Baltic Exchange

# Baltic Tanker Investor Indices

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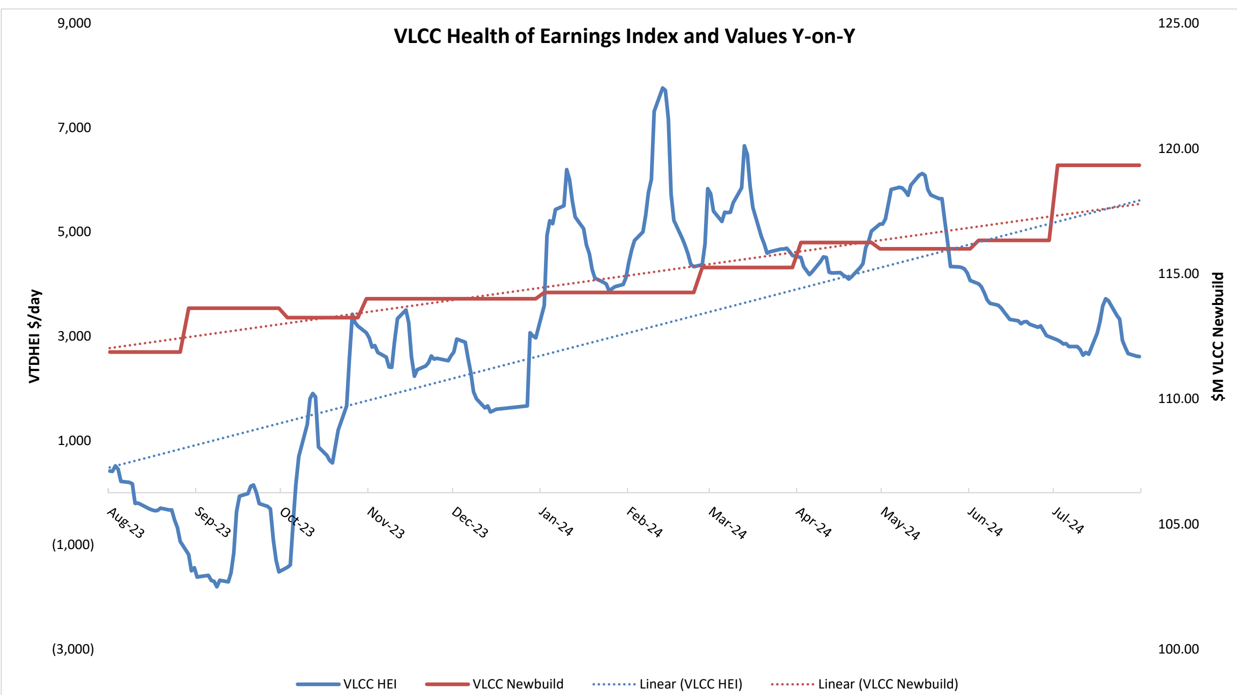
## Let the Good Times Roll! But is it Time to Order?

