

# Striving for stability in a highly Uncertain World

Being Financially Prepared in the tanker market

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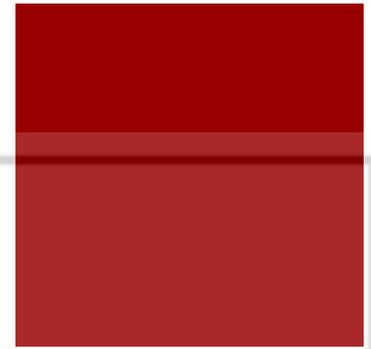
# History of Volatility

- **Historically** the Tanker Market has been **volatile**, as an industry it is known for it.
- The industry also had a plug-in solution for it- **Long-term time charters** with Oil Companies.
- We have also seen **family owned shipping** companies thriving in this sector and they have usually replaced their fleet only when 'structurally' needed to do so.

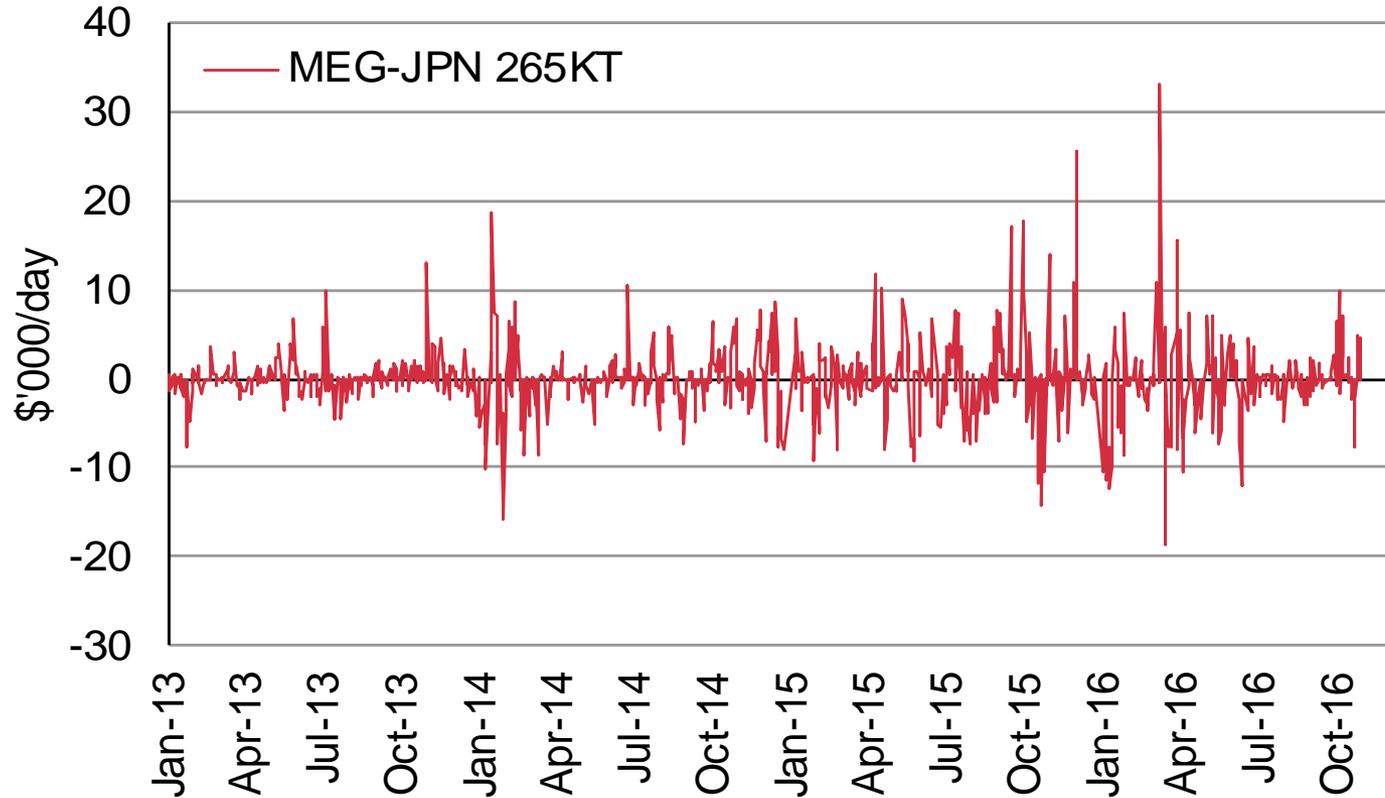
## The Bullwhip Effect

# New waves in Volatility

- Today's volatility is different and **even higher**.
- The world is connected in way like never before. One event across the ocean creates **a bull whip effect** faster and more dramatic across the industries.
- **Private equity** investments are new neighbors to family owned shipping companies- and they don't replace the fleet only when 'structurally needed'- they have a **short-term horizon**- They 'play' the **technical charts** and invest in ships/new building at the 'right' opportunity  
- this is a factor which is **adding to the uncertainty**.

