

## Rising Wave of Investment in VLCCs

### Euronav increases its VLCC market exposure.

Capital from private equity firms has been markedly reshaping financing options for shipowners. Recently, much has been said about the purchase of new build Medium Range (MR) tankers for service in the clean product trade. However, this week there was a high profile deal in the large crude tanker segment, the acquisition of the Maersk's VLCC fleet by Euronav. The crude tanker sectors had been attracting less attention from investors in 2013, but this deal highlights the willingness of private equity firms to provide large crude tanker owners access to financing.

The sale was agreed to for a price of \$980 million US dollars and includes the transfer of 15 VLCCs with an average age of four years. Delivery of 14 of the tankers to Euronav will occur from January to June, with one scheduled for later delivery. This purchase will more than double Euronav's VLCC market share, as the company has a current VLCC trading fleet of 11 vessels.

### Fleet expansion will move Euronav into the number six slot of top VLCC owners.

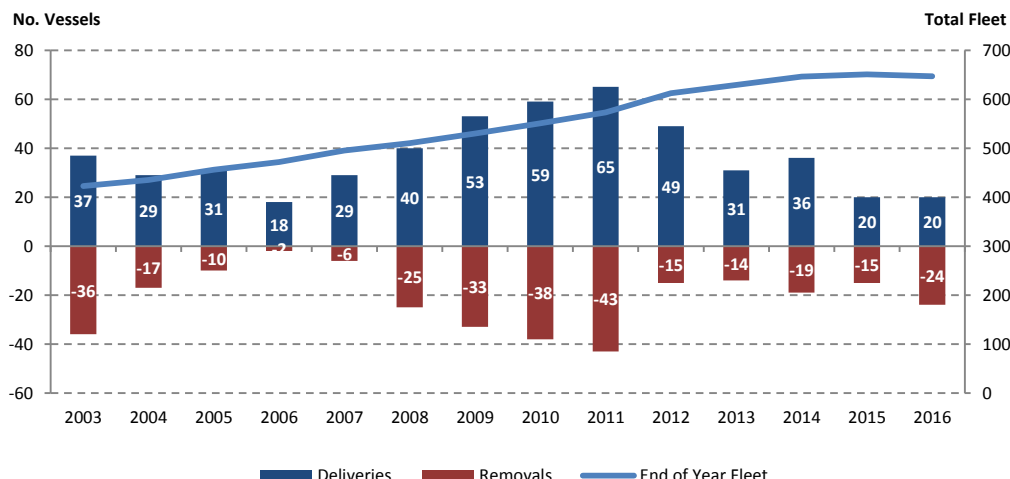
Euronav	Currenty Owned	% of Fleet	Post Expansion	% of Fleet
VLCCs	11	1.8%	26	4.1%
Suezmax	23	5.3%	23	5.3%

Owner	# of VLCCs	% of Market Share
Mitsui	41	6.5%
NITC	37	5.9%
NYK	36	5.7%
Bahri	31	4.9%
Frontline	28	4.5%

Source: Poten & Partners

### Euronav is a strong believer in second hand tonnage as opposed to new build eco ships.

The purchase of secondhand tonnage by Euronav is in line with the company's core belief that new build eco tonnage is not necessary in the VLCC sector. Euronav has not been a strong believer in eco ships. They have repeatedly stated in quarterly reports that all existing modern VLCCs could be easily retrofitted for eco improvements. For example, it currently costs approximately \$150,000 to retro fit a VLCC main engine for super-slow steaming, which results in the largest fuel savings for an eco-class ship.



Source: Poten and Partners

**VLCC fleet will see slow to flat growth through 2016.**

Overall the VLCC fleet is forecast to remain fairly stable in size through 2016, given the relatively small orderbook compared to the number of ships over 15 years of age. The Chinese government has recently offered a subsidy to scrap existing tonnage, provided a new order is placed in a Chinese shipyard. This could result in temporary tight VLCC supply as ships may be scrapped before their replacements are delivered. These two factors may contribute to rate volatility in the VLCC segment.

**OSG's decision to exit commercial management of its fleet hints at further fleet reductions.**

A significant wildcard in the VLCC sector, as well as the dirty tanker market overall, is the recent decision by OSG to effectively exit the commercial management of its vessels. There is no indication of what will ultimately become of the tonnage, but for the time being the ships will be operated as part of a third party vessel pool. OSG currently owns ten VLCCs, one Suezmax, and nine Aframaxes. It's difficult to say if these tankers will be available for sale while the company is still in bankruptcy. If they are put up for sale it would appear that there would be interest from ship owners, most likely with private equity backing. As Genmar's exit from bankruptcy has shown, OSG could be well positioned for private equity backing itself.

The acquisition of the Maersk fleet by Euronav is a considerably bold move by the publically traded company. VLCC spot rates have staged a comeback in mid-January following softer rates immediately after the holiday season. With a larger market share, Euronav will be better positioned to take advantage of rate volatility that seems to be returning to the markets. The flat vessel supply chart will leave the VLCC market sensitive to rising demand. One can be sure that market watchers will be eagerly tracking the quarterly results of Euronav to see the results of the high profile acquisition.

Poten Tanker Market Opinions are published by the Commodity Consulting & Analytics department at Poten & Partners. For feedback on this opinion or to receive this via email every week please send an email to [tankerresearch@poten.com](mailto:tankerresearch@poten.com). For information on the services and research products offered by our Marine Projects & Consulting department or to contact our tanker brokers please visit our website at [www.poten.com](http://www.poten.com).