocean with bi-weekly calls in the Maldives and Seychelles Islands.

Rouen-West Africa Service Restructured

CMA CGM has restructured its service from Rouen, France to West Africa from November 2014 in order to deliver direct, fast and reliable transit to its customers, according to the company's announcement. Under the changes, cargoes from Rouen to West African destinations will be loaded on the DUNKRUS EXPRESS service, with 'relay in Tangiers with our Europe-West Africa Lines' and transhipments to West African destinations reduced to one instead of two.

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 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.
- The CKYH Alliance (also known as the Green Alliance), made up of COSCON, 'K' Line, Yang Ming and Hanjin Shipping, has formed a partnership with Evergreen Line, allowing the line to better compete with other alliances, as well as market leader Maersk.
- Membership of the CKYHE Alliance (CKYH and Evergreen Line) makes the line more competitive on the trade routes between Asia and Europe, including the Mediterranean.
- Has increased its routes through alliances, despite the difficult operating environment.

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 13 ships.
- Flagship services are focused on Asia, so a shift in the dynamics of this region could make Evergreen vulnerable.
- Evergreen Marine's (Evergreen Marine Corporation (Taiwan) Ltd. and its subsidiaries') consolidated net loss increased almost ten-fold in 2013, reaching TWD2.05bn.

Opportunities

- Seeking safety in numbers, Evergreen has joined up with the CKYH Alliance on several routes.
- 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

After clawing its way back up the ranks and reaching fourth place, Evergreen Line has slipped one place and is now fifth in terms of market share. According to AXS Alphaliner, it has an overall capacity of 952,328 twenty-foot equivalent units (TEUs), 27,506TEUs behind the fourth-largest container shipping company Hapag-Lloyd and 133,537TEUs ahead of sixth-placed COSCON.

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 its joint one with Cheng Lie Navigation (CNC) - the weekly China-Philippines Service (CPH) - with the port rotation of Shanghai, Ningbo, Xiamen, Shekou, Manila (south harbour) and back to Shanghai. 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).

The company has also developed a role on the 'big money' routes, and has 12 Asia-Europe and 18 transpacific services.

Fleet

Evergreen Line has a fleet of 196 vessels, with a capacity of 952,328TEUs. The company owns 85 vessels. This translates to a total 413,158TEUs wherein which 43.4% of the company's fleet is chartered. The capacity of Evergreen-owned vessels is 539,170TEUs.

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 tenth 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 12,733TEUs.

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 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 165,524TEUs or 17.4% of its current fleet, is 46,024TEUs greater than that of COSCON (at 119,500TEUs), meaning Evergreen should comfortably 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 chartered five 8,800TEU vessels and 10 13,800TEU ships. 27 of the thirty L-Type vessels were delivered by January 2015, three more newbuildings are to be delivered by Q315 and 'two dozen' vessels will be gradually redelivered as their charters expire by the end of 2015.

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

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 of the TWD211.7mn net loss in 2012. Consolidated operating revenue decreased by 1.3% y-o y to TWD139.2bn.

Q313

Evergreen Marine recorded a TWD48.5mn profit in Q313, a huge drop on the profit of TWD2.5bn posted in the same period of 2012, according to Seatrade Global. The liner's revenue decreased by 10.4% y-o y to TWD36bn.

Q213

Evergreen Marine posted a net loss of TWD400.5mn in Q213, compared to net profit of TWD 858.3mn in the same period of 2012, according to Seatrade Global. Revenue decreased by 2.54% y-o-y, from TWD37.45bn to TWD36.5bn.

Q113

Evergreen Marine recorded a net loss of USD61mn in the first three months of 2013, according to Taipei Times, as reported by CargoNews Asia.

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.

Q312 & 9M12

Evergreen Marine recorded a net profit of TWD104.15mn (USD3.56mn) for January-September 2012, and a TWD2.5mn profit in Q312. While it was in the black for the first nine months of 2012, profits were considerably lower for this period than 9M11, when the company saw a profit of TWD266.8mn.

Q212 & H112

Evergreen announced a net profit of TWD858mn (USD29mn) for Q212. It reported an operating income of TWD641mn (USD22mn). However, it reported a loss of TWD2.4bn (USD82mn) in H112. This was compounded by an operating loss of TWD2.24mn (USD76mn) in H112.

2011

Evergreen Marine reported a net loss of USD105mn in 2011. Revenue fell to USD514mn.

H111

Evergreen Marine managed to remain in the black in H111, unlike many of its peers, despite the fact that its profit declined by 61% to TWD1.39bn (USD48mn) from TWD4.03bn in H110. Its revenue fell from TWD8.6bn to TWD7.59bn, with the company attributing the decline to overcapacity and weakening in the economic recovery, which suppressed demand.

2010

In 2010 Evergreen Marine registered revenue of USD3.5bn, up 39.9% y-o-y. This enabled it to return to the black, with an operating profit of USD403.1mn compared to a loss of USD473mn in 2009.