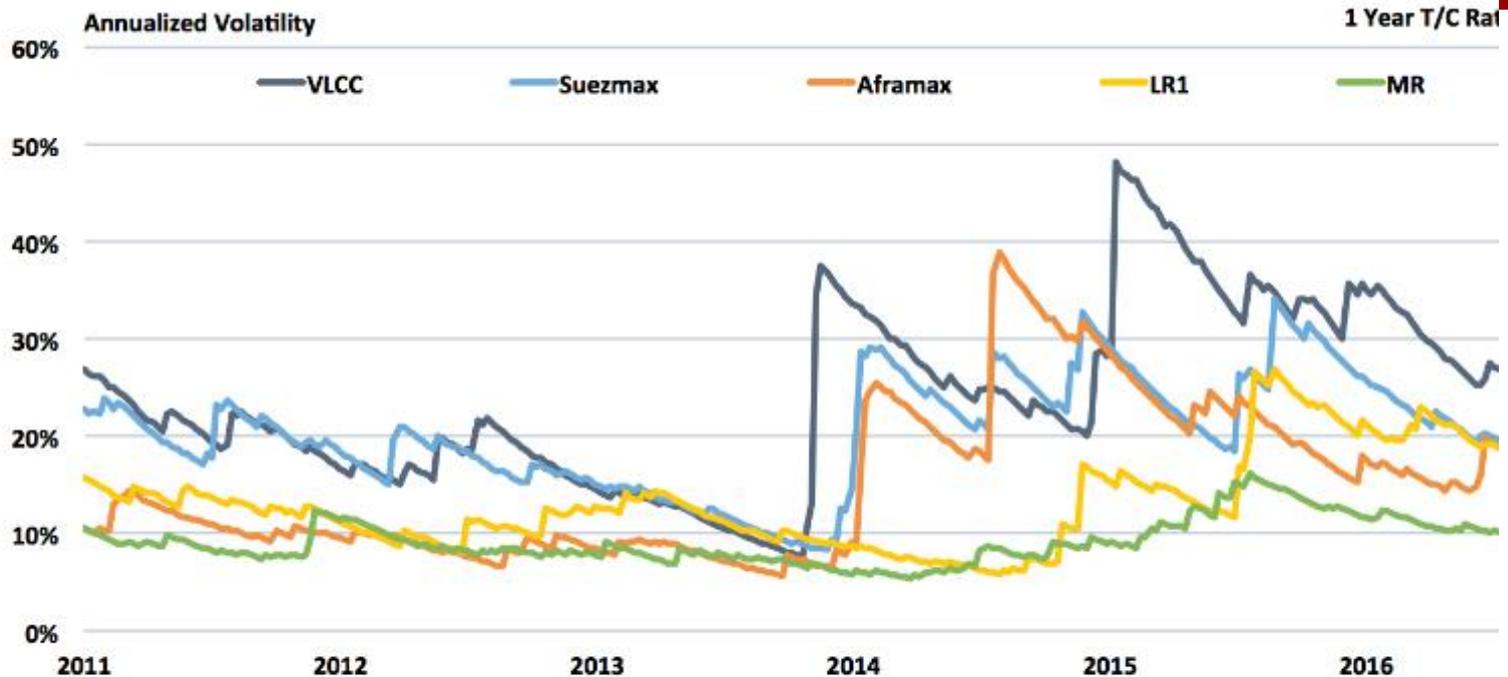


# VLCC SPOT TCE EARNINGS VOLATILITY



Source: SSY

# Volatility in Tanker Market has increased in Recent Past



From	To	Annualized Volatility	VLCC	Suezmax	Aframax	LR1	MR
2011	2013	2011-2013 Median	17.73%	17.03%	9.15%	12.00%	8.16%
2014	2017	2014-2016 Median	29.51%	24.24%	21.36%	16.20%	10.55%

Source: Kaizad Doctor, MSCI

# How do deal with volatility?

- The 'cycle' in the industry has therefore shortened to become only a spike and trough.
- **Long TC don't work** anymore, we have seen oil companies come and re-negotiate the contract and in some cases they have even defaulted.
- One way is to ride the volatility, don't do Long TC, focus on COAs, spot and short term TC
- Get an **index linked rate**, with a floor and maybe share the upside like profit share
- Get Credit Default Insurance
- **Explore all available financial tools in good times to address the turbulent times.**
- Create **enough reserves** to cover your liabilities and more for a storm-like for example to pay the lawyers.



# What can we do?

- In essence in an highly uncertain and volatile market the focus becomes short term- optimize short term gains, limit your liabilities and create a healthy reserve to meet contingencies.
- It may sound simple but many companies I have seen do not follow this, may be because of over confidence, or with the hang-over of the good times and also, not uncommonly, being naïve.
- LNG and LPG tankers are good examples- they typically have long TCs and owners might have to rethink through this.
- Banks also encourage Long TC and even keep them as security, but today banks need to question themselves on the efficacy of this. Private Equity firms are thriving by not having this condition.

# Adapt or Die!

- Volatility in the Tanker Market is here to stay. We as an industry have learn to live with it. And that includes all stake holders- Tanker owners, operators, bankers and financiers, Ship Managers- the whole industry.
- I Leave with this quote by Nassim Nicholas Taleb:  
*“Never think that lack of variability is stability. Don’t Confuse lack of volatility with stability, ever.”*

THANK YOU

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