More older tankers set for conversion

Trond Lillestolen and **Hans Henrik Thaulow**
Oslo and Shanghai

The rush to secure dry-bulk tonnage is seeing more owners looking to convert old tankers.

BW Group is converting two more ships, while conversion specialist Hosco is acquiring even more tankers and Neu Seeschiffahrt is being linked to a deal.

BW Group has decided to convert another two of its single-hull VLCCs into bulkers.

The names of the ships are unclear but they could be sisters to the 280,000-dwt *Sebu* (built 1993), which currently is undergoing conversion at Qingdao Beihai Shipyard in China. TradeWinds is told that two more VLCCs are to be converted at the yard for delivery in June next year. The vessels have been sold from BW Shipping to BW Bulk in an internal deal.

BW Bulk is expanding its fleet, which, excluding the latest acquisitions, consists of 14 units between 172,000 dwt and 364,000 dwt. It includes two newbuildings at Imabari Shipbuilding, a 180,000-dwt vessel due for delivery in 2008 and a 206,000-dwt unit to be handed over in 2009.

Another VLCC that appears set for conversion is the single-hull 284,000-dwt tanker *Front Duchess* (built 1993), which has been sold by Ship Finance International.

Brokers suggest the vessel has been sold for $55m, possibly to Neu Seeschiffahrt in Germany, which is a competitor to BW Bulk in the market for large bulkers. The price is considered firm, as similar tonnage was sold for less than $50m earlier this year, and could indicate that there was competition for the vessel.

Neu has three VLCCs already earmarked for conversion to bulkers. The *Front Duchess* is on long-term charter to US and Oslo-listed Frontline and the company is set to receive $25.4m in compensation for a cancellation of the charter.

Meanwhile, Hosco of China has confirmed the purchase of two single-hull suezmax tankers for conversion. They are the 140,000-dwt *United Gallant* (built 1990), which has been purchased from the Callimanopulos group of Greece for around $30m. The Greek owner bought the ship as the *Granada Spirit* in 2004 for $27m. Hosco has also bought the 147,000-dwt tanker *Triwati* (built 1991) from Berlian Laju Tankers (BLT) of Indonesia for $30m. BLT bought it as the *Trijata* in 2004 for $28.5m.

This year alone, Hosco has purchased four VLCCs for conversion, according to sources, but these are the first suezmaxes the company has acquired for a bulker role. Another ship thought to be on its way for conversion is the 106,000-dwt tanker *Esperanza* (built 1993), which has been acquired by an unnamed buyer from Marmaras Navigation of Greece for $31m. Marmaras bought the vessel as the *Gran Esperanza* in 2003 for $16.5m.

Tanker orders turn to bulkers

Some tankers on the design board will travel down the slipway as bulkers.


FROM WET TO DRY: A Chinese yard welder takes a break in Shenzhen. Photo : Bloomberg News

Irene Ang
Shanghai

Tanker owners are looking to convert their newbuildings into bulk carriers to cash in on the rates boom in dry cargo, with at least five yards being approached for changes to contracts.

Market sources say South Korea's Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries, Hanjin Heavy Industries, Japan's Sasebo Heavy Industries and China's Jiangsu Rongsheng Heavy Industries Group have been asked to convert very large gas carriers (VLGCs), suezmax and aframax tankers into capesize vessels.

"The spot rate for capesize ships is at the historical high and when these tanker owners convert their newbuildings into capesize vessels, they can easily sell them for good money," said a market observer.

He adds that the move is being driven by the current gas and oil-tanker business, which is not doing well in comparison with the bulker sector, and projections that the dry-cargo business will remain positive for some years to come.

Brokers say the Vafias group of Greece and Gulf Marine are two of the shipowners that have firmed up the conversion of two VLGC newbuildings at Daewoo (*see story below*). The two companies are believed to be paying an extra $20m per vessel for conversion.

A European owner that has two 114,000-dwt aframax tankers on order at Hanjin Heavy Industries for delivery in 2010 is also said to have plans to change the vessels into capesizes. However, Hanjin is said to be reluctant to make the contract swap and discussion on the conversion is incomplete.

