



# Capital Link Shipping Weekly Markets Report



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## IN THE NEWS

### Topical and tropical

February and March are big months on the conference circuit- with organizers and attendees navigating religious holidays, school breaks and- this year, the very cold weather. The "The Life of a Ship" event, hosted jointly by the Hellenic American and the Norwegian American Chambers of Commerce, did not disappoint. A poll of attendees at the "Life of A Ship" conference, jointly sponsored by the Hellenic and Norwegian Chambers of Commerce. The conference covered topics ranging from shipbuilding (featuring a superb time lapse video from Aker Philadelphia Shipyard) through end of life matters like the changing rules on recycling and scrapping of vessels. This conference, now in its 21st year (longer than the expected life of a new ship, according to the collective wisdom), brings some good debate. One lively interchange concerned issues of whether ships built in certain countries might last longer. On the Shipowner panel (expertly moderated by Liberty Maritime's Josh Shapiro), Christine Chao from Foremost Maritime sung the praises of Chinese yards for newbuilds (albeit with very careful supervision). Principal Maritime's Art Regan said "...it's probably more appropriate to talk about individual yards- rather than nations." Mr. Regan, an active speaker on the conference circuit these days, also opined that owners are likely to spend more on life-extension measures when markets are stronger. The requisite Finance panel offered an excellent dialogue, as Ridgebury Tankers, sitting across from banks DNB and Nordea, offered very candid viewpoints of an evolving relationship between a PE backed company, and lenders getting more comfortable, over time, with such borrowers.

Audience interest in the health of the shipping markets dominates- as evidenced by the keynote session featuring MS's top-notch shipping equity analyst- Fotis Giannakoulis. Regarding tanker supply and demand, the analyst told the audience that traditional supply / demand models, which look at fleet size and major flows of oil cargoes, "....are not giving the solution to the tanker market anymore."

Talking about tankers, he said: "...there is some skepticism among investors about the sustainability of this strength in the market..." He noted: "The stock price over the past 12 months has been positive; we have seen stocks rising 25%." The analyst provided evidence of the investor uncertainty, pointing out that "Valuations < the measures of stock price to fleet value> are below historical ranges." Traditionally, he said, the stocks could trade at 110% by this measure, compared to the present 100%- he added that most of the tanker stocks are still priced below their "net asset values", which is another indicator of investor caution.

The analyst mentioned the steep decline in oil prices, and the price contango (which has now disappeared) that led to the booming market, saying "...this is the new model that we are trying to propose...of course it is a much shorter term model...." Nevertheless, the model points in a positive direction; the analyst estimated that increased oil production will continue for at least six to nine months, with "...more oil being good for shipping." Beyond that, the usual oversupply fears begin to creep in, with MS saying, "...there are risks beyond 2015."

Similar sentiments were voiced on the Shipbuilding panel by Clarkson's Capital's Nicholas Stillman, who tamped down one set of fears with his observation that "...we don't see a massive change in the tanker outlook as a result of switching from dry into wet..." The panel underscored an important concern about the offshore business, hard-hit by the decline in

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capital spending for oil exploration and production- prolonged weakness could free up capacity at the big Korean shipyards circa 2016- 2017. Mr. Stillman said, "If you look at the actual <offshore> orderbook, it tails off pretty dramatically." Though not mentioned at the New York event, subsequent developments at Transocean ("RIG") are indicative of the current difficulties- its hefty dividend will now be cut as this bellwether battens down its hatches.

The MS view of drybulk offered a pleasant surprise compared to the pronouncements of the more dour analysts in the marketplace. Simply put, the MS view suggests that 2013 saw a big buildup of drybulk inventories in 2013- especially in Q3 and Q4. The ample inventories of drybulk raw materials were drawn down in 2014, explaining the lack of a rally. Mr. Giannakoulis offered a glimmer of hope for drybulk, suggesting that Chinese replenishment of commodity inventories may begin anew, later this year. In covering LNG, the graphs show clearly a surplus of vessels over new liquefaction capability in the next two years. Conversely, a deficit of tonnage emerged from 2016 onward with the market "...hopefully balancing by the end of 2016." Also mentioned was LPG- offering a classic shipping story. Investors craved this sector in 2014. However, over-ordering (the word "frenzy" came up) has put the projected fleet size well above expected demand. Oil prices play a role- a severe decline in likely North American propane exports in 2015 – 2016 is contributing to the damage. Unfortunately, the weaker demand for "gas liquids" (the current view) will be overshadowed by a growing vessel supply, this will be a time of hefty vessel deliveries.

In a far less topical (but highly tropical) vein, I was delighted to gain admittance to a media event hosted by the Cruise Lines International Association (CLIA). One topic that comes up at such gatherings is the relaxation of restrictions on travel to Cuba, a subject of much misinformation and a treasure trove for lawyers who advise on such things. However, I did note that it is possible to cruise to Cuba, from Canada, on a vessel owned by a Greek company, Louis Cruises, and on charter to Cuba Cruises. Business must be good- the "Louis Cristal" has been renewed for a second year. Continued market growth is anticipated as U.S. cruisers (seeing a good economy) explore new destinations.

The highlight of the cruise gathering for me, not surprisingly, was a trip into the world of Robert Bugbee trivia- yes, there is always a bulk, tanker and LNG angle. The new Chairman of CLIA is Mr. Adam Goldstein. Mr. Goldstein, who is the President and COO of Royal Caribbean Cruises Ltd., used to work with Bugbee back in the days of Gotaas Larsen (which evolved into Golar Gas). Now in the Fredriksen camp, Gotaas Larsen, as it was called, owned the inchoate RCCL early on. So, during one of the coffee breaks, Mr. Goldstein and I went off into a corner and caught up on the trivia. Mr. Bugbee will be presenting the Commodore award, at next month's Connecticut Maritime Association gala, to Captain Panagiotis Tsakos- the father of Nicolas Tsakos- who heads up the listed Tsakos Energy Navigation ("TNP").