Baltic Tanker Investor Indices

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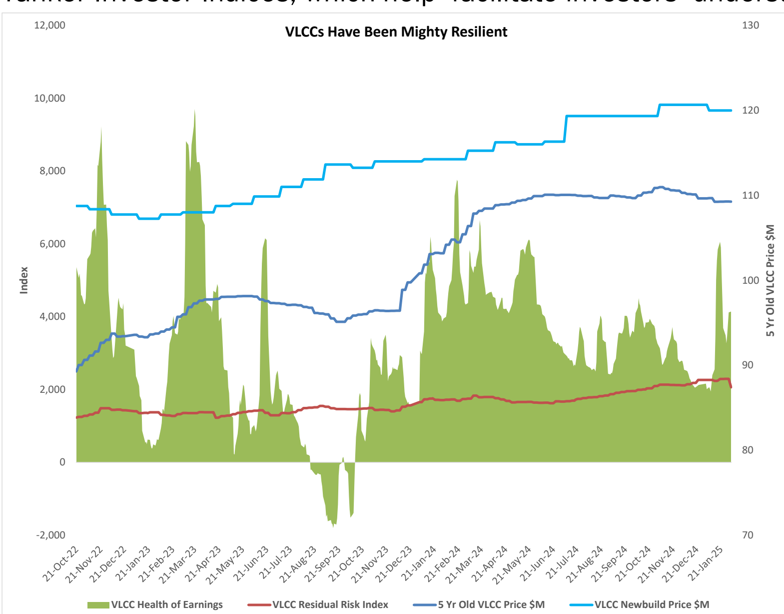
Best Value, VLCC, Suezmax, Aframax or None?

Recent years for crude tankers have been strong, with the exception of the fourth quarter of 2023 (4Q23). With a relatively modest (but growing) orderbook, steady demand growth, and the fleet is at its oldest in two decades[1] , those with modern crude tankers are in a good spot today, in our view. However, many geopolitical uncertainties remain: Around 22% of the VLCC fleet is operating in the "dark" or "shadow" fleet[2] , carrying sanctioned cargos, and potential trade actions by the United States under the leadership of President Trump increase uncertainty.

Despite these challenges, times are generally good. So, which five-year old crude tanker offers best value today - VLCC, Suezmax or Aframax? Should investors order new ships or stay away all together? While these questions are ridiculously oversimplified, they highlight the value of the Baltic Tanker Investor Indices, which help facilitate investors' understanding of the broader landscape.



While the Baltic VLCC Health of Earnings Index[3] is fairly strong, investors may prefer to pay for a ship today ("a bird in hand") than pay for a newbuilding and have to wait, facing many uncertainties.

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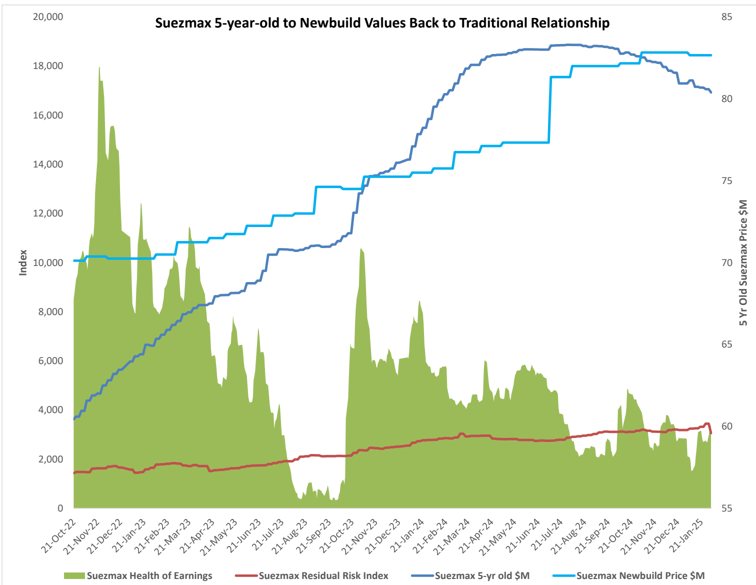
[1] Frontline Q324 Investor Presentation, slide 8

[2] Double Hull Tankers 4Q24 investor presentation, slide 10

[3] 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.