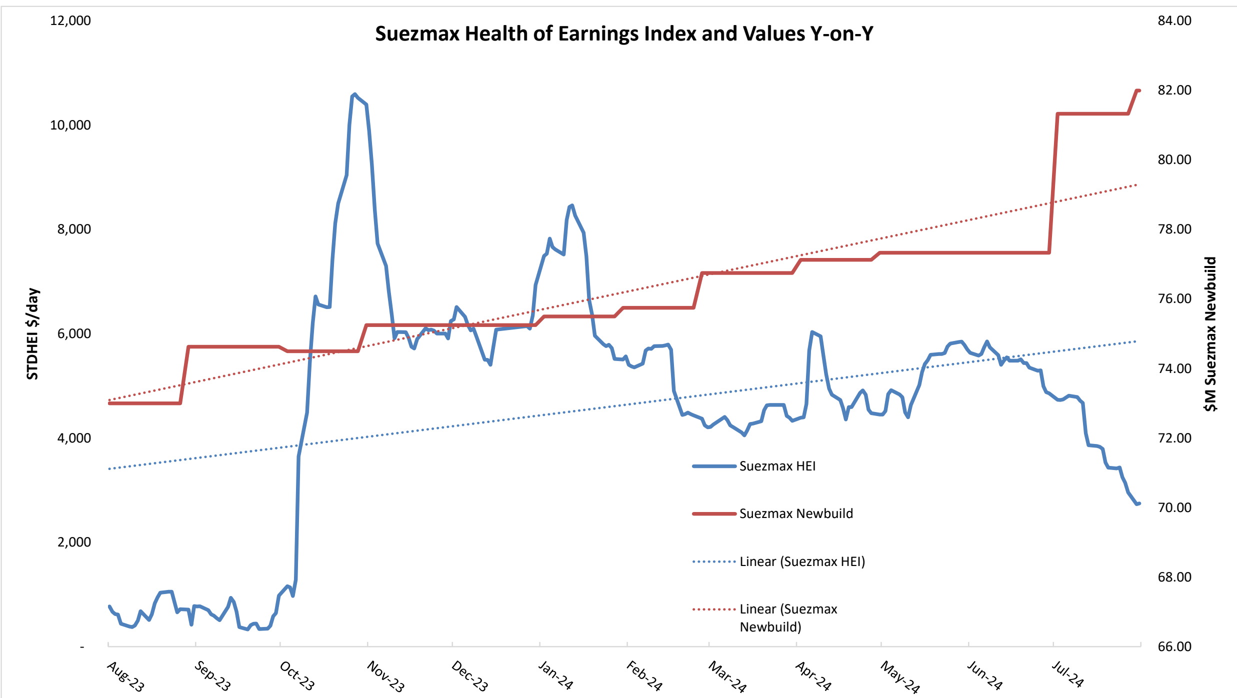
Over recent years the crude tanker sector has experienced some of the strongest markets in decades. Many tanker owners are awash in cash, with some large public companies reporting net cash builds of $1 million/day over some quarters. Certainly, excess cash is a good problem to have. As many public tanker shares trade below their net asset value (a common struggle for shipping equities), public companies are paying down debt, engaging in fleet renewal, enhancing their dividend strategy and likely considering share-buybacks. Private companies are doing much of the same, de-leveraging and engaging in fleet renewal. The orderbook for VLCCs and Suezmaxes has been growing over the last year.

Taking a snapshot of the trailing 12 months in crude tankers, the asset value and freight rate trends have been positive but not all are equally attractive or justified in our view. In this update, we use simple metrics to further consider the prospect of a crude tanker newbuild order.



The Baltic VLCC Health of Earnings[1] index over the last year has only been moderately positive while VLCC newbuild prices have also pushed upwards over the same period.

At a VLCC newbuild price of $119.3 million[2] today, we estimate the timecharter equivalent (TCE) needed to achieve cash breakeven will be $37,700/day[3] once the ship is delivered, likely early 2027. With the average spot rate TCE over the last year at $30,186/day and current spot rates at $30,000/day, this simplified view of freight rates to the forecast cash breakeven rate cannot justify an VLCC newbuild order today. However, we know the VLCC orderbook was at historic lows in April 2023 and we understand that approximately 60% of the VLCC fleet is over 10 years of age. While there has been more ordering of VLCCs in recent quarters, the orderbook is still well below historic averages. In our view, ordering a VLCC today and waiting two to three years for delivery is only attractive if the investor is taking a long punt on there being a VLCC supply crunch. This is a rather substantial risk to take and one that may keep the orderbook modest for the coming quarters.




The Baltic Suezmax Health of Earnings rate has fallen markedly this summer, but it is still a step better than the summer of 2023. The trailing 12-month average spot TCE for Suezmax tankers is $40,167 and the Baltic Implied 5-year TC rate is $31,500 today. At a newbuild price of $82 million[4]

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[1] The Baltic Exchange publishes the Baltic Health of Earnings index on every trading day for each major cargo vessel type. It shows the ratio of earnings against cost with a negative number indicating that earnings are below operating costs. The Health of Earnings Index is highly correlated to freight rates, however takes in to account increases in OPEX over time.

