



Oil Tanker Market Update

September 18th 2022

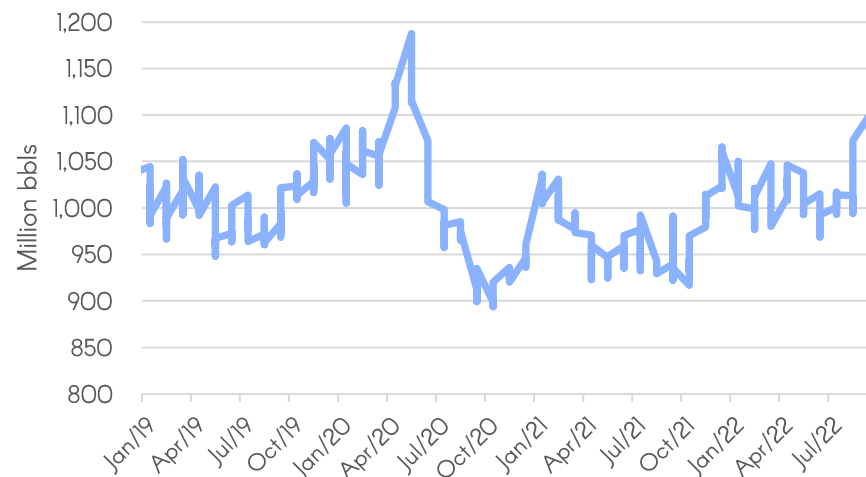
Peter Michael E. Christensen, Head of Research

YTD: War in Ukraine and Sanctions on Russia has Increased Fleet Utilization

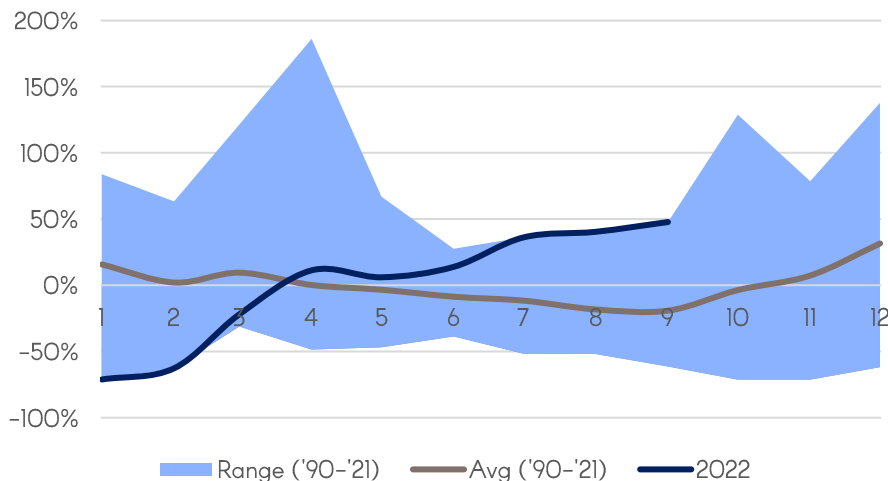
Key takes

- This is currently a ton-mile story, with sanctions on Russia being the catalyst. Oil in transit is back at pre-pandemic levels
- The shift towards highly inefficient trade routes due to sanctions on Russian oil has significantly increased fleet utilization, thus we have seen a significant uptick in earnings since the start of the war. This has especially been true on the product tanker side.
- Increased refinery margins have increased throughput both in the MEG and the US
 - New capacity expected both in USC (+2mbpd in '23E v '22E), Saudi Arabia and Kuwait (+1mbpd combined) going forward

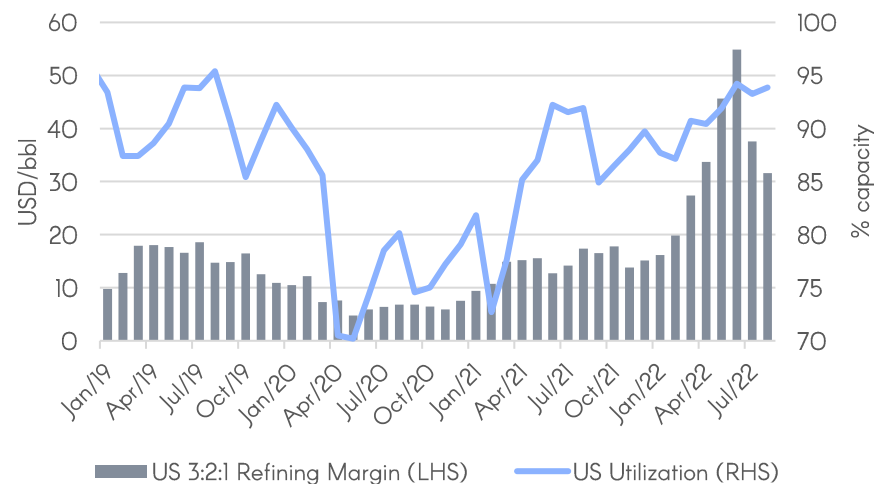
Global oil in transit is back at pre-pandemic levels



Avg Oil Tanker spot rate seasonality since '90 (TCE)



Increased refinery margins have increased throughput

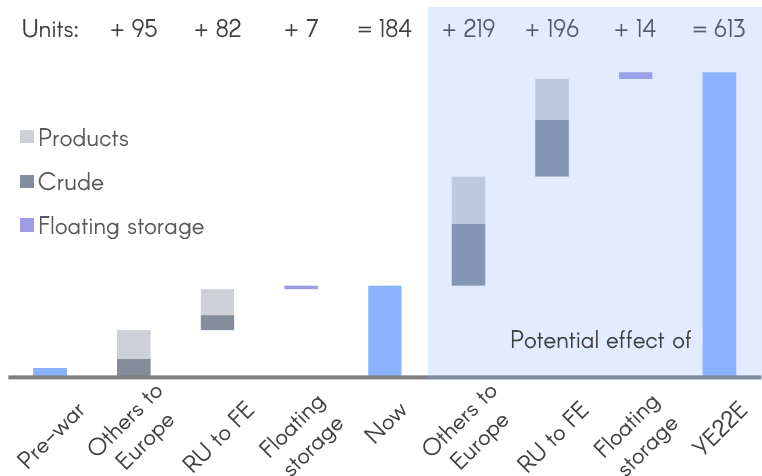


Scenario: Potential Impact of EU Sanctions on Russian Oil

Key takes

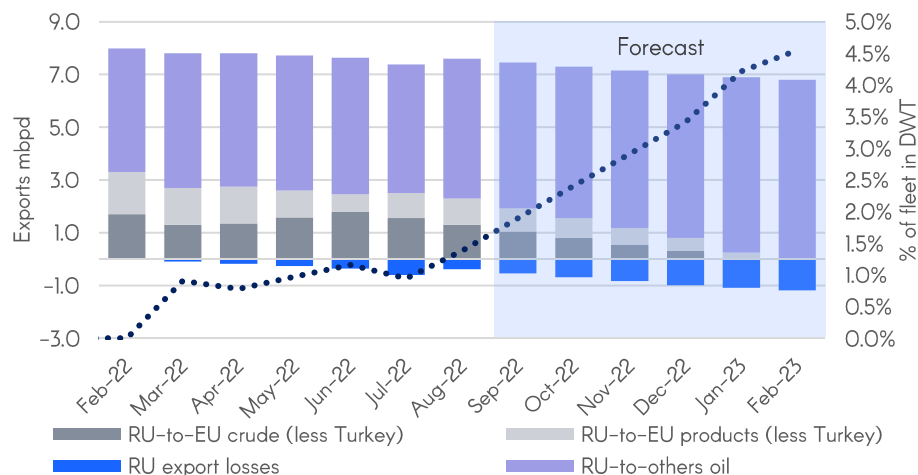
- Russian petroleum exports have remained high despite the war. By end of August, Europe had lowered its imports from Russia by only 0.6 mbpd of oil products and 0.25 mbpd of crude oil
- Should Europe be successful in their ban on Russian oil by YE22E, Russia would need to find other buyers for a further 1 mbpd of oil products and 1.3 mbpd of crude oil, and Europe would need to obtain petroleum products from other producers—increasing ton-mile demand even further
 - The change in flows away from Russia-EU trade has already increased tanker demand by 184 MR equivalents. The European ban on Russian petroleum imports could see that figure more than treble in the near-term
- With fleet utilization already above 90% high, a 3-4 percentage point increase in utilization could see several vessel classes hit record earnings this winter

