LPG carrier owners' eyes too big for their bellies

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LPG market outlook in graphs: Severe oversupply means owners cannot see light at the end of tunnel, despite healthy demand growth

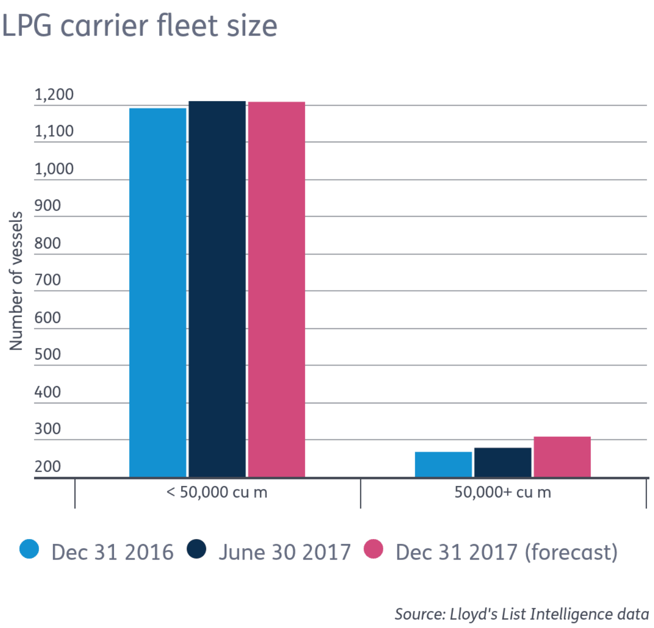
TO put it simply, liquefied petroleum gas tanker owners are still waiting to see the light at the end of the tunnel.

The freight environment has remained extremely bearish due to severe oversupply of tonnage. The Baltic Liquefied Petroleum Gas Index, which assesses the Middle East-Japan route, averaged $28 per tonne in the first seven months of this year. This compares with the year-ago average of $34 per tonne.

The US-Asia trade is booming as America turns into the world's largest LNG exporter amid the shale revolution. But rates on this route are also pressured, with cargo cancellations often reported due to weak arbitrage economics — not to forget that owners' earnings could be hurt by the Panama Canal toll increases later this year.

There are some bright spots on the demand side, such as higher imports into India and China due to expanding domestic consumption and the intake of propane dehydrogenation plants, respectively, Clarksons pointed out.

But the large amount of newbuilding tonnage continues to weigh on the supply-demand fundamentals for LPG shipping. That won't change in the coming months.