Over at Hyundai, one Greek owner is also said to have also switched two suezmax tanker newbuildings into capesize ships. The identity of the shipping company is unknown.

However, an official from Hyundai denies that the shipyard has agreed to any contract conversion. He said: "It is true that some owners have approached us and tried to convert their tanker newbuildings into capesize vessels but we did not agree to that because of the extra work that we have to put into it."

Over in Japan, Cido Shipping, which has five aframax tankers booked at Sasebo for delivery between the end of 2009 and the end of 2010, has also changed the crude-oil tankers into 180,000-dwt bulker newbuildings. The conversion of the contract is said to have taken place in the first half of this year.

Chen Qiang of Rongsheng confirms that his yard has been approached by owners of suezmax tankers to switch their newbuildings into capesizes. He says he is still considering their proposals.

Market observers say it makes sense for shipyards to accept the conversion as owners will be paying the price differences and, on top of that, the costs of building capesize bulkers are lower than that of building suezmax tankers or VLGCs.

On the other hand, one shipbuilding player says he does not understand why Daewoo has agreed to Vafias's conversion request as procurement of the VLGCs' equipment, such as main engines, would have already been done.

"In this case, we think Vafias will be asked to pay for the engine cancellation fees and at the same time, the company will have to fork out the difference in price between the capesize newbuildings and the VLGCs," said a shipbuilding observer.

Another market watcher says the conversion of the newbuilding contracts will bring additional "burden" to the shipyards as they will need to change the design of the vessels and go through the process of cancelling the equipment procurement.

He also cautions shipyards that if they allow such practices, owners may come to them again for conversions if the drybulk sector makes a turn and heads south in a few years time while tanker business takes off.

Vafias group's VLGC contract switches to capes

Trond Lillestolen, Yiota Gousas and **Irene Ang**
Oslo, Athens and Shanghai

The Vafias group of Greece is set for a return to the capesize market by converting an order for two very large gas carriers (VLGCs) into bulkers.

In September last year, the company ordered two 84,000-cbm vessels for delivery in October 2009 and January 2010 at a reported price of $95m each at Daewoo Shipbuilding & Marine Engineering. The yard is understood not to have started construction of the ships.

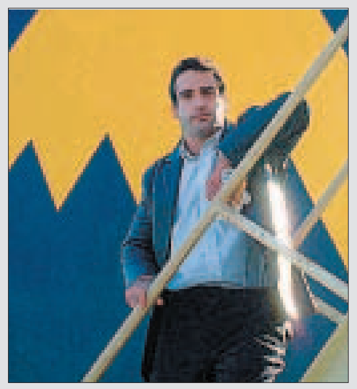
Sources say the contract for the first vessel has already been converted to a capesize for delivery in June or July 2009.

Discussions are also said to be underway for the vessel set for delivery in 2010.

Harry Vafias says the group is considering the conversion mainly because charter rates in the VLGC sector have seen a battering lately. Rates in the VLGC spot market have been recorded at lows of $23,000 per day.

Owners can secure a good forward agreement, Vafias says, with a "good signature" in the capesize sector. He says dry majors are offering around $60,000 per day for five-year charters on newbuilding capsizes delivered in 2009. The rate is a good offer even though the group would have to pay a premium to get such a ship, he says.

Newbuilding prices for VLGCs have not changed much since last year, while capesize prices have increased sharply. Vafias says the group is still in negotiations over the conversion price. A definitive decision will be made by the end of the month over whether both VLGCs will be converted. The group has a lot of confidence in the VLGC market prospects after 2010 so the decision could go either way, according to Vafias.


VAFIAS GROUP: Harry Vafias stands before the Stealthgas logo on a ship's funnel Photo: Gillian Whittaker

Sources suggest the group will have to pay the difference between what it agreed to pay for the gas tankers and the price of the capesizes, which with such early delivery could be around $125m per vessel.