Potential impact of EU ban in MR equivalent units

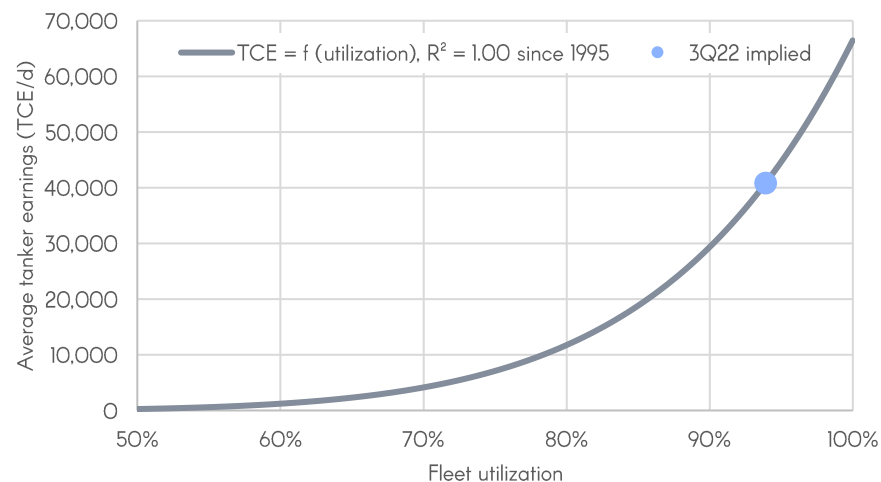


Impact in MR equivalent unit, assumptions on incremental RV-days: i) others to Europe = 30, ii) RU to FE = 35

Shift in Russian oil exports and potential impact on fleet



Oil tanker fleet utilization

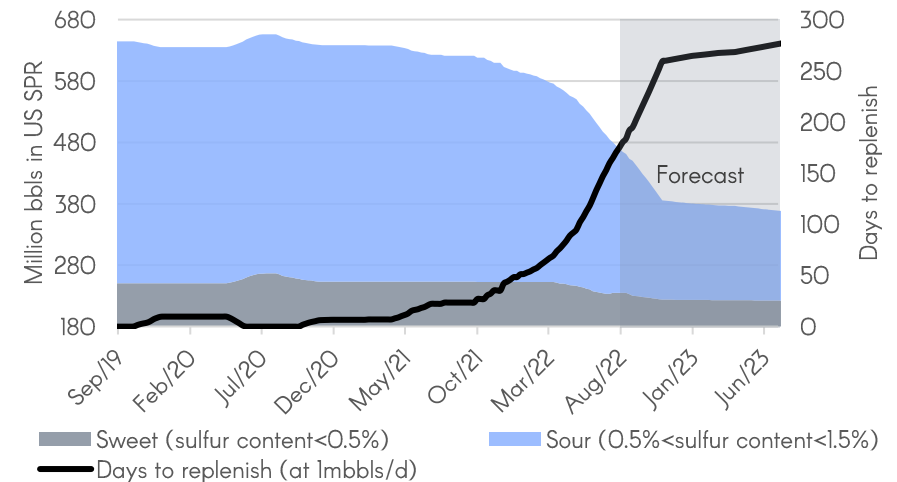


US Strategic Petroleum Reserve (SPR): Releases and Replenishments

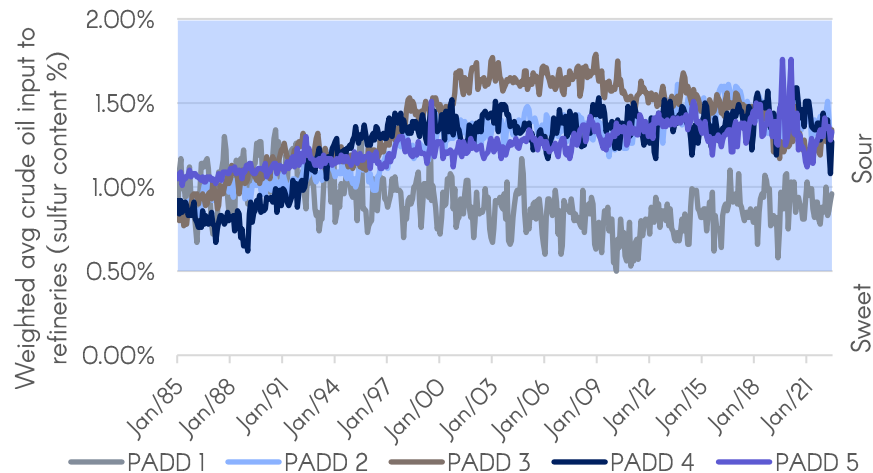
Key takes

- The US had by Sept. 9th released 209mbbls from the SPR relative to pre-Covid levels, with inventories currently at 434mbbls—the lowest levels since 1984—with EIA projecting an inventory draw rate of around 1mbpd in throughout Oct. of this year
- The vast majority of the releases thus far have been sour stocks, which would be replenishable by domestic production ...
- However, according to EIA, the US would be a net importer of crude oil until 2028 even in a high price scenario. Thus, even if we see a significant ramp up in domestic production, any restocking of the SPRs would need to be obtained from abroad.
 - The natural replacement cargoes in terms could, of course, be obtained from the MEG. Such a trade could potentially tie up 24 VLCCs for a full year.¹

Inventory draws and days to replenish (SPR)

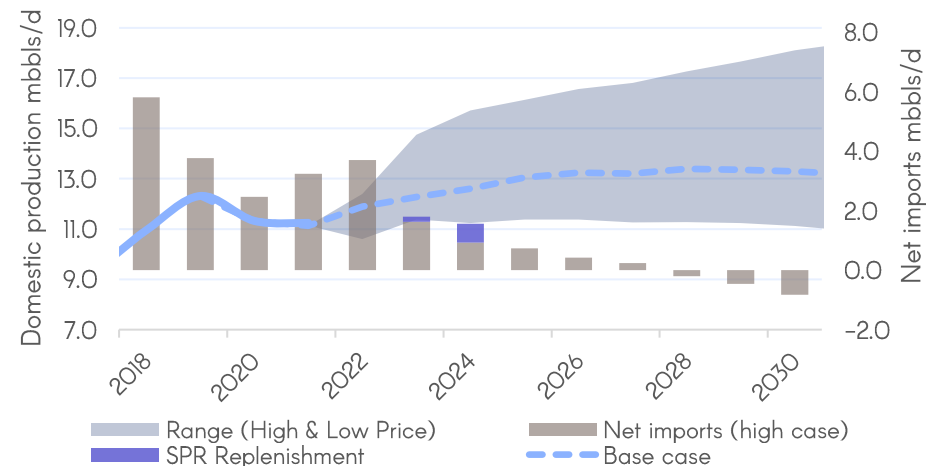


US domestic crude oil production mix



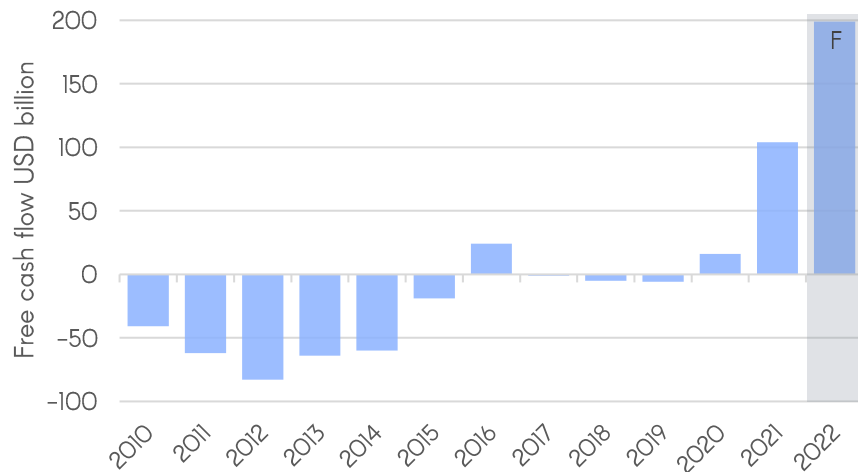
¹Assuming a 60 day round voyage time and a load capacity of 2mbbls per vessel

