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The motivations behind the Teekay Tankers merger


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Consolidation is in the tanker waters. Teekay Tankers and Tanker Investments Ltd (TIL) have now announced a shares for shares merger, that would create an operator even bigger than the "…largest operator of midsized tankers…"- the tagline for Teekay Tankers even before the tie-up.

The merged company will now control 62 vessels, mainly suezmaxes and aframaxes. In this deal, TNK will pay for each share of TIL (excluding the 11%, owned by Teekay Corp) with 3.3 Teekay Tankers shares. With 88.886 million new shares issued, worth approximately $170m and TNK taking on roughly $350m of TIL's debt, the deal is worth roughly $530m.

What ingredients, exactly, are swirling around in these waters, which only recently saw a shares for shares combination in the product tanker sector with Scorpio Tankers and Navig8's products entity and a battle for shares in crude owner DHT?

Across the markets, tanker stocks saw improved fortunes in 2015, as low oil prices drew more cargoes to the water. TIL's shares, were valued in excess of NOK 100 throughout Q3 and Q4 of 2015, but slumped in 2016 to below NOK 40 per share. In recent months, they have traded in a band between NOK 40 and NOK 50 per share.

On a management call discussing the merger, it was revealed that TIL actually drove the timing of the de initiating a competitive bidding process for the company. Of TIL's 18 vessels, its fleet list shows only four units to be covered in period employment - with all coming off within a year's time. The companies' calculations peg the Teekay Tankers acquisition price as representing a 21% premium in the share price.

And why now? TIL, launched in 2014 at NOK 70 per share, as an asset acquisition platform, shortly before the unanticipated demand driven boom, had in opportunity to recover some of that it missed out on as the boom evaporated in 2016. With recent output cuts announced by oil producers, at a time of still high inventories to be drawn down, the near-term outlook for tanker stocks is tepid, at best.

Against this backdrop, "consolidation" (however defined) is seen as a salve for the wounds inflicted by continued sub-optimal utilisation of vessels- pegged at around 86% in the Teekay Tanker presentation on the deal down from headier levels near 90% in 2015. The executives on the management call referred to "efficiencies" a number of times.

There are also more subtle motivations here. Kevin Mackay, Teekay Tankers' president and ceo, on the management call, talked positioning for opportunities in advance of an anticipated market turnaround in 2018 amidst longer haul shipments and decreased fleet supply growth. He briefly mentioned the availability of more vessels being available to serve Teekay's lightering business in the US Gulf- which is participating in the growth of US oil exports, with a big part of the long haul trade growth being Atlantic Basin to Asia.

With decreased leverage and increased liquidity post merger, the balance sheet is in a better position to support borrowing (if needed) to pursue the next big deal.

Look for more fireworks as "opportunities" are pursued, by Teekay Tankers, and by other players, similarly fattened up by consolidation who are arguably in a better position to raise capital than their smaller rivals.

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