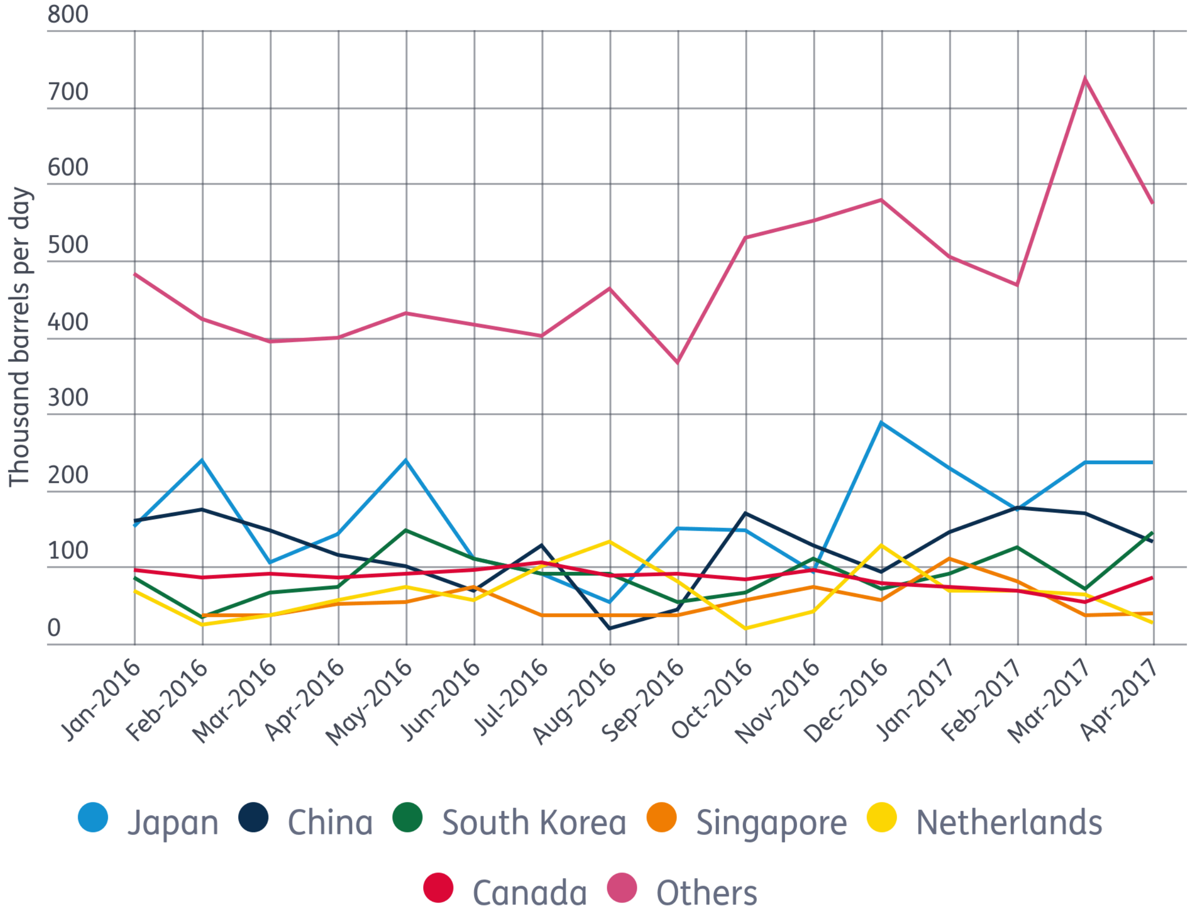
The expansion of LPG shipping capacity is mainly concentrated on the very large gas carrier segment. According to Lloyd's List Intelligence, the fleet of 50,000 cu m vessels or larger will welcome 30 ships on a net basis in the second half of the year, compared with 11 ships in the first half.

In terms of carrying capacity, the VLGC fleet will expand by 19.1% this year, versus 2016 growth of 20.7%.

Such rapid growth suggests that owners will need to wait for several quarters before the new tonnage can be absorbed. Fortunately, they still have US exports to look forward to.

The latest available government data showed that US LPG exports grew 29% on year to 5m barrels per day during January-April.

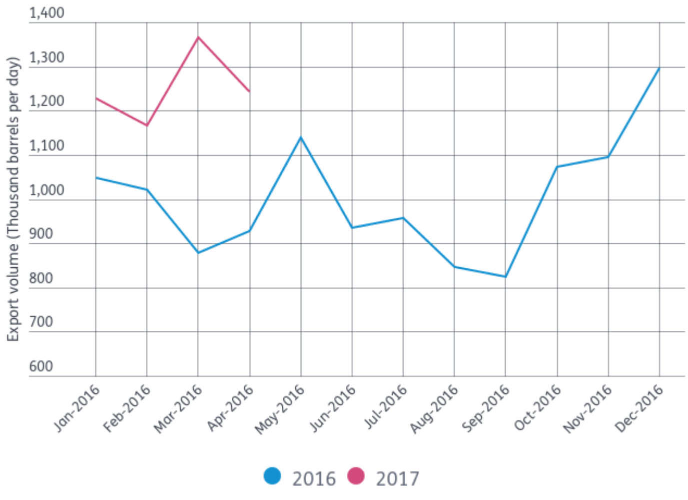
US LPG exports by destination



Source: EIA

Get a global picture of the seaborne oil trade with our Analysis of Petroleum Exports (APEX) service. Our detailed vessel movement intelligence will help you avoid risks and make the most of opportunities.

