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LOGISTICS REPORT

Hyundai Heavy Seeks Majority Stake in Fellow Korean Shipyard DSME

A marriage between the world's two biggest shipyards would create a combined order-book of around 180 ships

Giant cranes of Hyundai Heavy Industries are seen in Ulsan, South Korea, last May. PHOTO: KIM HONG-JI/REUTERS

By Costas Paris

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Hyundai Heavy Industries Co. Ltd. has made an approach to buy a majority stake in Daewoo Shipbuilding & Marine Engineering Co. from the state-run Korea Development Bank, people directly involved in the matter said.

A merger between the world's two biggest shipyards has been in the works for about a year, the people said. KDB has repeatedly bailed the ailing yard and has long been eager to unload the DSME stake.

KDB owns 55.7% of DSME and the holding is worth around $2 billion, the people involved said.

"Hyundai Heavy has sent a letter of intent for a controlling stake in DSME," one person said. "KDB will review the matter at a board meeting over the next week or so."

A marriage would create a combined order-book of around 180 ships. New ship orders have been plummeting in recent years on a glut of tonnage in the water and below break-even freight rates. But a growing lineup of orders for liquefied natural-gas carriers and crude-oil tankers last year has helped DSME turn a corner.

South Korea's presidential office this week said Qatar is looking to order around 60 LNG vessels and that Korean yards are vying to win the massive order.

Hyundai Heavy also controls two other yards—Hyundai Samho and Hyundai Mipo—with a combined order-book of 154 vessels.

Shipbuilding is one of South Korea's flagship industries, accounting for 7% of the nation's exports and 5% of employment.

Korea's ministry of oceans and fisheries said last April it would look for a new owner for KDB's stake in DSME.

A previous attempt to sell the yard for $5 billion to Korea's Hanwha Group group collapsed in 2009 after Hanwha had trouble raising funds. KDB pumped around $2.6 billion into DSME in 2017 as part of a wide-ranging restructuring.

"DSME still needs to cut its nearly 10,000 workforce by around 1,000 under the previous restructuring plan," a second person involved in the matter said. "The number may be higher if the deal with HHI is agreed."

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>
> —A DSME official

A senior DSME official, who asked not to be named, said an increase in tanker orders that started in the second half of last year may boost the sale price of the shipyard.

DSME secured orders of 21 LNG carriers last year, compared with only three in 2017, according to marine data provider Vessels Value. It also got firm orders for 21 oil tankers, compared with 13 in 2017.

In all, the yard added $5.7 billion worth of new ship orders last year, according to shipbuilding industry executives.

“We had a lot of problems with canceled orders of mainly offshore oil rigs. But things are certainly getting better on the back of LNG carriers that command a higher profit margin,” the DSME official said.

Global shipments of natural gas has been surging over the past five years on rising demand from countries such as Japan, China, South Korea and India. Average daily U.S. natural gas exports more than doubled in the first half of 2018 compared with all of 2017, the year America became a net natural gas exporter, according to the U.S. Energy Information Administration.

Analysts expect DSME to post an operating profit of $756 million in 2018 compared with $688 million in 2017, according to analysts surveyed by Bloomberg.

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