

# TradeWinds

NEWS

## **Analyst predicts hot tanker times**

By Joe Brady Stamford

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One investment bank is sticking its neck out for the wet trades.

New York investment bank Dahlman Rose has stamped itself as perhaps the biggest bull in the tanker market with its second upgrade of the sector in two weeks.

The surprisingly strong recent rates in the traditionally weak second quarter are not a fluke but rather supported by market fundamentals that should extend through the rest of 2006, writes Dahlman analyst Omar Nokta.

The fourth quarter could even outstrip the last three months of 2004, which was the richest since the 1970s, he suggests.

"Since our initial [June 15] upgrade, rates have only continued to climb," he noted. "Spot rates have been consistently rising, to the point where it is apparent the trend is becoming more than a temporary phenomenon. Rather, it speaks to a more lasting set of circumstances, including the expansion of trade routes, oil-supply constraints and the need to secure oil contracts further ahead than during periods of adequate supply."

In staking out its bullish view, Dahlman is setting itself apart from such analysts as Jefferies, which downgraded the sector prior to its recent rates rally, and Bear Stearns, which maintained a "sell" rating on the group only last week.

Nokta notes that the summer 2006 rates are actually stronger than the corresponding period of 2004.

He is persuaded by the increasing prominence of long-haul routes from West Africa and the Caribbean and by Iran's storage of oil onboard tankers.

While rates in 2004 spiked further because of hurricane-related disruptions, another turbulent season has been forecast by weather experts, he notes.

Dahlman is hiking expectations for average VLCC spot rates to \$70,000 per day in the fourth quarter from its old assumption of \$54,500 per day - still not quite what Frontline's Tor Olav Troim suggested last week at a finance conference when he predicted peaks exceeding \$200,000 per day.

Dahlman maintains its "buy" rating on tanker owners Overseas Shipholding Group (OSG), OMI Corp, Teekay Shipping, Frontline, Tsakos Energy Navigation (TEN), Nordic American Tankers (NAT), Teekay LNG Partners - and also its faith in spot rates causes it to upgrade General Maritime to "buy" from "hold". The only "holds" now go to Knightsbridge Tankers, Double Hull Tankers and Ship Finance International.

All the "buy"-rated stocks also see an increase in their target share prices, mostly notably Frontline, to \$44 from \$38, and NAT, to \$40 from \$35.

Among the tanker companies it covers, Dahlman Rose rates Teekay LNG as trading at the strongest current ratio to net asset value (NAV), at 1.34, with TEN the lowest, at 0.62.