A ‘breakout year’ for physical suppliers

Aegean’s president expects increasing benefits from double-hull ownership and predicts industry defragmentation in 2009.

The global bunker industry is bracing for a challenging period as the effects of the 2008 financial crisis continue to unfold. There are widespread predictions that demand for marine fuels will contract in 2009 because a depressed global economy will reduce demand for shipping. Continued tight credit and cash flow concerns weigh heavily on the sector.

But E. Nikolas Tavlarios, President of the New York-listed global marine fuel supplier Aegean Marine Petroleum Network Inc. (Aegean), sees reasons for optimism and is positively bullish for 2009.

"I think 2009 will be a breakout year for physical suppliers," Tavlarios told Bunkerworld.

Moreover, he believes it will be a year of increasing differentiation between physical suppliers and traders.

Market conditions in 2009 are likely to be prove more beneficial for well-funded independent physical bunker suppliers, and they could do better than other segments of the industry, according to Tavlarios.

Supply chain changes

A key factor in Tavlarios' argument is that physical suppliers stand to benefit from dramatic changes in the supply chain that will more than make up for any fall in demand.

He was referring to the phase-out of single hull bunker barges in accordance with the International Maritime Organization (IMO) MARPOL Annex I and European Union requirements. The regulations ban the carriage of heavy grades of oil in tankers in the 600 to 5,000 deadweight ton (dwt) range.

Although the single hull phaseout has not been fully enforced everywhere, the regulations have caused a major thinning out of the global barge fleet, by some estimates by more than half.

"The barges still trading will be busier. If you take capacity out, market conditions will be better for those that are left," Tavlarios told Bunkerworld.

As of February 2009, Aegean owned a fleet of 32 bunker barges, of which 87.5% were double hull vessels. The company has 20 newbuilds on order which should take its bunkering fleet to 52 vessels by the end of 2010.

Based on the current global fleet and order books, double hulled barge capacity tonnage looks set to remain limited; 265 newbuilds are said to be on the order books for delivery through to 2012.

Tavlarios said Aegean has already noted an increased level of utilisation in its own barge fleet, though there are regional variations. Some areas are well equipped with double hulled tonnage, while others, such as Greece, have gone through a large changes in barge availability.

While it is hard to assess demand "ships will still need fuel," Tavlarios observed. He said the shrinkage in available global barge supply capacity would outpace any potential fall in demand in 2009 and beyond.

Supplier advantage

Physical bunker suppliers with an integrated supply model and strong funding could do better than traders, oil majors and barge operators in 2009, according to Tavlarios.

Aegean bought into Vancouver’s bunker market last year.

He noted that some physical suppliers, including Aegean, have been growing substantially in the past few years. Oil majors, meanwhile, have in many cases been reducing their market presence, and few oil majors have their own barges.

Some markets are served by local barge operators who are not involved in the actual bunker transaction. While barge operators should also benefit from the tightening of the global bunkering fleet, Tavlarios said they do not stand to reap the same benefits as suppliers who control the whole supply chain.

As for why physical suppliers would do better than traders, Tavlarios said it was down to different business models. Should demand fall in 2009, it would make it tough for bunker traders to grow their business as "traders need volume, plain and simple," he said.

The tight credit environment will also make it increasingly hard for companies that are not well funded to survive. This will likely lead to defragmentation in 2009, according to Tavlarios.

Attrition, acquisitions

Bunker industry consolidation has already been evident in the past couple of years through alliances, mergers and acquisitions, and the trend is likely to continue, according to Tavlarios.

"You will see a defragmentation, not just through consolidation, but also through attrition," he told Bunkerworld.

Attrition will take place as some players quit or go out of business, leaving fewer players and thus a less fragmented market. Tavlarios said this defragmentation will be driven by the credit crunch, funding and asset changes, and possibly a drop in demand.

For some players, however, this climate may present opportunities for growth, in particular those with solid finical backing and the right asset mix. It will require ample liquidity and offering the right services in the right place.

Managing risk

The credit crunch and collapse in shipping freight rates in the second half of 2008 has led to a significant increase in counterparty risk for bunkering companies. Some will have suffered losses on bad debts.

Aegean says it mitigated losses on bad debt through sophisticated credit control systems. During a fourth quarter (Q4) earnings conference call on February 26, the company was asked if it was turning away business due to counter party risk.

"Absolutely, we are turning away a lot of business," said Peter C. Georgiopoulos, the Chairman of Aegean's Board of Directors.

Despite that, the company expects to continue to grow in 2009.

Expansion potential

Aegean has already expanded "terrifically fast in the past two years," Tavlarios observed, but said the company was "not adverse to further expansion" and will continue to look at growth opportunities.

The company is "nimble enough" to look at new markets and "in a position to deal with acquisitions," he told Bunkerworld.

Its quarterly result for the three months ended December 31, 2008, showed a 52.8% increase marine fuel sales volumes to 1,568,770 metric tonnes compared to the same period a year earlier.

The increasing volume has come as the company has expanded to 11 supply locations world-wide, in part through acquisitions, but chiefly by deploying its fast-growing double hull barge fleet in new markets.

Tavlarios said commencing operations in two new supply locations - Tangiers in Morocco and in Trinidad and Tobago in the Caribbean - will contribute to the company's continued growth in 2009.

Aegean has been promised exclusive supply rights in Tangiers, and with some 7,000 vessel calls projected annually, the fuel demand potential is significant.

With 20 additional newbuilds due to be delivered by the end of 2010, Aegean could also move into new markets, perhaps especially markets where available tonnage is tight.

Georgiopoulos also thinks there will be more acquisition opportunities for the company in 2009. During the Q4 earnings conference call, he told an analyst that he expected this to be the case given the current difficulties some smaller player have with access to credit and lack of funds to get the required new equipment to operate, such as double hull bunker barges.

With its "ample liquidity to fund growth" and a large and continuously expanding fleet of double hull bunkering vessels, Aegean is one physical supplier that sees cause for optimism in the coming year. ■

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