Qatar crisis yet to shake LNG carrier demand

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LNG shipping outlook: Booming LNG trades support tanker demand despite rapid fleet growth

LIQUEFIED natural gas shipping markets have been bottoming out this year as many expected. It's just that the recovery might not be as strong as owners hope.

In the first seven months of this year, the spot charter rate for a 160,000 cu m LNG carrier averaged $38,033 per day, according to Clarksons data. This was higher than the 2016 average of $33,528 per day.

The main support has remained Asian LNG demand, showing several spikes at the beginning of this year and towards summer. But spot rates have struggled to stay above $40,000 per day, suggesting the recovery is still on shaky ground.

Looking ahead, owners will hope that the yearly average can breach the $40,000-per-day mark with the coming winter peak demand season. However, the supply overhang might curb the upwards momentum.

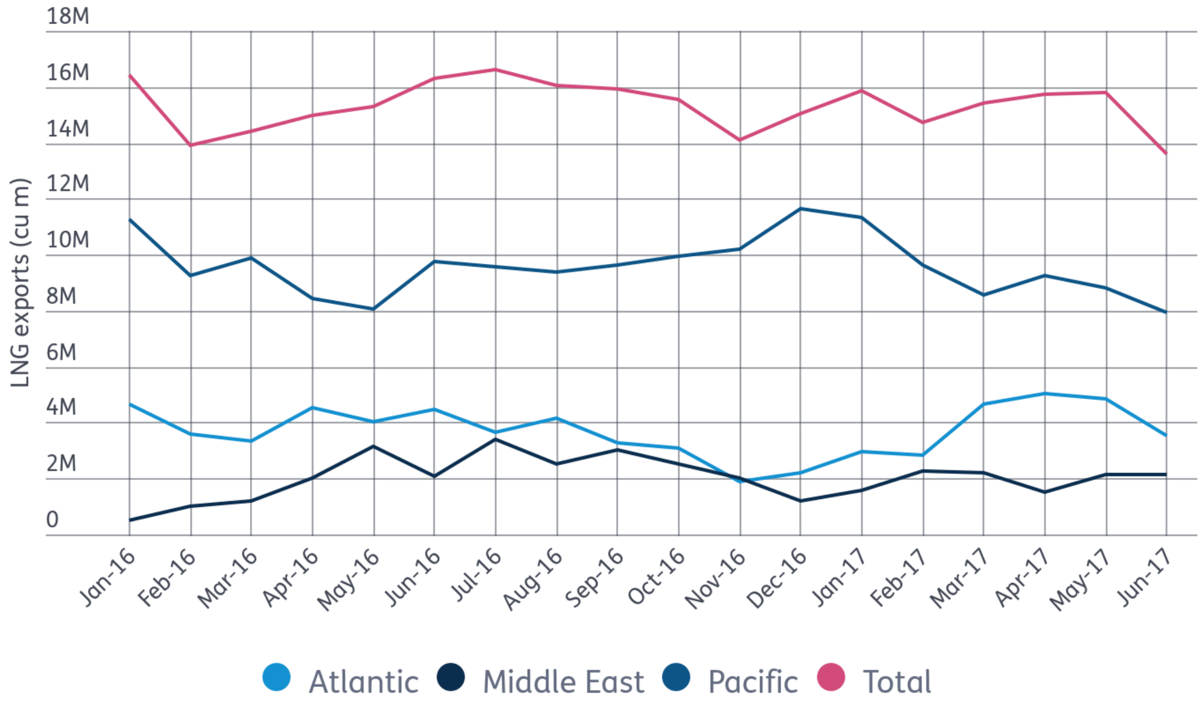
Data from Lloyd's List Intelligence shows that, on a net basis, 51 LNG carriers of 200,000 cu m or smaller will be added to the global fleet. In terms of carrying capacity, this segment will expand by 10% in 2017, higher than the 2016 level of 8.1% in 2016.

The net growth is very much due to the large number of newbuilding deliveries, which LLI expects to reach 56 for the full year 2017. Only five vessels are expected to be scrapped in the same period.