Latest Activity

Los Angeles & Oakland Dropped From Westbound Trans-Pacific Service

Evergreen Line has discontinued calls at Los Angeles and Oakland port on its westbound U.S. East Coast to North Asia service due to berthing delays as a result of the congestion at U.S. West Coast ports. The changes were announced in November 2014 and were 'necessary to preserve schedule integrity' according to Evergreen's customer advisory, as quoted by JOC.com. Prior to the omission the port rotation of the westbound NUE service was Charleston, South Carolina; Baltimore; Norfolk, Virginia; New York; Colón, Panama; Panama Canal; Los Angeles; Oakland; Tokyo; Kaohsiung, Taiwan; Hong Kong; Yantian, Ningbo and Shanghai, China. To continue connections between Los Angeles and Oakland and Tokyo, from the second half of December Evergreen introduced Tokyo as its first port of call into Asia on its China-South U.S. West Coast-China (CPS) service. The new port rotation is Los Angeles - Oakland - Tokyo - Qingdao - Shanghai - Ningbo.

Tenth & Last 13,808TEU Post-Panamax Delivered

Evergreen Line has taken delivery of the 13,808TEU Thalassa Axia from Enesel SA in October 2014. The container ship is the last in a series of 10 post-Panamaxes ordered in July 2012 from Hyundai Heavy Industries, according to Alphaliner, as cited by Schednet and Thai Shipper. The 368 metre long and 51 metre wide Thalassa Axia will join the Far East-Europe CEM service, also branded as the NE 5 by other CKYHE alliance partners.

Seventh CSBC-Built L-Type Vessel Named

Evergreen Line has named its seventh L-type vessel built by CSBC Corporation in Taiwan, the Ever Lunar, at the end of December 2014. It is the seventh of 10 such vessels ordered from CSBC in May 2011, each boasting a capacity of 8,508TEUs. The Ever Lunar is 334.8 metres long, 45.8 metres wide and has a draught of 14.2 metres. The ship is owned by Evergreen Marine Corporation (Taiwan) Ltd and is expected to be delivered in January 2015 and will join Evergreen Line's Far East - Arabian Persian Gulf (APG) Service.

Evergreen Group launched its new shipbuilding programme in 2010 with an order for 20 L-type vessels from Samsung Heavy Industries, followed by an order of a further 10 vessels of the same specification from CSBC Corp., Taiwan in 2011. The company also ordered 10 13,800TEU vessels and signed charter agreements for 10 14,000TEU ships. All newbuildings are scheduled for delivery by 2017.

Expanding Philippines Service Network

Evergreen Line will join forces with Cheng Lie Navigation (CNC) to launch the new China-Philippines Service (CPH) with an aim 'to offer a more comprehensive service to shippers and importers in the Philippines', the company announced. From December 2014 two 1,000TEU vessels are deployed on the new weekly service with the port rotation of Shanghai - Ningbo - Xiamen - Shekou - Manila (south harbour) - Shanghai.

The new service complements Evergreen's four feeder loops already serving the Philippines, where the liner covers all major ports, including Manila (both north and south harbours), Cebu, Davao and General Santos, with all services connecting to Evergreen's global network via either Kaohsiung and/or Hong Kong.

COSCO Container Lines Company (COSCON)

Overview

COSCO Container Lines Company (COSCON) is one of the world's largest container shipping lines and is the largest Chinese carrier, outgunning 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.

Weakness

- COSCON's parent, China COSCO Holdings Company, was in the red for the second year in a row in 2012, and only managed to post profit in 2013 mainly due to the large sale of its assets.

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.

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 162 principal ports in 49 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 its plans to expand their 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 cover U.S. trades with the U.S. Federal Maritime Commission (FMC), and informing the EU Commission of developments. CKYHE plans to follow the same pattern of cooperation in U.S. trades that its members use in the Asia/Europe, Mediterranean trades. Subject to regulatory approvals, the alliance members will finalise the details of their cooperation by spring 2015.

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 January 21 2015, COSCON was the sixth-largest container shipping line in the world, with a market share of 4.3% - 0.1% lower than in the previous quarter. The company's container fleet has a capacity of 818,791 twenty-foot equivalent units (TEUs), up 0.5% on 815,070TEUs on October 22 2014. COSCON's fleet is made up of 161 vessels. The majority are Post-Panamax vessels with capacities of more than 4,500TEUs. The largest vessels in the COSCON fleet are the six 13,386TEU-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, also by Hapag-Lloyd. Although Evergreen has only slightly higher market share compared to COSCON, its capacity is significantly larger - by 133,537TEUs. We expect Evergreen to maintain its new position above COSCON, as it has a massive orderbook - 17.4% of its current fleet compared to COSCON's 14.6%.

Of its 161 vessels, COSCON has a fairly balanced ratio of chartered vessels, accounting for 42.3% of the fleet at 346,199TEUs. COSCON's own fleet of 92 vessels makes up the remaining 472,592TEUs. COSCON's own fleet of 99 vessels makes up the remaining 486,043TEUs of capacity. COSCON has ten ships on order, with a total capacity of 119,500TEUs.

Financial Results

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.

Q313 & 9M13

In the first three quarters of 2013 China COSCO Holdings Company's revenue from container shipping and related business decreased by 3.5% y-o-y, to CNY31.72bn. Box shipping volumes were up 8.4% y-o-y, to 6.425mn TEUs. The third quarter contributed 2.313mn TEUs (+7.8% y-o-y) in volumes and CNY11.38bn (-7.0% y-o-y) in terms of revenue.

