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Euronav profit at record high after extraordinary first quarter



EURONAV, THE BELGIAN tanker operator, has reported record first-quarter results after an “extraordinary sequence of events” including a volatile crude oil tanker market and towering charter rates.

The very large crude carrier specialist reported an almost 12-fold increase in net profit for the first three months to \$225.6m compared with \$19.5m in the year-earlier period. Revenues almost doubled to \$416.7m from \$232.6.

The record-breaking quarter reflects inflated charter rates for VLCCs in March, which were augmented from very low oil prices and a supply rush out of Saudi Arabia.

Average VLCC rates almost hit \$280,000 and individual deals in the market surpassed \$350,000.

“The past few months have seen a number of disruptive and seismic events simultaneously impacting on the wider crude and tanker markets,” chief executive Hugo De Stoop said in a statement.

“So far, the gyrations in the crude market have largely had positive implications for the crude tanker market.”

Euronav's VLCC fleet operating in the spot market through the Tankers International pool averaged daily charter earnings of \$72,750 in the first quarter, compared with \$35,195 during the same period last year. Similarly, its suezmaxes more than doubled daily revenues from \$27,380 last year to \$59,250 this year.

Average time charter earnings for VLCCs also grew from \$27,630 to \$37,000. Suezmax time charters fell to \$30,250 from \$32,680 last year

Vessel revenues in the second quarter are already looking better. Euronav's VLCC fleet operated in the TI pool has earned about \$95,000 per day and 71% of the available days have been fixed. Its suezmax fleet trading on the spot market has earned about \$65,400 per day on average, with 57% of the available days fixed.

With agreed global oil supply cuts taking effect this month and oil demand crushed due to coronavirus lockdown measures across the world, daily tanker rates have fallen off over the past 10 days, and currently stand at around \$50,000 per day.

Euronav noted that measures to prevent the spread of coronavirus that have cut demand for oil have also reduced demand for its seaborne transportation.

But until now this has been offset by the demand for tankers as floating storage, a lucrative venture as traders have sought to take advantage of low oil prices and sell it in the future while land storage quickly fills up due to continued oil supply.

"The reduction in crude demand has led to a massive build-up in crude inventory and has impacted negatively the demand for seaborne crude oil transportation," the company said. "So far, this severe decrease of demand for transportation is over-compensated by demand for storage of crude oil on board vessels."

The company added: "At this stage it is still too early to quantify the longer term global macro-economic impact due to the Covid-19 outbreak.

"Any forward-looking statements should be regarded with caution because of the inherent uncertainties in

economic trends and business risks related" to coronavirus.

The company said demand for tanker shipping was currently high and it believed that would continue throughout 2020.

"The disconnect between oil production and consumption combined with wide contango oil price structure following the steep oil price fall is driving both logistical and economically driven demand for floating storage in the short term," it said.

Euronav said the shape and pace of economic reopening was likely to be gradual. It also noted the substantial recent fall in the oil price compared with the most significant ones over the past 35 years, all of which, it argued, had a substantial oil contango market over the following year.

"The longer these dynamics persist, the longer and stronger the optionality for tanker owners will be to convert market dynamics into longer duration charters."

The shape and pace of a global economic recovery, along with any oil supply adjustment, would determine the fate of the tanker market, Euronav said. At the moment, the timing and visibility of these developments were difficult.

"Markets will become more challenging when a transition away from the current advantageous tanker market structure occurs, but we believe should not impact negatively for a prolonged period given the current age profile of the world tanker fleet coupled with the lowest orderbook on record in the last 23 years."

The orderbook was unlikely to substantially increase as financial and regulatory challenges weighed on tanker owners, the crude oil carrier added.

WHAT TO WATCH

Product tanker market bracing for 'supercycle'

THE product tanker industry is anticipating record earnings during the second quarter of the year, with larger vessels raking in the biggest revenues and shipowners hoping the short and longer-term market dynamics can work in their favour.

While the crude tanker market is subsiding on the back of global oil supply cuts and depleted demand because of the coronavirus, product tankers are still

maintaining relatively high rates that are setting up very high expectations for the next few months as floating storage and operational challenges are exacerbating vessel scarcity.

Product tanker rates picked up in March, but really took off in April achieving record highs across the market, particularly across the larger segments where tonnage availability is much tighter than elsewhere.

Though rates have dropped off slightly during the past week, they are still yielding stratospheric revenues. The long range two Middle East Gulf–Japan route, which is dominated by naphtha condensate shipments, averaged \$152,744 on Wednesday.

