

Co-dependency of the Vietnamese yard and the Italian owner

Influx of new orders from ambitious d'Amico Tankers will help boost prospects of struggling Vietnamese state-owned shipbuilding firm

SOUTH Central Vietnam has just two seasons; a dry season running from January to September, and a short rainy season lasting from October to December. *writes Hal Brown.*

"It's the best weather to build ships," says d'Amico Tankers chief executive Marco Fiori, as he cuts the ribbon at the naming ceremony for product tankers *High Trader* and *Cielo di Ulsan* at Hyundai-Vinashin Shipyard, about an hour's drive from the coastal city of Nha Trang.

The region's climate has helped d'Amico implement its major tanker-building venture without irritating weather delays; but it's clear this is very much a co-dependent relationship.

"It's a partnership," says d'Amico Tankers chairman Paolo d'Amico.

The Milan-listed company's investment of more than \$500m in 16 newbuilding tankers at the yard comes as the Vinashin part of the Hyundai-Vinashin joint venture continues to face serious financial challenges.

Bankrupt

State-owned shipbuilding firm Vinashin has changed its name to Vietnam Shipbuilding Industry Corp, having gone bankrupt in 2010 with debts of more than \$4bn, with some executives arrested for mismanagement.

"It's a very volatile industry and they've had a very charismatic path," says Shipyard Economics managing director Sue Hall.

SBIC started restructuring in March 2011, and has completed restructuring its foreign debts of \$135m and the first phase of its domestic debts of \$777m, according to the company. It



The naming ceremony for product tankers *High Trader* and *Cielo di Ulsan* at Hyundai-Vinashin Shipyard.

is currently restructuring the second phase of its domestic debts, international bond debts from the Ministry of Finance, and debts to contractors.

However, money must still be made and times remain challenging.

By the end of fiscal year 2014, SBIC reported losses of more than \$101.9m, due to high interest payments of \$130.9m.

At the time of that result, SBIC's top executives admitted that 2014 was a difficult year for the shipbuilding industry, despite shipping showing signs of recovery. Orders had not come in significant numbers, the company said, with chairman Nguyen Ngoc Su complaining that "it's difficult for the corporation to access bank loans".

However, figures also reveal a promising base to put SBIC on a surer footing. The company had an estimated production value of \$266.5m in 2014, equal to 2013's result. Total revenue was \$357.2m, some 30% higher than the target.

Double-edged sword

New orders from d'Amico Tankers clearly help SBIC's prospects. It's a major spree from the Italians: two 50,000 dwt product tankers were delivered from the yard to d'Amico a year ago, and the rest of the ordering spree includes

another four 50,000 dwt tankers, four 39,000 dwt tankers and six 75,000 dwt tankers delivering in 2017 and 2018, bringing the total investment to 16 tankers at the yard, out of d'Amico Tankers' 22-strong newbuilding programme.

"It's good that [the yard] has got a forward run of orders," says Ms Hall.

A long-term relationship with an owner means a yard is not forced to battle for new customers every time it requires an order, she says.

However, she warns that a long-term relationship with an owner can become a "double-edged sword".

"If the owner gets into financial difficulties, then you might be quite exposed."

Nevertheless, with \$1.5bn backing from its banks, the Italians are intent on capitalising on the growing opportunities for product tankers as production areas become increasingly further away from demand centres.

Quality

For d'Amico, the advantages of Vietnam are not just related to the two-season climate conducive to shipbuilding.

The vessels are each around \$2m cheaper than other builds due to lower labour costs, according to Mr Fiori. Questions over quality are rebuffed; all

parts are shipped to Vietnam from South Korea, but it's the welding and workmanship that truly define a ship's quality, says the yard's deputy site manager, Nicola D'Alesio. "The facilities and workmanship are more than enough to build the vessels," he stresses.

The structural and dimensional precision required in shipbuilding matches the quality "anywhere in the world", he says; crucial for product tankers because they are more complicated to build than dry bulkers, which the yard also builds. The nature of product and chemical cargoes requires more systems on board, pumps for cargo tanks and greater safety measures; whereas simpler dry bulk carriers require only holds and cranes, he points out.

Arguably, specialising in product tankers — which most pundits forecast to have solid long-term prospects — is a smart move to bolster the fortunes of the yard and, to some extent, the fortunes of struggling SBIC.

With around 20 ships now built at the yard each year, d'Amico's tanker orders evidently represent major business for the yard, reinforcing the mutual dependency, and softening the troubles posed by SBIC's debt problems.

"If there was a major issue, the Koreans would pull out," says Ms Hall.