US domestic crude oil production and net imports

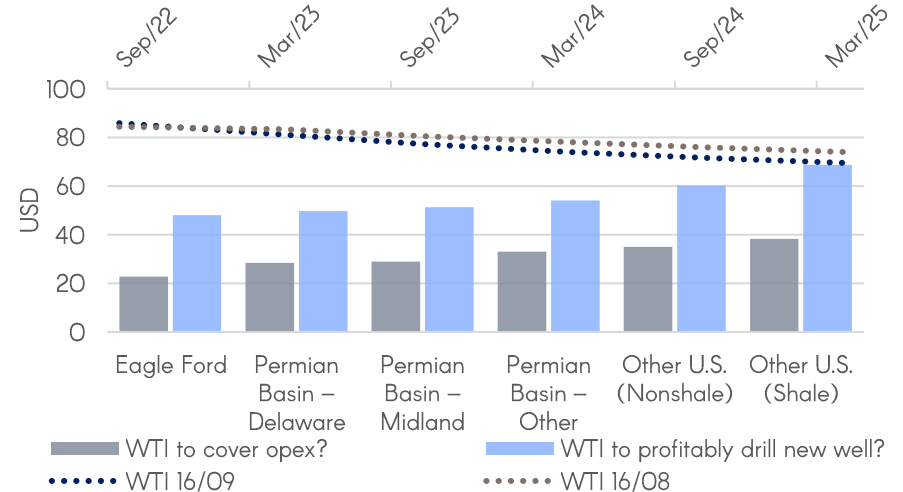


US Shale Players Have Money to Spend and Incentives to Invest

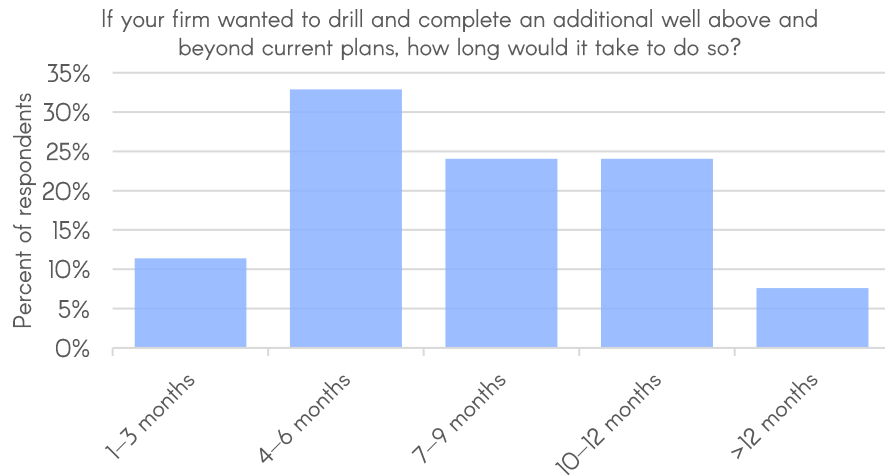
US shale players free cash flow estimates



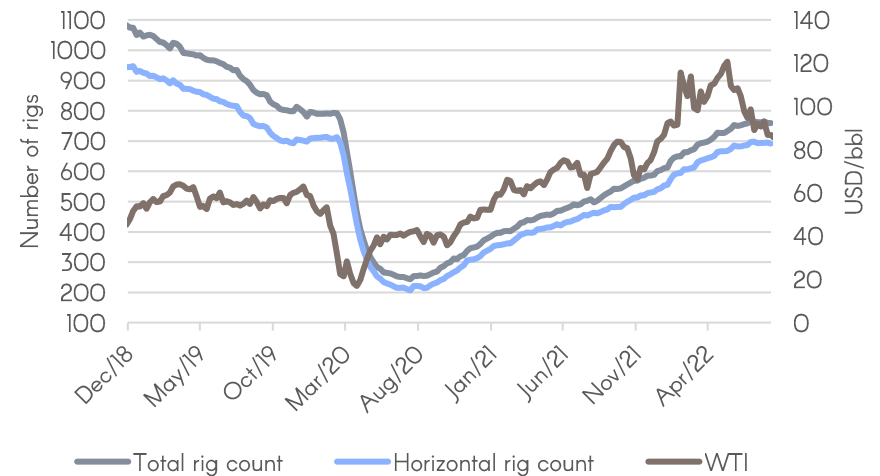
Shale players' opex & profitability vs WTI future curve



Survey: drill time on new wells



Supported by higher prices, US rig count is up

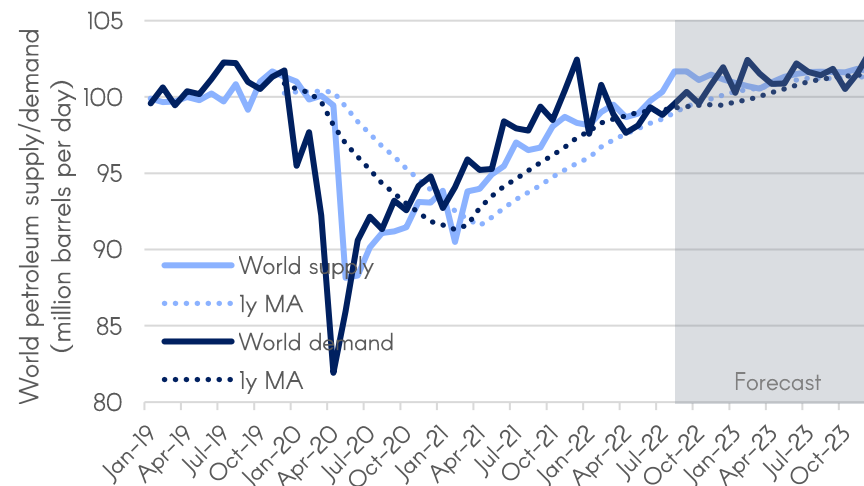


Mid-Term Demand Drivers

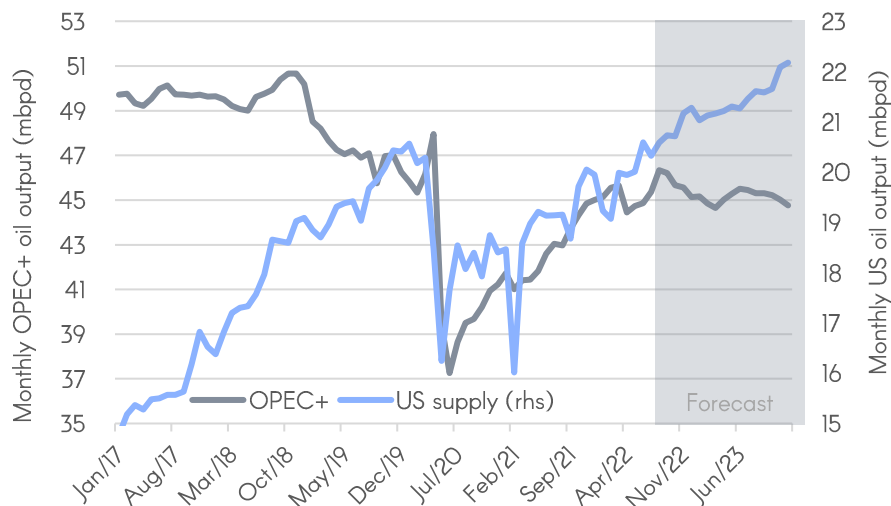
Key takes

- Global oil supply is close to pre-pandemic levels. Some dark clouds, however:
 - Recessionary fears from high inflation;
 - deceleration of growth in & continued Covid outbreaks/lockdowns in China;
 - rising energy costs could curtail demand growth
- OPEC still lagging pre-pandemic levels, but the West has seen production growth, particularly in the Americas and in Norway. The US hit all-time high in June and is expected to add 1mbpd more in the coming year
- Global inventory levels have drawn to levels not seen since 2010-14, the expected restocking cycle ahead could provide firm support for tanker earnings

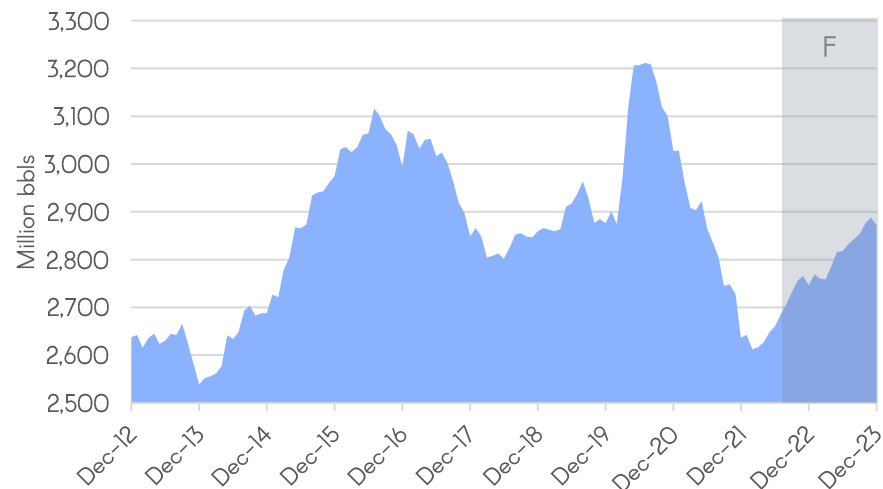
Global oil supply is close to pre-pandemic levels



