

CFS Fund: Synergy



Proven performance

The core expertise and experience of the team behind CFS Fund already participates in the management of Horizon Global Shipping Fund (HGS Fund). This launched in 2006 raising over \$50m of equity and now has over \$300m of new-building tankers on order in three separate shipyards.

HGS Fund holds contracts for 15 x 6,200 Deadweight Ton (DWT) bunker tankers and 4 x 16,500 DWT IMO II chemical/product tankers. The first five bunker tankers were contracted at \$10.4m each (excluding pre-delivery costs). Clarksons, the world's largest shipbroker, has valued the first bunker tanker at \$15m on delivery in March 2008. The four chemical tankers were contracted at \$27.5m and Clarksons has valued these contracts at \$30.5m if resold today. These valuations do not take into account any uplift in value which is likely to result from charters being fixed for these vessels.

The proven success of HGS Fund has encouraged the team to create CFS Fund in order to offer individual and institutional investors the opportunity to invest alongside a major financial institution.

Market analysis

The shipping market has turned around in exceptional fashion in the last ten years. From a distinctly becalmed state it has grown strongly, and especially so in this century. Fleet growth was 7.6% in 2005 alone, with 5% in 2006 and a further 5.7% forecast by the end of 2007. As a result, world tonnage which stood at only 13m deadweight tonnage (DWT) in 1988 was 70m dwt in 2005 and is expected to experience further substantial growth throughout 2007.

This has been driven largely by Asian, particularly Chinese, industrial expansion and economic growth. Nevertheless, there are already signs that growing supply is threatening to outstrip demand, especially as the Chinese steel industry cannot continue to grow at its current rate indefinitely.

At the same time as new ships are being built, old ones are failing to be removed from the fleet at historic levels. In 2005, for instance, only 5.5m dwt of ships were scrapped during the year – the first time demolition has dropped below 10% of deliveries since the early 1970s. Furthermore, most of the 1970s tonnage has now been scrapped, so demolition levels over the next few years are likely to be lower than in recent times. All of this adds to supply-based pressures on the main market.

In our view, while some upside may remain for the bulk market, greater potential lies with under-built sectors and overlooked markets. This has already been shown by the success of HGS Fund as reported. We believe that these trends will continue. Specifically, the small product tanker sector for double hull tankers offers an outstanding opportunity in our view.

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Why is this the case? The sector is under-built relative to the bulk market. Yet the need for such vessels is growing fast. Already, we are seeing lower-specification ships being marketed for sale at big gains over cost-price: eg, the first five bunker tankers of the HGS Fund, small product tankers contracted for \$10.4m in 2006, are already valued at over \$15m on delivery in 2008: a strong indicator that demand is outstripping supply by a considerable margin.