This significant growth is why LNG shipping rates remain under pressure, even as global seaborne LNG trades are booming on rising Australian and US exports and emerging demand sources, such as more deployment of floating storage and regasification units.

Another interesting development is that the segment of 200,000 cu m or above, which generally serves Qatari trade, is not expected to see any change in capacity this year.

Qatar LNG exports



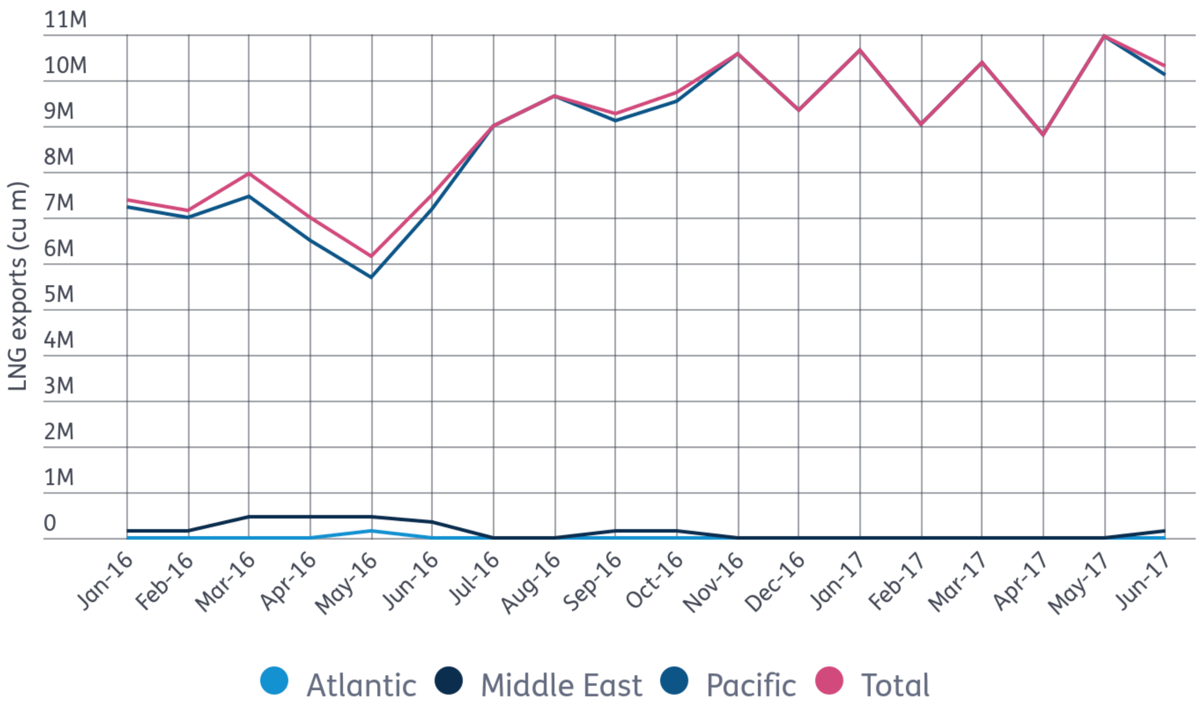
Source: Lloyd's List Intelligence

This is just in line with the world's largest LNG exporter's flattening overseas sales lately.

What should be noted is that Qatari exports to the Middle East basin have apparently not been affected by the Gulf crisis, in which Saudi Arabia and its allies imposed a trade embargo on Qatar. The volume in June was almost the same as the year-ago level.

That could disappoint the bulls. If Qatar needs to sell its LNG to farther destinations, tonne-mile demand would increase. But the impact is not obvious so far.