OPEC+ vs US oil output



Global inventory levels have drawn to levels not seen since 2010-14

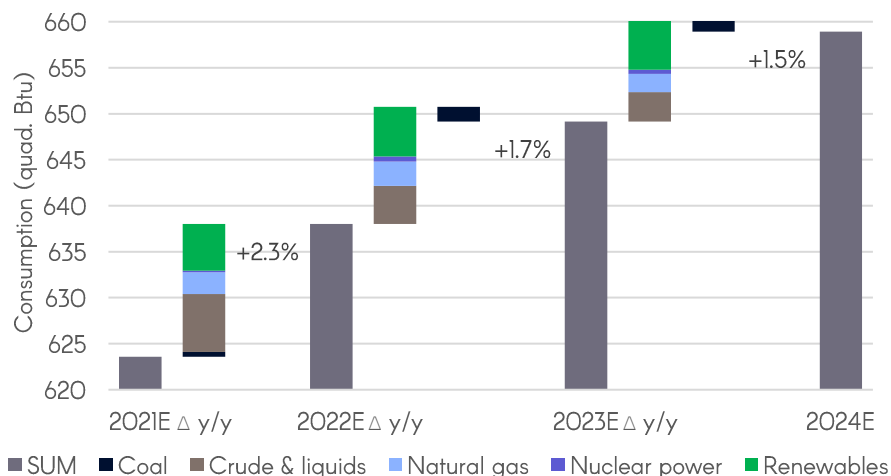


Long-Term Demand Drivers

Key takes

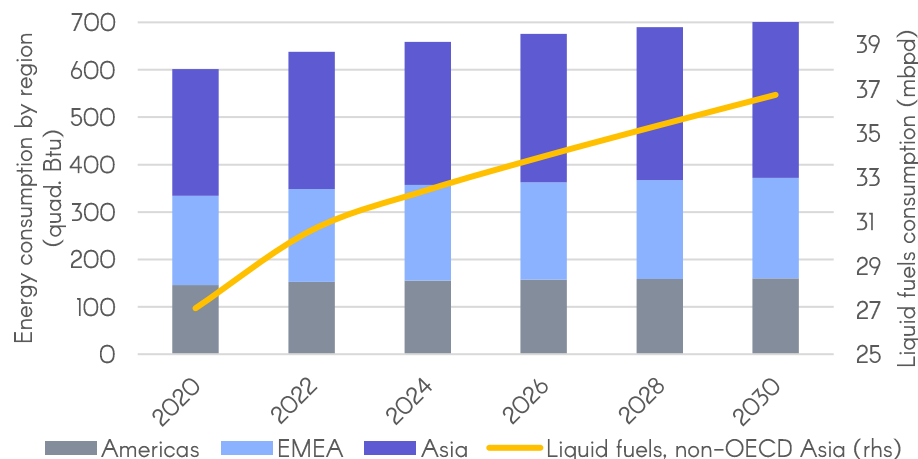
- EIA has projected an increase in world energy consumption of 17% across the 2020s
- Although a lot of the increase in energy demand is expected to met by renewable energy, the world will still need an increase in production of crude and liquid fuels. The majority of the increase in petroleum demand is expected to happen in non-OECD Asia, with approximately 10mbpd across the decade
- However, most of the increase in petroleum production will happen in the US and the Middle East, which is supportive of oil tanker shipping

... in support, oil & gas production will continue to grow ...

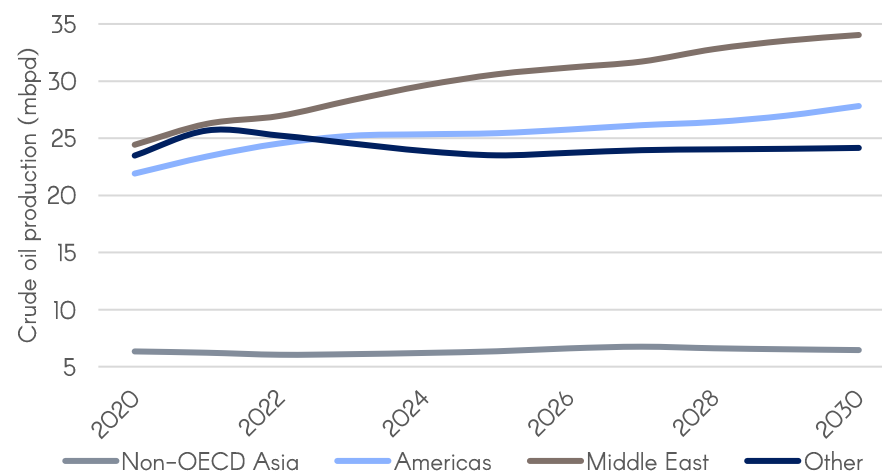


Forecasts according to EIA's 2021 International Energy Outlook

The majority of the increase in petroleum demand will occur in Asia ...



... but production and demand growth does not occur in same region.

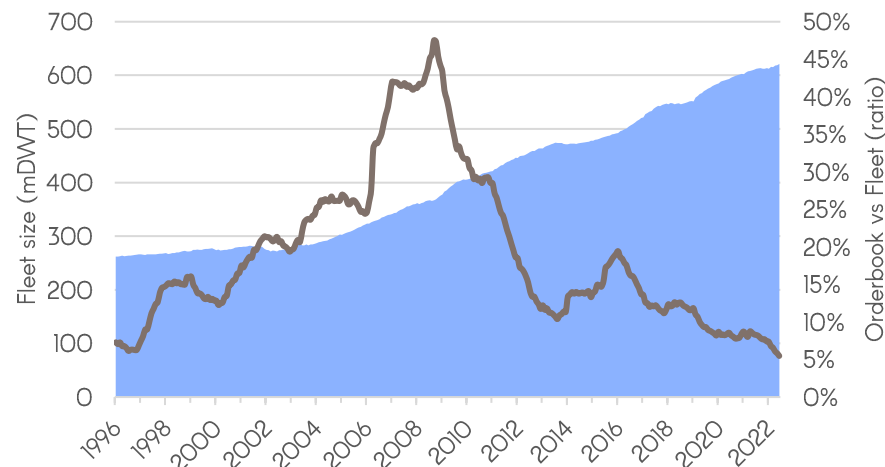


Unprecedented Supply Situation

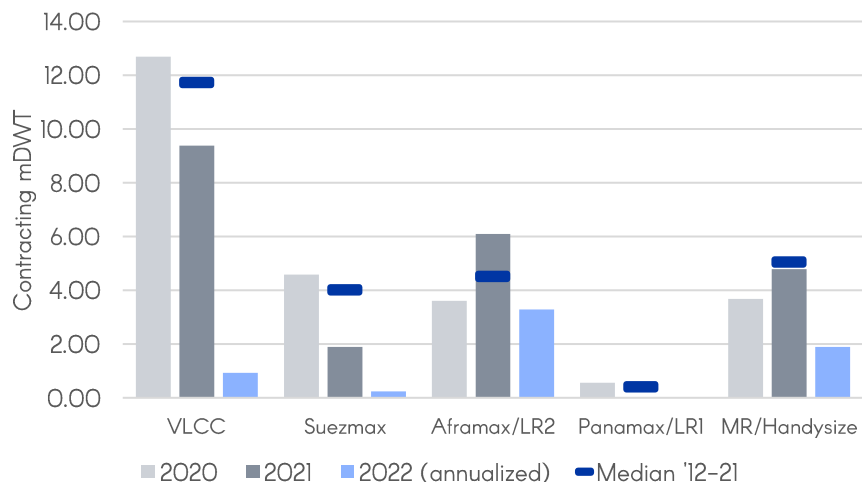
Key takes

- The orderbook-to-fleet ratio, currently sitting at ~5%, is the lowest on our records going back to 1996. Since then, the fleet has more than doubled in size
- With both increased newbuild prices and technological risk, very few newbuild orders have been placed thus far in 2022
- However, even if you wanted to order vessels: Our data confirms reports we are hearing that the boom in container and LNG shipping has led to yards being filled with container and LNG orders

