The challenges facing the global container terminal sector

Drewry’s latest analysis of the global container terminal sector shows that it remains dynamic and profitable, but that numerous challenges are looming.

PSA International, Hutchison Ports, APM Terminals and DP World remain the four big international players in equity twenty-foot equivalent units (TEU) and portfolio terms but with significantly varying levels of activity. DP World and APM Terminals are highly active in terms of acquisitions, divestments and greenfield developments; Hutchison is moderately active and PSA less so. ICTSI and Terminal Investment Limited (TIL) are also particularly active in terms of portfolio expansion. One thing is very clear – the focus of expanding global terminal operators, is on growth opportunities in emerging markets.

Major shipping lines meanwhile have been selling stakes in terminals to raise cash. The deals involving CMA CGM’s Terminal Link and MSC/TIL have been the most significant. Most carriers have seen little change in their terminal portfolios as a result, adopting a holding rather than expansion policy.

However, this is only one part of the story. There are a number of other significant players which are not yet classed by Drewry as global terminal operators, but they are growing fast and have a strong appetite for international expansion. These include Gulftainer, Bolloré, Yildirim, SAAM Ports and Ultramar for example and several large Chinese players, notably China Merchants Holdings International (CHMI) and Shanghai International Ports Group. These companies are challenging for inclusion in next year’s Drewry league tables.

The top 10 global terminal operators

Drewry has developed a unique set of criteria for determining whether an operator should be classed as a global player for the purposes of its annual league tables. This is a deliberately exclusive club which allows focus on the activities and strategies of particular players.

In Figure 1, unless stated otherwise figures include total annual throughput for all terminals in which shareholdings are held as at 31st December 2012, adjusted according to the extent of equity held in each terminal. Figures do not include stevedoring operations at common user terminals and also exclude barge/river terminals. COSCO Group includes COSCO Pacific and COSCO Container Line, while PSA and HPH figures have been adjusted to account for

<table>
<thead>
<tr>
<th>Ranking</th>
<th>OPERATOR</th>
<th>Million TEU</th>
<th>% share of world throughput</th>
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<tbody>
<tr>
<td>1</td>
<td>PSA International</td>
<td>50.9</td>
<td>8.2%</td>
</tr>
<tr>
<td>2</td>
<td>Hutchison Port Holdings</td>
<td>44.8</td>
<td>7.2%</td>
</tr>
<tr>
<td>3</td>
<td>APM Terminals</td>
<td>33.7</td>
<td>5.4%</td>
</tr>
<tr>
<td>4</td>
<td>DP World</td>
<td>33.4</td>
<td>5.4%</td>
</tr>
<tr>
<td>5</td>
<td>COSCO Group</td>
<td>17.0</td>
<td>2.7%</td>
</tr>
<tr>
<td>6</td>
<td>Terminal Investment Limited (TIL)</td>
<td>13.5</td>
<td>2.2%</td>
</tr>
<tr>
<td>7</td>
<td>China Shipping Terminal Development</td>
<td>8.6</td>
<td>1.4%</td>
</tr>
<tr>
<td>8</td>
<td>Hanjin</td>
<td>7.8</td>
<td>1.3%</td>
</tr>
<tr>
<td>9</td>
<td>Evergreen</td>
<td>7.5</td>
<td>1.2%</td>
</tr>
<tr>
<td>10</td>
<td>Eurogate</td>
<td>6.5</td>
<td>1.0%</td>
</tr>
</tbody>
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Figure 1: Top 10 global terminal operators’ equity based throughput, 2012. Source: Drewry Maritime Research.
PSA’s 20 percent shareholding in HPH. Hutchison figures include HPH Trust volume. Please note that some of the figures are estimated.

The big four global players (PSA International, Hutchison Ports, APM Terminals and DP World) had a combined share of the global market in 2012 of just over 26 percent. This was actually less than it was five years ago. Back then, they collectively held 29 percent. Several factors are behind this somewhat surprising statistic.

Firstly, container terminal ownership and operation remains an attractive business, so has attracted new players. The 2012 financial results of the existing main players showed another year of healthy profit margins and returns, and there are now plenty of other operators and investors fighting for a piece of the action. For example, outside of the top four players, the likes of COSCO Pacific, China Shipping Terminal Development and TIL have been growing rapidly.

Secondly, the big players are these days equally happy to dispose of mature assets as they are to acquire new ones. They have adopted a portfolio management approach which is in contrast to the early days of the international terminals industry when it was almost a case of acquiring any asset, any place. Hence in the last few years, the likes of DP World and PSA have sold assets (or stakes in assets) in locations such as Hong Kong, Australia and the UK.