Australia LNG exports



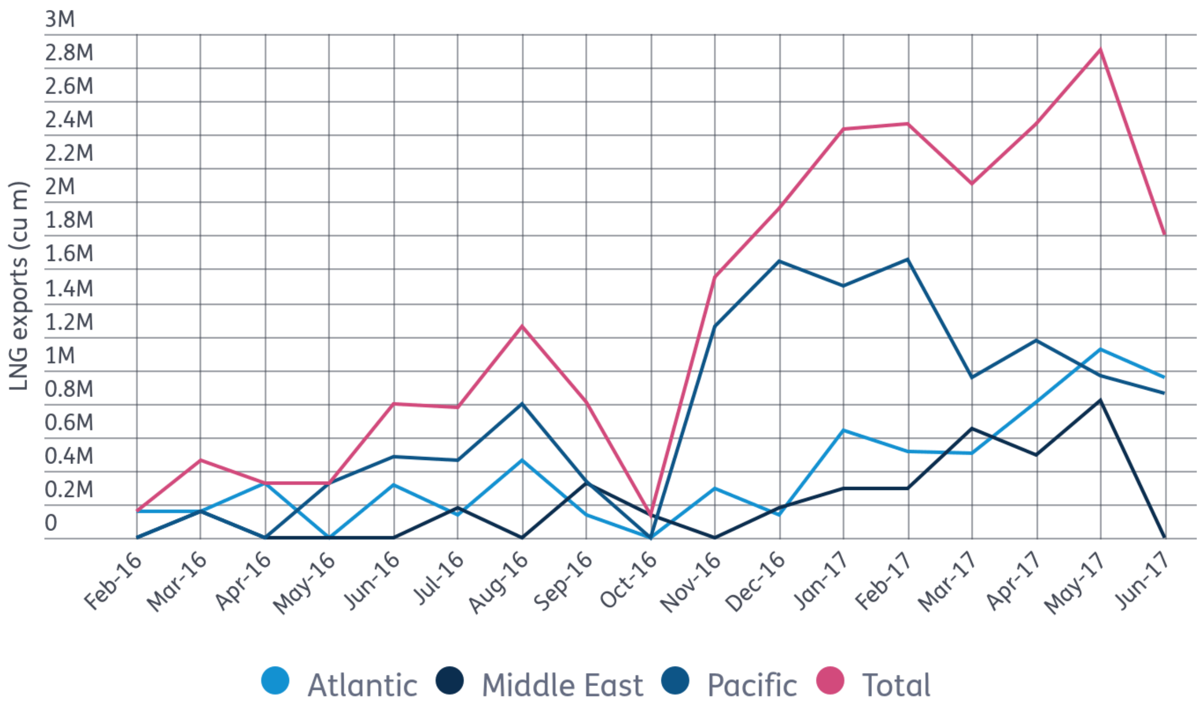
Source: Lloyd's List Intelligence

LNG exports have been increasing rapidly this year. Total exports amounted to 60.1m cu m in January-June, compared with 43.1m cu m in the year-ago period.

This is not surprising as some Australian export projects are coming online in 2017. They include Australia Pacific LNG project, owned by ConocoPhillips, Origin Energy and Sinopec; Chevron's Gordon and Wheatstone projects; and possibly the Icthys project, owned by Inpex and Total.

As for cargo flows, Australian LNG mainly stays within the Pacific basin, just like before.

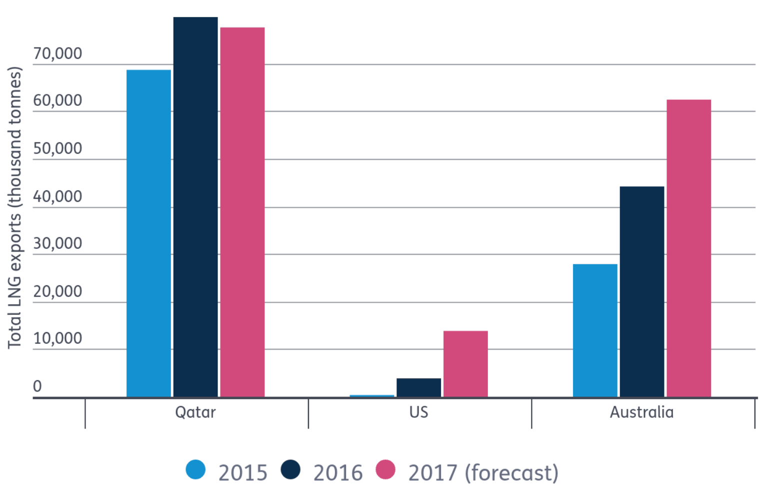
US LNG exports



Source: Lloyd's List Intelligence

US exports have perhaps brought the most excitement to the LNG shipping industry. While the volume is rising rapidly as Cheniere Energy ramps up production at Sabine Pass, the most distinguishing feature of those US exports is that they are destination free — which means they could go to the regions where the highest bidders are.