The Baltic Exchange currently values a 5-year-old VLCC at approximately $109 million. Assuming leverage of 65%, an amortisation profile of 17 years, a margin of 3.00%, OPEX of $8,080/day, and G&A of $600/day, the cash breakeven per day comes to nearly $35,000/day. Given that VLCC spot rates have averaged approximately $37,500 over the past twelve months and the supply/demand outlook remains reasonably firm, the $109 million for a 5-year-old VLCC appears fully valued. If one were to order a VLCC newbuild today at approximately $120 million, we estimate the breakeven to be closer to $39,500/day[4] and one would have to wait two years to even enjoy it in a market that offers many uncertainties.

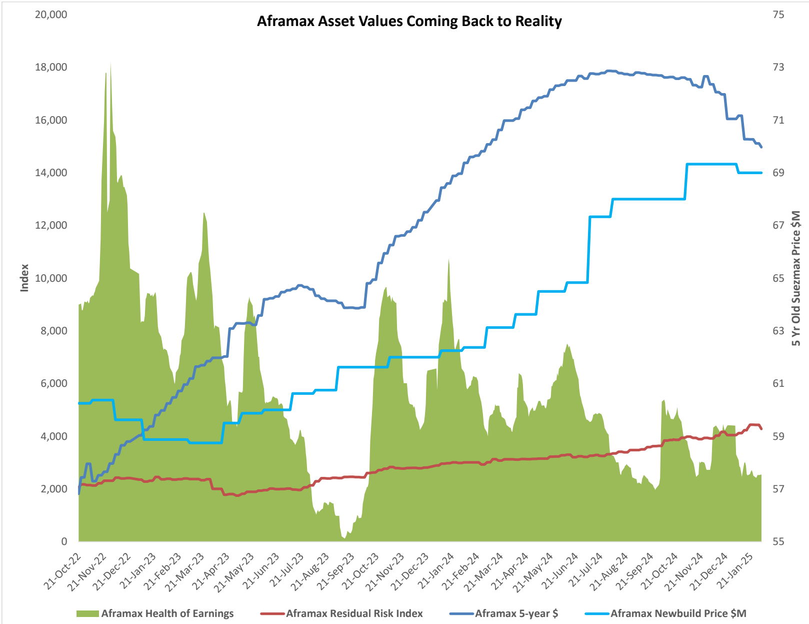


Due to freight rate strength in recent years, the Baltic Exchange 5-year-old Suezmax values exceeded those of newbuild prices for most of 2024, which is unusual. However, over the last 12 months, Suezmax freight rates have trended lower and have averaged a firm $35,500/day. In more recent months, 5-year-old values have dropped with the downward trend in freight rates. The Baltic Exchange currently values a 5-year-old Suezmax at approximately $80.4 million. Using our assumptions, this equates to a cash breakeven of $27,200/day.[5] A Suezmax newbuild, on the other hand, is valued at $82.7 million, which with our assumptions equates to a cash breakeven of $29,300/day[6]. If one has a bullish outlook for the Suezmax market, the 5-year-old Suezmax is more attractively priced today than a 5-year-old VLCC.

[4] Cash breakeven is computed as OPEX, plus G&A expense, debt amortization, interest and fees. For a newbuild VLCC today we assume 75% leverage with a 20-year profile, SOFR of 4.35% Margin of 3%.

[5] For a 5-year-old Suezmax cash breakeven we assume today's published asset value 65% leverage with a 17-year profile, SOFR of 4.35% Margin of 3%.

[6] Cash breakeven is computed as OPEX, plus G&A expense, debt amortization, interest and fees. For a newbuild Suezmax today we assume 75% leverage with a 20-year profile, SOFR of 4.35% Margin of 3%.