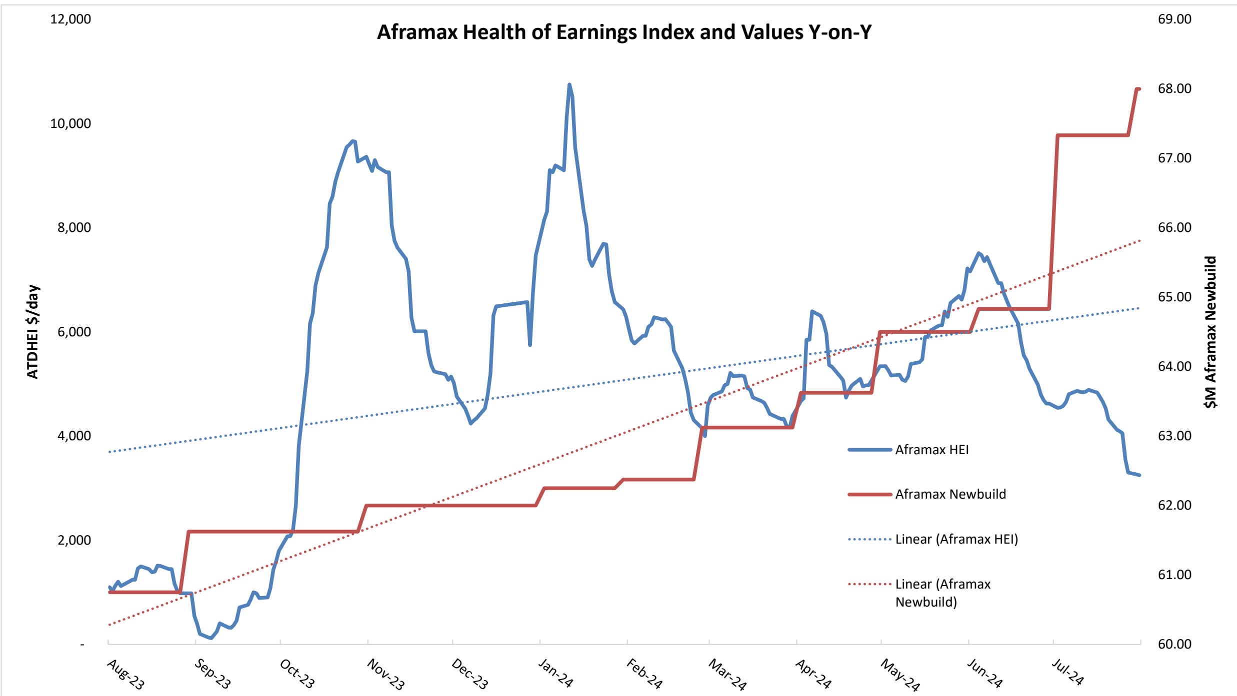
[2] 320,000mt dwt crude oil tanker. LOA 333.00m, beam 60.00m, draft 22.50m. Cargo tank capacity 361,000cbm. European standard B&W main engine, Tier III. Not ice classed. Conventional propulsion (non-dual fuel), Marine Fuel Oil compliant with MARPOL specifications at any time when not burning Gas Oil. Not scrubber fitted. Delivery within 24 months, charter free. 2% total commission. Built in First Class Chinese Shipyard. Payment terms 10/10/10/10/60%.

[3] Cash breakeven is computed as OPEX, plus G&A expense, debt amortization, interest and fees. On a newbuild VLCC we assume 65% leverage with a 20-year profile, SOFR of 5.35%, Margin of 3%.