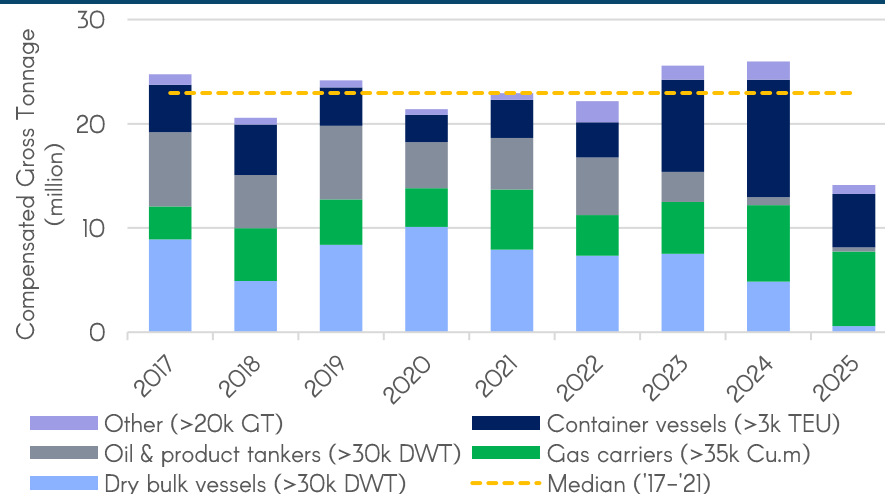
Orderbook-to-fleet ratio is the lowest on our records (~5%)



Very few newbuild orders placed thus far in 2022



Yards are sold out on capacity well into 2025E

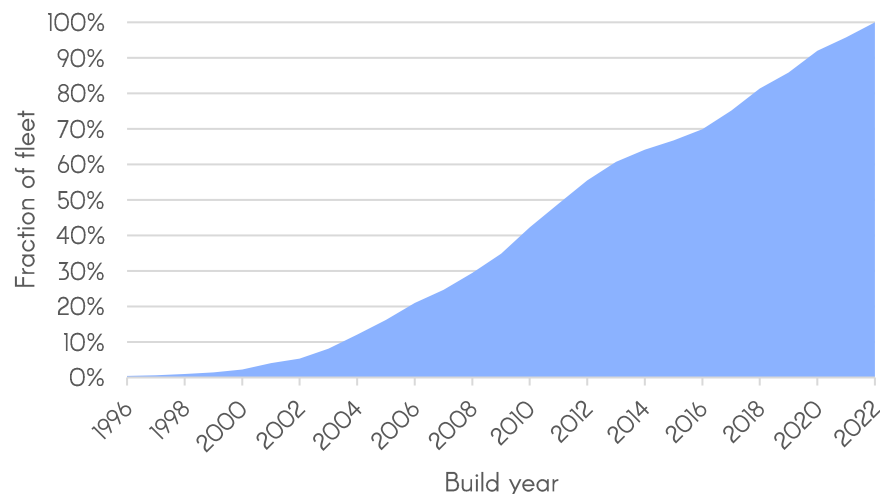


Unprecedented Supply Situation

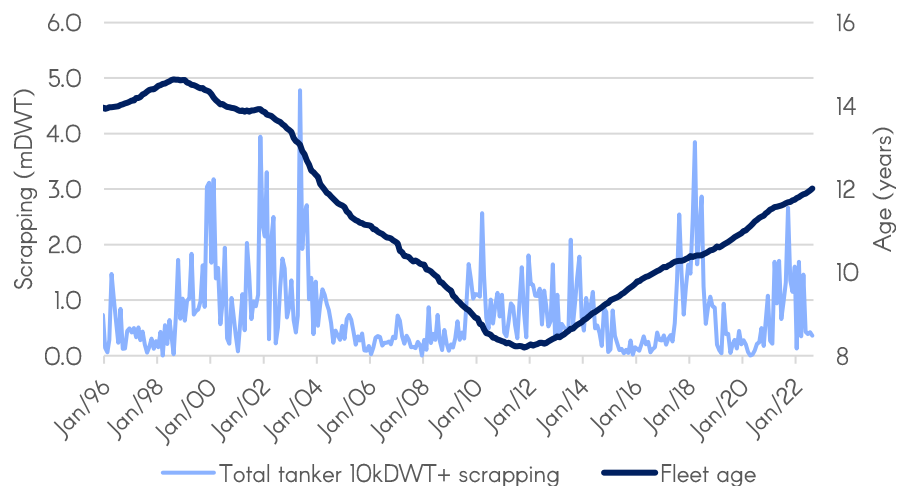
Key takes

- Moreover, the oil tanker fleet is aging. By year-end '23E 61% of the oil tanker fleet will be 10 years or older, with 29% approaching 15 and 19% 17.5 years
- Limited scrapping activity, "China" tonnage coming of age, and few newbuilds coming into the fleet has seen the average fleet age rise significantly in recent years
- And: with new regulations coming into play from 2023E and onwards we expect recycling activity to pick up going forward, which could result in negative fleet growth in 2024E

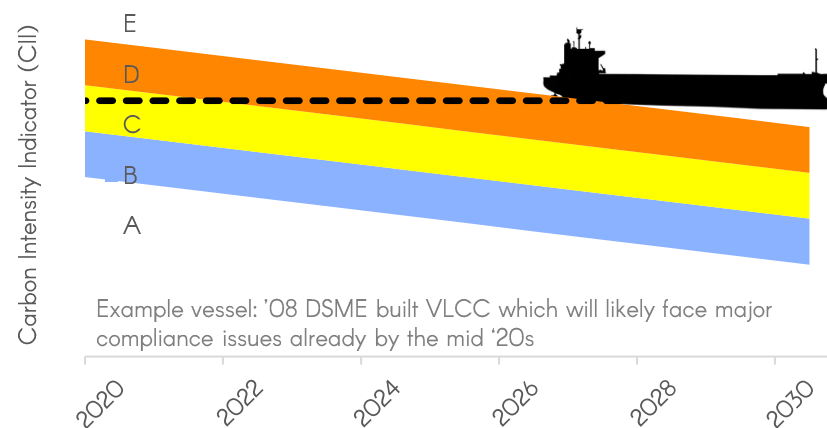
By YE '23E 61% of the oil tanker fleet will be 10 years or older