Total US LPG exports



Source: EIA

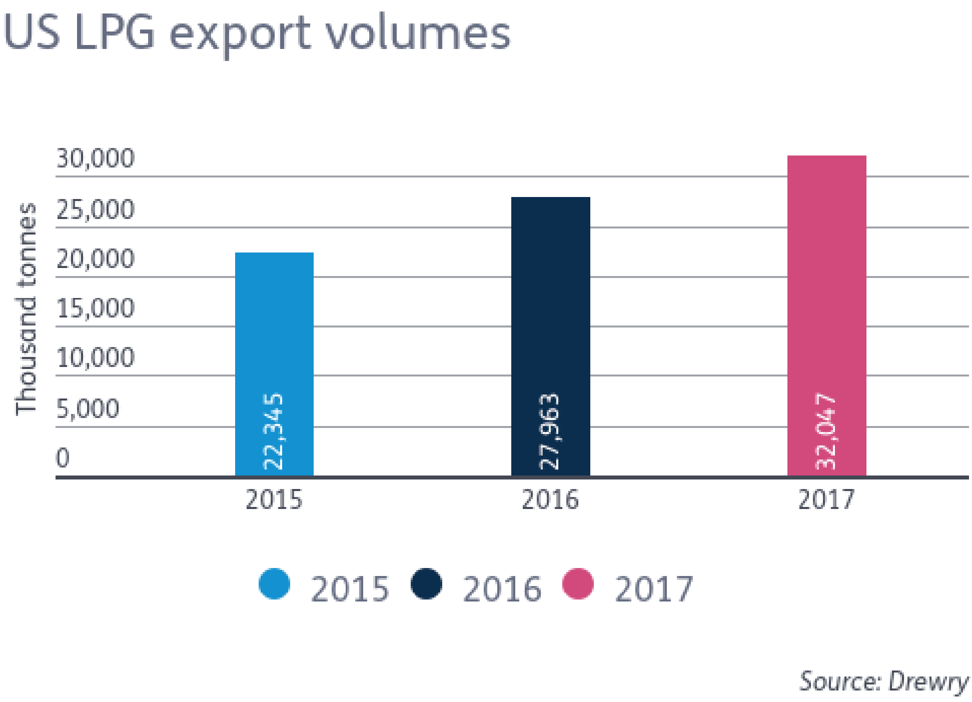
As well as the volume growth, tonne-mile demand is also boosted by longhaul trades to Asia.

Aside from the Chinese growth, Japanese imports of US LPG rose to 878,000 bpd from 640,000 bpd in January-April 2016, while South Korean imports increased to 434,000 bpd from 262,000 bpd.

Singapore's imports rose to 269,000 bpd from 127,000 bpd.

Banchero Costa pointed out that the export growth was driven by rising shale production and weaker domestic demand. "Growth in US LPG exports is expected to persist well into the next decade as natural gas liquid output from natural gas processing in the US continues to grow," the brokerage said.

Other researchers present similar findings. Clarksons forecasts the global LPG trade growth rate to reach a respectable 6% this year, compared with 10% in 2016. Those figures suggest vessel demand is not really a big issue. But oversupply of tonnage is.



DHT bets on US crude exports benefiting tankers

by Nidaa Bakhsh

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New York-listed owner expects more shipments from the Atlantic moving to the Pacific, helping rates

DHT Holdings co-chief executives Trygve Munthe, left, and Svein Harfjeld.

DHT Holdings (data), which has recently acquired BW Group's very large crude carriers, expects US oil exports to continue to rise, benefiting the tankers market in which it operates.

"There have been changes to oil flows in response to Opec cuts ... [and] we have seen more barrels being sourced from the Atlantic into the Pacific," said co-chief executive Svein Harfjeld, echoing similar opinions of other tanker officials. Opec is the Organization of Petroleum Exporting Countries.

"We have seen increased exports from the US - we would expect the trend to continue," he said.

