

SHIPPING

HOW TO SPEND IT – RECENT TRENDS IN SHIPPING M&A



The shipping industry is not known for being a particularly active sector in Mergers and Acquisitions (M&A). However, the biggest players in the sector are more acquisitive than you might expect.

The COVID-19 pandemic has had a major impact on the shipping industry. It has disrupted global trade patterns, fuel prices and the life of seafarers. As a result of the economic slowdown, many corporate transactions have been postponed, re-entered virtual renegotiations or been aborted. Many market participants focus on organic growth and vessel sale and purchase (S&P), rather than corporate acquisitions of trading businesses. Corporate transactions do not receive as much attention when compared to S&P. Our research focused on corporate acquisitions and excluded vessel S&P transactions.

Below and overleaf, we have reviewed some key, recent corporate M&A of major shipping players. We have concentrated our analysis on the top ten largest operators in the major shipping segments (Tanker, Container, Dry Bulk and Independent Ship Management) and covered the period from January 2018 to March 2020.

Depending on the company and sector there appears to be clear appetite for M&A activity, despite recent pressures on availability of finance.

CONTAINERS

The leading container lines have been relatively active in recent years. They are increasingly investing in onshore activities and technological solutions in order to expand their presence along the supply chain and capture a greater proportion of the onshore value chain. There is a clear desire to invest in port-side logistics and terminal infrastructure at key geographical hubs. Maersk and COSCO's recent activity are good examples of this.

BULK CARRIERS

Dry bulk operators are focused on efficiencies and economies of scale and engage in less onshore activity than the major container lines. There has been less M&A activity as dry bulk carriers have focused on core shipping activities rather than integrating into supply chains. The benefits of onshore and port-side logistic operations appear less attractive to these operators, with a seeming unwillingness to diversify from core operations. Star Bulk's recent M&A activity is a good example of this strategic approach.

TANKERS

Tanker operators are the least active of the key shipping segments. Again, there appears to be a stronger focus on core shipping activities and vessel S&P. Major national players such as Bahri and NITC are unlikely to have the remit for aggressive M&A, and given the less diversified nature of the cargo, it is more challenging for tanker businesses to move into onshore operations.

INDEPENDENT SHIP MANAGERS

Private equity has a reasonable presence in this sector, which will drive future M&A activity given the availability of dry-powder funding. V.Group and OSM Maritime activity indicate there is likely to be future consolidation in the ship management sector.

In summary, we identified three key drivers across the major shipping players when participating in corporate transactions:

1. Economies of scale – these are highly beneficial in theory but harder to achieve in practice. Consideration of contract margins, vessel utilisation and sector demand and supply should be carefully assessed in advance of acquiring for scale.



2. Seeking competitive advantages and operating efficiencies through technological advances and market intelligence (via access to higher quality data). Integration of systems and operating efficiencies through synergies can be costly and time consuming in the short term. It is also important to consider the ownership of intellectual property in advance of any acquisition.
3. Capturing a larger proportion of the supply chain with integration into onshore activities,

whether this is port-side infrastructure or logistics businesses. Transformation into a sector outside of core business operations is not without risk. Additional expertise and management reporting will need to be introduced post acquisition. Reliance on experienced advisors with knowledge of the sector and key drivers of successful financial performance will be essential when undertaking any acquisition to achieve this objective.

The BDO Shipping team is one of the world's leading advisors to ship owners and operators. We provide our international shipping clients with a comprehensive range of services including audit, assurance, tax and M&A advice. Please get in touch if you would like to discuss any part of this review of M&A activity or any other business challenge or opportunity. This research is not exhaustive and is only intended to provide an illustrative overview of recent M&A activity.

