Torm, Oaktree, oil trading and refineries?


By Barry Parker from New York

With Oaktree Capital's latest move to take control of Danish shipowner Torm we take a speculative look at how the private equity investor could join the dots with other investments it has made, a couple of possibilities that could add to the overall picture.

The activities of Oaktree Capital, which never offers any commentary, have- once again, stimulated the imagination of tanker market participants. This past week, news items emerged linking peripatetic shipping investor, with $93bn overall under management now, with a restructuring deal whereby it would gain control of beleaguered Danish owner Torm.

The Danish shipowner's debt is controlled by a mixture of shipping banks, that took equity in Torm previously, and the balance by investors in the business of "loan to own" . Though reports are vague, analysts anticipate that Oaktree will exchange ships (where values could be circa $400m - $500m in aggregate) for shares in a reconfigured owning structure. Banks would likely convert their claims on the company, and shareholders that they retain, into a small equity stake, likely coupled with options to buy more shares later. A Torm announcement hints at a working capital facility, presumably provided by the existing lenders.

Throughout a series of restructurings that began two years ago, Torm has retained technical and commercial management of the vessels that it's sold to Oaktree. Most recently, Oaktree bought 13 Torm product tankers- 10 MRs and three LR1s, as a consequence of a Spring 2014 bank-driven moves to sell vessels, in addition to 9 others that it had taken in previously. The new announcements from Torm suggest that a restructuring might be effected by Q1 2015.

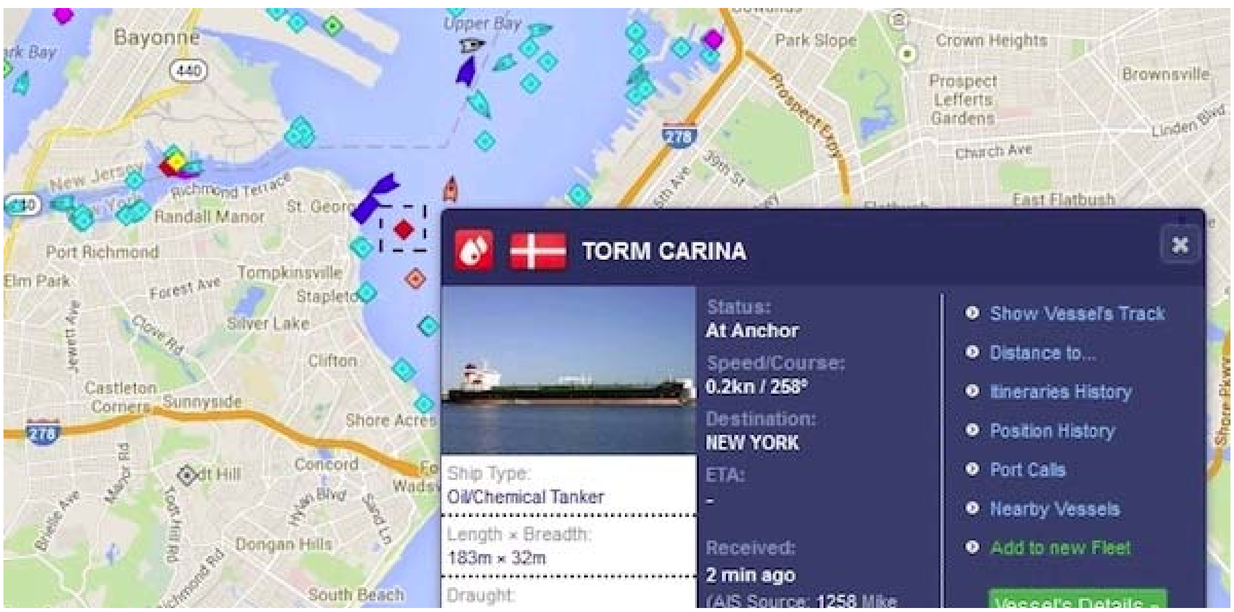
The timing of the Torm announcement coincides, perhaps coincidentally, with word of another important Oaktree initiative, acquisition of a 50% interest in HETCO- a trading company that it owned jointly with a cadre of ex-Goldman Sachs oil traders. Hess had been encouraged by "activist" investors to sell its HETCO stake, describing the oil trading business as a distraction.

The trail of possible coincidences gets even better. In its glory days as a major products marketer to the eastern United States, Hess operated a refinery at St. Croix, US Virgin Islands, which has the unique distinction of being exempt from the Jones Act. The refinery, subsequently operated by HOVENSA, a joint venture of Hess and Petroleos de Venezuela SA (PDVSA) formed in the late 1990s, had been shuttered since 2007- in the midst of a weak period for U.S. oil processors. With an ability to process "light" crudes, the refinery could provide a much needed outlet for handling the lighter oils derived from shale.

The same day as the HETCO announcement, HOVENSA, also a Hess jv but completely different from HETCO, announced the sale of the 350,000 barrel per day refinery to Atlantic Basin Refining Inc, a company whose backers have not yet been revealed.

Refining companies, which must move barrels in and out, are always seeking opportune ways of managing freight - so the imaginations of writers (who double as conspiracy theorists) are working overtime. Without the necessity of moving cargo to the mainland in US flag tankers, the refinery has a huge advantage in being able to move refined products in foreign flag tankers.

Connecting the waypoints, we can conjure up a visage of Oaktree as that low cost mover of barrels. If Oaktree is indeed linked to the buyers of the refinery - and this is pure speculation - the asset manager will soon have natural hedges, long, or ownership, positions in: crude oil tankers through General Maritime Corporation for its crude oil input, and in product tankers if Torm comes into the fold, for the refinery's outputs. At the very least, if the speculation proves to be incorrect, HETCO- an asset light trading company, would still benefit from the "long" freight position acquired at cyclical bottom in vessel prices, by a self proclaimed "opportunistic" investor.



The Torm Carina calling in the Northeast US

In yet another news item, PDVSA has, for now at least, cancelled its efforts to sell its Citgo business- a refining and marketing business serving the States, blaming the recent cooling in the oil markets. With this flurry of announcements as a backdrop, the crude tanker segments remain strong, and the product sector has picked up markedly. Indicative of the positive buzz surrounding the MR and LR sectors, Scorpio Tankers , a competitor of Torm, was able to get off a $45m issue of three year senior unsecured notes, which were quickly snapped up by investors.

Published in [Americas](), [Europe](), [Finance & Insurance](), [Tankers](), [Dispatches]()