H113

China COSCO Holdings Company's revenue from container shipping and related business decreased by 1.6% y-o-y, to CNY22,746mn in the first half of 2013. Box shipping volumes increased by 8.7% y-o-y, to 4.112mn TEUs.

Average container freight rate was down 10.6% to CNY4,526 per TEU compared to H112. The company attributed such a result to the demand which recovered slowly in H113, the continued oversupply, and market freight rates on the Asia-Europe route declining to historic lows. The company said that during the period it 'focused on adjusting the route structure' and developed emerging markets and the Chinese domestic market to reduce reliance on major European and American routes. The changes in routes and in the cargo source led to a decline in the average container freight rate but, according to COSCO, had a positive impact on the overall result.

Q113

COSCON posted a revenue of CNY9.2bn for the first quarter of 2013, up 14.3% on Q112, as box volumes grew by 10.9% to 1,938,879TEUs. Transpacific trade revenue increased by 6.1% y-o-y to CNY3.25bn, even though container volumes were down 0.5% to 407,267TEUs. Revenue brought by Asia-Europe trade including the Mediterranean amounted to CNY2.58bn, a y-o-y increase of 14.8%, as box volumes were up 5.5% to 420,425TEUs. Intra-Asia and Australia were responsible for CNY1.5bn of the revenues, 9% more than in Q112, and for an 11.4% increase in volumes to 460,905TEUs. Revenue brought by other international trades, including the transatlantic, was up 30% to CNY515mn, as box volumes increased by 13% to 79,804TEUs, while domestic Chinese revenue reached CNY1.15bn, up 30.7%, with container volumes amounting to 570,478TEUs - a y-o-y increase of 25%.

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%).

H112

COSCON's H112 revenues were CNY23,117mn, a 14.1% decline from CNY20,265mn a year earlier. Capacity had grown by 6.3% and volumes transported by the company had climbed by 16.7%, from 3.24mn TEUs in the first half of 2011 to 3.78mn TEUs in H112. This ties in with the wider trend that BMI has been seeing, whereby volumes transported have risen but revenues and profits have continued to suffer as a result of overcapacity in the global fleet, which continues to worsen.

2011

COSCON moved a total of 6.91mn TEUs in 2011, an 11.2% y-o-y increase in volumes. Even so, the tough operating environment, in which excess capacity had driven down rates and high oil prices had driven up bunker prices and operating costs, meant that the company (like most other container shipping lines) recorded a loss for the year. COSCO's revenues from its container shipping segment were down 11% to

CNY41.4bn, which contributed to its overall loss of CNY10.5bn (USD1.66bn) for the year, compared with a profit of CNY6.79bn (USD1.55bn) in 2010.

Latest Activity

Boosting East Africa Services

COSCON has boosted its Asia-East Africa (AEF) operations by enhancing services on the route. The company has increased its services on the AEF trade route and signed a slot exchange agreement with CMA CGM and Emirates Shipping Line on their ASEA service. The move, expected to reduce the impact of port congestion in East Africa and improve service performance, will double COSCON's sailing frequencies on the AEF route to twice weekly, with one dedicated to Mombasa (Kenya) and the other one to Dar es Salaam (Tanzania). The AEF service, effective from December 7 2014, follows a port rotation of Port Klang - Tanjung Pelepas - Singapore - Colombo - Mombasa - Port Klang using a fleet of five 2,500 to 2,800TEU vessels, one provided by COSCON, three by Evergreen and one by X-Press Feeders. The ASEA service, effective from the same date, follows a port rotation of Singapore - Tanjung Pelepas - Port Klang - Colombo - Dar Es Salaam - Singapore using six vessels of 2,500-2,800TEU, four provided by CMA CGM and two by Emirates Shipping Line.

Shipping Slump To Continue For Next Two Years, Warns COSCO Chairman

The slump in the shipping market is expected to continue for the next two years, COSCO Group Chairman Ma Zehua warned during the World Shipping Summit organised by COSCO. According to Zehua, there is a bleak chance of improvement in the supply-demand imbalance owing to a large number of newbuilding orders. Amid the supply-demand imbalance, COSCO is focusing on cost control, securing long-term customers and expanding its reach in emerging market, stated Zehua. 'Everyone will compete on costs, because improving income is very difficult, if you want to increase the freight rate it's tough, it's not possible, the only way is to control costs,' said Zehua, as quoted by SinoShip.

China COSCO Scraps Four Container Vessels

China COSCO Holdings Company and its subsidiaries have scrapped four containerships (Gao He, Ziya He, Shan He and Chaoshan He) and 13 bulk carriers from September 1 and December 31 2014 for net proceeds of around CNY318.2mn. The vessels had a capacity of 919,853 deadweight tonnes. The containerships and bulkers were owned by COSCON and China COSCO Bulk Shipping (Group) Company (COSCO Bulk). The company has incurred losses worth CNY123.86mn as a result of the disassembly of the 17 vessels, according to the unaudited financial results of the company for the four months ended on December 31 2014.

