
China ambitions in cruise sets their agenda for full value chain – a potentially lucrative opportunity awaits

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Agenda

Cruise tourism is restarting in China and is expected to see an exponential growth – government incentivizes boost of domestic value chain while foreign cruise operators enhance local presence with JVs

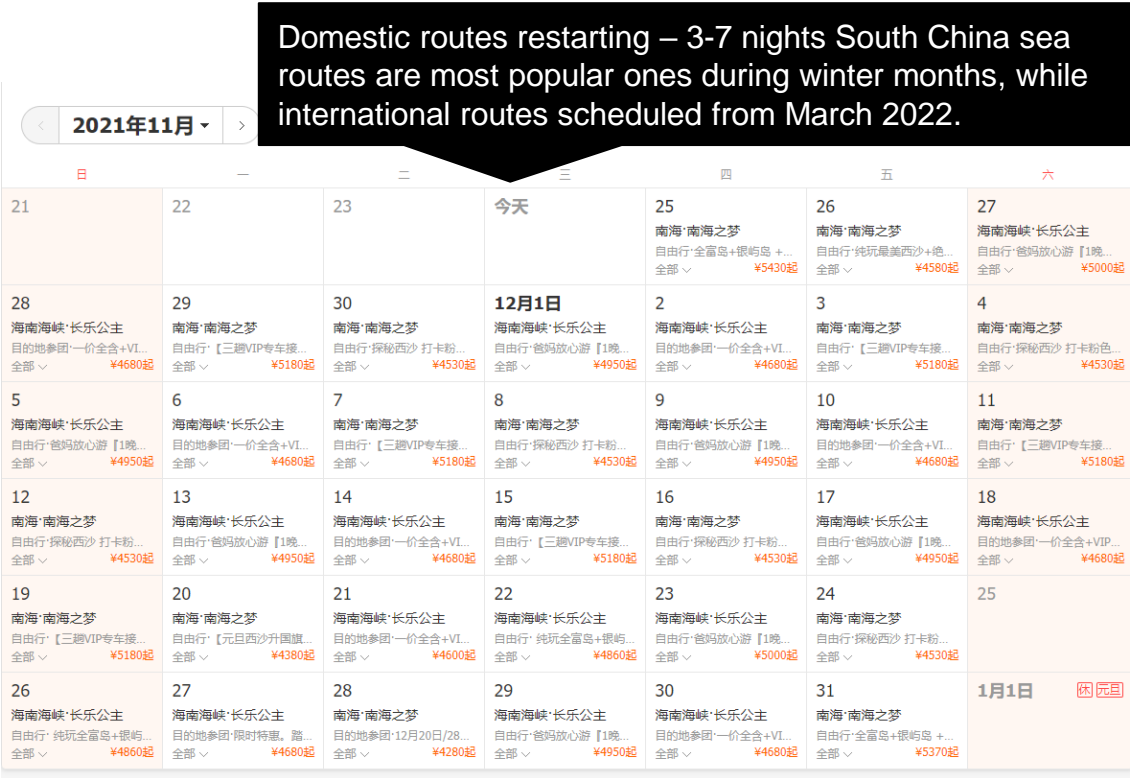
State-owned shipyards jump on the booming cruise ship market – strong commitment with clear roles and responsibility drive innovation and results-focused mentality

Long-term role of China cruise industry on global stage remains to be seen, but emergence of domestic supply chain calls for global participants