Riding on increased shale production, US crude export volumes rose to 17.3m tonnes in the first half of this year from 7m tonnes in the same period of last year, according to data from Lloyd's List Intelligence.

While VLCCs can only load US crude via offshore reverse lightering for now, they remain the top choice for longhaul trades owing to economies of scale. Some terminals are already seeking to develop the capacity to load crude onto tankers, and tonne-mile demand could be further boosted if they succeed.

DHT said it has booked 59% of the third quarter days for its VLCCs at $20,000 per day, which is well above the current spot price. It has the lowest cash break-even rates for spot ships among peers, it said.

It will stay in the spot market for the time being, the executive said. The softening market does not come as a surprise because of the current seasonal summer lull. It expects stronger rates in the fourth and first quarters.

Company executives said they did not want to see the order book growing, with scrapping in the second quarter focused mainly in the aframax sector. The requirement for new ballast water treatment systems will also ensure more demolitions, they added.

The company has the relevant systems in place on 10 of its on-the-water vessels, with the older ships being granted extensions, said DHT's other chief executive, Trygve Munthe.

Despite the softening tanker market, the company will not be delaying its newbuildings, with the delivery of four new vessels expected to be staggered over a period of six months during 2018.

Following the BW vessel purchases, the company is "not on the edge of its seat" to strike deals, although it will be on the lookout should any opportunities come along.

"As always, we are paying attention to what is available and if we can strike a meaningful deal that is accretive and enhancing to our shareholders, we would certainly pursue it," Mr Munthe said.

"We believe crude tankers will stay within a downturn until 2018, and the company's relatively high spot exposure in that period could keep near-term upside more limited," said JP Morgan's shipping analyst Noah Parquette, adding he maintains a "neutral" rating on the stock.

Vale offloads two valemaxes to Bocomm and closes in on two more

by Wei Zhe Tan and Cichen Shen

VALE has sold a pair of very large ore carriers that it currently owns and operates to Bocomm Financial Leasing, and is close to disposing of another two to the same buyer.

The deal for the two 400,000-tonne vessels was done for a consideration of $178m, with the valemaxes delivered to nominees of the Chinese leasing company on Tuesday. In line with its strategy of boosting its balance sheet and focusing on mining operations, the Brazilian mining giant said it was also in talks to offload its two remaining valemaxes.

Sources familiar with the matter said Bocomm Leasing would be the buyer again for the remaining duo, and the deal was pending a few more details to be finalised with delivery expected by October.

The lessor had agreed to lease the delivered valemaxes, each backed by a 20-year contract of affreightment, to compatriot operator Shandong Shipping, which was likely to operate the other two ships, one source said.

The $178m acquisition has made Bocomm Leasing, which recently inked $500m and $1.35bn financing agreements with Hapag-Lloyd and Trafigura, the second Chinese leasing house involved in the valemax business, following ICBC Financial Leasing's purchase of four secondhand ships and 10 newbuildings last year.

Vale's iron ore production in the second quarter of the year rose 5.8% year on year to 91.8m tonnes as its S11D project continued to ramp up output.

The company sought to make its supply chain more flexible by increasing offshore capacity to handle changing market conditions. This led to blended volumes in Asia reaching 14.8m tonnes, 3.7m tonnes more than the same quarter of 2016.

As Vale seeks to maximise margins, it expects full-year production at the lower end of the 360m-380m tonnes guidance it previously provided.

Vale's coal output from Mozambique, meanwhile, reached 3m tonnes in the second quarter, more than double that of the same quarter last year.

The company in July last year sold three VLOCs to a consortium led by ICBC International for $269m, while in December, it offloaded four of its capesize vessels to South Korea bulk operator Polaris Shipping at $35m apiece.

UK Ship Register selects deputy director

by Anastassios Adamopoulos
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As yet unnamed official does not come from a UK government position

The deputy will work with the UKSR director Doug Barrow (middle) to grow the register.

THE United Kingdom Ship Register has hired a deputy director in an effort to improve customer service and expand the register's fleet.

