

NAT deal the exception, not the rule

Cash discounting – is that the way the ailing tanker market is heading?
Greg Miller reports on a new Suezmax purchase by Nordic American Tankers

Does last week's Suezmax swoop by Nordic American Tankers (NAT) imply lower asset pricing is finally attracting more S&P liquidity? NAT paid \$51.5M for the 2002-built Suezmax, which will be employed in the spot market after delivery next month.

According to broker sources, the vessel is believed to be Thenamaris' *Searacer*.

NAT's latest deal follows its May purchase of the 2002-built Suezmax *Seagrace* (now *Nordic Grace*) for \$57M from Thenamaris and its January procurement of the 1999-built Suezmax *Seasprite* (now *Nordic Sprite*) for \$56.7M, also from Thenamaris.

Last week's acquisition increases its fleet (from just three in 2004) to 17 Suezmaxes (including two newbuilds scheduled for delivery next year).

Nordic American Tankers is not viewed by brokers as an asset speculator.



Photo: Fotofire

Rather it is seen as a company that identifies a potential purchase, secures financing, closes the deal, then seeks long-term returns.

NAT's steady, measured growth pace is driven by its business model. Unlike many of its competitors, the NYSE-listed owner is debt-free and retains a full-payout dividend policy.

Although spot rates are predicted to remain depressed, NAT's break-even level for its Suezmax fleet is a very low \$10,000/day. Assuming rates remain above that level, additional fleet capacity should hike its dividend payout.

The Suezmax FFA curve for 2010 of \$20,000/day implies that the latest Suezmax should increase NAT's dividend from \$1.15 to \$1.25/share, according to Dahlman Rose analyst Omar Nokta.

Because NAT's growth drivers are fairly unique, last week's acquisition is not being viewed as a market bellwether. "I think this transaction is only applicable to this particular buyer

and this particular seller," Compass Maritime MD for projects and finance Basil Karatzas told *Fairplay*.

"Buyers still think prices are too high and they expect them to drop. Most of them would not have bought this vessel at this price," he asserted. "Although asset prices are not bad historically, buyers aren't looking for historical numbers – they're looking for outstanding deals at way below average market prices," Karatzas said.

Buyers in general remain convinced that excessive newbuilds and weak crude demand will continue to drive down freight rates. In addition, buyers believe the possibility exists that banks could eventually arrest vessels from highly leveraged owners and sell them off.

Asked where the 'sweet spot' actually is for revived tanker sales and purchase liquidity, Karatzas said, "it's hard to say because there are different kinds of buyers, but in general, they expect prices to be 20-30% below where they are now."

"Buyers still think 'time is in my favour, so why buy something today when I can buy it for a cheaper price tomorrow?'," he continued.

Likewise, sellers continue to remain on the sideline. "Every time I talk to a Greek owner they tell me they do not want to sell vessels in this market. They tell me it's too low," Karatzas said, noting, "most of the sales we have seen in the tanker market recently are more or less distressed sales" and he added, "Suezmaxes, and tankers in general, remain a fairly illiquid market." ■

Nordic Grace (ex Seagrace) was purchased by NAT in May for \$57M

'Buyers still think prices are too high and they expect them to drop'

Basil Karatzas, Compass Maritime (pictured)

Photo: Greg Miller

Nordic American Tanker Shipping Limited

CEO: Herbjørn Hansson
Established: 1995
Listed: NYSE (NAT)
Fleet: 17 double-hull Suezmax tankers, two of which are newbuildings

2008 results:
Total voyage revenue: \$228M
Year-on-year revenue growth: 21.9%
Net income: \$118.8M
Year-on-year income growth: 168.8%

Source: NAT Annual Shareholders Report, Lloyd's Register Fairplay