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LNG-Tanker Rates Doubling as Ship Glut Erodes: Freight Markets
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By Moming Zhou and Alistair Holloway

Feb. 16 (Bloomberg) -- Record demand for liquefied natural- gas is causing the decade-long glut of vessels that carry the fuel to disappear, doubling freight rates and at least tripling profit for shipping lines Golar LNG Ltd. and Exmar NV.

Consumption of LNG, liquefied by cooling the gas to about minus 260 degrees Fahrenheit, is rising 5.1 percent at a time when nations from the U.K. to South Korea are increasing curbs on pollution. Natural gas emits about 50 percent less carbon dioxide than coal and power companies are also burning more because it’s cheaper after plunging 30 percent since the end of 2008 while coal rose 52 percent and oil almost doubled.

While owners of oil tankers and coal carriers are slowing down, anchoring ships and scrapping them because rental rates have been unprofitable, gas ships are sailing at the fastest speeds since at least 2008, data compiled by Bloomberg show.

Average spot LNG tanker rates will about double to $70,000 a day this year, the highest since 2007, according to Martin Korsvold, an analyst with Pareto Securities AS in Oslo, whose ratings on Golar earned investors an 87 percent return in six months.

“High-growth economies such as China and India are using more and more natural gas and Europe is using more LNG for environmental reasons,” said Zach Allen, president of Pan Eurasian Enterprises Inc., a Raleigh, North Carolina-based company tracking gas shipments. “It will benefit the LNG tanker owners more than anyone else because there are really very few additional tankers coming on line.”

Lake Charles

Since the first LNG shipment from Lake Charles in Louisiana to the U.K. in 1959, the industry has expanded to import facilities in 23 countries, according to Clarkson Plc, the world’s biggest shipbroker. Exxon Mobil Corp. says natural gas will be the fastest-growing major fuel through 2030 and bought XTO Energy Inc. in June for $34.9 billion, giving it proprietary technology used to get gas.

Increasing profit is encouraging owners to sail vessels faster, with the average speed of the fleet increasing to 13.4 knots last week, from as low as 12.1 knots in July, according to ship-tracking data compiled by Bloomberg. It’s also spurring them to stop idling tankers. There were an average of 51 anchored last week, down from 91 in June, the data show.

The opposite is happening elsewhere in the merchant fleet. Returns for owners of supertankers dropped 35 percent last year and were last at $48,333 on the benchmark Saudi Arabia-to-Japan route while for capesize ships carrying coal and iron ore they declined 46 percent and were last at $7,189, according to data from the Baltic Exchange. The bourse in London publishes assessments for more than 50 maritime routes.

Vessel Surplus

Most of that slump is being caused by a surplus of vessels rather than a slowing global economy. New orders are equal to 24 percent of the supertanker fleet and 43 percent of existing capesizes, according to Redhill, Surrey-based IHS Fairplay, which compiles data on ships, ports and vessel movements. The orders were mostly made in 2007 and 2008 when daily income rose to $177,036 for supertankers and $233,988 for capesizes.

In 2008, 13 percent of the LNG tanker fleet was idled, compared with 3 percent of the oil-tanker fleet and less than 1 percent of the dry bulk fleet, the United Nations estimates.

Golar in a report in November said there had been “more or less 10 years with structural overcapacity” in the fleet.

“We are not seeing a huge expansion on the LNG fleet side,” said Jorn Bakkelund, an analyst with RS Platou, an Oslo- based shipbroker and investment bank. “That’s what separates LNG from most of the other shipping segments.”

The LNG tanker fleet has a total of 347 vessels. There are 26 new ships on order, equal to 10 percent of the existing capacity of the fleet, according to IHS Fairplay data.

Gas Carriers

Part of the reason is the expense in building the vessels. An LNG ship cost about $210 million in March, compared with $99 million for a supertanker and $57 million for a capesize, according to the UN. Gas carriers need equipment to hold about 155,000 cubic meters of liquid that expands to 95 million cubic meters in gas form, equal to about 25 percent of peak daily winter demand in the U.K., Europe’s biggest gas market.

LNG tankers are often the only option to connect producers and consumers. All pipeline projects into Europe combined wouldn’t be enough to meet anticipated demand, according to Clarkson. Qatar, the biggest LNG supplier, is about 5,000 miles away from Japan, the largest consumer.

“By 2020, we will need another 100 ships and by 2035 the fleet has to double,” said David Glendinning, president of Teekay Gas Services, a unit of Hamilton, Bermuda-based Teekay Corp. that provides LNG transport for energy companies and utilities.

Shipping Recommendations

Golar’s tanker rates will double to an average of $40,000 a day this year, according to Urs Dur, an analyst at Lazard Capital Markets Ltd. in New York, whose recommendations on the company earned investors a 79 percent return in 12 months. His estimate is a combination of long-term contracts and spot rates.

The spot market in gas tankers started in the past four years because ships were still being delivered from yards as new LNG projects were delayed by financing or construction, according to Calum Kennedy, an analyst at Clarkson in London.

Golar will report a fivefold increase in earnings per share this year to $1.15, according to the mean of 10 analyst estimates compiled by Bloomberg. Shares of the company jumped 23 percent in Oslo trading this year.

Exmar, based in Antwerp, Belgium, will earn 78 cents a share, up from 25 cents, the mean of five estimates shows. Its stock gained 7.4 percent this year in Brussels. Teekay LNG Partners LP, based in Hamilton, Bermuda, will report earnings of $2.09 a share, from $1.68, based on two estimates. The shares were little changed in New York trading this year.

LNG Demand

Global LNG demand will increase to the equivalent of 31.1 billion cubic feet a day in 2011, according to Barclays Capital. China, the world's biggest energy consumer, bought 87 percent more LNG in 2010, customs data show. While Asia led growth in demand last year, it will be Latin America and the Middle East this year, Barclays estimates.

Natural gas will account for 25 percent of global energy supply by 2030, rising from about 20 percent, Irving, Texas- based Exxon said last month in its Outlook for Energy: A View to 2030 report, used to guide the company's investment decisions.

"Global demand for natural gas as a clean fuel will keep increasing," said Oyvind Hagen, an analyst at Oslo-based ABG Sundal Collier Holding ASA. "You have a much better market outlook in LNG than crude tankers because you still have oversupply in crude tankers."

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