The \$169,829 for this voyage recorded on April 24 was the highest on record since 2010, from when the Baltic had data available. The previous record rates were in mid-October 2019 when the fixture hit \$80,000 per day.

Similarly, long range one charters on the same voyage recorded levels in late April at almost \$112,000 per day before sliding to \$96,698, on May 6.

One of the primary beneficiaries of these rates is LR2 market leader Scorpio Tankers. With its 137 product tankers spread across different size

segments, Scorpio tripled its profits from \$14.48m in the first quarter of 2019 to \$46.63m during this year's first quarter, as revenues grew and overall costs declined.

Scorpio Tankers chief executive Emanuele Lauro hailed it as the company's best quarter since 2015. He argued that part of the New York-listed firm's success strategy was not chartering out LR2 vessels for crude contracts, something that is proving highly fortunate now as reverting a vessel from dirty to clean can be a complicated process.

Mr Lauro was optimistic that the product tanker fundamentals point to the makings of strong prospects.

“Supply of new tonnage remains anaemic against the backdrop of a rapidly ageing fleet. Simply put we have never seen an orderbook so low with rates so high,” he said during a conference call.

US consults shipping industry on new sanctions guidance

FRESH sanctions guidance for international maritime operators will be issued by the US government “in the coming weeks” following consultation with the shipping industry.

The US State Department, which says the review is being jointly agreed with the Department of Treasury and US Coast Guard, sought opinion on a series of “risk mitigation measures” which were distributed for discussion to UK-based marine insurers and shipping industry associations over the last six months.

A supplementary checklist given to marine insurers outlined 12 action points that would demonstrate due diligence in sanctions compliance, according to a document distributed at a February 25 workshop seen by Lloyd's List.

That included:

- Extensive monitoring of vessel-tracking data
- Proof of due diligence to get necessary documents from flag registries
- Colour photocopies of passports of all individual principal beneficial owners

The responses submitted to the State Department was that these and other proposed measures were

unworkable, according to marine insurers with knowledge of meetings held on the matter. More unworkable and or onerous proposals were said to have been floated.

The measures still over-relied on vessels' automatic identification system (AIS) data to track and monitor any potential gaps in signals that might be suspicious, according to accounts of meetings.

The Department of State told Lloyd's List that following discussions it had taken on board the feedback.

“The US Department of State works to raise awareness among maritime stakeholders regarding relevant US law, as well as relevant UN Security Council Resolutions,” a spokesperson said in an emailed statement.

“We are in the process of finalizing guidance, which we anticipate will be issued jointly with the Department of the Treasury and the US Coast Guard in the coming weeks. We caution Lloyd's that information informally shared may have changed in the drafting and consultative process.”

“As part of our effort to respond to requests for guidance, we solicited industry comment on early drafts of updated maritime advisories. We have taken on board that feedback.”

First indications of fractiousness emerged in December, after various UK-based marine government and industry sectors discussed the proposals they'd received in the prior month, apparently detailed in separate meetings in London led by the US State Department's David Peyman.

Mr Peyman was Deputy Assistant Secretary of State for Counter Threat Finance and Sanctions until April 5. His website entry shows he led the Office of Economic Sanctions Policy and Implementation as well as the Office of Threat Finance Countermeasures. He was appointed on August 1, 2018.

Marine insurers and others told Mr Peyman that their industry had not developed the capability to monitor and organise to drop cover for vessels mid-way through any contract, based on AIS disablement detection.

Earlier messages had also discouraged over-reliance on vessel-tracking data, with officials told it was used for collision avoidance.

The State Department had proposed that London marine insurers track and monitor vessels' AIS signals to detect whether there were any gaps in transmission and if these were deliberate.

OPINION

Post-crisis consolidation targets are not where you think

THE connection between business executives learning to work from home and consolidation in the maritime industry is not quite as tenuous as it appears at first sight, *writes Richard Clayton*.

Coronavirus has forced executives to reflect on how to continue business activity in spite of severe travel restrictions. If they do not need to travel now, they will carry that experience forward as lockdown eases and into the "new normal".

If one journey in five — by road, rail or air — is no longer deemed necessary, then pressure on cars, trains and planes is eased. And so is pressure on road, rail and aviation infrastructure. Moreover, if more people elect to work from home after the coronavirus pandemic, rail capacity will be freed up enough to stimulate a modal shift from tar to track.

The economic shock of the health crisis has been so great that governments can be expected to dust off plans to create strategic manufacturing and production hubs that would provide resilience, while acting as an economic booster to specific regions.

