POTEN & PARTNERS

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POTEN TANKER OPINION

Name Your Price

What is happening with tanker prices?

Crude oil tanker prices have moved somewhat out of sync as of late. In the most recent Marine Project Report, Poten's assessment of a VLCC newbuilding contract is approximately $95.5 million, down $2 million from the end of 2014, while prices for 5 year old VLCCs are currently assessed at $80 million, $5 million higher than in December 2014 (see Figure 1). Developments for Suezmaxes are even more extreme with newbuilding contract price assessments are $2 million lower than levels seen at the end of 2014, while 5 year old values increased by $6 million over the same period.

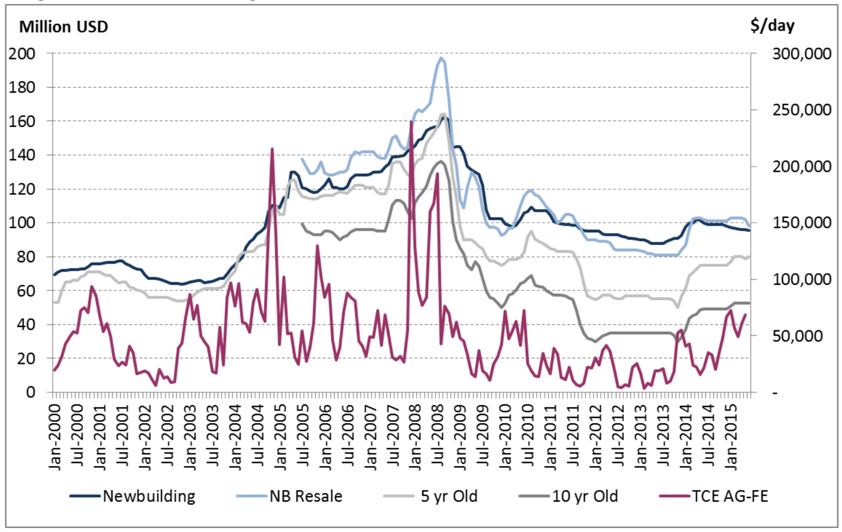
Similar price changes have occurred in the clean tanker segments as well. For example, MR newbuilding contract prices declined by $0.5 million while 5 year old MRs increased by $3 million since the end of 2014.

Given the strength of the spot market during the first 6 months of the year, it is not surprising that tanker prices are on the rise. The average TCE rates on the VLCC benchmark route from the AG to the Far East have been $62,400/day in 2015 year-to-date versus $28,400/day over the same period in 2014, according to Poten's calculation. Rates in other tanker segments across various routes also outperformed, as the year-to-date average rates are twice as high as they were in the first half of 2014. It is somewhat surprising that second hand prices have not been stronger in recent months, which could be a sign of the uncertainty surrounding the longer-term impact of the decline in oil prices over the last 12 months; although they have recovered somewhat in recent weeks.

During strong freight markets it is not unusual that second hand prices increase faster than newbuilding prices, as owners are willing to pay a premium for immediate availability to take advantage of the high market at that particular moment. During the tanker market peak in 2007-2008, owners paid a premium over newbuilding contracts for resale vessels, significantly beyond interest accrued during construction and the value of initial stores and spares. During the boom period, even 5 year old vessel values occasionally exceeded newbuilding contract values. Prices were supported by the availability of profitable long-term contracts, which are much harder to find in the current market.

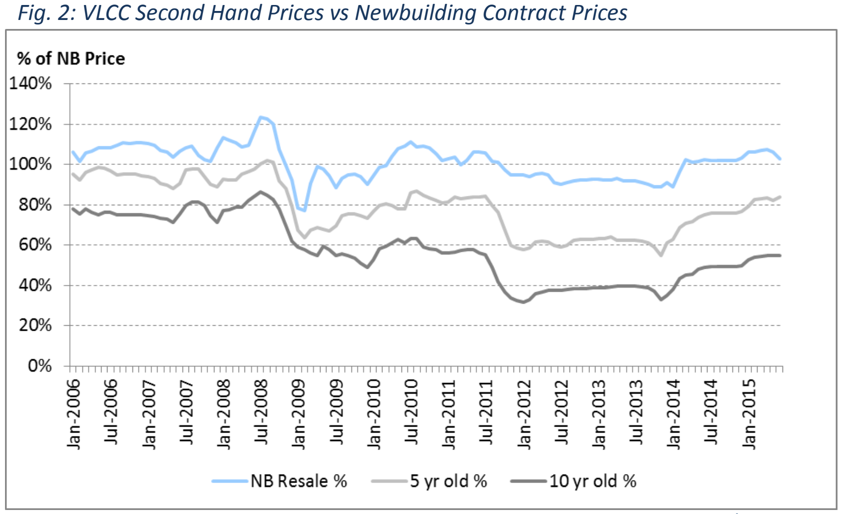
The current market shows a (temporary) decoupling of second hand values from the newbuilding market.

Fig. 1: VLCC Newbuilding and Second Hand Prices



Source: Poten and Partners

Fig. 2: VLCC Second Hand Prices vs Newbuilding Contract Prices



Source: Poten and Partners

Newbuilding prices are driven by a combination of freight market expectations and ship-yard supply and demand dynamics, while second hand prices are purely a reflection of the freight market outlook. The dry bulk market, the main competitor for shipyard space, is in a prolonged slump, while the tanker market is doing well, therefore, the shipyards don't have the bargaining power to press for increased prices for tankers orders. Contracting has decreased in almost all vessels sectors, except for oil tankers. According to external sources, in 2014 close to 2,000 vessels were ordered across all sectors, while in the first six months of this year the total orders amounted to less than a quarter of this figure. The oil tanker segment was the only major category where 2015 year-to-date orders significantly exceeded 50% of the 2014 orders.

At the moment, newbuilding prices are relatively affordable compared to second hand values, due to competitive forces in the ship building markets, without being out of range like they were in the 2007-2008 market peak. The spot market strength is not yet fully reflected in vessel prices, which means there could still be opportunities for investors.