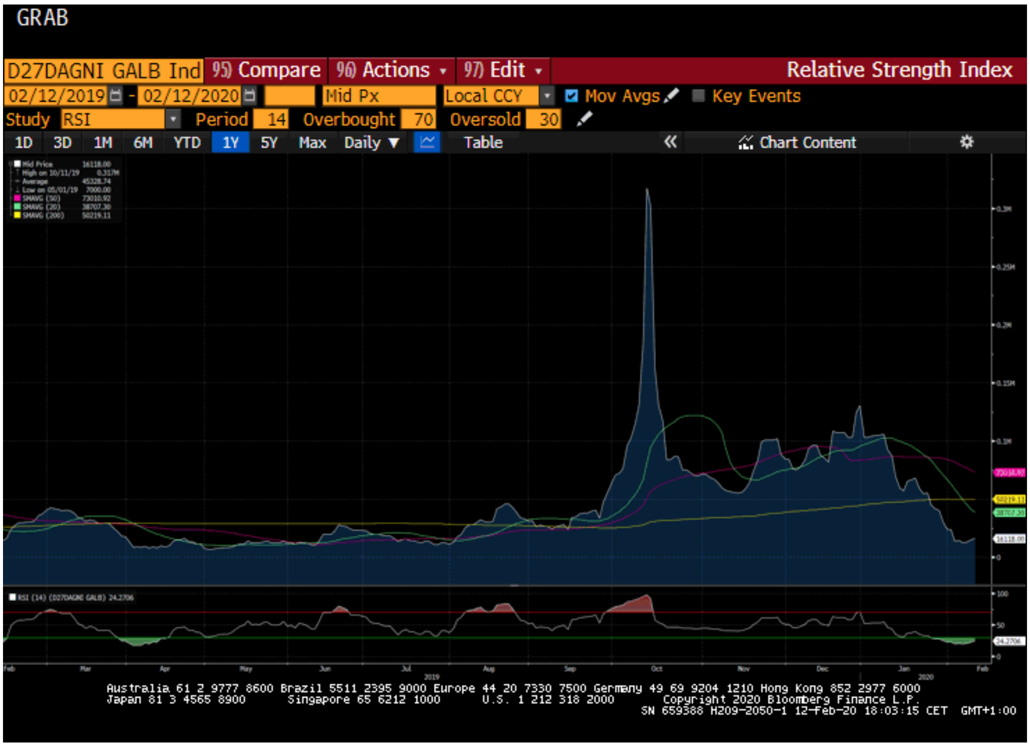
TANKERS – VIRUS OPPORTUNITY

Not much writing from me the last few months due to other assignments – however, the tanker space warrants a closer look following the sell-off since medio January.

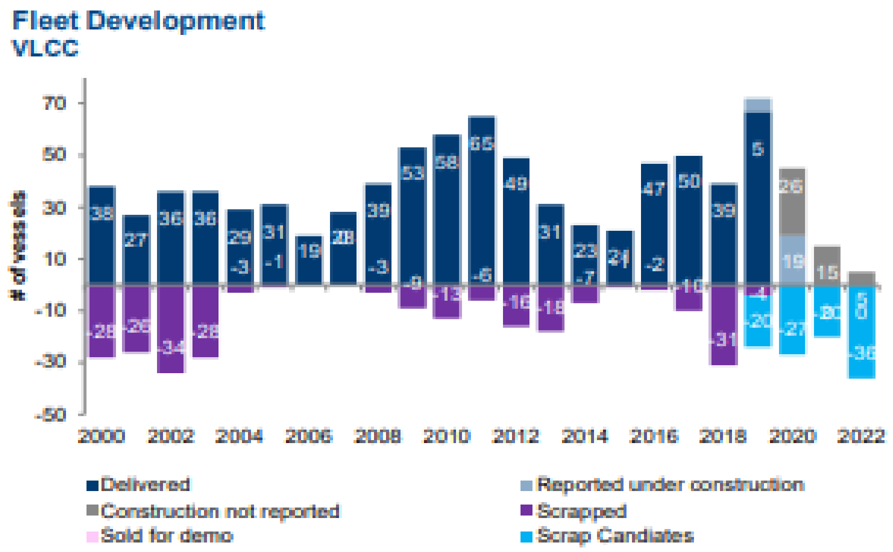
First, with the stocks reaching and in some cases overshooting my targets of $8 on DHT, $40 on STNG and NOK90 on FRO here https://harpooncapital.no/resources/TANKERS%20-%20TIME%C2%B4S%20UP.pdf amidst the IMO euphoria early January with temporary factors like the COSCO vessels returning to service and the upcoming refinery maintenance season only a few weeks away, profit taking was the name of the game going into the new year. Since then, the much dreaded corona virus has added an unexpected fuel to the fire on the downside, temporarily killing probably some 2-3mbd a day of China demand, hence providing us with a new and even better than hoped for re-entry point.

The virus will probably help reshape the usual seasonal rate profile in that the seasonal low-point going into Q2 will be lower, while the 2nd half may prove stronger. As spot rates already have dropped to cash break-even or even below, and a small contango has begun to present itself on the rate curve, it is time to take a closer look.



Source: Bloomberg

While demand swings are not unusual, they tend to be of temporary nature and rather presents an opportunity to adjust positions the other way. Supply trends are really what shapes the longer term rate picture for the industry, and on this front there is nothing but good news. Apart from investing in scrubbers on existing ships, ship owners are unusually modest when it comes to adding to the orderbook in this upcycle. With poor visibility on propulsion systems and climate initiatives broadly – who can blame them? Indeed, Euronav reported this morning that it has bought 3 newbuilds incl scrubbers for $93,5m per piece, adding further to the reluctance to place newbuild orders. I`d expect this newfound modesty to stick with owners until visibility clears, paving the way for an even tighter market as we approach 2021 unless orders are added soon. Actually, looking at the oil market, the biggest risk will be in constraints on the supply side entering the 2nd half of this year. Until then, the q2 up season ought to coincide with receding virus impact and less VLSFO storage, providing impetus for a solid upswing looking 5 mths ahead.



Source: Fearnley

Considering EURN`s latest deal, most analysts seem to be 10-15pc high on their current NAV estimates. P/NAV for the sector at the time of writing is probably closer to 0,85 than 0,75. Personally, I use the previous upcycle high (2008) on tanker rates as a yardstick to calculate targets (see report above), and am happy to stick with $8 for DHT and $40 for STNG, while I am sure FRO NO in usual style will overshoot my NOK 90 target by a wide margin. In any case, being able to buy the sector around 0,8x NAV in the middle of an upcycle is a solid opportunity with DHT below 5,5 probably as good as it gets this time around.

Source: Bloomberg

It may also be worth checking the LPG names (Avance in particular) as potential shorts against the crude names, as EIA in its latest report sees propane exports down 2,5mt from 2020 to 2021, equivalent to 8-10 VLGCs. The arbitrage is already off its highs, it won`t take much from here to take it down further and kill the LPG trade. An LPG rates bet for 2021, anyone?

Source. Bloomberg

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Ståle