In short, says Matt East, logistics and infrastructure policy adviser at GHD, a professional services company: "Beyond economic stimulation, the need for a more resilient supply chain to mitigate potential disruptions from future similar events could see producers and distributors looking to local manufacturers rather than international suppliers."

Fear of becoming locked in an economic straitjacket by "future similar events" is likely to lead, in the

medium term, to reduced overseas trade. In a few short months, the coronavirus has undermined forecasts of economic growth that suggested that trade by volume in 2050 would be up to four times higher than in 2010. The new normal cannot be expected to return to the old rate of expansion.

This will reduce demand for shipping capacity. Consumers have learnt through lockdown to consume fewer material goods, energy suppliers are likely to accelerate the transfer from coal and oil to gas and renewables, community efficiency drives will cut waste and censure excess. Together, these will lead to financial stress for businesses across a global supply chain operating at break-even levels.

And that is the point at which opportunities arise for consolidation through acquisition.

Consolidation is a form of economic realignment. Left alone, such a realignment would follow a rational path: the strongest or the most agile would survive, the weakest would fall. However, the significance of shipping to national economies means realignment in maritime can be anything but rational.

The clearest example of political interference in rational thinking is in shipbuilding. Demand for newbuilding ships since 2006 has been extremely volatile, with a peak in 2006–08 before the financial crash, followed by surges and slumps every two or three years. It is a sign of uncertainty when the governments of the three major shipbuilding nations all undertake significant realignments at the same time.

In Japan, Imabari is reported to have reached agreement to form a joint venture with Japan Marine United. At the same time, the government in Tokyo is in talks to combine 15 other constructors into a single enterprise, All-Japan Shipbuilders.

This followed Beijing's responding to the slowing in new orders with a merger of state-owned China State Shipbuilding Corp and China Shipbuilding Industry Corp. Seoul's desire to consolidate Hyundai Heavy Industries with Daewoo Shipbuilding & Marine Engineering remains unconcluded.

Container shipping has already suffered several bouts of consolidation. The coronavirus crisis has left liner operators vulnerable. However, a mitigating factor may be the pain caused by the collapse, in 2016, of Hanjin Shipping: the entire supply chain will not want to repeat that experience.

The reefer sector, seriously eroded over many years by containers, will continue its decline. In the pure car carrier sector, with global car sales at minimal levels, demand for capacity will be low for many months. Dry bulk rates have been uninspiring for the past eight years. None of these will stimulate much corporate acquisition activity.

Even the tanker sector, enjoying short-term spikes in freight rates, driven by demand for floating storage, hardly inspires a long-term punt.

Post-coronavirus consolidation targets among the shipbuilders and shipowners are not obvious. Buyers will be identifying high-performing assets, and few are available. The place to look for consolidation targets is among the asset-light, knowledge-rich, innovation-driven businesses seeking to expand their reach by linking their capabilities together.

Technology people do not always understand shipping markets, while shipping people rarely grasp the full potential of new technology. When they get together, initially through partnership and ultimately through acquisition, the result could be significant. But buying a start-up is a risk few are willing to take.

Some executives working from home will spend non-commuting hours seeking potential business partnerships. Some of these will lead to acquisition — and consolidation.

While disruptive, the coronavirus outbreak will have precipitated a degree of realignment.

ANALYSIS

Shipping agrees road map to lift crew change barriers

SHIPPING has drawn up a 12-point plan to enable crew changes around the world as the coronavirus pandemic forces lockdowns and travel restrictions.

The document sets out the responsibility of governments, shipowners, transport providers and seafarers and provides a framework for procedures that can be adopted worldwide to ensure that trade can keep flowing and seafarers can be relieved, the International Chamber of Shipping said in a statement.

The 55-page road map covers a range of interested parties, including seafarer unions and international shipping industry associations as well as the insurance sector.

“The problem is simplistic, but the solution is complex,” said ICS secretary-general Guy Platten.

“Seafarers continue to work really hard, day in day out and far away from loved ones, but if we are not

able to free our seafarers from their lockdown we could start to see disruption to trade and more importantly we increase the risk of accident and occurrences of mental health issues. Putting this off is no longer an option.”

The International Maritime Organization's secretary-general Kitack Lim has endorsed the recommendations, which have been just over three weeks in the making.

ICS deputy secretary-general Simon Bennett told Lloyd's List that in view of the critical urgency, the basic concept was developed in about a week, with a complete draft taking a further seven days. It then took about 10 days to receive final agreement across the entire global industry — overseen by an ICS-led Crew Change Task Force — to accommodate the many different interests of the various sectors.