Scrapping and average fleet age

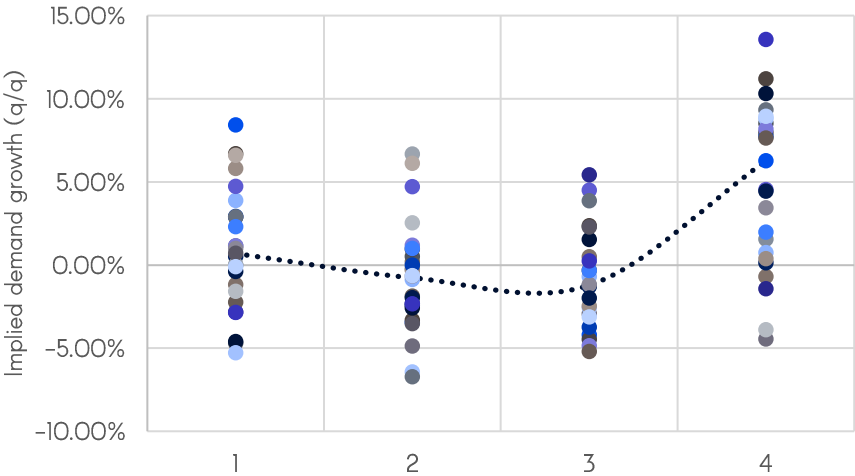


New regulations could lead to enhanced scrapping from 2023E

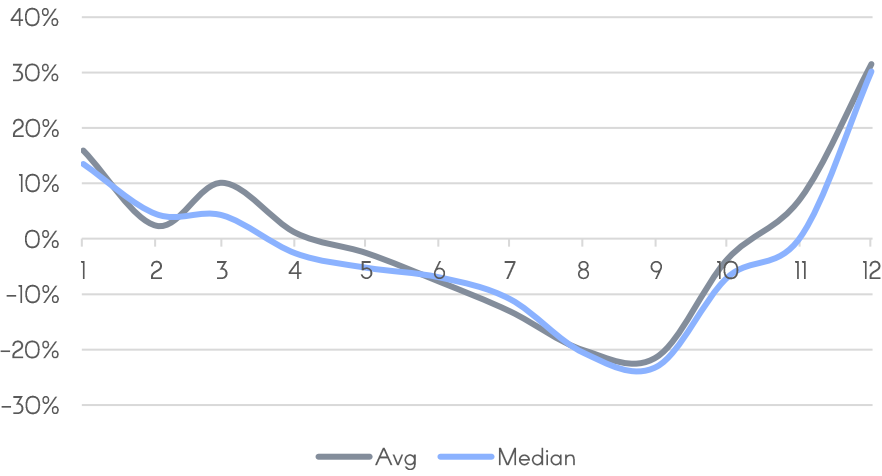


And: Winter is Coming

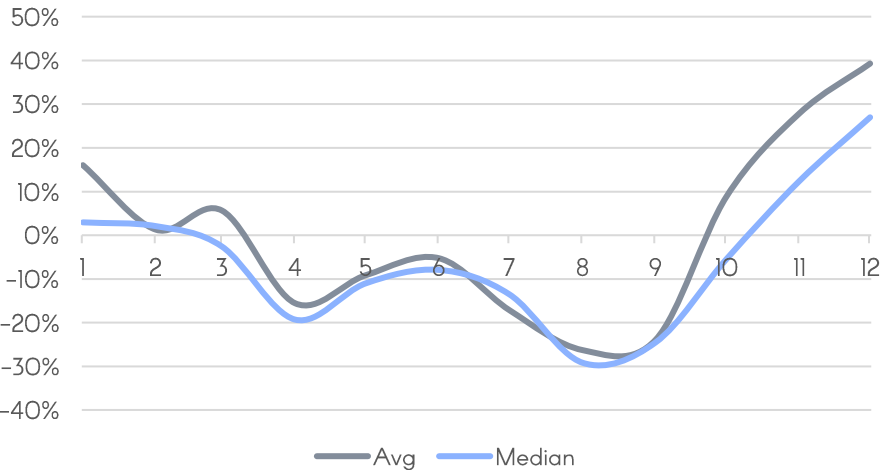
Implied quarter-on-quarter demand growth



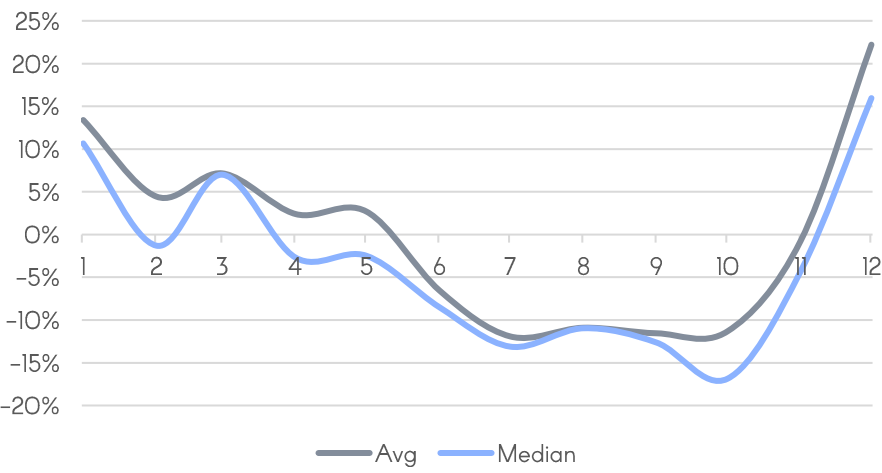
Average oil tanker spot rate seasonality since '90 (TCE)



Average VLCC spot rate seasonality since '90 (TCE)



Average MR spot rate seasonality since '90 (TCE)

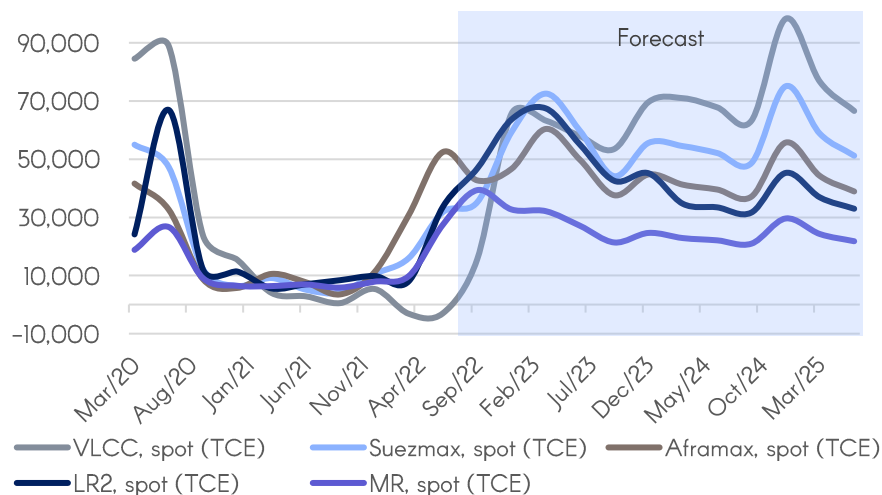


Putting It All Together

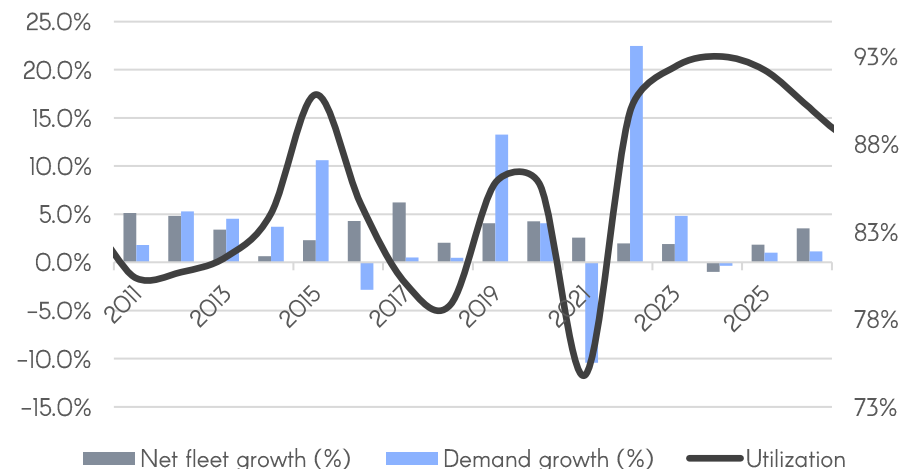
Key takes

- We are very optimistic towards the oil tanker segment going forward. The demand side of the equation is supported both by increased utilization due to a shift towards highly inefficient trade routes in the near-term, and restocking and increased demand growth in the mid-to long-term. At the same time, the situation in the supply side is unprecedented, with an OB-to-fleet ratio of ~5%, yards that are sold out on capacity, and environmental regulations edging closer by the day.
- We expect fleet utilization to average above 90% in the next few years with a cyclical peak in YE'24E
- Although our Oil Tanker Share Index has already doubled the past 4 months, we still see significant upside ahead and **reiterate BUY** on oil tankers

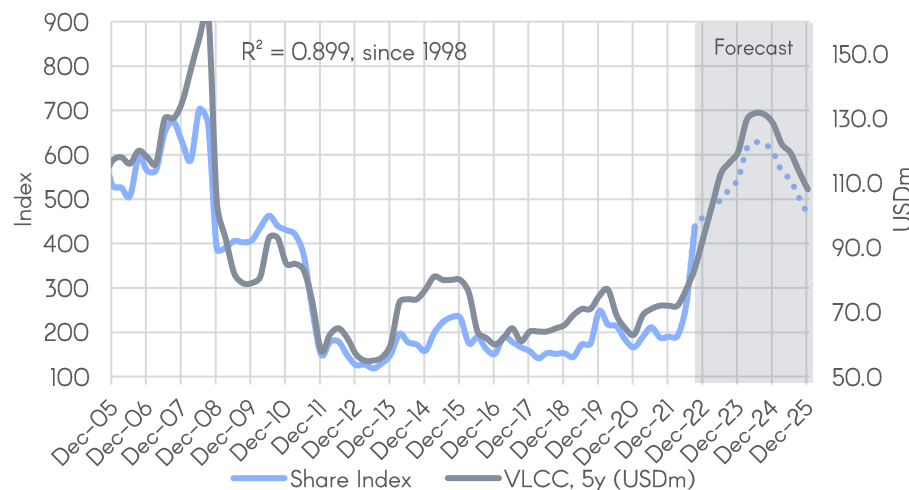
... with continued volatility but healthy rates going forward ...