Like Suezmax freight rates, Aframax freight rates have trended lower over the last twelve months but have averaged a very healthy $36,350/day. The Baltic Exchange 5-year-old Aframax value has exceeded those of newbuild prices for more than two years, which again is historically unusual. With the softer freight rate trend, 5-year-old values have dropped but are still a touch above the Baltic Exchange Aframax Newbuild values. Today, the Baltic Exchange currently values a 5-year-old Aframax at approximately $70 million. According to our calculation, this equates to a cash breakeven of $24,400/day.[7] The Aframax newbuild, valued today at $69 million, offers a similar breakeven/day to the 5-year-old but also offers a two year wait for your trouble. In the end, if the investor likes the market outlook, the 5-year-old Aframax value is more attractively valued than the equivalent age VLCC or Suezmax.

As Always, Caveat *Emptor*

Not so fast! While the 5-year-old Aframax is the most attractive based on the metrics above, it is still valued above the newbuild value. This alone warrants a pause for consideration. Further, the attractiveness of the supply side is debatable. A recent piece from Braemar/Breakwave Advisors starts with the comment, "How many tanker [newbuilds] will deliver over the next few years? A lot more than we thought this time last year, that's for sure."[8] While not alarming, published orderbooks may understate what is actually happening in the market, according to their research.

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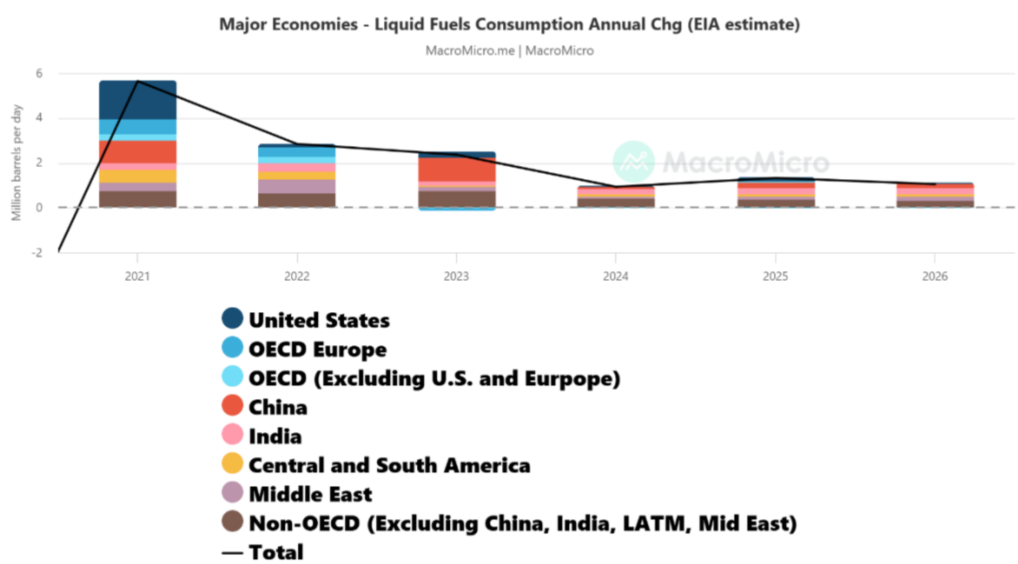
[7] For a 5-year-old Aframax cash breakeven we assume today's published asset value 65% leverage with a 17-year profile, SOFR of 4.35% Margin of 3%.

[8] The Big Picture: Tanker Ordering by Henry Curra. Breamar/Breakwave Advisors. January 7, 2025

Also, the “Dark Fleet” trading sanctioned cargos is very large. While many of those tankers are old and may face demolition should sanction enforcement be enhanced and/or if sanctions end, it is not coincidental, in our view, that freight rates have been strong while the dark fleet has been large.

While overall demand has seen a positive trend, geopolitical factors, particularly US/China relations, could cause volatility in the general markets, disrupting global trade patterns. President Trump has repeatedly stated the best way to combat US inflation is to bring the cost of energy down, and one can expect that US domestic oil production may grow substantially over the next four years, possibly impacting tanker trade patterns.

Despite demand uncertainties, with the exception being the COVID pandemic, global oil demand has been consistently growing and does not show any signs of abating. The tanker fleet is old and the published orderbook is not yet daunting. All things considered, the recent drop in crude tanker asset values appears warranted and healthy, but the good times appear to have more life ahead.



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[9] EIA - MacroMicroMe