Sale and Purchase May 31

Crystal ball gazers are becoming more numerous in vessel sale and purchase markets, as participants grapple with trade-offs surrounding paying up, now, in the second hand markets, for tonnage available immediately, or, placing orders for capacity that will earn revenues in 2009 and 2010. Though the focus has been on drybulk, and Capesizes in particular, participants in the tanker markets are caught up in the blowback. The dilemma is described succinctly in a recent Teekay presentation- “Drybulk, container and offshore orders are limiting berths for tankers”.

On investor teleconferences, executives at tanker specialists Omega Navigation (“ONAV”) and Tsakos Energy Navigation (“TNP”) were both fielding questions concerning the wisdom of second hand acquisitions versus securing slots for vessels delivering two and three years out. Nick Tsakos expressed a leaning towards the newbuilding route- noting his family’s decades long relationship with high quality yards. Unspoken, perhaps, was the suggestion that TNP could cut in front of others in the queue, if TNP were somehow not satiated with its ten vessel orderbook (comprising 918,000 dwt). Omega’s **George Kassiotis** *(left)*, from a shipping family but in a new venture, talked in terms of opportunistic acquisitions of high quality second hand tonnage. Indeed, Omega has been successful in negotiating “arms length agreements between willing buyers/ sellers”, following the expiry of options to purchase newly delivered iced class product tankers.

Brokers Poten & Partners addressed similar issues in a weekly opinion piece called “Priced to Sell”, with a caution that “The ability of freight rates to support <an investment in excess of $130 Million in a newbuilding VLCC for 2009 delivery> may pose significant financial risk to owners that are taking a position in the newbuilding market today.” The New York based broker adds, “Even at $130 Million per vessel, demand for ship slots remains firm,” going on to cite the surge in bulker orders crowding out tanker building capacity. But, for actual transactions, all eyes are still on dry, even as its ascent has stalled.

The “inter-temporal arbitrage” was driving the actions of Bocimar and Jinhui on the dry side, with Bocimar acquiring two Suprmaxes to be delivered from the Tsuneishi yard in 2010 and 2012 in a transaction where Jinhui basically breaks even. The proceeds will fund the purchase of vessels with more immediate deliveries- Jinhui’s book of a dozen vessels on order includes three Supramaxes to be delivered within 2007. Conversely, Pacific Basin was capturing nearby vessel values- selling three 1997 built Handies, “Hawk Inlet”, “Ocean Falls” and “Port Pirie”, for $72 Million en bloc, with multi-year charters back from the Buyers- Greek owner Tsangaris. Metrostar’s $440 Million purchase of four resale Capesizes (reported last week) delivering 2008 – 2009 is a further example of such behavior.

Where listed companies are concerned, one contretemps is the ability of newly delivered capacity and increased "net asset value" (NAV) to generate substantial cash flows (CF). Consider a recent report by analysts at leading shipping bank Jefferies & Company, issued following the impressive performance at TNP: "With seven additional newbuildings scheduled to be delivered through year-end and significant projected cash flow, we estimate TNP's NAV should continue to increase through 2007." The brokerage goes on to add: "With seven additional vessels scheduled to be delivered between 2Q07 and 4Q07 with a combined current market value of $452.6 million versus TEN's combined purchase price of $343.1 million, we estimate TEN's NAV should increase by nearly another $6 / share by year-end by simply taking delivery of the Company's newbuildings." Such thinking suggests that listed owners will hold on to newly delivering tonnage, and might have even trade away potential gains on vessels set for 2009 – 2010 delivery for opportunities to bolster NAV and CF. Not surprisingly, private sellers such as Foremost Maritime, Blystad (both sellers of Capesizes in recent months) and others not facing the cash generation imperatives of listed companies have happily provided grist for the mill of rising prices.

Wall Street analysts are now opining on potential S & P activity, as the relationship between older assets on the books, contrasted with their values in the rising market, can also have a powerful impact on strategy. In pondering actions for TNP analogous to those of Pacific Basin, consider Jefferies' additional comments on TNP: "Furthermore, we believe TEN could sell the Company's two 17-18 year old Panamaxes for $23-$24 million each which should add to TEN's available liquidity and reduce the Company's net debt to capitalization further." After referring to TNP's "Victory III" and "Hesnes", both 68,000 tonners built at Zaliv (and presently on 2 year timecharters), the analyst goes on: "With nearly all of the Company's vessels significantly in the money with respect to book value versus market value, we estimate that any asset sales would likely result in significant capital gains further bolstering the Company's book equity and reducing TEN's net debt to capitalization ratio further."

S & P brokers could find further guidance in Jefferies' conclusions: "As a result, through the natural fleet renewal process, we believe TEN is likely to generate the additional capital necessary to fund not only the current newbuilding program, but also further newbuildings or vessel acquisitions."