Summary of key findings

Operators	Primary Sector(s)	Transactions	BDO Commentary
Maersk	Containers	<ul style="list-style-type: none"> ▶ Performance Team LLC – US\$545m ▶ HUUB – €2m ▶ Vandegrift Forwarding ▶ ARISE Ports & Logistics ▶ Maersk Drilling – spin-off 	<ul style="list-style-type: none"> ▶ Maersk, as market leader, has actively engaged in M&A. In 2018, the group spun out its offshore drilling division, lessening its exposure to the offshore oil and gas sector. ▶ Since then, Maersk has expanded and diversified its operations. Technology investment and integration throughout the supply chain appears to be a key focus. This is demonstrated by the recent acquisition of Performance Team, a US based warehousing and distribution business and an investment in HUUB a small e-commerce platform. ▶ Maersk, alongside several of the other major container line operators, also appears to be implementing a strategy to integrate more deeply into land-based supply chains and infrastructure in order to capture higher, value add margins. This is highlighted by the acquisition of Vandegrift Forwarding as well as an investment in ARISE Ports & Logistics.
MSC	Containers and Cruise	<ul style="list-style-type: none"> ▶ Terminal Investment Ltd ▶ TVT – €12m ▶ Ignazio Messina & C ▶ Atlantic Forwarding ▶ Trieste Cruise Terminal ▶ INTTRA Inc 	<ul style="list-style-type: none"> ▶ MSC, the major privately owned Italian operator, has also been relatively active in recent years. Its focus appears to be on making investments in European infrastructure assets (TVT and Trieste Cruise Terminal), freight forwarding operations and port-centric logistics (TIL and Atlantic Forwarding). ▶ Technology driven M&A appears to be a lower priority. Although, in 2018, MSC acquired INTTRA, a software platform that improves the performance of container shipping activities. ▶ A recent core shipping transaction was MSC's 2019 49% investment in Ignazio Messina, a Italian based shipping operator.
COSCO	Containers, Tankers and Bulk Carriers	<ul style="list-style-type: none"> ▶ Beibu Gulf Port ▶ OOCL – US\$6.3b ▶ BILK ▶ Piraeus Europe Asia Rail Logistics ("PEARL") 	<ul style="list-style-type: none"> ▶ COSCO, a major diversified Chinese operator, most important M&A activity was the recent acquisition of OOCL, the major Hong Kong based shipping line. The remainder of its M&A activity is investments in terminal infrastructure assets such as Beibu Gulf Port, BILK and PEARL. ▶ A key driver for the infrastructure investments is the direct link to the state supported Chinese Belt and Road Initiative. ▶ Unlike MSC and Maersk, deeper integration into land based logistics and technological solutions has not been a recent focus. This may reflect a restricted corporate remit and its significant dry bulk and tanker exposure.
CMA-CGM	Containers	<ul style="list-style-type: none"> ▶ Oxatis ▶ Botros & Levante ▶ Ceva Logistics AG ▶ SailEasy ▶ Containerships ▶ Container-Depot Ltd ▶ Multi-Link Terminals Ltd ▶ LCL Logistix (India) 	<ul style="list-style-type: none"> ▶ French based owner and operator CMA-CGM, has been relatively active in recent years. The Group engaged in a substantial refinancing exercise and made the significant acquisition of the onshore logistics business, Ceva Logistics in April 2019, significantly diversifying operations. ▶ As a result of the COVID-19 pandemic, the group secured a €1.05bn state-backed loan. ▶ The Group disposed of its stake in eight port terminals to its joint venture with China Merchants Ports, in order to raise funds for the Ceva Logistics acquisition. ▶ CMA-CGM also recently acquired the e-commerce website developer, Oxatis. In a similar vein to its peers, CMA-CGM appears focused on moving along the supply chain with a view to capturing higher margins and diversifying away from its core container line operations.
Star Bulk	Bulk Carriers	<ul style="list-style-type: none"> ▶ Songa Bulk US\$328m ▶ E.R. Capital Holding GmbH & Cie. KG (3 vessels) ▶ Augustea Atlantica & York Capital Management (16 vessels) 	<ul style="list-style-type: none"> ▶ Unlike the majority of market participants, Star Bulk, the NASDAQ listed Greek operator appears to have engaged in corporate transactions to acquire vessels as an alternative to S&P. ▶ Corporate acquisitions can be beneficial when the acquirer wants more than the vessels themselves; this could include management teams, key relationships, regulatory compliance and lucrative customer contracts. ▶ The Songa Bulk and Augustea Atlantic & York transactions made substantial contributions to growing the Star Bulk fleet.

Summary of key findings (continued)

Operators	Primary Sector(s)	Transactions	BDO Commentary
China Merchants Energy	▶ Tankers and Bulk Carriers	▶ Sinotrans Shipping ▶ Shanghai Changhang Shipping	<ul style="list-style-type: none"> ▶ China Merchants Energy, the Chinese shipping company, has engaged in substantial reorganisation and expansion in the dry bulk sector in recent years. ▶ It acquired certain Sinotrans Shipping assets, greatly expanding their dry bulk fleet and making them a leading player in the sector. ▶ China Merchants Energy also increased its investment in Shanghai Ming Wah Shipping, (formerly Shanghai Changhang Shipping) in 2018.
V.Group	▶ Independent ship managers	▶ Norddeutsche Reederei H. Schuldt GmbH & Co. KG ▶ Global Marine Travel LLC ▶ Dania Ship Management A/S	<ul style="list-style-type: none"> ▶ Backed most recently by Advent International, V.Group is a market leader in the independent ship management sector and has engaged in recent M&A activity. It has made acquisitions in the ship management sector, expanding its geographical presence through Dania and Norddeutsche Reederei. It has also invested in Global Marine Travel, a marine travel business considered complementary to the core ship management activities. ▶ As V.Group is backed by private equity, we expect ongoing M&A appetite.
Bernhard Schulte	▶ Independent ship managers	▶ PRONAV Ship Management GmbH & Co. KG ▶ TechHullClean Pte. Ltd	<ul style="list-style-type: none"> ▶ Bernhard Schulte are actively engaged in M&A, acquiring PRONAV Ship Management, a specialist provider of ship management services to LNG vessels. ▶ Bernhard Schulte is clearly willing to diversify away from core ship management activities as demonstrated by their acquisition of TechHullClean, based in Singapore. TechHullClean develops and manufactures hull cleaning equipment and solutions.
OSM Maritime	▶ Independent ship managers	▶ Vestland Offshore AS	<ul style="list-style-type: none"> ▶ Norwegian based OSM, backed by US private equity house Oaktree, acquired Vestland Offshore, a specialist ship management business in 2019. As OSM is backed by private equity, similar to V.Group, we would expect ongoing appetite for future acquisitions.



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