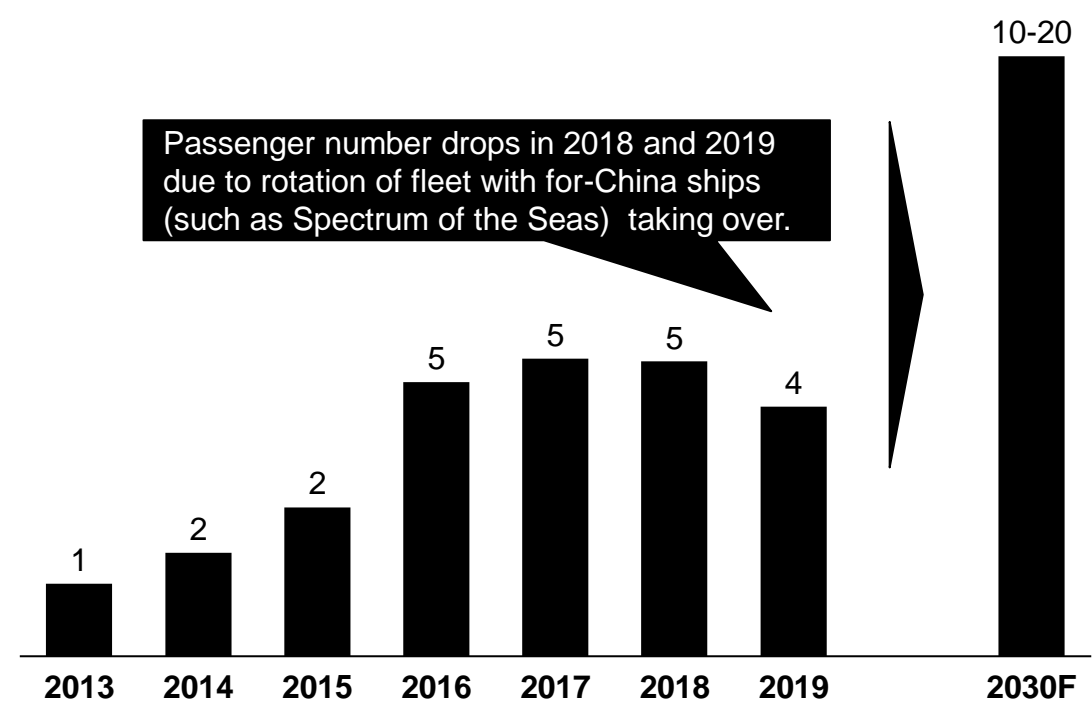
Cruise restarts in China with domestic routes first – passenger volume is expected to grow 2-5 times by 2030