The UKSR confirmed to Lloyd's List that a selection has been made but is not naming the deputy yet, because an official start date has not been decided.

Sources told Lloyd's List that the chosen person does not come from within the UK government. This indicates the register has opted for someone with commercial experience, a decision that will likely satisfy a number of voices that called the induction of this skillset into the UKSR.

The deputy director will be tasked with a number of different responsibilities including doubling the size of the ship register, enhancing the UKSR's commercial standing within the MCA and collaborating with the Maritime and Safety Standard directorate for the proper deployments of marine surveyors, inspectors and technical experts.

The new hire follows the appointment of Doug Barrow as director in January 2017, after he headed promotional body Maritime London for 11 years.

Mr Barrow's mandate includes increasing the register's fleet to 30m gt, up from the approximately 15m gt it had when he first joined. As of July 2017, the UK Ship Register had grown to 16.1m gt.

US coal exports to bolster dry bulk shipping recovery

by Wei Zhe Tan @ShipShape2003
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Demand continues to grow in Europe as well as East Asia

US seaborne coal exports grew 57% by total volumes and 61% in tonne-miles over the first half

THE continued growth in US coal exports looks set to provide firm support to the dry bulk shipping market recovery.

According to BIMCO, seaborne coal exports from the US have rebounded from a year-long slump since the beginning of the year and are on an uptrend for the third straight quarter.

"After reaching the lowest levels for exported coal in the third quarter of 2016 since the first quarter of 2007 in terms of total volumes, US coal exports now look set to return to recognisable highs and become a dominant player in global seaborne coal transport once again."

The rise in total volume was attributed to robust demand from European importers, while East Asian traders are also in the market for more US coal imports, leading to a significant jump in tonne-miles for dry bulk shipping.

US seaborne coal exports have risen 57% year-on-year by total volume and 61% in tonne-miles over the first half of this year, indicating that average sailing distance has increased at a higher rate than total volume, and highlights the trend of the US exporting more coal to further destinations, mainly in East Asia.

“A rising US coal trade has a multiplying effect on the dry bulk shipping industry, because it provides some of the longest sailing distances. East Asian importers source 61% of their US coal from Norfolk, Virginia and Baltimore, Maryland and thereby accept a journey of up to 45 sailing days at an average speed of 13 knots (14,000 nautical miles),” said BIMCO chief shipping analyst Peter Sand.

Major US coal importers in the first half comprised the Netherlands, South Korea and India, which took in 32% of all US seaborne coal shipments, while South Korea, India and Japan generated the most significant impact in terms of total tonne-miles at 49%.

Europe is still the biggest US coal importer and purchased 41% of total US seaborne exports, which is a boon to the panamax and capesize segments in dry bulk. The amount of coal bought by the Continent from the US over the first six months of the year grew by 43% or 4.8m tonnes compared with the same period in 2016.

Over the past decade, the Netherlands has been a key importer of US coal on the Continent as well as globally.

However, the shorter distance to the US East Coast as opposed to East Asia. means it only generated the fifth highest number in tonne-miles in the aforementioned period.

US coal exports to the Americas over the first half of 2017 grew 22% over the previous year and generated 23% more tonne-miles.

The region has, to date in 2017, imported 17% of total US seaborne coal but generated just 9% of total tonne-miles owing to the relative proximity to US ports.

In the US, 351m tonnes of coal were produced in the first six months of this year, which is 16% or 49m tonnes higher year-on-year. However, that number does not show significantly higher production levels versus the years before 2016, because that year posted the lowest coal production levels since 1978.

“US coal consumption numbers released so far only cover the first four months of 2017, but show an increase of 6% compared with the same period in 2016. The production of US coal rose 16% in the same period. This amounts to a surplus of 32m tonnes of coal for the first four months,” said BIMCO.

“If US coal exports remain high throughout 2017, it will have a solid effect on the global seaborne coal trade and support the overall improvement in the dry bulk shipping industry,” said Mr Sand.

In July, Lloyd’s List reported that the US is expected to export 19% more coal this year than in 2016, according to the US Energy Information Administration, a move that, if realised, should bolster demand for panamax and capesize bulkers.

