

Opinion **Lex**

Oil tankers: the incredible hulks

The collapse in the price of the black stuff is proving a boon for ship owners



Increasing amounts of cheap Saudi oil require a means of moving more of it around the globe © REUTERS

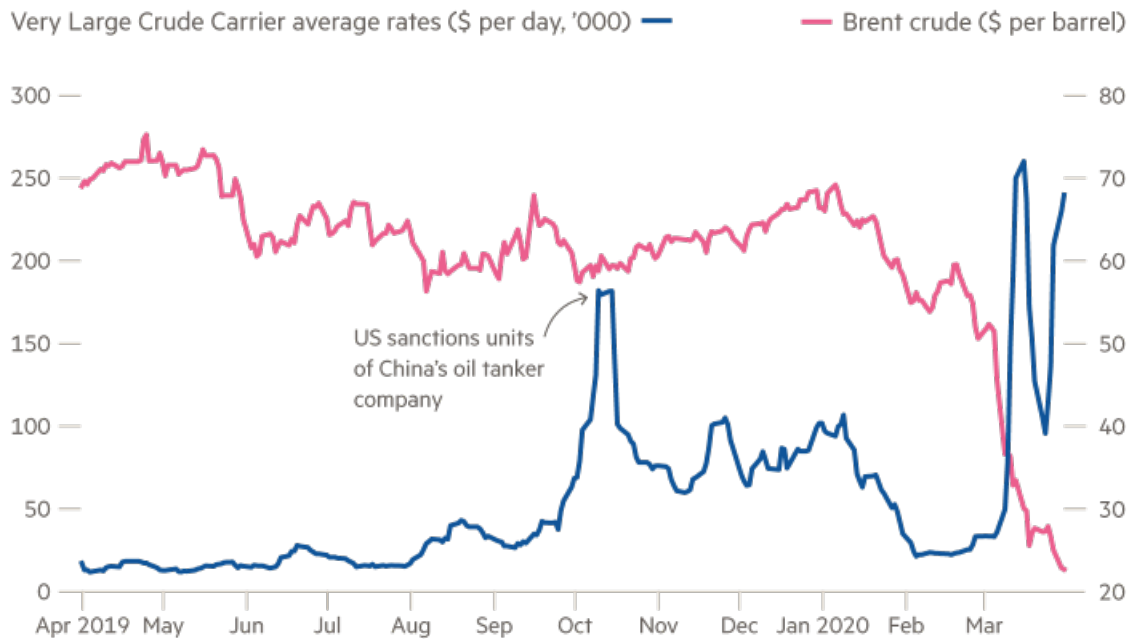
YESTERDAY

Markets are tanking and tankers are riding high. The oil price [collapse](#), triggered by falling global demand and a price war between Russia and Saudi Arabia, is a boon for ship owners. Oil tankers are handy places to store the black stuff in expectation of a price rebound.

Global oil storage is close to full. An eventual drawdown on stockpiles, when oil production cuts begin, would empty storage vessels and knock demand for ferrying crude. Meanwhile, traders including China's Unipet, have chartered tankers to lock up inventory. As many as 150 supertankers, which can carry 300m barrels of oil, could be used as floating crude storage for up to a year, Pareto Securities predicts.

Rates for supertankers, which carry 2m barrels of the black stuff, have spiked to \$240,000 per day, a 600 per cent increase over the past month, according to broker Clarksons Platou. Bahri, Saudi Arabia’s shipping arm, has hoovered up more than 21 supertankers, or 2.5 per cent of the global fleet. In the past two years it chartered just 10 per year on average.

Oil has crashed, tanker rates have rocketed



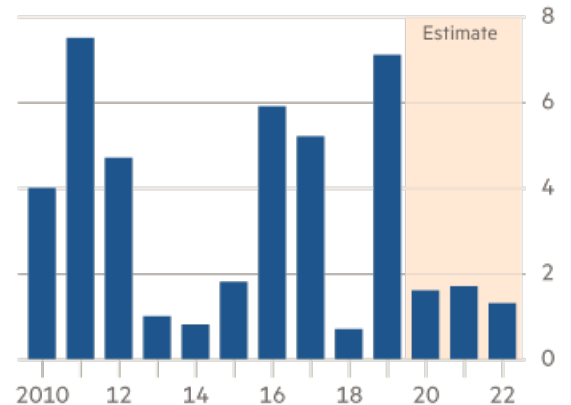
Economic to store oil to sell later

Differential between spot price and delivery in six months (\$/barrel)



Tanker fleet growth set to slow down

Per cent



Sources: Clarksons Platou Securities; Refinitiv; Pareto Research; Shipping Intelligence © FT

No surprise, then, that share prices of oil tanker companies such as

Belgium's Euronav, Bermuda-based Frontline and DHT of the US have all fallen less than most landlubber businesses. But earnings-based valuations nevertheless look skinny. The forward enterprise value to ebitda of Euronav is close to 4 times, for example. That is the lowest level since 2008.

Speaking of supply, do not expect many new ship orders. Owners will put these off until the world economy stabilises. A transition to low-carbon propulsion is another reason for them to procrastinate. Tankers typically have a 25-year life. The industry's carbon-neutral deadline of 2050 means new vessels will soon need to draw their power from sources other than natural gas.

That bodes well for keeping the notoriously cyclical tanker market tight. Oil tankers are a safe place to ride out asset price storms.

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