We see continued high utilization until 2H25E



... with VLCCs supporting further upside on our Oil Tanker Share Index



Equities

Key takes

- Due to the significant strengthening of the demand side, we **revise up** all of our oil tanker target prices and **reiterate our BUY rating** on the oil tanker segment. We also **upgrade NAT US to BUY** (from HOLD).
- We still hold INSW US as our top pick within the segment, with an upside of 94% to our new target price of \$65. With the rest of our top three tanker stocks comprising of TNK US with a 96% upside to our \$54 target price and OET NO with a 95% upside to our NOK 288 target price.

Changes to our target prices

			New		Old		Pricing/Upside		P/NAV	
	M.cap	Turnover	Rec.	TP	Rec.	TP	P	+/-	Now	1y fwd
DHT US	1,417	17.7	BUY	12.0	BUY	9.5	8.7	38%	1.09	0.68
EURN US	3,923	17.9	BUY	33	BUY	18	18	85%	1.29	0.82
FRO US	2,847	32.2	BUY	23	BUY	16	13	80%	1.07	0.54
INSW US	163	1.4	BUY	65	BUY	46	34	94%	0.73	0.50
NAT US	630	11.7	BUY	4.0	HOLD	2.4	3.1	29%	1.27	0.59
OET NO	4,855	7.5	BUY	288	BUY	213	148	95%	0.84	0.42
TNK US	91	1.0	BUY	54	BUY	32	28	96%	0.88	0.43
Average	1,990	13						74%	1.02	0.57
Median	1,417	12						85%	1.07	0.54



Equities

Updated 18 Sep 22:11 CET														
Company	M.cap	Turnover	Return ly	Rec.	Target Price	Last Price	Target/ Price	NAV /sh	Now	P/NAV ly fwd	ε	EV/ GAV	adj. equity	τ
DHT US	1,417	17.7	53%	BUY	12.0	8.7	38%	8.0	1.09	0.68	1.24	1.07	72%	0.88
EURN US	3,923	17.9	113%	BUY	33.0	17.8	85%	13.9	1.29	0.82	1.61	1.23	53%	0.82
FRO US	2,847	32.2	63%	BUY	23.0	12.8	80%	12.0	1.07	0.54	1.74	1.03	49%	0.99
INSW US	163	1.4	105%	BUY	65.0	33.6	94%	46	0.73	0.50	1.27	0.82	66%	0.94
NAT US	630	11.7	36%	BUY	4.0	3.1	29%	2.5	1.27	0.59	1.70	1.14	51%	0.90
OET NO	4,855	7.5	83%	BUY	288.0	147.6	95%	17.3	0.84	0.42	2.18	0.93	42%	0.87
TNK US	91	1.0	129%	BUY	54	27.6	96%	31	0.88	0.43	1.40	0.92	58%	1.00
Average	1,990		83%				74%		1.02	0.57	1.59	1.02	56%	0.91
Median	1,417		83%				85%		1.07	0.54	1.61	1.03	53%	0.90

Company	EV/EBITDA			P/E			Dividend yield			FCF yield		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
DHT US	0.3	6.6	3.0	2.5	17.8	3.7	34%	2%	26%	90%	22%	33%
EURN US	0.1	9.1	3.3	2.5	17.6	3.9	30%	1%	8%	77%	6%	25%
FRO US	0.4	6.8	3.0	2.9	5.7	2.4	39%	3%	21%	76%	11%	44%
INSW US	0.1	4.0	2.2	1.3	4.2	2.3	42%	2%	18%	83%	32%	36%
NAT US	0.3	5.2	1.5	0.6	9.0	1.8	61%	3%	31%	82%	13%	67%
OET NO	0.1	7.6	3.6	2.7	6.5	2.3	52%	5%	35%	70%	-14%	52%
TNK US	0.3	3.3	1.1	0.1	3.8	1.7	61%	0%	18%	86%	33%	68%
Average	0.2	6.1	2.5	1.8	9.2	2.6	46%	2%	22%	81%	15%	46%
Median	0.3	6.6	3.0	2.5	6.5	2.3	42%	2%	21%	82%	13%	44%



A large, light blue, stylized letter 'Q' is centered on the page, serving as a background watermark. The 'Q' is composed of a thick circular stroke with a short vertical line at the top and bottom, and a small gap at the top right.

Appendix

Econometric Overview

Annual view

Base case	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
VLCC, spot ^a (TCE/d)	58,795	97,152	28,434	34,060	18,596	21,187	18,621	30,015	64,846	41,908	17,794	15,561	41,364	53,145	3,177	18,662	61,096	75,073	69,597
Suezmax, spot ^a (TCE/d)	43,437	73,863	25,733	27,864	18,432	16,908	15,511	27,791	46,713	27,799	15,436	16,466	31,560	30,240	7,272	35,751	58,008	57,584	53,463
Aframax, spot ^a (TCE/d)	33,311	50,010	14,370	17,690	12,378	12,541	14,131	24,705	37,977	23,142	13,873	16,175	26,225	22,161	8,187	43,517	48,122	43,394	40,492
MR, spot ^a (TCE/d)	23,669	21,168	9,176	10,692	10,638	10,589	13,277	12,360	21,405	12,166	10,220	8,750	13,740	15,251	6,719	27,363	26,335	23,902	22,546
VLCC, 5y ^a (USDm)	126	142	85	87	77	63	56	74	81	68	62	62	67	67	68	82	113	130	116
Suezmax, 5y ^a (USDm)	90	95	61	62	54	45	40	50	60	49	41	41	46	46	45	59	84	93	82
Aframax, 5y ^a (USDm)	68	71	44	44	39	31	29	39	46	36	30	31	36	37	38	52	71	75	66
MR, 5y ^a (USDm)	50	50	29	27	29	25	26	27	28	25	24	25	27	27	27	36	41	42	38

Quarterly view

Base case	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
VLCC, spot ^a (TCE/d)	3,989	2,837	503	5,378	(3,590)	(2,978)	15,571	65,645	63,275	57,945	53,509	69,653	70,974	67,830	63,194	98,295	76,613	66,581	55,219
Suezmax, spot ^a (TCE/d)	9,156	5,177	4,207	10,547	16,666	31,831	35,205	59,304	72,521	59,732	44,166	55,614	54,499	52,132	48,643	75,063	58,743	51,192	42,641
Aframax, spot ^a (TCE/d)	10,527	7,648	3,479	11,093	32,266	52,453	42,703	46,649	60,393	49,766	37,589	44,740	41,221	39,555	37,098	55,704	44,211	38,893	32,870
MR, spot ^a (TCE/d)	6,339	6,880	5,809	7,847	9,749	27,520	39,425	32,757	32,170	27,125	21,376	24,669	22,887	22,109	20,961	29,651	24,283	21,800	18,987
VLCC, 5y ^a (USDm)	64	65	70	71	72	77	84	94	103	113	116	120	130	132	131	128	122	119	114
Suezmax, 5y ^a (USDm)	42	44	48	47	51	54	61	70	78	87	85	86	92	94	94	92	87	85	81
Aframax, 5y ^a (USDm)	35	37	40	41	45	49	54	61	68	74	70	70	75	76	75	74	70	68	65
MR, 5y ^a (USDm)	26	26	28	29	31	34	39	40	41	42	40	40	42	43	43	42	40	39	37

Rates for non-eco, non-scrubber fitted tonnage

^a Average during period



Changes to our forecast

Delta					
Base case	2021	2022	2023	2024	2025
VLCC, spot ^a (TCE/d)	-	11,648	27,483	20,361	12,714
Suezmax, spot ^a (TCE/d)	-	12,235	29,351	15,330	9,576
Aframax, spot ^a (TCE/d)	-	11,391	25,095	10,793	6,741
MR, spot ^a (TCE/d)	-	3,318	6,705	5,061	3,170
VLCC, 5y ^a (USDm)	-	5	27	24	14
Suezmax, 5y ^a (USDm)	-	5	22	17	10
Aframax, 5y ^a (USDm)	-	4	19	14	9
MR, 5y ^a (USDm)	-	3	6	7	4

Delta					
Base case	3Q22	4Q22	1Q23	2Q23	3Q23
VLCC, spot ^a (TCE/d)	7,404	39,550	31,182	28,610	28,008
Suezmax, spot ^a (TCE/d)	14,424	34,515	44,032	33,643	20,961
Aframax, spot ^a (TCE/d)	21,221	24,345	37,484	28,547	18,400
MR, spot ^a (TCE/d)	7,628	5,645	3,845	6,587	8,784
VLCC, 5y ^a (USDm)	5	13	21	29	30
Suezmax, 5y ^a (USDm)	5	12	19	26	22
Aframax, 5y ^a (USDm)	4	11	17	23	18
MR, 5y ^a (USDm)	5	6	7	8	5