The country is due to export 72m short tonnes of thermal and coking coal, up from 61m tonnes, with more than half the volume to be exported through Atlantic coast ports, such as Norfolk in Virginia and Baltimore, and less than a third from US Gulf ports.

Panamax and capesize vessels should benefit from the higher exports because they are the workhorses when it comes to carrying US coal, said market participants.

Will NAT's dividend-in-kind be the new norm?

by Lambros Papaeconomou

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Nordic American Tankers boss Herbjorn Hansson leaves no stone unturned in his quest to keep dividend streak alive

FACED with diminishing returns from its core suezmax fleet and restrictive covenants from its lenders, Nordic American Tankers has declared a dividend-in-kind to supplement its regular cash payment.

This new dividend is in the form of shares in a hard-hit service company in the offshore oil sector. Will this be the new norm?

Herbjorn Hansson, the chief executive of suezmax specialist NAT, is a proud man. He brags about being in the business of creating wealth for his shareholders. He offers, as proof, 80 consecutive quarters of dividend payments, an unparalleled feat among its public peers.

But even he cannot be immune to a poor spot suezmax market to which most of the company's tankers are exposed. He needs the cash flow from operations to keep the dividend streak alive, since the company's lenders placed restrictive covenants at the beginning of the year.

Mr Hansson can also be forgiven for not having created wealth from a $96m investment in Nordic American Offshore. NAO owns platform supply vessels serving offshore oil exploration, a sector unrelated to NAT's core suezmax business.

The offshore drilling sector, including service vessels like those owned by NAO, has been one of the worst hit following the collapse of crude oil prices, amid a glut of new tonnage.

Distributing shares of NAO can thus kill two birds with one stone. Pad the dividend yield, and take a sour investment off NAT's books.

A $96m bet gone south

NAT first invested $65m in NAO in November 2013 at $15 per share. Since then, it has poured in an additional $31m, bringing its total investment to $96m.

NAT has received a cumulative $10.3m in dividends from its investment in NAO. It had once distributed NAO shares to its shareholders in August 2014, then worth about $12.6m. Today, it owns 14m shares valued at $17.5m.

After factoring in the current fair market value of its shareholding, the value of dividends received and the value of the one-time share distribution, NAT's investment in NAO remains underwater to the tune of some $55.6m.

These are funds that could be used to partially pay for the company's remaining $116m in capital expenditures for three suezmaxes currently under construction.

NAT, which owned approximately 22.6% of NAO prior to declaring the dividend-in-kind, has recorded a writedown of $37.3m when it deemed its investment was other than temporarily impaired.

When the impairment became effective on December 31, 2016, NAO shares were trading at $2.75 per share. Today, they trade at $1.25 per share, meaning more writedowns may be forthcoming.

A new norm

NAT will distribute to its shareholders one NAO share for every 24.4 NAT shares they own, meaning the dividend-in-kind has a value of $0.05 per NAT share. Lloyd's List estimates that about 4.2m NAO shares will be distributed to shareholders and NAT should be able to repeat this dividend-in-kind payment for another two to three quarters depending on the price of NAO.

In the absence of improved tanker markets, this assumes that future dividends-in-kind will be permissible under the covenant restrictions.

Supplementing, or even replacing, a cash dividend for a few quarters might give NAT enough breathing room to keep the dividend streak alive until tanker markets recover. As an extra bonus, getting rid of a sour investment will be the icing on the cake.

Dividends matter a lot to retail investors who own NAT stock primarily for its yield. But bragging rights about the glorious past notwithstanding, these investors are smart enough to only care about what lies ahead. As the saying goes on Wall Street, past performance is not indicative of future results.

Euronav revamps dividend to have fixed and variable components

by Wei Zhe Tan

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Move comes amid strong balance sheet and significant changes to company's tanker market outlook

Rodgers: The tanker cycle is at an interesting intersection.