Thirdly, several major shipping lines have been selling stakes in terminals – but
Looking at growth

On a more general level, container terminal operators and ports around the world face the challenge of growth on two fronts – growth in container demand and growth in ship sizes. While it is generally agreed that future container demand growth will not be as strong as the boom periods of the 1990s and 2000s, global container port demand is still forecast to exceed 800 million TEU per annum by 2017, growing by just over 5 percent per annum. However, percentage growth rates can be deceptive things. A compound annual growth rate of 5.4 percent per annum equates to an increase of 30 percent over 5 years. Add to this the fact that the global container port industry is now a huge business – with over 620 million TEU handled in 2012. What this means is that based on Drewry’s forecast, by 2017 the world’s ports will be handling almost 190 million TEU more than today. To put this growth into context, this represents the equivalent of the entire throughput of all Chinese ports in 2012. Or to put it another way, it is more than the entire 2012 throughput of North America, Europe and the Middle East combined. This illustrates what a colossal industry the container port business has become – something that is often overlooked because it is geographically fragmented across nearly 1,300 terminals around the world and so the collective industry is somewhat under the radar.

Even modest demand growth now generates huge absolute increases in volumes. Drewry is forecasting 6.4 percent per annum growth for the Far East region over the next 5 years. This adds 89 million TEU to the market by 2017 (by far the biggest regional increase in absolute terms). At port level, the numbers are staggering. Even if Shanghai only performs at the world average of 5.4 percent per annum, it would add almost 10 million TEU to the port’s total throughput by 2017. A figure of 10 million TEU is more than the entire container port throughput of the UK, India or Brazil.

Considering ship sizes

At the same time, container ship sizes are increasing dramatically. The largest container ship in the world fleet has quadrupled in size since 1992, and in the Asia-Europe trade lane it has doubled in the last 10 years. The ever larger ships will strain the operational capability of ports, with a requirement to deliver faster handling speeds in order to maintain turnaround times. The fact that ships are not getting any longer is making this more challenging because simply deploying proportionately more cranes is not an option. In addition, handling such ships is not just about the quayside performance. The yard and landside also has to be able to keep up, including intermodal capacity.

At the same time, ever larger ships also continue the pressure for more alliances and cooperation between carriers in order to fill them, and so ports face the challenge of greater concentration of volume. Ship size growth has triggered for example most notably the P3 alliance between Maersk, MSC and CMA CGM.

Last but not least there will be greater cascading. The deployment of 18,000 TEU vessels on the Asia-Europe route means that a greater number of larger vessels will be cascaded onto other east-west routes, north-south trades and intra-regional trades. This is where the pain of growing ship sizes is likely to be more keenly felt by ports. The rampant and rapid cascading of larger ships into secondary trade lanes is likely to create more port problems and challenges than the 18,000 TEU monsters destined for the Asia-Europe trade lane and all ports and terminal operators have to rise to the challenge.

In conclusion

Drewry estimates that the world’s container terminals had a turnover of around US$45 billion in 2012 and taking a mid-range profitability margin would have generated a global EBITDA of over US$10 billion. However, while the industry is clearly consistently and satisfactorily profitable, it is one that requires substantial capital investment, and this requirement will remain highly significant in years to come. Using a ballpark benchmark investment cost of US$350 million per million TEU of capacity (covering both terminal infrastructure and equipment), if the industry had to spend to accommodate all of the expected near 190 million TEU of volume growth, this would require an investment of the order of US$65 billion over the next five years. Clearly this represents the upper end of the likely cost, as some of the growth will be accommodated in pre-existing capacity. Nevertheless, the required investment will be as colossal as the industry it will serve.

About the author

Neil Davidson has over 25 years experience in the port sector. His current role is focused on Drewry’s publications and new products in the ports and terminals sector. He has been closely involved as both contributor and editor of all of Drewry’s annual and one-off port sector publications, and spoken at over 75 industry conferences and seminars worldwide. His previous consultancy experience included participation in port projects in global locations including Europe, Asia, the Americas, Africa and the Middle East. The work included buy and sell-side due diligence, privatisations, strategic advice, working for lenders as well as commercial and market analyses. Prior to joining Drewry he spent 8 years with the Port of Tilbury, London, specialising in business planning. He was closely involved in the successful management buy-out of the port in 1992, and its subsequent trade sale to Forth Ports plc in 1995. He also gained Freeport status for the port, acting as Freeport Manager for 2 years. A graduate of the Department of Maritime Studies, Cardiff University, his industry experience also includes working for Lloyd’s of London and the Medway Ports Authority, Sheerness, UK.

About the company

Drewry is one of the world’s leading international maritime consultancy and publishing organisations. Founded in 1970, the company has over 40 years’ experience within the maritime sector, employing over 90 specialists across offices in London, India, Singapore and Shanghai. The company provides research reports and consultancy services with a brand renowned for its quality. Drewry reports are sold in more than 90 countries and consultancy services commissioned by clients from over 70 countries.

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