Overview of China cruise tourism

China cruise route calendar – December 2021



China cruise passenger volume, in millions

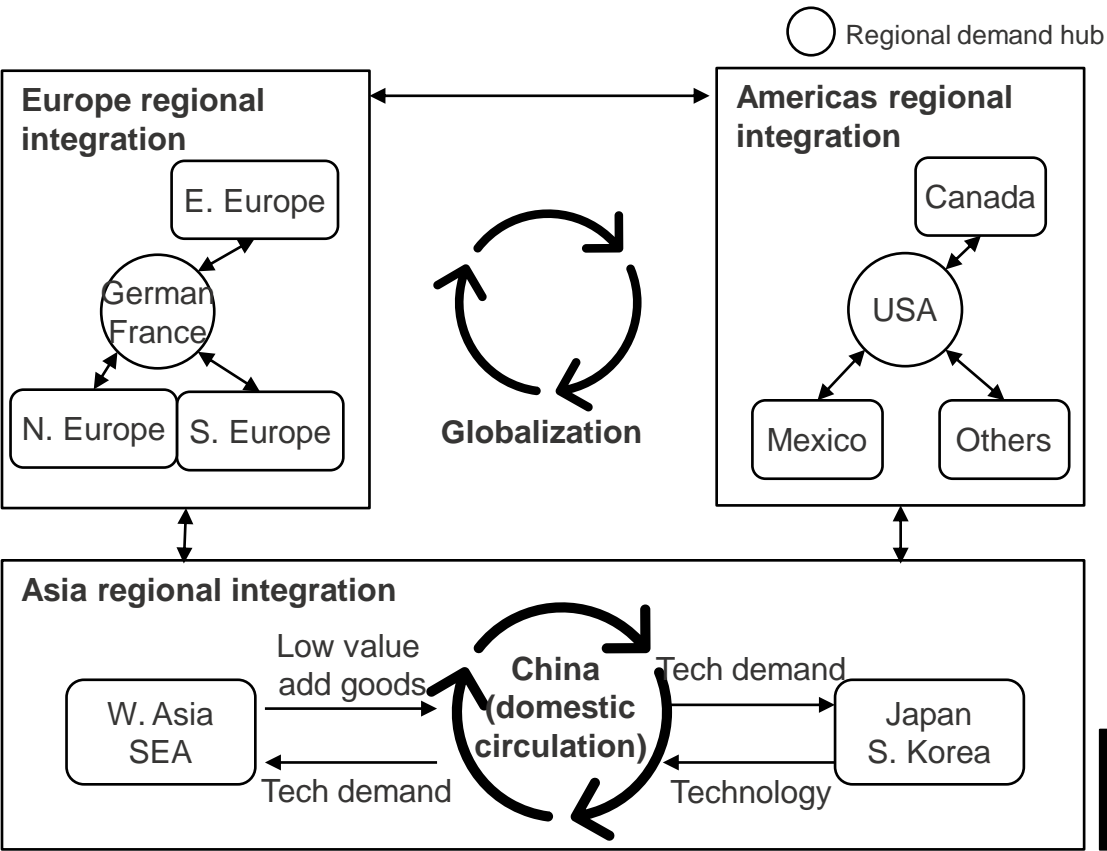


Source: [ctrip.com](https://www.ctrip.com); [China cruise industry development report](#).

However, government eyes beyond the tourism industry, aiming to establish a domestic cruise ecosystem for increase value capture domestically

From a flat world to dual circulation economy policy in Beijing

China's new view on globalization: multi-model structure



Selected policies for boosting cruise ecosystem development

Upstream

- Guidance of the Promotion for China Cruise Industry Development - the National Development and Reform Commission, 2008
- Made in China 2025 strategy – State Council, 2015
- 13th Five-year Plan (2016-2020) for large cruise ship construction – State Council, 2015
- 14th Five-year Plan (2021-2025) for large cruise ship construction – State Council, 2020

Down-stream

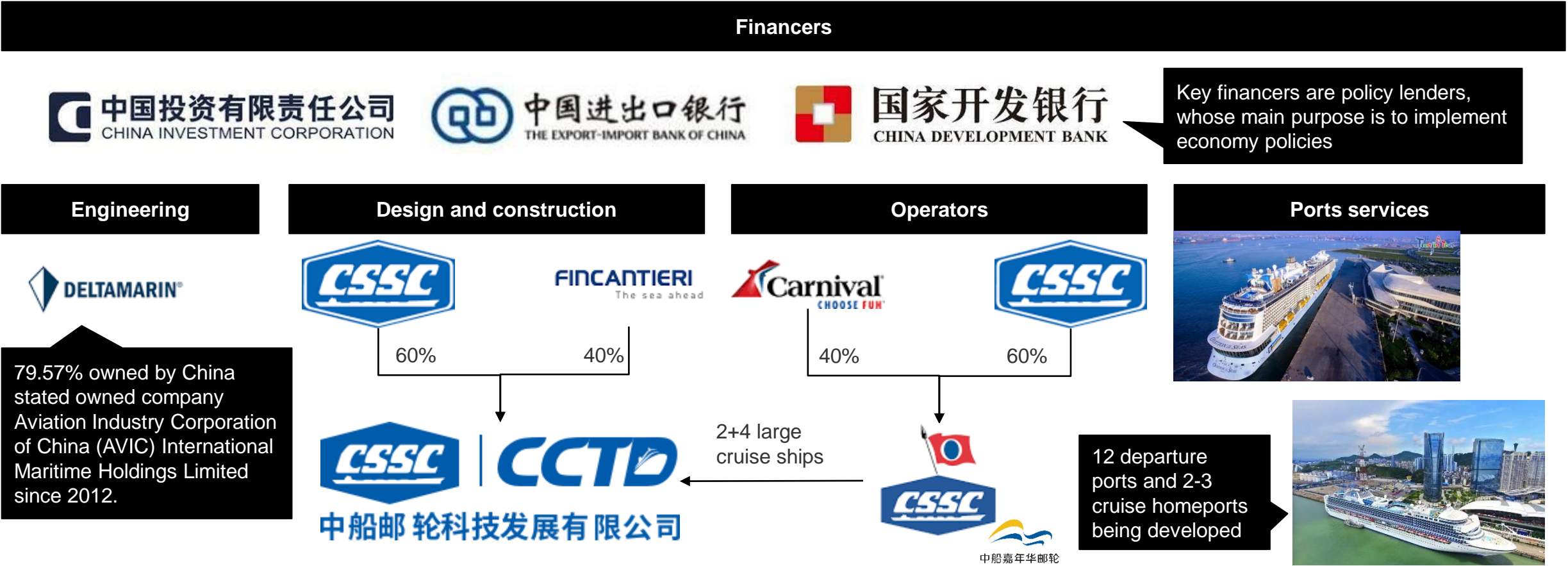
- Guidance of Promotion for China Cruise Transportation Development – MoT, 2014
- The National Coastal Cruise Port Layout Plan – MoT, 2015
- 13th Five-year Plan (2016-2020) for Cruise Tourism Development – State Council, 2015
- 14th Five-year Plan (2021-2025) for Cruise Tourism Development – State Council, 2020

Central government is incentivizing development of domestic demand, while deepening its supply-side structural reform to ensure level of independence – same happens in cruise ecosystem with state-owned companies acting as enforcers.