Qatar, US and Australia compared



Source: Drewry

This is reflected in cargo flows. The proportion of flows to the Pacific basin spiked last winter, with Northeast Asian buyers raising imports during the peak demand season. In spring, more cargoes remained in the Atlantic basin.

The mid-year outlook reports conclude tomorrow with a look at the months ahead in the LPG sector. Check lloydslist.com and this week's earlier issues of the Daily Briefing for our dry bulk, crude tanker and product tanker outlooks.

Owners turning to Japanese leasing structure for funding

by David Osler @finance_LL david.osler@informa.com

Previously obscure 'JOLCOs' can offer 100% finance at interest rates below bank lending for 70% mortgage deals

Source: Joe Techapanupreeda/Shutterstock.com

INCREASING numbers of shipowners are taking advantage of Japan's savings glut in order to secure 100% finance at rates below those available for even 70% finance from European banks, industry sources have told Lloyd's List.

So-called 'JOLCOs' — Japanese Operating Leases with Call Option — have been gaining ground, as Japanese investors disgruntled with ongoing negative interest rates at home broaden their search for projects with potential positive return.

Shipping JOLCO deal volume likely now stands at 20-40 per annum, compared to none at all five years ago, and deals are clearly on a rising trend, according to a Singapore-based expat lawyer specialising in such transactions.

The technique has been around in the aviation market since 1999, but only jumped the species barrier into shipping with a deal involving Pacific International Line in 2012.

Since then, players such as Peter Döhle, OOIL and CMA CGM are known to have used JOLCOs, while d'Amico has seized the opportunity for more conventional sale-and-leaseback arrangements on existing vessels.

Recent months have seen public confirmation that the once-esoteric structure is now increasingly commonplace in shipping, and may even be open to owners who would get the thumbs down for a conventional mortgage at present. For instance, Crédit Agricole Shipfinance is known to have arranged JOLCOs for two Hong Kong-flag tankers, under a sale and leaseback deal with what was described only as "a prominent Asian tanker owner".

Watson Farley & Williams advised on the deal.

Meanwhile, a car carrier operator using the Panama flag has raised $76m for two pure car and truck carriers with senior debt provided by Sumitomo Mitsui Trust Bank and Korea Development Bank. Norton Rose Fulbright handled the legal side.

In recent weeks alone, one of Europe's very biggest liner companies is said to have recently acquired one or more vessels in this way, and a top 10 operator to have used a JOLCO to buy boxes.

With the Bank of Japan seemingly set on maintaining interest rates at minus 0.1% indefinitely, and capping 10-year bond yields at near zero, more and more deals look to be in the pipeline.

Japanese Operating Leases, or 'JOLs', essentially boil down to operating leases funded by equity investment from a Japanese entity or entities, and non-recourse senior mortgage debt provided onshore in Japan.

The key difference between JOLs and the all-but-dead German KG model is that in this instance, the equity is coming from small and medium enterprises rather than middle-class professionals putting their own skin in the game.

The senior tranche, which amortises to a balloon payment at maturity, is naturally at bank pricing.

Meanwhile, the equity investor becomes the owner of a ship through participation in a special purpose entity, and is entitled to tax breaks on depreciation.

The lessee pays rent to the special purpose entity, at a level equivalent to the monthly loan repayment plus a dividend on the equity, at a rate much lower than the interest on the bank debt.

As if by magic, the end result is a blended rate for 100% finance below the bank rate for 70% financing.

A JOLCO is, as the name implies, a JOL with an early buy-out option attached. This makes for an attractive combination of competitive lease rates and off balance sheet financing, and also acts to secure residual upside value.