Macroeconomic Forecasts

Economic Analysis

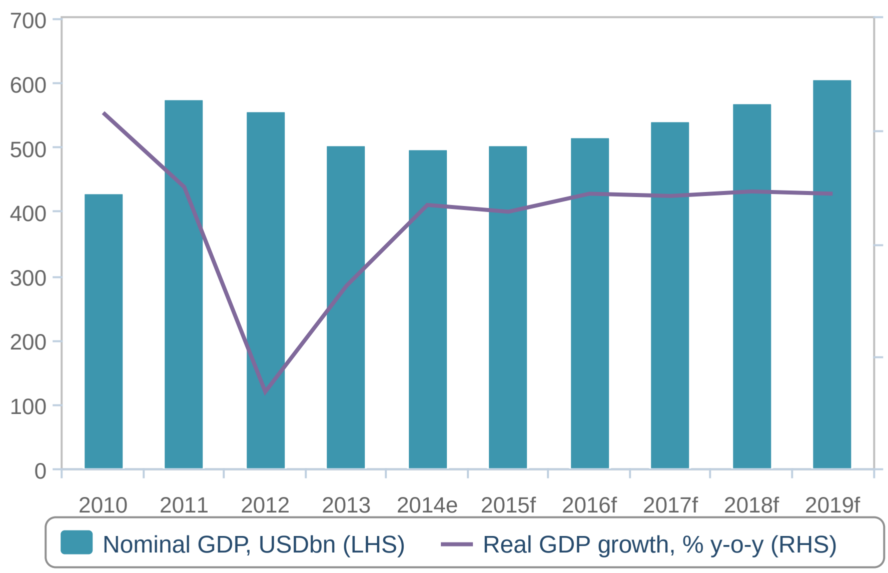
BMI View: *Real GDP growth in Iran will slow in 2015. Lower oil prices will force the government to cut spending, and a failure to reach a breakthrough in nuclear talks will ensure that foreign investment remains low. We have revised downward our real GDP growth forecast for the Iranian economy at 1.4% in 2015 and 2.2% in 2016, from 2.1% and 3.0% previously.*

The Iranian economy will expand slowly in 2015 compared to 2014, as oil prices are low and talks on the nuclear programme fail to reach a breakthrough. We have revised downward our real GDP growth forecast at 1.4% in 2015 and 2.2% in 2016, respectively, from 2.1% and 3.0% previously. The pace of growth will be marginally higher than demographic expansion, implying small productivity gains over the coming quarters.

Declining oil prices will force the government to cut current spending and investment in the country's infrastructure sector, which will result in slow expansion of private consumption and fixed investment. We forecast Brent crude prices to average USD55 per barrel (bbl) and USD58/bbl in 2015 and 2016, respectively, compared to an average of USD106.6/bbl over the 2012-2014 period, a result of oversupply in the market, dwindling global demand and OPEC inaction (*see 'More Pain Ahead, But H115 To Provide A Base', January 8*).

Low Oil Prices A Key Constraint To Growth

Iran - GDP



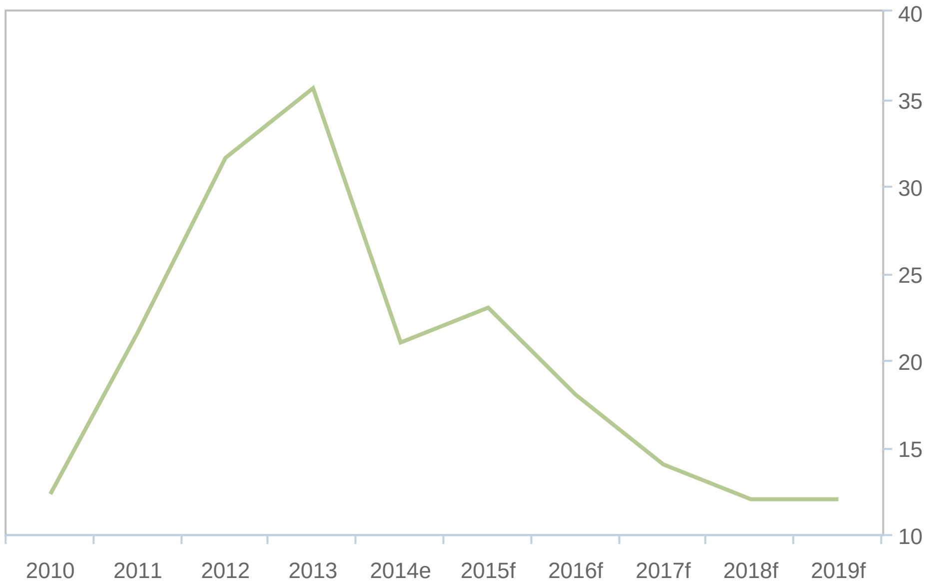
f = BMI forecast. Source: UN, BMI

Key international sanctions on Iran's banking and energy industry will also continue to damage the country's economic outlook. We do not foresee a breakthrough in talks between the P5+1 countries (United States, Russia, China, United Kingdom, France and Germany) and Iran over the next two years, and risks to talks are tilted slightly to the downside (*see 'Nuclear Talks: Breakthrough Unlikely Following Extension', 25 November 2014*). As a result, oil exports and foreign direct investment inflows will remain low.

Private Consumption Outlook: Consumer spending will remain modest over the coming quarters, and we expect expansion of 3.0% and 3.5% in 2015 and 2016 respectively, from 4.5% in 2014. The government will cut current spending this year in a bid to reduce a widening fiscal deficit, a result of falling oil revenues, and will be unable to prop up consumer spending. Elevated price pressures will also hit purchasing power as the government cuts energy and food subsidies. We project consumer price index (CPI) inflation to average 23.0% in FY2015/16 (fiscal year running from March 21 2015 to March 20 2016), from 21.0% in FY2014/15. The failure to reach a breakthrough in nuclear talks will also temper consumer and investor confidence, which had significantly improved since the election of moderate Iranian President Hassan Rouhani in June 2013 lead to an amelioration of relations with the West.

