

# Analysts mark takeover cards after Frontline move

Stifel says it's foolhardy to expect consolidation kick-start but experts see no shortage of potential targets.

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John Fredriksen's attempt to takeover DHT Holdings has sparked inevitable chatter in the tanker market about future merger and acquisition activity.

Frontline, in which Fredriksen is the leading shareholder, this weekend launched an all-stock offer for New York-listed DHT.

Ben Nolan, an analyst at Stifel, says tanker M&A is rare and it would be "foolhardy" to believe Fredriksen's interest in DHT will change the dynamic.

"However, if it were to play out, we do believe there could be several other take-out candidates," he wrote in a report today.

"Specifically, names with institutional shareholders dominant in the holders' lists rather than families or insiders.

"Possible names include International Seaways and Gener8 Maritime, as well as several European listed names backed by US private equity such as Torm, Hafnia, and Navig8 Product Tankers."

Another name being mentioned in the market is Oslo-listed Tanker Investments Ltd (TIL), which was launched by Teekay as an asset play but has since taken on a more operational strategy.

Nolan, who notes he is unaware of potential takeovers of the names listed, says the challenge is who the other potential suitors might be.

"Given the trodden-down state of tanker equities, sellers would need equity upside meaning that the buyers would have to trade at premiums to NAV and pay up, or it would need to be done as an NAV to NAV merger: not a simple task," he said.

## Put the champagne on ice...

Jonathan Chappell of Evercore ISI says it's far too early to pop the corks on the consolidation champagne.

He explains that the bid is a "no-brainer" from the Frontline side as the DHT fleet would represent an immediate expansion, boost its already large market presence and likely improve its status with the financial community.

However, he says the decision for DHT is not as clear cut.

"DHT is somewhat caught between a rock and a hard place strategically with a decent sized fleet, but realistically an inability to opportunistically expand its fleet to the size of market leaders. However, selling at the bottom is not a traditional strategy," Chappell said.

The analyst adds that hostile takeovers have not been successful of late and the poison pills introduced by DHT “puts all of the power in DHT's hands”.

“Simply, if any deal gets done it will be on DHT's terms, and by initial board reactions it does not seem that the current offer meets those terms,” Chappell said.

Deal of no deal, Chappell says Fredriksen could make money, as he did via his investment in General Maritime which failed to yield a takeover.

“We applaud the attempt at consolidation, though at this point we still view a deal as unlikely, but that doesn't mean that Frontline won't ultimately benefit from its 16.4% stake in DHT,” he said.

### **Capturing the unicorn**

Tanker market consolidation was placed into context by Marco Fiori, chief executive of d'Amico International Shipping, at Marine Money in London last week.

“Consolidation has always been the unicorn in shipping. Everybody says we need consolidation and it never happens. I think we should all look at each other,” he said.

“I must say coming from outside the shipping business, of all of the businesses I have been in during my lifetime [shipping] is where you encounter the most interesting people but also there is a lot of egos that can fill up a very big room. Consolidation is always a difficult problem when you have a lot of big egos.”

Consolidation has not been easy, but it is also not impossible, with the past couple of years seeing a number of major deals.

Euronav's \$980m purchase of the Maersk Tankers VLCC fleet in the early days of 2014 was followed by DHT buying the seven-strong Samco fleet and General Maritime taking the seven newbuildings then in the hands of Scorpio Tankers.

Away from the capital markets, Idan Ofer's Quantum Crude picked off six aframaxes from Blenheim Shipping in the summer of 2014. In products, BW Group bought both the Elandra and Metrostar MR fleets the same summer.

General Maritime moved again in early 2015, merging with Navig8 Crude Tankers to form Gener8 Maritime in a deal tipping the scales at \$1.4bn. Later the same year Teekay Tankers bought Principal Maritime.

However, unlike the Frontline bid for DHT, leading analysts counter that none of the deals listed above were hostile.

### **Cornering the market**

As TradeWinds reported earlier today, Fredriksen is not expected to get his hands on DHT without a fight.

According to Noah Parquette of JP Morgan, Frontline is presently the ninth largest owner of VLCCs, with DHT 11th.

However, should Fredriksen succeed in adding the DHT fleet to its co-operation with Tankers International, it would make a 73 vessel commercial block, or about 10% of the global fleet.

Rivals Euronav and Gener8 today have 27 and 26 VLCCs respectively, notes Magnus Fyhr of Seaport Global.

“The acquisition would also address Frontline’s fleet renewal needs as Frontline has nine VLCCs that are 15 years of age or older,” he said.

A combined Frontline and DHT would have a market capitalisation of \$1.6bn, Fyhr says. This would place it ahead of Euronav (\$1.2bn) and Nordic American Tankers (\$900m), Fyhr calculates.

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