The deal means a comeback in the large bulker market for Brave Maritime, which sold its only vessel, the 148,000-dwt *Cape Brazil* (built 1981), in August for $22.5m with delivery set for the end of November. The group had bought the vessel in 2001 as the *Amazon* for just $4.7m. Vafias confirms Brave has bought a contract for a 177,000-dwt bulker at Shanghai Waigaoqiao Shipbuilding (SWS) for delivery in 2010. The price is said to be $96m.

The poor VLGC market is also putting pressure on the values of such ships.

Ghassan Ghandour company Gulf Marine is said to have sold one of its 83,000-cbm ships that is due for delivery in the first half of 2009 for $91m to an undisclosed owner.

The sale marks a loss of $2m for the Lebanese owner as it ordered the vessel at $93m.

Gulf Marine is also said to have converted its other gas carrier, which is also due for 2009 delivery, into a capesize vessel. The company has a further two VLGCs under construction at Daewoo that are due for delivery next year.

Capesize market hopping

Trond Lillestolen
Oslo

The period-charter market for capesizes was busy this week with a large number of long-term deals being done.

Quite a few five-year deals have been tied up. One of the most remarkable was Singapore-based Chinese company Pacific King taking the 171,000-dwt *Anangel Glory* (built 1999) from the middle of 2008 at a full $80,000 per day. The vessel is on charter from China's Glory Wealth, which just two months ago fixed it for the same period at just $56,000 per day. Glory Wealth stands to log a profit of more than $61m on the back-to-back relet.

South Korean charterers were also active.

Daewoo has fixed an 180,000-dwt newbuilding, scheduled for delivery in 2009 or 2010, for five years at $59,850 per day. Korea Line fixed an 175,000-dwt newbuilding due for delivery to Bocimar in the middle of 2009 for the same period at $57,000 per day and a 180,000-dwt vessel due for delivery from Daewoo Shipbuilding & Marine Engineering at the end of 2009 at $59,000 per day.

The Korea Line is also said to have fixed a capesize newbuilding from the Vafias group for five years. The vessel is due for delivery from Daewoo in 2009 and is set to earn $58,000 per day (*see story facing page*).


HEAVY RELETS Photo: Bloomberg News

Korea Line has also fixed a 180,000-dwt vessel due for delivery to Louis Dreyfus & Cie as late as in 2011 for 10 years at $37,000 per day or revenues of $133m over the charter period.

Formosa Plastics has also been busy and has booked the 146,000-dwt *Cape Providence* and *Dong-A Helios* (both built 1987) for three years at $68,000 per day.

US-listed Diana Shipping confirmed the purchase of two capesizes from NS Lemos of Greece and says one of the ships, the 164,000-dwt *Thalassini Kyra* (built 2002), has been fixed to Coros for 59 to 61 months at $74,750 per day.

Hebei Ocean Shipping (Hosco) has fixed out two capesizes long term. The 172,000-dwt *Hebei Loyalty* (built 1987) went to Oldendorff Carriers for one year at $155,000 per day and Hanjin Shipping has taken the 149,000-dwt *Hebei Forest* (built 1989) for two years at $107,000 per day.

Far East players are dominating the period-charter market for the big bulkers. STX Pan Ocean has fixed the 171,000-dwt *Shagang Sunrise* (built 1997) for 20 months at $135,000 per day.

Cosco has taken the 173,000-dwt *Jin Tai* (built 2004) for one year at $155,000 per day and Bunge the 170,000-dwt *Alpha Era* (built 2000) for $152,750 per day. The small 103,000-dwt *Bic Clare* (built 1992) has been fixed by Deiulemar for 11 to 13 months at $95,000 per day.

The spot-market rates for capesizes have been quiet and a bit volatile this past week but stood at $180,800 per day as TradeWinds went to press, some $1,800 per day higher than one week ago.

Asian players ride panamax market

Cosco of China appears to have made a solid profit in reletting a panamax bulker it took on charter earlier this year.

