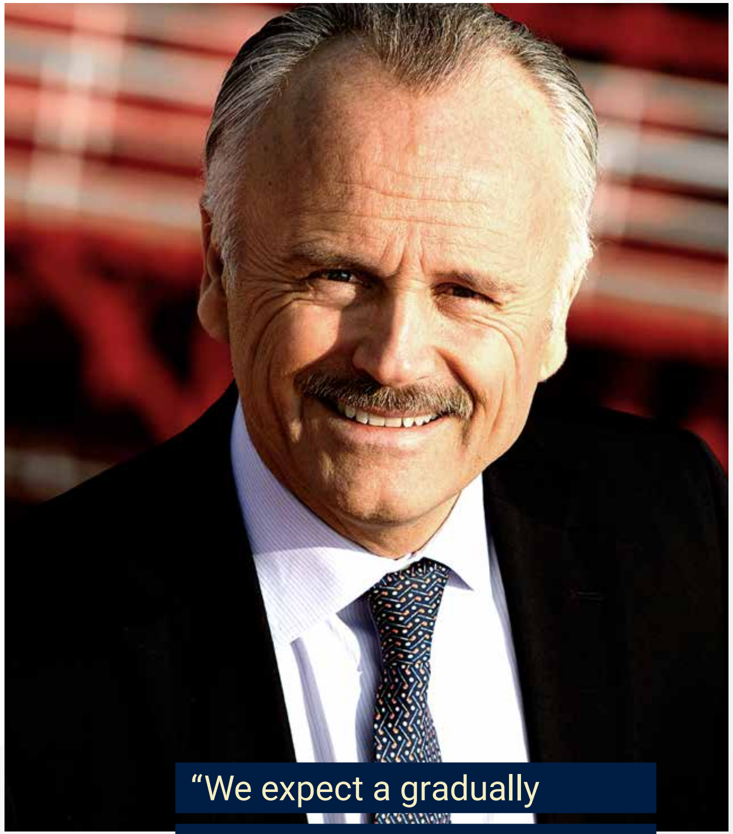
CEO's overview

A special and strange year in every way



“We expect a gradually stronger market from the second half of 2021.”

2020 will go down in history as a particularly special year. The pandemic swept in and presented decision-makers, individuals and companies with challenges we had never seen before. It was a year, the like of which we had never experienced before – and hopefully will never have to again.

2020 SHOULD HAVE BEEN THE YEAR WHEN THE TANKER MARKET TOOK AN UPTURN AGAIN. At the end of 2019, all arrows were pointing in the right direction – upward. The tanker market was heading for a structural upturn, with increased demand for transport and rising rates.

Then came the pandemic. The world economy came to a halt, demand for oil plummeted – and the air went completely out of the tanker market.

However, the tanker market fall was short-lived, as a crash in oil prices shortly afterwards led to a sharp increase in oil trading. For a very short time in early spring, we saw rates in the tanker market that had almost never been seen before. However, the rise was not driven by any real increase in demand for oil – it was actually down – but was entirely a consequence of the low price of oil. The result was a very extensive stock build-up. Between February and March alone, OECD stocks increased by just over 25 percent – from 67 days of average consumption to 84.

The tanker market has subsequently suffered a great deal from this stock build-up. From summer onwards, the combination of stock withdrawals, a continuation of extremely subdued oil consumption and massive production cuts resulted in a record-weak tanker market.

Extensive docking programme

The market's development is, of course, also reflected in our own earnings. Looking at the year as a whole, we reported a result before tax of SEK −65.1 (−102.3) million. EBITDA was SEK 277.8 (249.5) million, corresponding to USD 30.2 (26.4) million. In addition to the generally low freight rates, our financial position was also adversely affected by a large-scale docking programme. During the year, we sent five of the fleet vessels into drydock. In addition to periodic maintenance and upgrades, we have installed statutory ballast water treatment systems.

This has involved significant costs and a loss of earnings during the time when the vessels were out of service. It is obviously better to do this in a weak market than in a strong one, as earnings are low anyway.

Major operational challenges

Since the Covid-19 outbreak, our highest priority has been to safeguard the health of seagoing employees and minimise the risk of infection on board the vessels. In addition to complying with the recommendations of the relevant authorities, we and our crewing partner Northern Marine Management have also implemented a large number of our own preventive measures. These include continuous risk assessments and exercises.

Overall, new routines on vessels, tough restrictions and generally increased travel difficulties have substantially increased the complexity of ship operation. This is particularly the case for crew changes, with the pandemic resulting in longer working periods on board in many cases. During the last year, our seagoing employees have shown flexibility and drive that in many ways went beyond what could be expected.

Market prospects in the period ahead

At the time of writing, we are in the middle of March 2021 and the tanker market remains weak. It is of course difficult to assess how the market will develop in the future as this is dependent on the course of the Covid-19 pandemic. However, our belief in a market strengthening from summer 2021 stands firm. Several factors point to this:

Demand for oil and oil products will soon be back at pre-pandemic levels

World oil consumption continues to recover at a good pace. We, and many other analysts, expect the recovery to continue during 2021, perhaps even returning to pre-pandemic levels by the end of the year. Overall, this will have a positive effect on demand for tanker transport.

Increased need for transport due to longer distances

As the oil market now recovers, the shift from west to east appears even clearer. Emerging countries in Asia are expected to continue to account for a growing share of the increase in oil consumption in the future. Several new refineries are now also being built there. At the same time, new oil discoveries, particularly in the west, are resulting in longer distances and therefore also increased transport needs.

Stocks heading down to the five-year average

The current OPEC+ production cuts are 7.5 million barrels per day. In addition, Saudi Arabia announced in early March that it would cut oil production by a further 1 million barrels per day until the end of April. In combination with increased consumption, this will mean that worldwide oil stocks will continue to fall at a steady pace – down to the five-year average. The road there is a bitter pill for the tanker industry - but is also necessary for an eventual market upturn.

Record low net fleet growth

Looking at the supply side, the situation looks really promising. Net fleet growth in 2021 and 2022 is expected to be about 2 percent – a historically low level. In the current situation, virtually no new orders are being placed either, which means that the low growth rate will be gradually extended. This is obviously good for the tanker market as a whole.

No general oversupply of vessels

Basically, the tanker market is relatively well balanced, which means there is no significant oversupply of vessels. Despite the fact that the markets are poor at present, all vessels still have fairly continuous employment and no vessels are laid up. Even small changes in demand for transport can have a major impact on freight rates. In a "normal" market, the utilisation rate for the total fleet is around 85 percent. At 90 percent, the market is extremely strong and at 80 percent extremely weak. That is how small the differences are.

Gradually stronger market from summer 2021

In summary, we can say that several factors point to a continuation of the volatile market during the first half of 2021. After that, things appear much more positive, with a gradually stronger market from the second half of the year. Through our exposure to the spot market, we are well positioned to take advantage of the positive trend in the market. We have a flexible fleet that is in good shape. We can now put a challenging year behind us and look ahead instead.
We very much look forward to doing so.

Gothenburg, March 2021

Kim Ullman
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