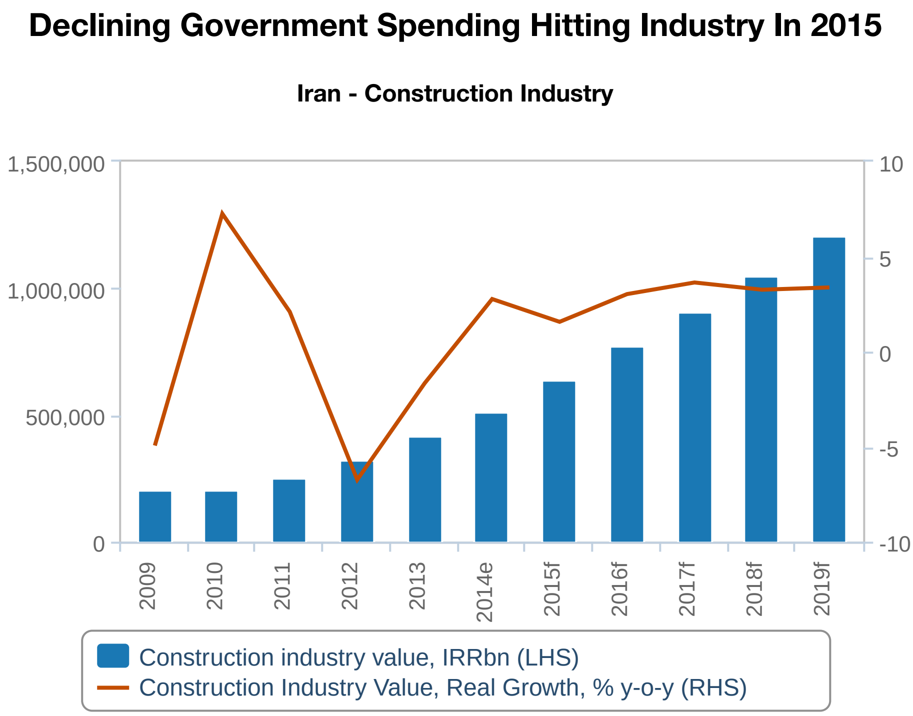
Elevated Inflation To Hinder Consumer Spending

Iran - Consumer Price Index Inflation, % chg, ave



f= BMI forecast. Source: BMI, Central Bank of Iran, Bloomberg

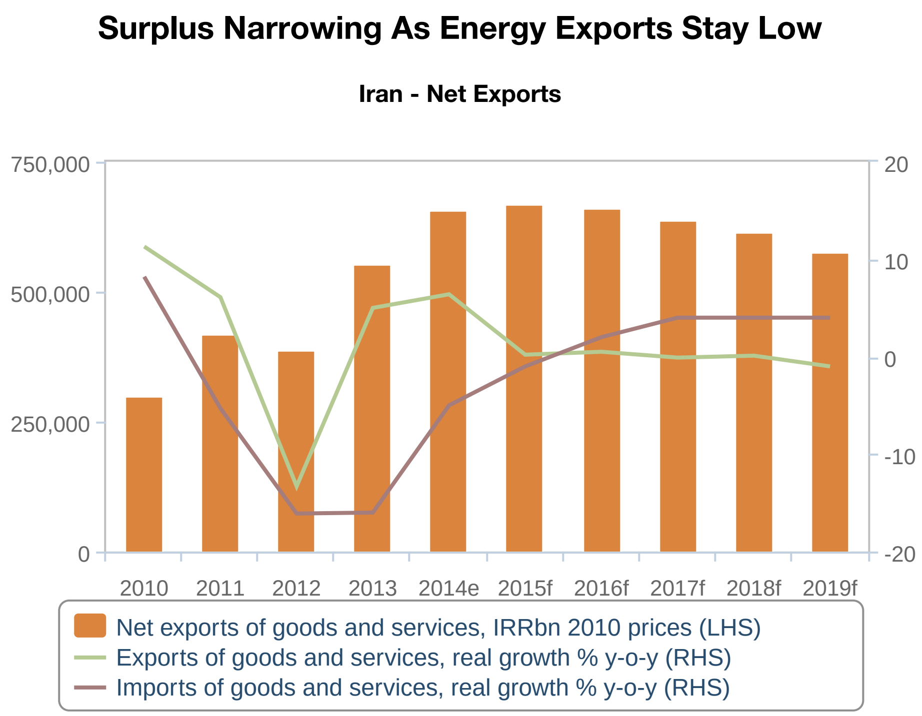
Government Spending Outlook: Government Spending will remain in negative territory over the coming quarters. On December 7, Iranian President Hassan Rouhani proposed a 6.0% hike in nominal terms to the FY2015/16 budget; discounted by inflation, this means that the government plans significant cuts to spending. Spending on the healthcare, education and services sectors will thus be subdued over the coming quarters. We project government consumption contracting by 3.0% in 2015 and 1.0% in 2016, from 4.0% growth in 2014.