The 76,000-dwt *CMB Italia* (built 2005) is said to have been relet to compatriot owner Transfield for 31 to 36 months at $65,000 per day. Cosco fixed the vessel for three years at the beginning of the year for just $23,500 per day.

Far East-based players are dominating the period market for panamax vessels. Korea Line has taken the 74,000-dwt *Medi Tokyo* (built 1999) for three years at $62,000 per day, while Yang Ming has fixed the 74,000-dwt *Calm Seas* (built 1999) for 21 to 23 months at $67,000 per day.

A one-year charter has been concluded by Pioneer Navigation, which has fixed the 76,000-dwt *Anthemis* (built 2004) for 11 to 13 months at $80,000 per day.

The spot market for panamaxes stood at $88,000 per day as TradeWinds went to press, as compared with $83,200 per day a week ago.

A number of supramax period deals have also been concluded. Armada has booked the 52,000-dwt *Thor Integrity* (built 2001) for 17 to 19 months at $61,500 per day. The same charterer has also taken the 50,000-dwt *Merlin* (built 2001) for 24 to 26 months at $53,000 per day.

A couple of one-year deals have been concluded. Parkroad took the 55,000-dwt *Tai Hunter* (built 2007) at $71,750 per day and a South Korean charterer fixed the 52,000-dwt *F Duckling* (built 2000) at $62,500 per day.

Among smaller bulkers, the 40,000-dwt *Antarios Breeze* (built 1984) has been taken for two years at $38,500 per day. Korea Line has fixed the 28,400-dwt *Eastern Star* (built 2008) for a year at $42,000 per day.

Transport bank DVB issues warning amid high newbuilding activity

Shipowners are being warned against paying top dollar for capesize newbuildings with late deliveries.

Transport bank DVB says it is time for owners to hit the new-building brakes. The German-Dutch company's research team adds to concerns expressed by others that demand for raw commodities may not grow at the same speed as bulker fleets.

DVB says expensive newbuildings should only be ordered as part of a fleet renewal programme or if backed by lengthy industrial contracts. It says near the end of 2008 owners would be prudent to lock vessels into long-term charters before scores of new ships pour out of the yards. The bank says that, providing China continues to grow, capesize earnings should continue to ride high throughout next year. The fleet is fully utilised.

But the capesize orderbook, including conversion projects, is now around 70% of existing tonnage. That is the official figure. Unofficially, it may be even higher and, with contracts still being placed, it could breach 100%.

Values have reached the point where ships ordered in the past few months with 2010/2011 delivery require break-even rates of more than $40,000 per day. After 2010, the average time charter is set to be sub-$20,000, says the bank.

Dollar signs start to erase old stigmas

Gillian Whittaker and **Trond Lillestolen**
Athens and Oslo

The hot dry-bulk market is closing the price gap for ships built in former eastern-bloc countries.

Efnav of Greece is set to log a massive profit on a sale of a Ukrainian-built supramax, the 52,000-dwt *Flora* (built 1993), to an unnamed buyer for $46.5m. It was purchased 14 years ago by another Greek company, Efshipping, as a resale for just $16m.

In 1995, members of the Efstathiou family, which is behind Efshipping and Efnav, amicably split their interests and the ship went to Efnav.

The *Flora* was one of a large number of bulkers built at the Okean yard to an old design, which previously meant they were valued substantially lower than similar bulkers built in South Korea and Japan.

High demand has changed the situation. Last week, the one year younger, but smaller Japanese-built 45,000-dwt *Matira* (built 1994) was reported sold for $47m.

In November last year, a sistership to *Flora*, the *Prex* (built 1993), went to Greece's MFS Shipmanagement for $23.3m.

The *Flora* is one of six sisters taken by Efshipping as resales for between $16m and $19m each. Three remain with Efshipping. Efnav operates the 52,000-dwt *Captain George II* (built 1994) and *Mastro Giorgis II* (built 1995).

Efnav also has four 75,000-dwt bulkers, two built in 2005 and two in 2006, ordered at STX Shipbuilding in 2002 at a reported $22.5m each. They should now be worth close to quadruple the contract price.