There are certain drawbacks, lawyers point out, including little flexibility for refinancing and a requirement to redeliver the vessel in tip-top condition.

In addition, lessees need to be aware that the call option is optional in name only. There is effectively a gentleman's agreement to take it up, and not doing so would court exclusion from Japanese ship finance in future.

But in the current climate, the very possibility of low-cost 100% finance may prove attractive to many owners finding it difficult to secure funds elsewhere.

AP Moller Capital sets $1bn target for new Africa infrastructure investment fund

by Janet Porter @JanetPorter_LL janet.porter@informa.com

Maersk Group owner will look for African infrastructure projects that will help raise living standards

Fejfer: The goal is build and operate infrastructure business in Africa to support sustainable development and improvements in living standards.

MAERSK shareholder AP Moller Holding has teamed up with two Danish pension funds to invest in African infrastructure projects.

AP Moller, PKA, PensionDanmark and Lægernes Pension have received commitments of $550m from anchor investors, but hope to raise that to $1bn by bringing in other investors over the coming year.

The plan is to focus on investments in infrastructure in Africa to support sustainable economic growth in the region while delivering an attractive return to its investors.

The fund will be managed by AP Moller Capital, an affiliate of AP Moller Holding, the principal owner of Maersk via the AP Moller Foundation. In total, AP Moller Holding, which is headed by chief executive Robert Uggla, has some $20bn under management.

The new fund will have a 10-year duration and has an initial target of 10 to 15 investment projects.

The initiative is led by a team headed by four partners, Kim Fejfer, Lars Reno Jakobsen, Jens Thomassen and Joe Nicklaus Nielsen, all of whom have both investment experience and knowledge of Africa markets.

Mr Fejfer, the former chief executive of APM Terminals who is now managing partner and chief executive of AP Moller Capital, said the goal was build and operate infrastructure business in Africa to support sustainable development and improvements in living standards across the continent.

"We will combine the best from industry in terms of project management and operational capabilities with the best from private equity in terms of agility and focus," he said.

Mr Uggla said AP Moller Holding "was established to build value creating businesses that have a positive impact on society". Africa, with a working-age population likely to reach more than 1bn people in the next decades, "has a pressing requirement for more investments in infrastructure".

Star Bulk almost leaves dry bulk woes behind

by Lambros Papaeconomou

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Petros Pappas-led company narrows second-quarter loss as it primes for a return to profitability

STAR BULK reported a substantially smaller year-on-year loss for the second quarter of 2017, reiterating a familiar pattern among dry cargo companies of narrower losses as the sector tries to revert to profitability.

The Athens-based dry cargo company reported a loss of
$10.3m, compared with a loss of $32.9m for the same quarter in 2016. Although still in the red, Star Bulk managed to generate$14.2m in cash flow from operations.

Its cash and cash equivalents at quarter-end stood at $227m, compared with $182m at the beginning of the year, as the company builds cash reserves in preparation for resuming a normal debt amortisation schedule.

Chief executive Petros Pappas wrote in a statement: “This marks the fifth consecutive increase in our quarterly adjusted earnings before interest, taxes, depreciation and amortisation since the first quarter of 2016 when the dry bulk market troughed."

Ebitda is typically used by shipping companies, lenders and investors to measure a company’s ability to service its debt.

Following the acquisition of 2011-built supramax *Diva* in July, Star Bulk owns a fleet of 71 dry bulk carriers. It also has three newcastlemax vessels under construction in China, with expected deliveries in the fourth quarter of 2017 and the first quarter of 2018.

Diva was reportedly purchased for $10.75m. The company has not disclosed the purchase price, but Mr Pappas called it “attractive” in his prepared remarks.

The company reported several medium- to long-term charters concluded since the beginning of the second quarter at daily rates ranging from $9,000 to $12,000. Its average daily time charter equivalent for the second quarter was $9,746, compared with $8,176 in the first quarter of 2017 and $4,971 a year ago.

