



# POTEN TANKER OPINION



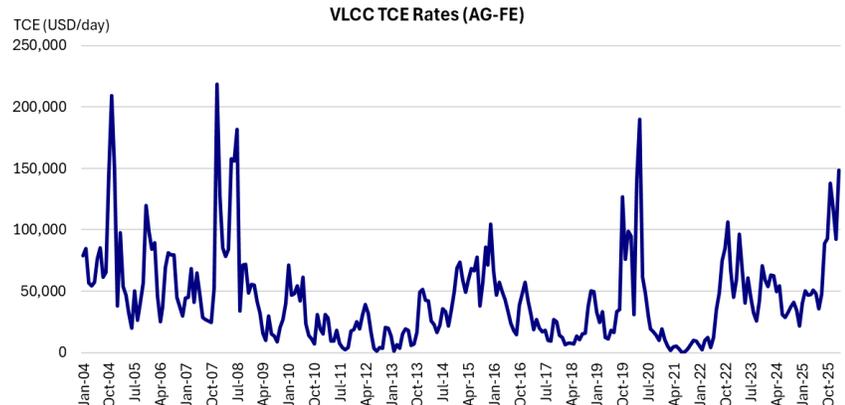
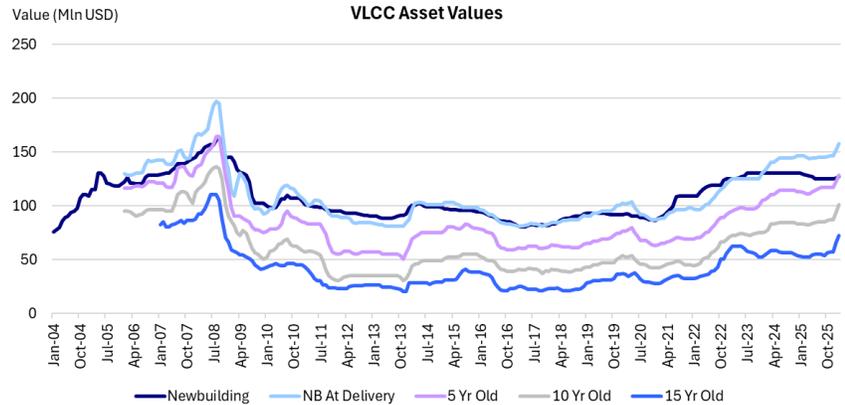
## Does The Buy And Hold Strategy Still Work?

### The VLCC market is in the spotlight again

In the tanker market it is always the VLCCs that catch the imagination. For good reason. They are very large (hence the name) and have very high earnings potential. VLCCs earnings are also very volatile and over the lifetime of a vessel (20-25 years), daily earnings can (and will) fluctuate between \$0 (zero!) and \$100,000/day or more. Prices of these assets, both for newbuildings, and, even more so for secondhand vessels are similarly volatile. Oftentimes, the owners of large VLCC fleets are larger-than-life characters: Aristotle Onassis and Stavros Niarchos, (the “Golden Greeks”); Y.K. Pao and C.Y. Tung from Hong Kong, and Sigval Bergesen and Erling Naess from Norway all made their name (and fortune) in the 1970s. Most recently, the shipping press is focused on Korea’s Sinokor Merchant Marine, led by Ga-Hyun Chung, who rapidly expanded his VLCC fleet following a massive acquisition spree in recent months. Other legendary names that are still active in the industry include Fredriksen, Angelicoussis, Tsakos, Prokopiou and Marinakis. Some VLCC owners are public companies, but many participants in this trade remain private, family-owned companies. Most of them have been in business for generations. In this tanker opinion, we would like to highlight the “buy and hold” strategy that have made many of these companies successful owner/operators throughout the cycle.

The volatile nature of earnings and asset prices as well as the relative liquidity of the secondhand market makes the tanker market an interesting hunting ground for asset players. It is an industry with relatively low barriers to entry, where both commercial and technical management can be outsourced. However, timing your entry and exit can be challenging due to the unpredictable nature of the market cycles. Many hedge funds, attracted by outsized potential returns, tried, but failed to make money in the tanker market. On the other hand, traditional, family-owned companies that build, own and operate vessels throughout the cycle are quietly very successful. Many experienced owners, who understand the potential costly pitfalls of market timing execute this “buy & hold” strategy.

The success of this strategy was illustrated by a recent transaction. A shipowner reportedly sold a 17-year-old VLCC for around \$70 Million. This vessel had been owned and operated by the same owner since it was delivered from the shipyard in 2009. This VLCC was ordered in 2006/2007, in the middle of the tanker “super cycle”, during a period of sustained high average earnings. VLCC TCE’s on the benchmark AG-East route averaged \$70,000/day over the period 2004-2006 (see Chart 2). High earnings and limited shipyard capacity had pushed newbuilding prices to \$120-130 Million (Chart 1). With hindsight, the timing was not great: The vessel was delivered in 2009, right in the



Source: Poten

middle of the financial crisis. By the middle of 2009, TCE earnings had dropped to \$10-15,000/day and the outlook was gloomy. However, selling the vessel in 2009 would have locked in a significant loss as newbuilding resale prices dropped below \$100 million in the second half of 2009. But, the owner did not sell, stayed the course and rode the ups and downs of the spot market until it sold the VLCC in early 2026. While it is impossible to know exactly what earnings the owner generated over the 17-year holding period, a quick and dirty calculation suggests this vessel might have generated anywhere between \$100 and \$140 Million in free cash flow (before debt service). Add to this the \$70 million in resale proceeds and this owner came out okay, despite the unfortunate timing of his original acquisition. To prove this point, the owner has just ordered several new VLCCs at similar prices to what he paid almost 20 years ago.

With 20-20 hindsight, it always seems that you can make a fortune in shipping buying and selling vessels at the right time and operate them for the period in between. However, the oil and tanker markets are extremely hard to predict due to their inherent volatility and because they are so susceptible to geopolitical tensions across the globe. Against this backdrop, it seems that the old buy and hold strategy might still be one of the best options for traditional shipowners who are committed to the industry for the long term, especially those who maintain quality technical operations and run their company with low financial leverage.