ICS national associations have been meeting two to three times a week by video, with virtual meetings

held with other international shipping associations, the ITF union and IATA, to take the work forward. It also took informal soundings from some IMO member states during the process.

About 150,000 merchant seafarers will need to be changed over in two weeks' time to ensure compliance with international maritime regulations, the ICS said. "Failure to do so risks the well-being of seafarers, maritime safety, as well as the supply chains that the world relies on."

Many seafarers have reported feeling "trapped" and exhausted because of working overtime, with stress caused by fear of contracting the virus among reasons why the Seafarers Happiness Index declined in the first quarter of the year from the previous three months.

Repatriation has been the biggest concern for the sector with calls by flag states, unions, shipping associations, charities and non-governmental bodies for governments to deem seafarers key workers exempting them from travel restrictions.

While the protocols have been agreed, they are not obligatory. But it does send a strong message of cross-industry collaboration in this time of urgent need.

Mr Platten of the ICS told Lloyd's List that governments were starting to listen, to understand, testament to the strength of the protocols, as the travel restrictions caused by the virus were likely to "be around for many more months".

Already some companies are using them to great effect, he said. It was now a question of working with governments on implementation.

One of the protocols involves health checks at place of residence seven days prior to leaving for a vessel to mitigate any risks.

Raising the profile is one thing, but developing solutions that can be applied is another, he said.

"It is unprecedented to develop these protocols and in such detail in such a short space of time," he added.

MARKETS

Marine insurance premium volumes set to fall, IUMI head warns

AGGREGATE gross written premiums for marine insurance are set to fall in line with a likely downturn in world trade in the wake of the coronavirus crisis, the president of the International Union of Marine Insurance says.

Richard Turner said there are likely to be serious consequence across all major marine classes, including cargo, hull and P&I.

Mr Turner foresaw serious consequence across all major marine classes, including cargo, hull and P&I.

He pointed to projections from the World Trade Organisation, which is predicting a sharp drop of anywhere between 13% and 32% in world trade in 2020, and suggested that premium volumes will inevitably head in the same direction, at a ratio that is yet to be determined.

"It doesn't need special insight to see that there will be a follow-through from the drop in trade volumes," he told Lloyd's List. "Two types of things will happen. The first is that where ships are laid up, depending on terms of the insurance policy, some

clients will be entitled to receive returned premiums.

"Generally speaking, cargo policies premiums are charged as a proportion of the turnover that is being moved. So if the cargo drops, so too will the premium."

It also stands to reason that premiums on project cargo will fall if construction projects are put on ice, and that the recent sharp decline in oil price means less exploration and less capital expenditure in offshore.

"All things taken together indicate to me – and it's just a personal opinion – that we'll see a dip. Maybe a dip this year and a dip next year, which will bounce back in years to come."

He declined to speculate on the ratio between declining world trade and declining premiums.

The most up-to-date figure for worldwide marine underwriting premiums is \$28.9bn in 2018, as unveiled at the IUMI conference in Toronto last year.

Until now, growth had been expected in 2020.

Data show that the average distance travelled per week by container vessels is well down on the corresponding period in 2019, which indicates that this trend is already materialising.

Investment markets are also suffering badly, and the almost certain fall in returns will take its toll on insurers, given that proceeds from the investment of free reserves forms an integral part of their business model.

Speaking separately on a webinar organised by Marine Insurance London, Mr Turner cited the large number of cruiseships — the highest-value vessel type — currently idled around Miami and the Bahamas, which obviously pose a massively enhanced accumulation risk.

Moreover, other issues for the marine insurance community, such as the consequences of climate change, the rise of protectionism and boxship safety, had gone away.

IN OTHER NEWS

Court rules against Italian class society over 2006 ferry disaster

VICTIMS of a ferry disaster in which over 1,000 people were killed are entitled to bring an action for damages against the Italian classification society which certified the vessel, a court has ruled.

The *Al Salam Boccaccio '98*, carrying 1,400 passengers and crew, sank in Egypt in February 2006.

Now the Court of Justice of the European Union has ruled that survivors and the relatives of the dead can make a claim against Registro Italiano Navale (RINA) before the Italian courts. RINA did not immediately respond to a request for comment.

HHI wins \$122m suezmax orders

HYUNDAI Heavy Industries has won a contract to build two suezmax tankers amid an order drought in the broader shipbuilding industry.

The Seoul-listed builder said in an exchange filing that it struck the deal worth Won149bn (\$122m) with an undisclosed European owner. Delivery is scheduled for 2022.