Rates for non-eco, non-scrubber fitted tonnage

^a Average during period

New					
Base case	2021	2022	2023	2024	2025
VLCC, spot ^a (TCE/d)	3,177	18,662	61,096	75,073	69,597
Suezmax, spot ^a (TCE/d)	7,272	35,751	58,008	57,584	53,463
Aframax, spot ^a (TCE/d)	8,187	43,517	48,122	43,394	40,492
MR, spot ^a (TCE/d)	6,719	27,363	26,335	23,902	22,546
VLCC, 5y ^a (USDm)	68	82	113	130	116
Suezmax, 5y ^a (USDm)	45	59	84	93	82
Aframax, 5y ^a (USDm)	38	52	71	75	66
MR, 5y ^a (USDm)	27	36	41	42	38

New					
Base case	3Q22	4Q22	1Q23	2Q23	3Q23
VLCC, spot ^a (TCE/d)	15,571	65,645	63,275	57,945	53,509
Suezmax, spot ^a (TCE/d)	35,205	59,304	72,521	59,732	44,166
Aframax, spot ^a (TCE/d)	42,703	46,649	60,393	49,766	37,589
MR, spot ^a (TCE/d)	39,425	32,757	32,170	27,125	21,376
VLCC, 5y ^a (USDm)	84	94	103	113	116
Suezmax, 5y ^a (USDm)	61	70	78	87	85
Aframax, 5y ^a (USDm)	54	61	68	74	70
MR, 5y ^a (USDm)	39	40	41	42	40

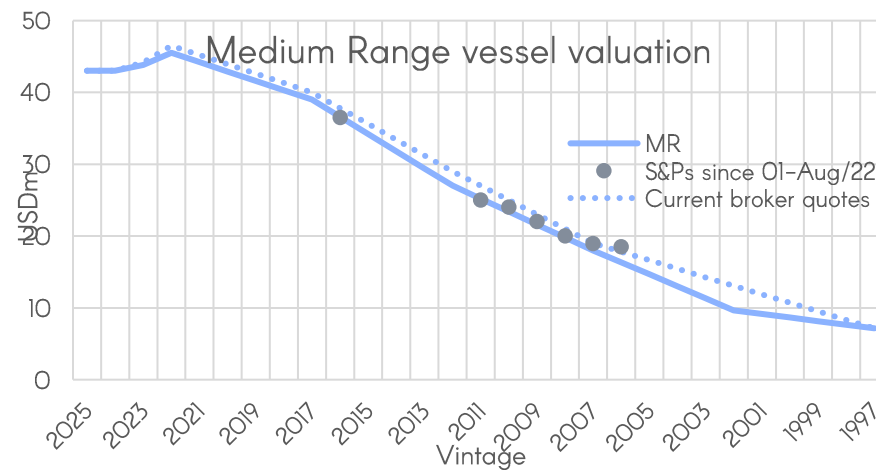
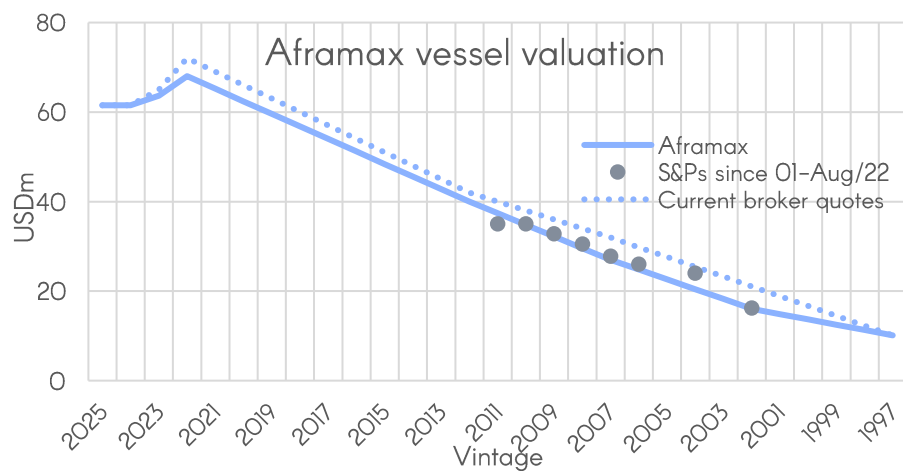
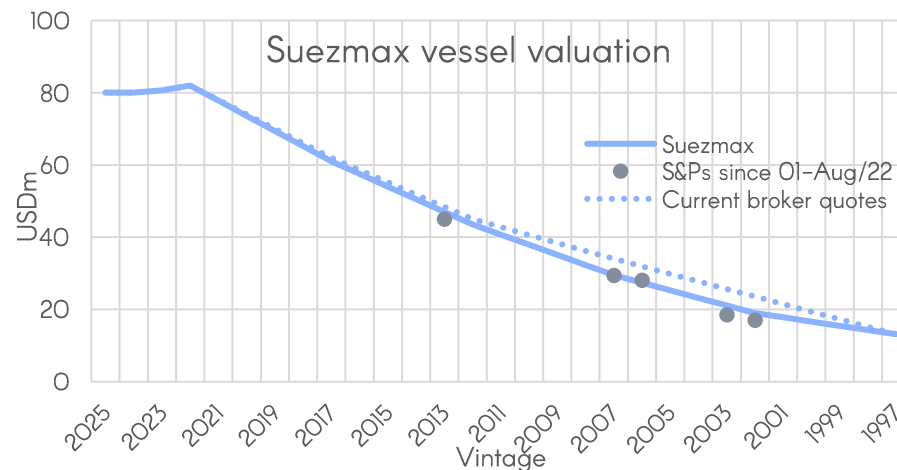
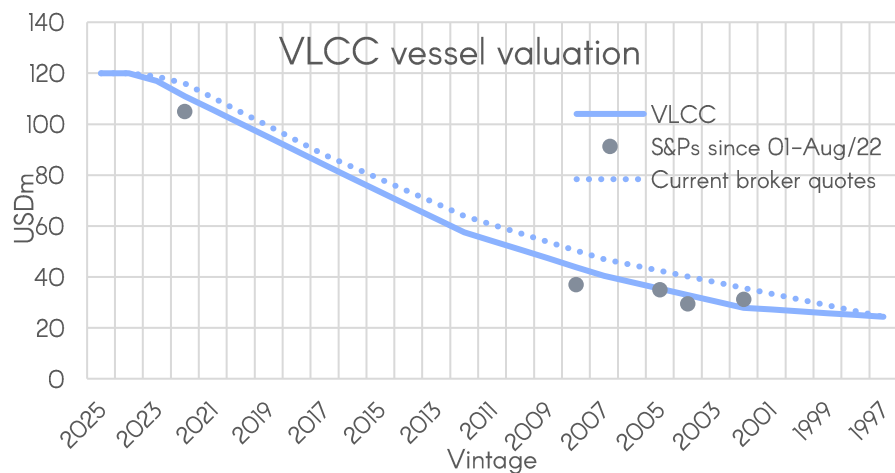
Asset price revisions

Summary	VLCC	Suezmax	Aframax	LR2	LRI	MR	SR	Changes	VLCC	Suezmax	Aframax	LR2	LRI	MR	SR
NB	120.0	80.0	61.5	63.5	53.5	43.0	41.5	NB	1.0	0.5	0.0	0.0	0.0	-0.5	0.0
resale	111.0	82.0	68.0	70.5	56.0	45.5	44.0	resale	5.0	1.0	1.0	1.5	2.5	0.5	2.0
5y	84.0	61.0	54.0	56.0	44.5	39.0	34.0	5y	5.3	2.0	2.0	2.5	3.5	2.0	2.0
10y	57.5	43.5	40.0	41.5	29.0	27.0	23.0	10y	5.0	1.0	2.5	3.0	3.0	1.0	3.0
15y	40.5	29.5	27.0	28.0	21.0	18.0	16.0	15y	2.5	1.0	2.0	2.0	4.0	2.0	2.0
20y	27.9	19.0	16.1	16.6	11.3	9.7	6.9	20y	1.8	1.0	1.3	1.3	1.1	0.5	0.4
scrap	24.4	13.1	10.1	10.1	7.7	7.1	4.8	scrap	1.8	1.0	0.8	0.8	0.6	0.5	0.4

All prices are excluding scrubbers



Supporting Graphs



About Cleaves Securities

About Cleaves

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Current recommendations of the Research Department (updated 18/09/2022)
Recommendation Percent

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SELL 0%

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