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Biggest Hedge Fund in Ships Sees Frozen Gas Beating Oil: Freight
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By Alaric Nightingale

Jan. 3 (Bloomberg) -- Tankers hauling liquefied natural gas at sea will earn record rates in 2012 as demand reaches an all- time high, beating returns from vessels carrying oil and coal, according to the world's biggest shipping hedge fund.

The tankers, each holding enough gas to meet about 25 percent of peak daily winter demand in the U.K., will earn as much as $200,000 a day this year, from $140,000 at the end of 2011, said Andreas Vergottis, the Hong Kong-based research director at Tufton Oceanic Ltd. That means the most profit ever for Golar LNG Ltd. and Teekay LNG Partners LP, which operate 33 of the vessels, analyst estimates compiled by Bloomberg show.

Demand for LNG, liquefied by cooling the gas to minus 260 degrees Fahrenheit, is rising as nations from the U.K. to South Korea increase pollution curbs. Gas emits about half the carbon dioxide of coal. Japan, the biggest importer, is buying more after closing 89 percent of its nuclear capacity following March's Fukushima disaster, eliminating a glut of tankers. Ship shortages may worsen, with the 372-strong fleet projected to expand just 0.8 percent this year, Morgan Stanley estimates.

"LNG is a high-growth, high-profit industry," said Vergottis, whose research is used by the $1.45 billion Oceanic Hedge Fund, which gained 6.8 percent in the first 11 months of the year as the Lloyd's List/Bloomberg Index of the 50 largest shipping companies slumped 39 percent. "Next year looks even more hot. There's not a single cloud for two years."

The cost of hiring an LNG tanker for a year or more averaged $97,630 a day in 2011, from $43,663 in 2010, according to Fearnley LNG, an Oslo-based consultant and brokerage that's a unit of the Astrup Fearnley Group.

Maritime Routes

That compares with last year's 90 percent decline in rates for the largest oil tankers to $1,214 a day as the biggest fleet in about three decades overwhelmed demand, data from the London- based Baltic Exchange show. Capesizes hauling coal and iron ore averaged $15,639 a day last year, from $33,298 in 2010, according to the bourse, which publishes freight costs for more than 50 maritime routes.

Global LNG demand may expand 7.5 percent this year to 258 million metric tons, led by Japan, China and India, according to Sanford C. Bernstein & Co., a New York-based researcher. World capacity to produce the fuel will rise 61 percent in the decade to 2020, Morgan Stanley estimates.

Shipping companies will struggle to keep up. There are 60 tankers on order at yards, mostly in South Korea and China, equal to about 17 percent of the existing fleet, data from Redhill, England-based IHS Fairplay show.

Trade and Development

Construction is lagging behind the surge in demand, partly because of costs. A new gas carrier sold for $210 million in 2010, compared with $99 million for the largest oil tankers and $57 million for capesizes, according to the United Nations Conference on Trade and Development. They need equipment to hold about 155,000 cubic meters (5.5 million cubic feet) of frozen liquid that expands to 95 million cubic meters in gas form.

The vessel shortage may ease as rates increase. Returns are high enough to cover building costs in about three years, said Vergottis. The tankers may account for as much as 20 percent of the merchant fleet within a quarter century, from about 5 percent now, said the 50-year-old research director, who is working on a project to collate shipping rates for all major vessel classes going back to 1850.

The anticipated surge in LNG demand may be curbed should growth slow. The global economy will expand 2.3 percent this year, compared with 2.7 percent in 2011 and 4 percent in 2010, according to a composite of economists' regional forecasts compiled by Bloomberg. About 90 percent of world trade moves by sea, the Round Table of Shipping Associations estimates.

Four Decades

Natural-gas consumption fell 2.6 percent in 2009, the most since at least 1965, as economies contended with the worst global recession since World War II, according to data from London-based BP Plc. Demand in Japan, which accounts for about 32 percent of all LNG imports, retreated 6.7 percent, also the biggest decline in more than four decades.

Not all owners may benefit from higher rates. Companies typically lease out tankers on long-term charters at fixed prices. Of the total fleet of 372 vessels, 44 were available for hire as of the middle of last month, according to Morgan Stanley. Awilco LNG AS, based in Oslo, has its three vessels chartered out until at least August, and Hamilton, Bermuda-based Hoegh LNG Holdings Ltd. has all of its fleet leased on longer duration charters, according to their websites.

Analyst Estimates

Golar controls more than 25 percent of the available vessel supply over the next three years, according to Morgan Stanley.

The Hamilton, Bermuda-based company will report net income of $168.1 million for this year, compared with a predicted $70.7 million for 2011, the mean of 12 analyst estimates shows. Its shares almost tripled to 263.8 kroner last year in Oslo trading and will reach 283.05 kroner in the next 12 months, according to the average of 10 analyst estimates.

Teekay LNG Partners will report profit of $107.9 million for 2012, compared with a projected $83.9 million last year, the mean of four estimates shows. Shares of the Nassau, Bahamas- based company fell 13 percent to $33.17 in New York trading in 2011 and will reach $38.20 in 12 months, the average of five estimates shows.

Natural gas's share of global energy demand will climb to 23 percent by 2035 from 21 percent now as oil's contribution declines to 27 percent from 33 percent, according to the Paris- based International Energy Agency. LNG is contributing to the gain because it links consumers with producers that may be too far apart to connect by pipeline. Qatar, the biggest LNG supplier, is about 5,000 miles from Japan.

Biggest Shipbroker

The first LNG shipment went from Lake Charles in Louisiana to the U.K. in 1959 and the industry has now expanded to import facilities in 23 countries, according to London-based Clarkson Plc, the world's biggest shipbroker.

For shipping companies, stronger LNG demand echoes what happened when oil started displacing coal as an energy source in the first half of the 20th century, said Vergottis, whose family has owned ships for four centuries. That shift took oil tankers from a niche vessel class to the dominant type in energy transportation by the 1970s, he said.

"The same is happening with LNG," Vergottis said. "LNG is earning a 25 percent return on capital. A tanker is earning minus three. LNG is the growth part of the market."

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