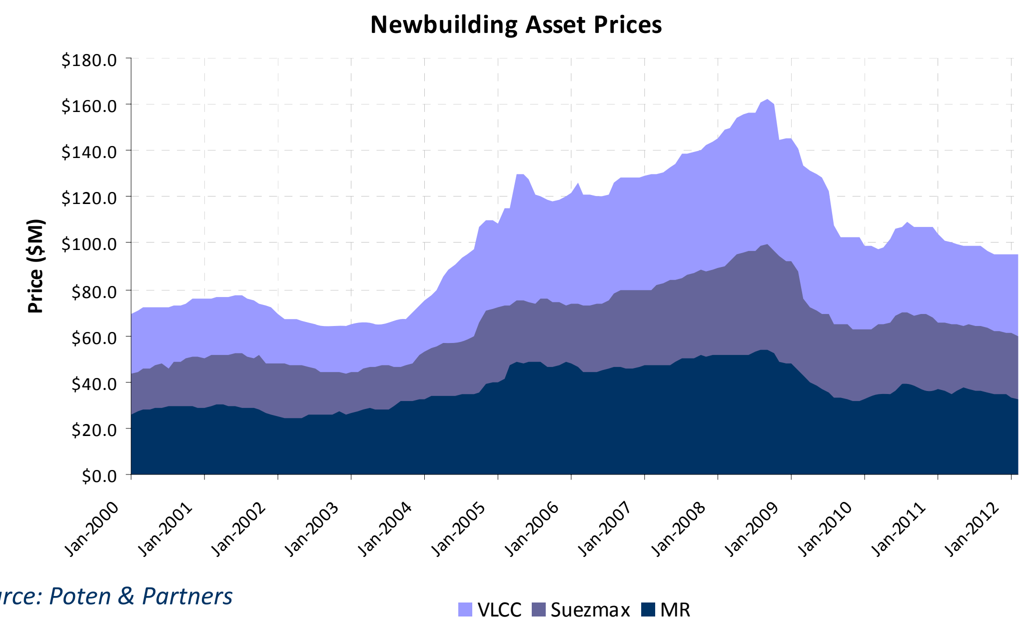
How Much Is That Tanker In The Window?

Between the protracted inaccessibility of credit and mixed optimism on recovery in the freight markets, tanker asset prices have behaved erratically. Absolute price levels and the relationship between prices for newbuildings and secondhand tonnage are driven by the earnings potential of ships with prompt availability. While both newbuilding and secondhand prices have softened in the past year, a disconnect remains between charter rates and asset prices. Movements in asset prices have historically been mirrored across tanker segments, but nowadays varying strengths within the charter market and differences in sector fundamental outlooks could soon be dividing the pack.

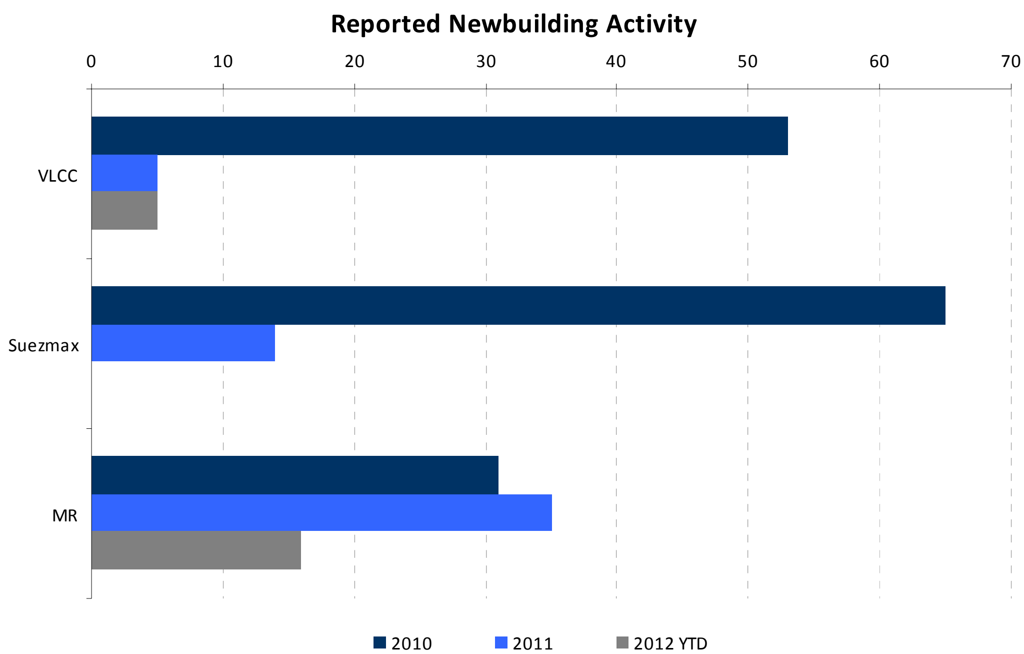
The chart below shows assessed newbuilding prices for VLCCs, Suezmaxes and Medium-Range product tankers (47kdwt). Current price assessments for a Korean newbuilding, basis a three-year forward delivery, are at discounts to long-term average prices. The average price since 2000 for a VLCC is $102.4 million, for Suezmax is $65.2 million and for MRs is $37.4 million. Presently, MRs are at a discount of 13% to the long-term average with a current assessed price $32.5 million, while the other two sectors are at a discount of about 7%. From a statistical perspective, MR prices can be seen as already having taken more of a haircut.



Source: Poten & Partners

Additionally, a renewed interest in vessel ordering amongst the MR sector could support asset prices for this sector going forward. Current lackluster fundamentals and the aftermath of the ordering frenzy in 2010 have rightfully deterred independent shipowners from further ordering activity in the VLCC and Suezmax sectors.

The chart below shows newbuilding ordering activity by sector since 2010. It is interesting to note that the 13% discount to long-term average prices has already wooed ship owners back to the MR yards. This year, activity has already surpassed half of the total orders placed in both 2010 and 2011.



Source: Poten & Partners

From an economic standpoint, the charter rates required to achieve a 10% rate of return on investment for VLCCs and Suezmaxes seem like a lofty bet in today's market. Rough calculations indicate that VLCCs would need to earn in excess of $40,000 per day on average for the life of the vessel, and Suezmaxes would need to earn upwards of $30,000. On the other hand, MRs would need to earn around $19,000 per day. The current year-to-date average rate for MRs on the trans-Atlantic trade UK Continent to US Atlantic Coast has averaged $15,500 per day. VLCCs Arabian Gulf to Far East has averaged $22,600 per day, while Suezmaxes have averaged $18,600 per day on the benchmark West Africa to US Atlantic Coast trade. On this basis, more downside risk is present for VLCC and Suezmax asset prices.

Made to Order

While it should be universally agreed that the tanker market is well-supplied, unfortunately newbuilding orders continue to provide one of the most effective plans for companies looking to grow their presence in a meaningful way. While opportunities to acquire existing assets do exist, the field of fleet deals remains limited and expensive comparatively. Furthermore, ship owners are now forced to weigh the costs associated with older, less efficient designs versus those of new eco-designs. For now it seems newbuilding orders will continue to offer the path of least resistance.