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

Fixed Investment Outlook: Capital formation growth will slow this year, and we project it to expand by 1.0% in 2015, from 3.0% in 2014. **BMI**'s Infrastructure research team holds a relatively bearish outlook for the construction sector in 2015; we project real growth of 1.6%, from 2.8% in 2014, as the government's ability to finance projects is limited by falling oil revenues, and private sector investment remains low. The situation will gradually improve from 2016 as oil prices stabilise, and we project industry growth to average 2.9% over 2015-19.

A host of factors will also hinder foreign direct investment. Foreign companies in nearly every sector have recently expressed interest in returning to the Iranian market, but we believe that Western companies will be unable to undertake major investment in the country due to the sanctions regime. Involvement by firms less exposed to the US market will increase. Some companies are able to avoid the obstacles posed by sanctions by arranging payments in oil or financing in currencies other than the US dollar. That said, the complexity of arrangements to avoid sanctions will result in higher costs and delays in the completion of projects (*see 'Current Account In Deficit From 2015', January 6, 2015*). A further impediment will be Iran's difficult operational environment; Iran scores poorly in **BMI**'s Operational Risks Index, with 41.5 out of 100 ranking the country 13th out of 18 states in the MENA region.

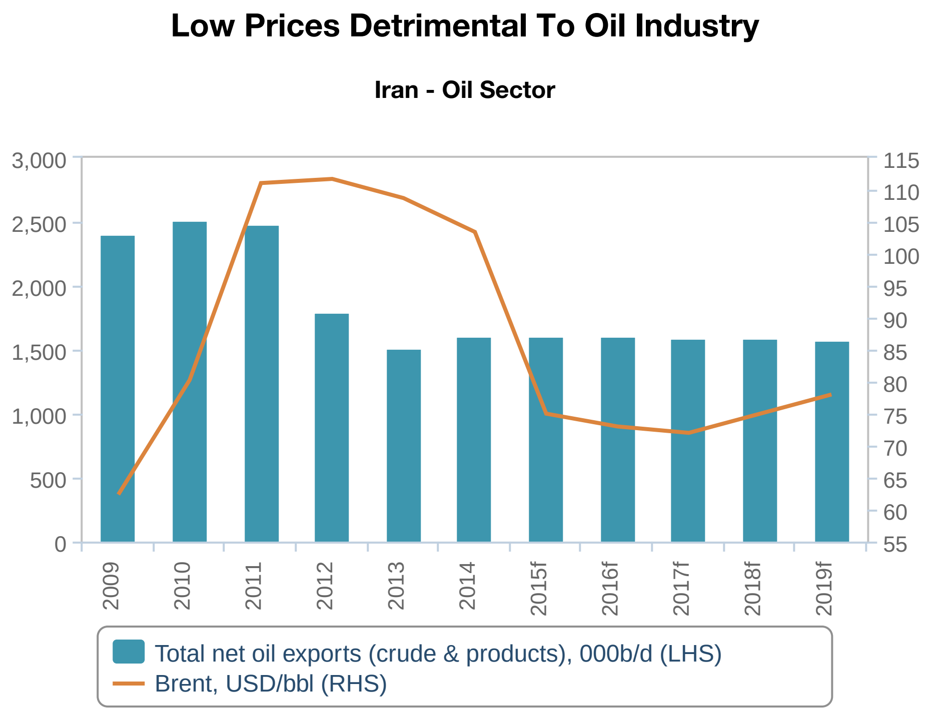


e/f = BMI estimate/forecast. Source: BMI, UN

Net Exports: Iran's net exports surplus will narrow over the next five years. Export growth will slow in 2015 owing to a deceleration in energy production - oil exports accounted for 70.0% of total exports in 2013 - and we project total exports to expand by 0.5% in 2015, from growth of 6.4% in 2014. Low base effects and an uptick in condensates exports - which are not subject to international sanctions - lead to an acceleration of energy export growth in 2014. That said, we are pessimistic that large-scale projects which could boost oil and gas supply will come online in 2015, and energy production will expand slower than consumption.

Growth of exports other than oil will accelerate gradually in 2015, partially compensating for low energy exports. This will result from a weaker rial - which we project to average IRR30,000/USD in 2015 in the official market, from IRR25,800/USD in 2014 - and the government's efforts to increase regional trade. As an illustration, Iran and Iraq recently planned to establish a joint bank, the Islamic Regional Cooperation

Bank for Development and Investment, with a view to increase trade transactions and facilitate bilateral trade.



f = BMI forecast. Source: EIA, BMI

A weak rial will lead to a continued decline of imports in 2015, in line with a trend in place since 2011. Slow economic growth will also contribute to subdued imports, which we forecast to decline by 1.0% in 2015, before returning to growth of 2.0% in 2016.