Source: Reddal interviews with economists from ICBC International; The State Council of The People's Republic of China.

State-owned companies act as pioneers pushing development of ecosystem, well financed by government via various financiers

Translation from state policies to state-owned companies' actions



Source: The State Council of The People's Republic of China (2015); China securities news; CSSC Shanghai Waigaoqiao Shipbuilding (2018) press release.

Chinese cruise operators rush to test the water within past 2 years with 4 ships bought

Key Chinese ocean cruise operators

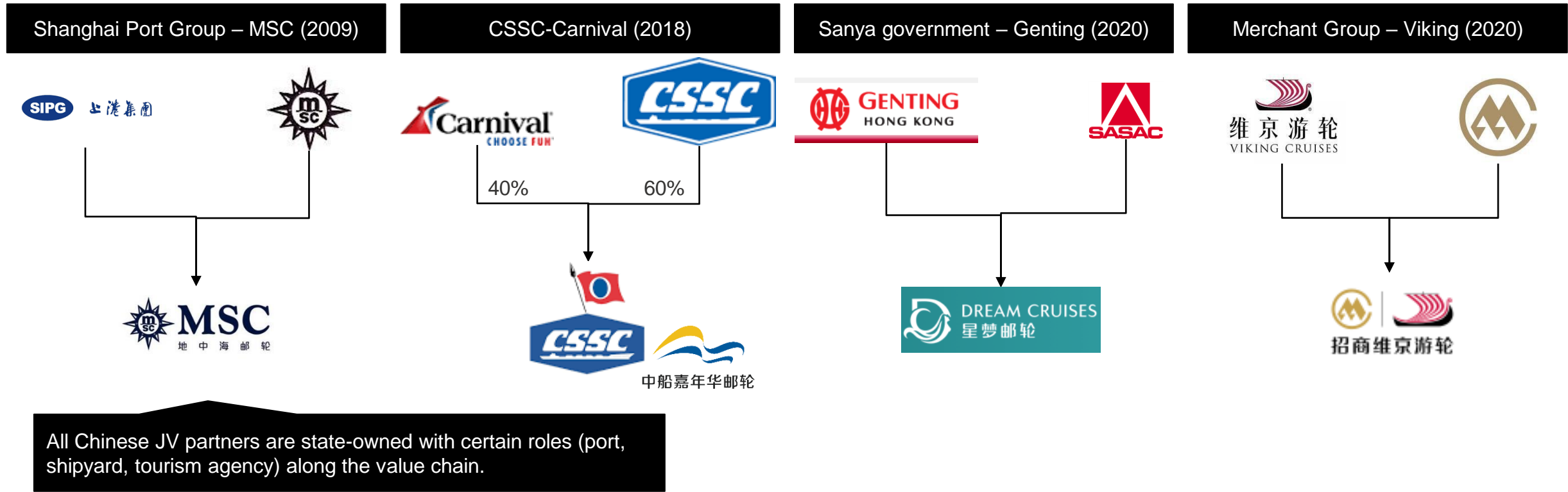


Ownership	Owned by state-owned firms: COSCO shipping and China tourism group	Owned by state-owned firms: China Communications Construction Company and China tourism group	Public listed with Shandong provincial government as main shareholder	Private-owned
Homeport	Xiamen	Sanya	Dalian	Shanghai
Cruise ship	<div>MV Piano Land<ul style="list-style-type: none">• Built by Meyer Werft Papenburg in 1993• Bought by Astro Ocean in 2019• 69153 GT</div>	<div>MS Charming<ul style="list-style-type: none">• Built by Fincantieri in 1997• Bought in 2020• 77499 GT</div> <div>Nanhai Dream<ul style="list-style-type: none">• Built in 2012 by CSSC GSI• Bought in 2016• 24572 GT</div>	<div>MS Chinese Taishan<ul style="list-style-type: none">• Built by Blohm-Voss in 1999• Bought in 2014 from Costa• 24427 GT</div>	<div>MV Blue Dream Star<ul style="list-style-type: none">• Built in 2000• Bought in 2020• 24138 GT</div>

Source: company websites.