[4] 158,000mt dwt crude oil tanker. LOA 274.30m, beam 48.00m, draft 17.20m. Cargo capacity 175,000 cbm. European standard B&W main engine, Tier III. Not ice classed. Conventional propulsion (non-dual fuel), Marine Fuel Oil compliant with MARPOL specifications at any

we believe the TCE rate needed to achieve cash breakeven is $28,141/day[5]. We recognize that this is a very simplified way to glance at the market, but the trailing 12-month Suezmax freight rate performance, even in light of the growing orderbook, modestly justifies a Suezmax newbuild order today.

However, as noted with VLCCs above, it will take up to three years for a newbuild Suezmax today to deliver. The Suezmax orderbook was at historic lows in the autumn of 2022 and it remains below the historic average today, but ordering has increased markedly over recent quarters. While we understand that more than 30% of the Suezmax fleet is over 15 years of age, we also understand that many of those vessels may be trading in the "Dark Fleet" of sanctioned cargoes. By the time a newbuild order of today delivers, the positive dynamics seen in recent years may well have changed.




The Aframax sector has a similar narrative to the Suezmax, which is slightly more compelling when using these metrics. The Baltic Aframax Health of Earnings rate has softened in recent months but remains stronger than this time last year. The trailing 12-month average spot TCE for Aframax tankers is $41,522 and the Baltic Implied 5-year TC rate is $29,750 today. At a newbuild price of $68 million[6] we believe the TCE rate needed to achieve cash breakeven is $24,211/day[7]. Further,

time when not burning Gas Oil. Not scrubber fitted. Delivery within 24 months, charter free. 2% total commission. Built in First Class Chinese Shipyard. Payment terms 10/10/10/10/60%.

5 Cash breakeven is computed as OPEX, plus G&A expense, debt amortization, interest and fees. On a newbuild Suezmax we assume 65% leverage with a 20-year profile, SOFR of 5.35%, Margin of 3%.

6 114,500mt dwt crude oil tanker. LOA 249.95m, beam 44.00m, draft 15.00m. Cargo capacity 130,000cbm. European standard B&W main engine, Tier III. Not ice classed. Conventional propulsion (non-dual fuel), Marine Fuel Oil compliant with MARPOL specifications at any time when not burning Gas Oil. Not scrubber fitted. Delivery within 24 months, charter free. 2% total commission. Built in First Class Chinese Shipyard. Payment terms 10/10/10/10/60%.

7 Cash breakeven is computed as OPEX, plus G&A expense, debt amortization, interest and fees. On a newbuild Aframax we assume 65% leverage with a 20-year profile, SOFR of 5.35%, Margin of 3%.

the Aframax fleet is ageing, with more than 50% of the fleet over 15 years of age and the orderbook remains near historic lows.

We believe it rather likely that there are many reasons behind the attractiveness of the above Aframax snapshot. Some of the older Aframax fleet is likely employed in the Dark Fleet, which is supportive of freight rates. Refining locations and some trade patterns have changed over recent decades and the vessel size may be less optimal than it was in the past. The fact that the Aframax orderbook has been so low for so long may be telling for the long-term future of the crude tanker type.

## It remains a hard decision

Further investment in crude tankers is not as straightforward as it was 20 years ago. Choice of propulsion with consideration to alternative fuels offers new challenges and impacts newbuild pricing markedly. The oil major charterers continue to favor modern vessels. The useful and competitive lives of crude tankers for the oil majors is shortening exacerbated not simply by the quality and liability perspectives, but also due to ever-tightening emissions requirements. Simultaneously, the Dark Fleet has been extending the lives of older tankers (particularly in the Suezmax sector) operating illegally with sanctioned crude cargoes leaving a hard to fully quantify, but likely sizable, crude tanker capacity overhang.

That being said, tanker companies see that the orderbook remains historically low, and fleet renewal pace at this time is well below that of the fleet percentage that is 15 years of age or older. Tanker companies also see that interest rates are high at the moment and freight rates only tell some of the story to support an order, so newbuild financing can be expensive and challenging to find. While debt is expensive these days, the cost of equity is higher and without leverage, returns suffer. For many tanker companies that have a lot of cash, newbuild ordering with cash today and leveraging closer to delivery when it is hoped that SOFR will be softer is the likely choice many will make.