Table: Economic Activity (Iran 2010-2019)

	2010	2011	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Nominal GDP, USDbn	429.4	575.4	555.8	504.7	496.3	503.2	514.9	542.2	570.4	606.7
Real GDP growth, % y-o-y	5.8	2.5	-6.6	-1.9	1.7	1.4	2.2	2.1	2.3	2.2
GDP per capita, USD	5,766	7,628	7,272	6,516	6,324	6,331	6,398	6,659	6,925	7,286
Population, mn	74.5	75.4	76.4	77.4	78.5	79.5	80.5	81.4	82.4	83.3
Unemployment, % of labour force, eop	13.5	13.3	13.1	13.0	11.0	10.0	10.0	10.0	10.0	9.0

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

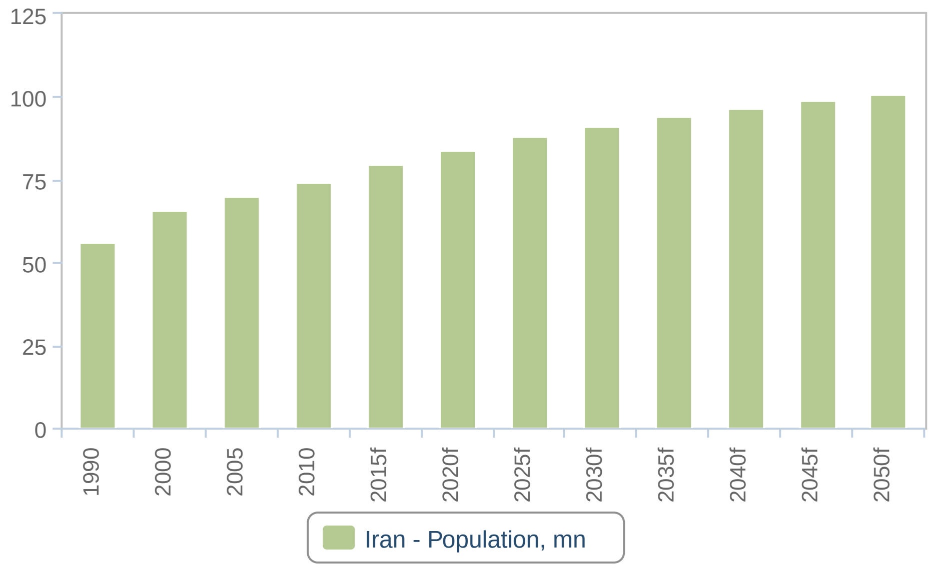
Demographic Forecast

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

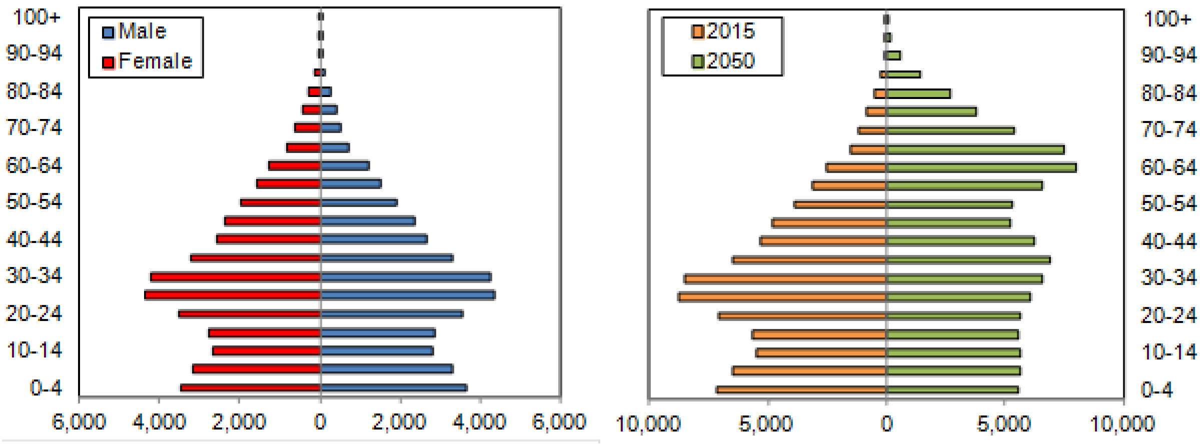
(1990-2050)



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

Iran Population Pyramid

2015 (LHS) & 2015 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Table: Population Headline Indicators (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, total, '000	56,361	65,911	70,152	74,462	79,476	84,148	88,064
Population, % change y-o-y	na	1.6	1.2	1.3	1.3	1.1	0.8
Population, total, male, '000	28,807	33,504	35,917	37,656	39,915	42,307	44,213
Population, total, female, '000	27,554	32,406	34,235	36,805	39,560	41,840	43,850
Population ratio, male/female	1.05	1.03	1.05	1.02	1.01	1.01	1.01

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

Table: Key Population Ratios (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Active population, total, '000	28,945	40,290	48,583	53,034	55,945	58,184	60,945
Active population, % of total population	51.4	61.1	69.3	71.2	70.4	69.1	69.2
Dependent population, total, '000	27,415	25,620	21,569	21,427	23,530	25,964	27,118
Dependent ratio, % of total working age	94.7	63.6	44.4	40.4	42.1	44.6	44.5

Key Population Ratios (Iran 1990-2025) - Continued	1990	2000	2005	2010	2015f	2020f	2025f
Youth population, total, '000	25,543	22,850	18,115	17,585	19,140	20,362	19,984
Youth population, % of total working age	88.2	56.7	37.3	33.2	34.2	35.0	32.8
Pensionable population, '000	1,872	2,770	3,453	3,841	4,389	5,601	7,134
Pensionable population, % of total working age	6.5	6.9	7.1	7.2	7.8	9.6	11.7

