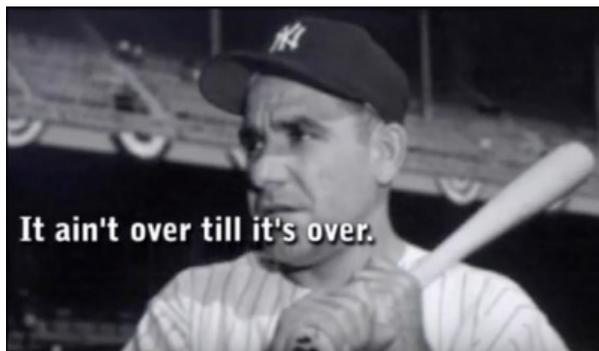




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## Frontline and DHT: 'It ain't over till it's over'



That famous analyst of all markets, Yogi Berra, once famously said: "It ain't over 'till it's over." So it goes with Frontline's pursuit of fellow tanker owner DHT.

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During February, Frontline had made two share offers, meaning that DHT holders would exchange their shares for FRO shares. DHT, whose share price initially rallied from \$4 per share to around \$5 per share, then did a deal, in late March, with privately held BW Group- where BW gained a 33.5 % stake in DHT, BW transferring nine vessels on the water and two newbuilds - worth more than \$500m in the aggregate - over to DHT.

In mid-April, days before the transfers of vessels and shares were about to commence, Frontline sought unsuccessfully to derail the DHT-BW deal in a New York State court. In the latest wrinkle, Frontline dropped its New York efforts (a longshot at best) and has now caught the attention of a court in the Marshall Islands, the domicile of DHT, which rejected a request by Frontline that it issue a temporary restraining order that would preventing BW from acquiring DHT shares in excess of the 33.5%.

Just prior to the new legal filing, Frontline made a third "for share" offer- proposing to exchange 0.8 Frontline shares for each share of DHT, which DHT was quick to note: "... is the same exchange ratio contained in Frontline's previous proposal of February 24". The Marshall Islands court will look at Frontline's additional request beyond the restraining order, for injunctive relief, in mid May.



Here's the thing - even though analysts are dubious about operational economies of scale from "consolidation", bankers and executives all over the conference circuit agree that bigger companies have advantages when it comes to tapping capital markets. VesselsValue estimates that a combined Frontline-DHT would be the world's second most valuable tanker owner, with ships worth \$3.57bn.

The jury is still out on whether bigger companies have advantages in chartering, since operators have the ability to team up, commercially, in pools. So, it may be that a bigger Frontline, with modern VLCCs of the DHT variety, is, in fact, more valuable than a smaller Frontline as both absolute cash flows and ratios/ multiples tick upward in investor models.

Beyond all the legal maneuverings and pleadings, whenever there are share for share exchanges on offer, the calculus really comes down to investor perceptions about the "value" or "worth" going forward - in this instance - it really comes down to "Is a bigger Frontline worth more?"

Additionally, if the tanker (shipping) market were to make a meaningful upward move, would shares in Frontline be a huge beneficiary, maybe more so than DHT? With DHT growing by the day, currently in the midst of taking delivery on nine BW VLCCs, during Q2 2017, it becomes an even plumper target for Frontline. Analysts estimate DHT's net asset value, post BW deal, with the additional shares that the ship/ share deal entailed at between \$4.50 and \$5.00 per share, roughly in line with its share price.

So, to seal a deal, Frontline would need to come in with an offer closer equating to \$7.00 - a healthy premium above DHT's present share price, and slightly above FRO's recent share price. At such a level, even BW, now a large minority holder, could make money on its recently acquired DHT shares (purchased at somewhere between \$5.25 per share and \$5.50 per share), and become part of a tanker colossus.

Such a scenario appears unlikely with today's present tanker market on a sideways glidepath, and Frontline's present share price, actually at a 25 % premium to its NAV. But in this high stakes match, nothing is impossible.

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