Tanker firms should 'suck it up and go shopping'

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On the Marine Money forum panels, clockwise, from top left: Paddy Rodgers, Leon Patitsas, Marco Fiori and Jacob Meldgaard.

Consensus at Marine Money forum is current market weakness could provide bargain-hunting opportunities for assets

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TANKER markets have entered the down cycle since last year. For 2017, with a large number of newbuilding deliveries and external uncertainties driven by political events, few are expecting any recovery in freight earnings and asset prices.

So, how should tanker firms face the adversaries?

“Suck it up and go shopping,” was the advice offered by Euronav (news, data) chief executive Paddy Rodgers during Wednesday's Marine Money forum.

The remarks came as earnings of crude carriers, the segment in which Euronav is one of the world’s largest owners, are falling this year. The general consensus is any upside will be capped by newbuilding vessels hitting the water.

Lloyd’s List Intelligence has forecast 48 newbuilding deliveries of very large crude carriers, 45 suezmax deliveries and 40 aframax deliveries in 2017.

“I think suezmax is the weaker [sub-segment],” said Mr Rodgers. “Most people absorbing the cargoes have terminal storage issues. They need big ships.”

The mid-sized sub-segment could see “lots of consolidation”, with a highly volatile, but weak rate environment, he added.

On the other hand, VLCCs are going to be good. “Demand is going to be good. The issue is on the [vessel] supply side,” said Mr Rodgers.

The latest forecast of International Energy Agency put the global oil demand growth at 1.5m barrels per day in 2016 and 1.3m bpd in 2017 — both above this century’s average rate of 1.2m bpd.

According to Mr Rodgers, tanker market sentiment has been affected by some unexpected external events, such as Brexit and the Trump presidency, which are often not related to supply-demand fundamentals in spot trades.

This year, there are also several matters at play outside of owners’ hands. In Europe, several elections are due to be held, with populists riding high in the polls.

South Korea is also facing an election year, just as Seoul seeks to ramp down capacity in the loss-making shipbuilding industry.

“2017 will be a quite anxiety-driven year, with so many [market] moving topics,” said Mr Rodgers.

With continued tight financing, and newbuilding prices relatively supported by yard capacity cut in Korea, several panellists — including Mr Rodgers — suggested tanker firms should focus on secondhand tonnage instead.

According to VesselsValue, a five-year-old VLCC was valued at $60.9m, suezmax at $42.4m and aframax at $28.1m on Tuesday, versus the year-ago levels of $74.7m, $55m and $44.9m, respectively.

“Values are so attractive on the tanker side,” Atlas Maritime chief executive Leon Patitsas said.

“Earnings are lower than last year but they still provide decent cash-on-cash returns…companies will really do well buying in this cycle.”

On product carriers

Product tankers shared a similar story, with some panellists stressing the current bearishness could actually provide long-term investment opportunities.

In line with falling earnings, asset prices have been sliding over the past year. Data from VesselsValue showed a five-year-old long range two vessel was valued at $29.6m, long range one vessel at $28.4m and medium range vessel at $24.6m on Wednesday, compared to the year-ago levels of $47.2m, $39.1m and $28.4m, respectively.

Investors should look out for opportunities, as the current asset prices are very “near the bottom”, Torm chief executive Jacob Meldgaard said.

Sharing the same sentiment was d’Amico Tankers' chief executive Marco Fiori, who said: “Secondhand [tonnage], from where the values are today, is probably the best investment you can make.”

This year’s earnings could still be weighed down by newbuilding deliveries, with LLI expecting 89 vessels each of 60,000 dwt or above and 65 vessels of 20,000 dwt-60,000 dwt hitting the water.

But the optimism comes from the shrinking global orderbook. With Seoul’s efforts in ramping down yard capacity likely concentrated on mid- and small-sized yards, which focus on building product tankers, overcapacity worries of this segment could ease in the coming years.

“2017 will be a decent year. 2018 will be very good,” Mr Meldgaard said.

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