DHT profit dives 86% amid crude tanker slump

by Cichen Shen

DHT Holdings posted a net profit of $4.8m for the second quarter of this year, down 86%from the year-ago period, reflecting a slump in the crude tanker freight market.

Net revenues for the New York-listed crude tanker owner totalled $59.6m, down from the$83.2m posted last time.

The company's very large crude carrier fleet achieved time charter equivalent earnings of$27,700 per day in the quarter, with time charter earnings of $37,000 per day and spot earnings of $23,500 per day.

Having taken the delivery of nine VLCCs acquired from BW Group, DHT now has 30 VLCCs — 26 on the water and four on order for delivery in 2018 — as well as two aframaxes in service.

The two aframaxes and seven of the VLCCs are on fixed rate time charters, while the remaining vessels in operation are exposed to the spot market.

The company entered into a six-year term loan and revolving credit facility agreement worth $300m with ABN Amro, DNB, Nordea, Danish Ship Finance, SEB, ING and Swedbank to finance the acquisition of the BW VLCCs as well as two of the newbuildings.

In addition, it borrowed $82.5m from DNB and Nordea under a separate five-year term loan and revolving credit facility to fund the other two VLCC newbuildings ordered at Hyundai Heavy Industries in January.

DHT will also return $15.1m, or 315% of its net profit in the quarter, to shareholders. The sum includes $12.2m of buy-back of convertible senior notes and $2.9m in cash dividends payable to shareholders.

Following the buy-backs, the value of outstanding convertible senior notes will stand at $105.8m.

The quarterly results came as the dirty tanker freight market appears to be headed for an extended downturn.

Last week, benchmark time charter equivalent earnings for VLCCs hit their lowest level in three years despite oil demand being at its highest in several months, indicating that vessel supply has clearly outpaced demand growth.

While optimists have pointed to the slowing newbuilding deliveries in 2018, more fresh tonnage might hit the water from 2019 with many owners resuming newbuilding orders.

MISC sees profit halved as revenues from tankers decline

by Nidaa Bakhsh @LloydsListNidaa nidaa.bakhsh@informa.com

While revenues from LNG and offshore rose, those from the petroleum and heavy engineering segments fell

MISC, led by chief executive Yee Yang Chien, is one of the world's largest LNG shipping firms.

MALAYSIA's MISC posted a net profit in the second quarter that slumped by more than half compared with a year earlier, to RM553.8m ($129m).

Revenues from the liquefied natural gas segment rose 16% to RM730m, while the tanker unit saw revenues decline 12% due to lower freight rates and earning days, the company said in a statement. While offshore revenues rose, those from heavy engineering fell.

The Kuala Lumpur-based company said the LNG shipping market continued to be affected by newbuilding deliveries and expiry of older vessel charters, which have led to depressed spot rates.

However, this scenario has had “limited impact” on the company's LNG business segment due to its current portfolio of long-term charters, it said. MISC is majority owned by Petronas, Malaysia's state-owned energy firm.

MISC expects the rebalancing in the global oil market to continue, with production cuts offset by rising drilling activity in the US. A drawdown of crude oil and products inventory is also dampening demand for petroleum tankers in the immediate term, it said, adding that freight rates were being pressured by high fleet growth this year.

The offshore sector should benefit from a more stable oil price environment that will result in a gradual recovery in global investments. Although there are limited opportunities at present, the company has won long-term contracts that should see “stable financial performance” from the unit, it said.

Meanwhile, it would focus on new revenue streams in the heavy engineering segment, with “cost management, resource optimisation and operational efficiency” as an ongoing priority. MISC said that although the unit had secured several contracts, the financial contribution would only be realised from 2018.

Tidewater suffers $524m loss

by Anastassios Adamopoulos @@Anastassios_LL Anastassios.Adamopoulos@informa.com

NEW Orleans-based Tidewater was hit by a $524.4m loss during the second quarter of the year that saw the company file for bankruptcy, reorganise its finances and slash $1.6bn of its debt. Losses for the offshore services provider, which has been struggling financially for the past two years, catapulted from $89.1m between April and June last year.