Seeing the trend, foreign cruise operators start forming JVs with state-owned companies for licenses to operate on domestic routes

Overview of cruise operator joint ventures in China



Source: [SIPG announcement](#); [Genting announcement](#); [Viking Merchant group announcement](#); [CSSC and Carnival announcement](#).

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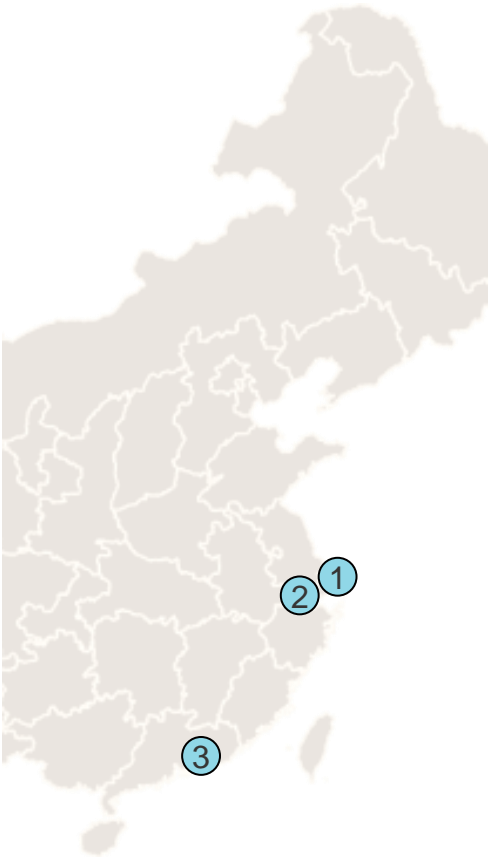
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Three state-owned shipyards are mobilized to capture value on upstream

Major Chinese shipyards involved in cruise ship building



1 CSSC Shanghai Waigaoqiao Shipbuilding (SWS)



Ownership: Public listed with state as biggest shareholder

Annual capacity: Over 7 million DWT

Current focus in cruise:

- 2 Carnival cruise ships in order book and 4 options

2 China Merchants Cruise Shipbuilding Haimen base



Ownership: Public listed with state as biggest shareholder

Annual capacity: 220 000 DWT

Current focus in cruise:

- Focus on small- to medium sized cruise ship
- Order book of three Infinity-class expedition cruise ship (three delivered) and potential four mid-sized cruise

3 CSSC Guangzhou Shipyard International (GSI)



Ownership: Public listed with state as biggest shareholder

Annual capacity: Over 3.6 million DWT

Current focus in cruise:

- Focus on roll-on/roll-off passenger vessels while supporting SWS yard

Source: company websites; Reddal interviews with industry experts.

Construction is progressing as planned – with outfitting commencing, challenges wait ahead

Status of large cruise ship construction in CSSC SWS



- Hull blocking and assembly completed
- Outfitting and system integration commenced
- CSSC relies largely on Fincantieri's supply chain
- Target delivery date remains while challenges of labor and materials shortage emerge due to COVID impact on global supply chain

Source: China Central Television.

Strong commitment to program plan, enhanced by clear roles with mandates and accountability, drive innovation and results-focused mentality

State of art equipment with strong focus on digitization and automation



Large diameter pipe flange welding machine



Plane section line - longitudinal welding



Plasma steel cutting machine



Welding robots

New thin plates center is equipped with state of art equipment that capable of handling one-pass single-sided welding with double-sided forming for 4-25mm plate thickness.



CSSC has chosen Hexagon Intergraph Smart 3D system (same used by Fincantieri) as digital platform for design and construction – next is to develop additional module tailored for CSSC needs.

Application of IoT across the production lines to monitor current status, track KPIs, and highlight potential issues based on predictive measures.



Source: [International maritime news](#); [China association of national shipbuilding industry](#).