The company has secured new orders of \$1.4bn for the year to

date, amounting to only 8.8% of its annual target for 2020.

ICTSI first-quarter volumes helped by new Brazil terminal

THE globally diversified nature of Philippines-based terminal operator International Container Terminal Services Inc has helped it dampen the adverse of the coronavirus pandemic on its operations.

It reported consolidated volume rising slightly to 2.51m teu in the first quarter compared with 2.48m teu in the year-earlier period. The slight increase in was primarily due to a contribution of a new terminal in Rio de Janeiro and new services at other terminals.

ICTSI said the rise in volumes was balanced by a decline in trade activities due to the impact of the pandemic on global trade. In fact, excluding the contribution from the new Rio terminal, volume would have declined 1%, it said.

Yang Ming to offer shares amid weak cashflow

YANG MING, the world's eighth-largest container shipping carrier, looks to enhance its cash position through a private offering as the coronavirus-ravaged sector is striving to head off a liquidity crisis.

The Taipei-listed carrier has announced the plan to issue up to 300m special shares to potential investors, including those from the financial sector and the company's associates, according to an exchange filing.

The company said the funds raised will be used to replenish its working capital and support capital expenditures.

International Seaways optimistic for tanker market after earnings growth

NEW YORK-listed tanker owner International Seaways anticipates an even more profitable market over the next few months after tripling its earnings in the first quarter.

International Seaways, which owns crude oil and product tankers, said it expected the second and third quarters to be better than the first due to continued excess crude supply.

"The rate environment strengthened in the second quarter with low oil prices, excess oil supply and the increasing demand for floating storage pushing rates higher," International Seaways chief executive Lois Zabrocky said in the company's first-quarter report.

Finnlines volumes and earnings hit by lockdowns

GRIMALDI Group managing director Emanuele Grimaldi has reiterated his call for state aid to shipping companies during the pandemic crisis to be limited, as its wholly owned subsidiary reported a decline in revenues during the first quarter of the year.

"Governments across Europe have promised various emergency measures to shipping companies," said Mr Grimaldi. "This can lead to very unfair competition."

Any financial aid should be provided in accordance with existing rules, and individual companies should not be singled out for support at the expense of more robust rivals, he added.

Navios Containers seals deal for four largest vessels

NAVIOS Maritime Containers has completed a \$119m sale and leaseback deal, leaving the company with "no significant debt maturities" until 2023.

The transaction, which closed in March but was reported alongside Navios Containers' first quarter of the year earnings, was with an unidentified but unrelated third-party entity.

The deal concerns the four largest vessels in the fleet of 29 containerships – *Navios Utmost* and *Navios Unite*, both 2006-built vessels of 8,204 teu capacity, the 2010-built *Navios Unison* and the 2011-built *Navios Constellation*, both 10,000 teu.

Genco focuses on crew safety as losses widen

GENCO Shipping & Trading, a US-based dry bulk owner, has taken measures to safeguard its crew amid the coronavirus pandemic.

Its crew members have received gloves, face masks, hand sanitisers, goggles and handheld thermometers, the company said in a statement. It has also limited shore personnel from visiting its ships.

In addition, precautionary measures are posted in common areas to supplement safety training, while personal hygiene practices are "strongly encouraged" on board.

GasLog trims dividend, citing 'uncertainties' sewn by coronavirus

GASLOG, the liquefied natural gas carrier owner, has cut its dividend by two-thirds, citing "an uncertain outlook" for near-term economic activity and for LNG demand.

The owner of 19 LNG carriers, including six on order with another 15 owned by separately listed subsidiary GasLog Partners, will pay a dividend of \$0.05 per share for the first quarter compared with \$0.15 per share previously.

GasLog Partners' quarterly dividend had already been cut back in February, with a nod to tougher prospects for five steam turbine-driven LNG carriers among the partnership's fleet.

LA port sees no traffic uptick before fourth quarter

The port of Los Angeles has seen a 15.5% decline in cargo throughput this year with the volume in April down 6.5% as a result of the coronavirus outbreak.

"Retail continues to delay, postpone and in some cases cancel orders. Fast fashion has struggled with a 50% drop in business. Overall, auto and related parts are also down precipitously," said executive director Gene Seroka.

"Some economists have stated that we may not see better economic activity until the first quarter of year 2021 and therefore a possible uptick in international freight moving inbound through the port of Los Angeles in the fourth quarter of 2020."

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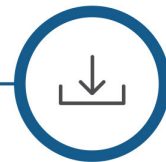
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