A share of this year’s loss is attributable to the bankruptcy proceedings, with the company losing $313.2m due to restructuring items, while another $163.4m in losses was incurred from non-cash asset impairment charges.

Tidewater and 26 of its affiliated companies filed for bankruptcy in the US in May to implement a restructuring plan supported by about 60% of its lenders and 99% of its noteholders.

The company, which owned and chartered a total of 267 vessels at the end of June, successfully completed the restructuring process at the end of July and wrote off around $1.6bn in principal of outstanding debt. It was also able to terminate certain sale and leaseback deals, which will save the company around $73m annually.

Although mounting costs were the main culprit, revenue performance also fell, with earnings sliding from $167.9m last year to $115.1m this past quarter, reflecting a decline in the average vessel daily rates of its Americas fleet.

Panama approves new canal tolls to attract big boxships

by Cichen Shen

THE government of Panama has approved new tolls structure for the Panama Canal, with more attractive rates to lure large containerships on back-haul voyages.

The approval of the country's Cabinet Council followed the recommendation of the Panama Canal Authority (ACP), which collected feedback from 12 representatives of associations, shipping lines and shippers after proposing changing the current tolls in June.

The new tolls, effective from October 1 this year, offer more favourable rates per loaded container for neopanamax boxships on the southbound, back-haul transit through the canal.

The modified rates are applicable when a boxship is loaded to at least 70% of its allowed capacity, not including empty containers, and the time between the northbound and southbound transits is no greater than 28 days. The allowed time between transits was raised from 25 days in the initial proposal after consultation with the industry. The proposed changes also modify the tolls charged to liquefied petroleum gas carriers and liquefied natural gas carriers, which will result in an increase in transit costs for both types of ship.

Lastly, container and breakbulk carriers, which currently fall into the ‘other’ market segment, will be reclassified into the general cargo segment, leading to more attractive tariffs for customers in this sector.

“This decision was made after a careful analysis of the impact of the proposed increases in the supply chain and final user,” the ACP said.

New ship registries fighting a vicious circle

by Panos Kirmidis, Palau International Ship Registry chief executive

THE Paris Memorandum of Understanding’s low-rank status is stopping the growth of new registries, is anti-competitive and has become a vicious circle.

Once a new registry is launched it needs to grow and will not in the first period be attracting the newer and larger vessels, operators or owners. It takes time for the new registry to build trusted relations with the shipowners and stakeholders in the industry and to show its values.

Consequently, the fleet may start as one of older up to standard vessels and numbers will not match those of the established registries; however, there is a higher risk of those older ships being detained. Our fleet contains a large percentage of tugs alongside freighters, containerships and yachts of different ages but all of them have the need to register under a respected flag such as Palau.

As the chief executive of the Palau International Ship Registry, I believe the system needs changing as it shuts out competition and fails to provide any support for new and developing registries.

The performance lists within the MOUs place an unbearable burden on new registries trying to grow and prove their credentials. You can find yourself placed on the lower rank for a series of even minor infringements and issues, as detentions are detentions no matter what the issue is. This is where the system really falls down; for a small registry, the numbers are stacked against it.

Being placed low in the rank is a system highly weighted against new registries. There is an inevitability of being placed on a blacklist that concerns me and maybe shows why a change is needed. Palau has been placed on the blacklist because it currently does not have enough vessels in its fleet to escape the formulaic consequences. For a small registry such as Palau, one detention means we need 19 clean other inspections to avoid its negative effect, something that is hard to achieve when you have a small fleet. To grow our vessel base we need to gain the confidence of shipowners and managers and this is made harder when we find ourselves in the blacklist, forming a vicious circle, so even though our services and credentials can be ranked as among the finest in the industry we find ourselves not on an even playing field. It is a process we are working through and will enable us to show we are a diligent and highly responsible registry.

The performance of a flag is based on the ratio of the total number of inspections and detentions over a rolling three-year period, with at least 30 inspections taking place in that period. But during the process of growing a fleet, any new registry will be at a disadvantage when any detentions are recorded; a smaller fleet means a lower number of inspections, which can result in a higher ratio of detentions.