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

Table: Urban/Rural Population And Life Expectancy (Iran 1990-2025)	1990	2000	2005	2010e	2015f	2020f	2025f
Urban population, '000	31,748.6	42,210.8	47,393.5	51,332.8	55,362.4	59,374.4	63,078.7
Urban population, % of total	56.3	64.0	67.6	68.9	69.7	70.6	71.6
Rural population, '000	24,613.2	23,700.3	22,758.8	23,129.5	24,113.9	24,774.2	24,985.6
Rural population, % of total	43.7	36.0	32.4	31.1	30.3	29.4	28.4
Life expectancy at birth, male, years	61.2	68.7	70.0	71.3	72.8	74.2	75.5
Life expectancy at birth, female, years	65.8	70.6	73.1	75.1	76.6	78.0	79.2
Life expectancy at birth, average, years	63.4	69.6	71.5	73.1	74.6	76.0	77.3

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

Table: Population By Age Group (Iran 1990-2025)	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, total, '000	9,312	6,316	5,483	6,555	7,146	6,751	6,148
Population, 5-9 yrs, total, '000	8,905	7,552	5,476	5,416	6,507	7,116	6,729
Population, 10-14 yrs, total, '000	7,324	8,981	7,154	5,613	5,487	6,494	7,105
Population, 15-19 yrs, total, '000	5,822	8,800	9,247	7,215	5,643	5,466	6,474
Population, 20-24 yrs, total, '000	4,697	6,932	9,143	8,993	7,067	5,595	5,424
Population, 25-29 yrs, total, '000	4,054	5,315	6,859	8,704	8,726	6,997	5,541
Population, 30-34 yrs, total, '000	3,535	4,442	5,202	6,521	8,484	8,649	6,937
Population, 35-39 yrs, total, '000	3,030	3,886	4,693	5,210	6,497	8,410	8,579
Population, 40-44 yrs, total, '000	2,123	3,372	4,112	4,833	5,262	6,431	8,333
Population, 45-49 yrs, total, '000	1,620	2,857	3,421	4,032	4,757	5,193	6,353

Population By Age Group (Iran 1990-2025) - Continued	1990	2000	2005	2010	2015f	2020f	2025f
Population, 50-54 yrs, total, '000	1,526	1,929	2,800	3,244	3,895	4,665	5,101
Population, 55-59 yrs, total, '000	1,393	1,431	1,766	2,637	3,109	3,788	4,548
Population, 60-64 yrs, total, '000	1,140	1,322	1,336	1,639	2,500	2,985	3,652
Population, 65-69 yrs, total, '000	898	1,145	1,257	1,279	1,550	2,340	2,813
Population, 70-74 yrs, total, '000	507	825	1,055	1,129	1,143	1,369	2,090
Population, 75-79 yrs, total, '000	269	508	654	802	876	902	1,105
Population, 80-84 yrs, total, '000	135	203	347	413	528	598	637
Population, 85-89 yrs, total, '000	48	66	112	172	216	290	343
Population, 90-94 yrs, total, '000	10	17	21	38	63	84	119
Population, 95-99 yrs, total, '000	1	2	3	4	8	15	22
Population, 100+ yrs, total, '000	0	0	0	0	0	1	2

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

Table: Population By Age Group % (Iran 1990-2025)	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, % total	16.52	9.58	7.82	8.80	8.99	8.02	6.98
Population, 5-9 yrs, % total	15.80	11.46	7.81	7.27	8.19	8.46	7.64
Population, 10-14 yrs, % total	13.00	13.63	10.20	7.54	6.90	7.72	8.07
Population, 15-19 yrs, % total	10.33	13.35	13.18	9.69	7.10	6.50	7.35
Population, 20-24 yrs, % total	8.34	10.52	13.03	12.08	8.89	6.65	6.16
Population, 25-29 yrs, % total	7.19	8.06	9.78	11.69	10.98	8.32	6.29
Population, 30-34 yrs, % total	6.27	6.74	7.42	8.76	10.68	10.28	7.88
Population, 35-39 yrs, % total	5.38	5.90	6.69	7.00	8.18	9.99	9.74
Population, 40-44 yrs, % total	3.77	5.12	5.86	6.49	6.62	7.64	9.46
Population, 45-49 yrs, % total	2.88	4.33	4.88	5.42	5.99	6.17	7.22
Population, 50-54 yrs, % total	2.71	2.93	3.99	4.36	4.90	5.54	5.79
Population, 55-59 yrs, % total	2.47	2.17	2.52	3.54	3.91	4.50	5.17
Population, 60-64 yrs, % total	2.02	2.01	1.90	2.20	3.15	3.55	4.15
Population, 65-69 yrs, % total	1.59	1.74	1.79	1.72	1.95	2.78	3.19
Population, 70-74 yrs, % total	0.90	1.25	1.50	1.52	1.44	1.63	2.37
Population, 75-79 yrs, % total	0.48	0.77	0.93	1.08	1.10	1.07	1.26
Population, 80-84 yrs, % total	0.24	0.31	0.50	0.55	0.66	0.71	0.72

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

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 85-89 yrs, % total	0.09	0.10	0.16	0.23	0.27	0.34	0.39
Population, 90-94 yrs, % total	0.02	0.03	0.03	0.05	0.08	0.10	0.14
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.01	0.01	0.02	0.03
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