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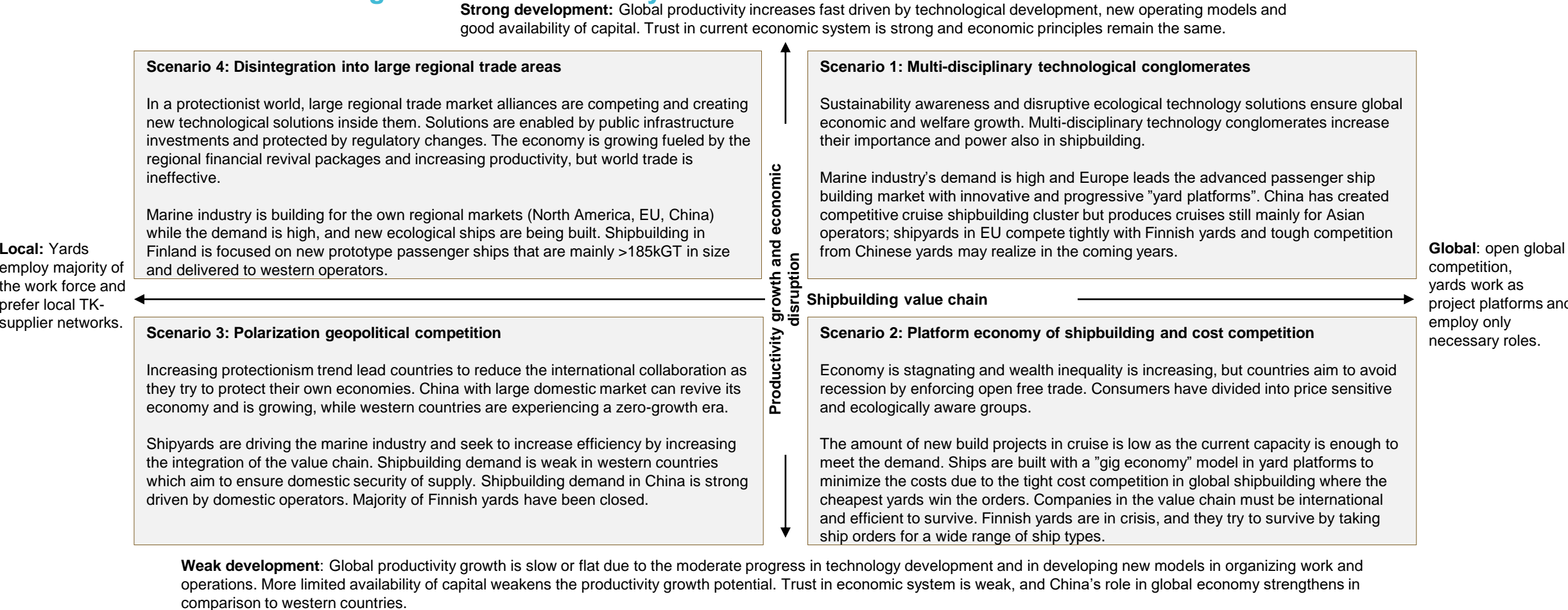
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In the long term, China's role in global marine and cruise industry remains to be seen – four distinctive scenarios are identified

Scenarios of China's role in global marine industry in 2035



Source: [Meriteollisuuden tilannekuva ja skenaariot alan kehityksestä](#) report prepared by Reddal for Ministry of Economic Affairs and Employment of Finland

In the short term, emergence and growth imperatives of domestic value chain provides a potentially lucrative opportunity

Overview of potential opportunities and risks

Localizing supply chain calls for international material, components, and turnkey suppliers

Strong demand of new cruise ships and increasing complexity call for engineering companies

Strong focus on digitization calls for experienced software providers

While market offers a potentially lucrative opportunity for foreign players, technology transfer, IPR infringement and political risks remain key challenges when entering the market.

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Summary

- Cruise industry in China is taking off – passenger volume is expected to grow significantly up to 5-10 million per year
- Given changing global dynamics, Chinese government pushes to boost cruise ecosystem development while keeping the value within the country
- State-owned companies, ranging from shipyards to cruise operators, act as pioneers to implement government's vision – financial performance is not a key concern with policy lenders commit to finance development
- With the large cruise ship entering outfitting phase, challenges emerge in labor and materials (largely imported) supply due to COVID-19 – shipyard has an urgent need for a domestic supply chain
- Emergence of domestic supply chain calls for global participants, offering a potentially lucrative opportunity for various players

A large, dark, 3D number '1' stands on a rooftop covered in gravel. In the background, a city skyline is visible under a cloudy sky, with a body of water and industrial cranes in the distance.

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