The system is biased against new registries. New registries have to compromise on the age of vessels they accept. Owners want to see how a registry performs, so attracting new vessels is almost impossible. But older vessels are not necessarily of a lower standard or quality. What it does mean is that the registry with older vessels will be inspected more rigorously and more often. It is unfair and damaging the credibility of the flag system.
The regulations and system need to be revaluated, and I call for support from other registries to rewrite the mathematical algorithms and help attract new entrants into the sector.
In no way are we asking for a dilution of the regulations affecting the critical issues that classification societies, flags, registries and any other relevant bodies are subject to. On the contrary, the reason so many registries have exemplary reputations is because of the expert work, diligence and experience they bring to world shipping. What we are asking for is for the anti-competitive practices defining the performance lists to be reviewed.
Panos Kirnidis is chief executive of the Palau International Ship registry

Compliance with emissions regulation lies in the cloud

by Richard Clayton

THREE years ago, bunkering was top of the agenda for vessel operators and charterers. However, with the plunge in oil prices, heavy fuel oil dropped from $600 per tonne to $300. Nevertheless, bunkers still represent 40%-50% of voyage cost. A rise from $300 to $400 on a volatile market would wipe out any profits. Even slow steaming has merely been a temporary fix.
Further change is on the way, warns Alok Sharma, head of strategic development at Inatech, a Glencore subsidiary.
After years of consuming HFO
of 5%, then 3.5% sulphur, the International Maritime Organization's global cap of 0.5% sulphur with effect from January 1, 2010 is a game-changer.
"Chief executives must start to look at the whole energy procurement process," Capt Sharma says. "An average ship consumes about 40 tonnes per day at a cost of $300 per tonne for an average of 200 days per year for every year of operation. That's about $2.4m. If the average company has 50 ships, the total annual cost is $120m."
Compliance could be achieved through investment in scrubbers, or buying gasoil (at a premium of $200 per tonne) or ultra-low sulphur fuel oil (a blend of fuel oil and gasoil at a premium of $150 per tonne). None of the options are encouraging and, with less than 900 days before the deadline, it's time to face questions about supply, crew training, and cost.
Even so, Capt Sharma observes, "CEOs are not looking at this as a business problem. Where is the plan?"
A possible way out might be to pass the additional cost on to customers, although this would be a "decision in favour of inaction". The basic premise is a requirement to improve human health by removing sulphur from emissions, he argues, so passing the problem down the line is unacceptable. As is any attempt to delay the sulphur cap to 2025.
A great deal of money
Part of the solution lies in the intelligent use of technology: better data, more analytical systems, dedicated people, and well-designed processes.
"Shipping companies' bunker buyers must work closely with suppliers, planning vessel bunkering needs several days in advance, understanding what the data analytics is saying," Capt Sharma advises. Buyers must be keenly aware of the right time to purchase through detailed analysis of price movements. "They should also understand counterparty risk — which is even more important after the bankruptcies of Hanjin Shipping and OW Bunker. Rate your suppliers in relation to the risk each has for the business."
Because bunkering touches all aspects of shipping from operations to finance to agency, there is a great deal of money at stake. "Is the chief financial officer happy that his money is being spent wisely?"
Inatech has designed its cloud-based fuel management system, Shiptech, to accommodate market risk, counterparty risk, and operational risk. "We focus on the bunker procurement department, starting from an order to buy bunkers. The flow of data on suppliers, prices, timing, and product quality is followed throughout delivery and, finally, invoicing." Good practice, experience tells Capt Sharma, is "one version of the truth is best".
The direct benefit of such a detailed approach is real cost savings, both in the size of an owner's procurement team and in the volume of bunkers lifted. This will be even more critical when the new sulphur regulation kicks in. In a world where very few long-term contracts are available, and in which every bunker supplier will offer its own versions of compliant fuel, keeping ships running profitably in compliance with IMO regulations goes far beyond the bunker procurement department. Bunkering is a financial item chief executives need to make a priority. Intelligent use of fuel management is likely to be the difference between profit and loss for ship and company alike.

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