BELGIUM-based tankers outfit Euronav has announced a new dividend policy as it seeks to improve returns to its shareholders.

The new payout policy will have a fixed minimum dividend of $0.12 per share each year as well as a variable component which will come into play if the group's results per share are positive and are higher than the amount of the fixed dividend. If the conditions are met in the second component, Euronav may distribute the additional income via extra dividend payouts.

Alternatively though, it could use the additional income to conduct share buybacks, or vessel and fleet purchases depending on what the board of directors decide is best for shareholders ahead, at that time.

It said: “As a result of substantial changes in tanker market outlook and in view of the company’s strong balance sheet and visible fixed income from the FSOs [floating storage and offloading vessels] and time charter contracts, the board of directors of Euronav believes that it could improve its return to shareholders policy.”

In line with this policy, Euronav will distribute an interim dividend of $0.06 per share for the first half of 2017 with an ex-dividend date of September 25 this year, a record date of September 26 and payment on October 5.

Under the previous dividend policy, the group would have paid 80% of net income over the full year with interim payment reflecting first half results and tanker prospects for the second half.

“A challenging second half freight market consensus for 2017 for the large tanker market would have implied a zero dividend for both the interim and full year 2017 under strict application of the former policy,” it said.

Euronav posted a net profit of $10.1m for the first half of 2017 down from a $153.7m net profit in the 2016 period, while revenue came to $290.6m from $404.5m amid a softer tanker market.

Average daily time charter equivalent rates for the group's very large crude carrier fleet in the first half came in at $41,300 versus $42,461 in the 2016 half, while TCE for its suezmax fleet stood at $22,830 compared with $29,307.

Euronav chief executive Paddy Rodgers said the tanker cycle was at an interesting intersection with oil demand increasing in the second quarter and expected to rise in 2018, and ample supplies despite the Organisation of the Petroleum Exporting Countries’ production cuts, while modern vessel prices had stabilised. Tonne-miles were increased by US exports since the start of the year, while vessel financing continued to shrink.

“However, the key challenge for the tanker market is the concentration of deliveries of newbuildings in both the VLCC and suezmax sectors over the next 18 months which is putting pressure on the freight rate market,” he said.

“If the illness is low freight rates then the cure is low freight rates, as that should drive scrapping activity. Until this inflection point is reached, Euronav retains substantial balance sheet capacity and fixed income visibility to navigate through such a period of lower freight rates and/or to take advantage of expansion opportunities. The duration of the challenging freight rate environment will be entirely dependent on the number of additional orders to build new ships that are not needed by the market.”

Yang Ming continues to shrink its losses

by Cichen Shen

Yang Ming said the improvement was due to a recovery in liner shipping markets as well as its cost control efforts.

YANG Ming Marine Transport has reported a net loss of $T445m ($14m) in the second quarter, significantly narrowed from losses of $T4.5bn during the year-ago period.

Revenue in the three months rose 19.7% year on year to $T33.2bn, with lifting volume up 6.8% to 1.2m teu.

The improvement was due to a recovery in liner shipping markets as well as the company's cost control efforts, the Taipei-listed carrier said.

For the first half, the net loss shrank 84% year on year to $T1.3bn, while revenue grew 15.7% to $T63.5bn. Box volume climbed 10% to 2.3m teu.

The company is poised to launch a second round of capital injection via a share offering, which will exceed the approximately $T1.7bn raised in the first round.

It is expected to issue 1bn new shares in total by the end of this year and to raise between $T9bn and $T11bn.

The fundraising will help strengthen the financial condition of the mid-sized Taiwanese carrier, whose performance has stoked come concern among shippers over its sustainability, especially following the collapse of Hanjin Shipping and the latest wave of consolidation in the liner shipping industry.

Yang Ming has struggled in recent years with the same problems of overcapacity and low rates that have affected other carriers.

But market observers have widely agreed that the company, backed by the Taiwanese government, looks unlikely to go the way of Hanjin.

NAT boosts time charter deals with Shell to three

by Wei Zhe Tan

NEW York-listed Nordic American Tankers has inked two time charter agreements with Shell Oil as it seeks to increase its fleet exposure to oil majors in the sector.

