Airlines and liner companies, businesses that involve the movement of people and freight respectively in high cost assets, understand that they are simply renting space. Ownership of the asset is of little consequence as the asset play is not a strategic imperative. Their interest is simply long-term availability of space at a competitive price and that is best achieved through a mix of owned and leased assets. To maximize the benefits of the sale-leaseback, the right counterparty has to be found and candidates are no longer limited to the leasing companies. Back in December, Euronav NV announced that it has entered into a five-year sale and leaseback agreement for four VLCCs with investment funds advised by Wafra Capital Partners Inc., a private equity partnership that is indirectly beneficially majorly owned by an autonomous agency of the government of Kuwait. Constructed by Dalian Shipbuilding Industry and delivered to the new owners on December 22nd, the four VLCCs are the Nautilus (2006), Navarin (2007), Neptun (2007) and Nucleus (2007) and were acquired by Wafra for a net en bloc purchase price of $204 million (inclusive of an $18 million seller's credit), a premium to current valuations reflecting the bareboat charter. Repayment of the seller's credit will occur at the expiry of each contract the vessels will be redelivered to their new owners at age 15. Atypical for a transaction of this kind, there is no purchase obligation to the seller; however the bareboat charter does provide downside protection to the buyer depending on the value of the vessels at charter expiry. For accounting purposes, the transaction will be booked as an operating lease under IFRS. 

The deal was done against a difficult market backdrop. Even for a company as credible as Euronav, access to financing was not an easy task generally or specifically. Fickle capital markets and a shrinking bank market were the macro concerns, but the larger issue was the declining tanker market. In order to provide additional balance sheet flexibility and highlight how conventional financial transactions can be applied to tanker financing, Euronav had been looking to enter into a sale-leaseback transaction beginning in Q2 but faced headwinds from continuously declining tanker asset values during the year. Specifically, the value of a 10-year old VLCC fell 31%. And like night follows day, freight rates weakened as well.
Oil production outages, weak owner sentiment and new vessel supply combined to drive tanker rates to seasonally low levels from June onwards and maintain them at these lower levels until October (see graph below). The supply issue was particularly devastating with 46 new VLCCs delivered during the year, the fifth highest year for deliveries in the modern era. Highly resilient, Euronav and its advisor, Pareto, were never dissuaded by the challenging conditions in their pursuit of this transaction.

The successful execution reflects the judicious choice of Wafra as the counterparty. With a longer-term view, Wafra was comfortable with the certain cash return over the five-year bareboat period and the potential residual play at the conclusion of the charter. In short, the transaction offered a very good risk/reward balance for its investors, enhanced by competitively priced senior leverage from DekaBank.

**VLCC RATES VS. VALUES**