The two deals are for a duration of 18 months respectively per tanker and are scheduled to start in August and September this year.

Under the arrangements, the confidential contracts stipulate upside for NAT and Shell along with downside protection.

Adding the two new deals, NAT now has three time charter agreements with Shell.

Amid a softening tanker market, NAT has been focusing on doing business with oil majors such as Shell and ExxonMobil, which are better capitalised, and has chalked up six time charter deals so far, ranging from three to 18 months in duration.

The tanker operator said it was also targeting other large oil companies in the east and west.

NAT has said it might seek to diversify its capital structure as it faced large capital expenditures for its newbuilding deliveries during the second half of this year.

"We are pleased to announce these important contracts, which are examples of the confidence customers and partners in Big Oil have in NAT and our large fleet of suezmax vessels. More or less all the time, we have ships in China. NAT is also doing work in India which is becoming increasingly more important," said NAT chairman and chief executive Herbjørn Hansson.

Faced with diminishing returns from its core suezmax fleet and restrictive covenants from its lenders, NAT has declared a dividend-in-kind to supplement its regular cash payment.

This new dividend is in the form of shares in a hard-hit offshore oil services company Nordic American Offshore.

The suezmax specialist, which traditionally relies more on bank and equity financing, said in its latest quarterly report that it "wishes to consider a more diversified capital structure, including bond financing and other instruments". That announcement comes as NAT is scheduled to take delivery of three suezmax newbuilding tankers in July-December, for which the company said it would need to pay $116m, the remaining balance of the newbuilding contracts, at the time of delivery.

It posted a net loss of $15.9m in the April-June quarter, compared with a net loss of $3.4m in the first quarter of this year and a net profit of $13m in the second quarter of 2016.

Wilh. Wilhelmsen net profit hit by WWL merger

Group incurs $267m accounting loss related to the WWL merger deal

by Wei Zhe Tan

NORWAY-based Wilh. Wilhelmsen Holding has swung to a $49m net loss in the second quarter of 2017 compared with a $41m net profit in the year-ago period, mainly as a result of the merger of Wilh. Wilhelmsen ASA and Wallenius Line's jointly owned vehicle transportation and logistics assets into a single listed entity.

The group incurred a non-recurring accounting loss of $267m classified under discontinued operations, due to the formation of Wallenius Wilhelmsen Logistics, which represents the difference between the market value and net book value at the time of the merger. Its profit from continued operations came in at $218m.

Total income was up 43% year on year to $344m on the back of a $195m gain as the group reclassified unit Treasure ASA's investment in Hyundai Glovis as "available for sale financial assets from associate".

Divided by segment, total income in the maritime services division was down 37% year on year at $147m, mainly due to the sale of Callenberg Technology Group as well as safety-related activities in the second half of 2016.

The group's total assets in the second quarter decreased 45% year on year to $2.8bn after the WWL merger, while total equity fell 10% to $2.1bn factoring in a loss for the quarter, dividend paid and the elimination of post-merger non-controlling interests in Wilh. Wilhelmsen ASA.

Its ships service business continued to face difficult market conditions, while restructuring and cost-cutting measures among its clients continued to depress prices.

The ship management arm was also pressured by weak market conditions, though other maritime services activities, including Wilhelmsen Insurance Services, saw stable income from corporate and other activities.

In the group's holding and investments segment, total income for the quarter increased to $200m from $12m in the 2016 period on the $195m gain from the reclassification of Treasure ASA's investment in Hyundai Glovis, as well as improved net result in NorSea Group, a Qube sales gain and net currency gains.

Looking ahead, Wilh. Wilhelmsen Holding expects its restructured operations to support operating margins in the maritime services segment, while for WWL, synergies resulting from the merged entity look set to boost the holding and investments segment.

"The board expects the general business environment to remain soft, affecting most group activities and performance. Structural changes and performance improvement will continue to support an improvement in operating margin of main activities," the group said.