US coastal tanker market goes from strength to strength

By Barry Parker from New York

The first quarter of 2014 yielded record setting results for Kirby Corporation, even after factoring in the horrible winter weather, and the impact of a casualty in the Houston Ship Channel in March.

Kirby has been the darling of investors, who have seen it as a good proxy for increased movements of oil and refined products as part of the "Energy Renaissance" underway in the US In the past year, since early May 2013, the stock has risen 41%

Its operating income reached $97.6m during the January – March period, compared with $89.3m in the same period in the prior year.

The company said: "Inland marine transportation continued its strong performance with tank barge utilisation consistently in the 90% to 95% range and favorable pricing trends." Of interest to observers of the coastwise trades, where Kirby competes due to its acquisitions of K-Sea, and then Allied Towing, it offered that: "Coastal marine transportation tank barge utilisation was also in the 90% to 95% range, a modest improvement from the 2013 first quarter. Overall, coastal marine transportation utilisation levels continue to support higher term and spot contract pricing."

Equity analysts continue to wax positively about the company. One knowledgeable observer, Cowen's analyst Sam Margolin, wrote about the management conference call, remarking that: "Commentary around marine transportation fundamentals were consistent with previous quarters, with management noting high single digit price increases for contract renewals in the coastal fleet, and spot prices higher than one year rates."

From a shipping markets perspective, any time that spot hires exceeds term numbers, that's a sign of an overheated market. Another transportation equities expert, Evercore's Jon Chappell, said: "The ongoing expansion of US oil and gas production and the resulting dislocations of the product within domestic borders is driving robust demand for KEX's assets, and although supply of tonnage may eventually catch up to the demand strength it will likely take several years to bring these markets back into balance."

The strength in the coastwise markets is not lost on market participants following the long-running saga of once-mighty Overseas Shipholding Group (OSG), where occasional snippets suggest forward movement in reconciling the positions of the tax-man, bondholders, lenders and creditors. At least one group of rumours, and they are only that, suggests that the US tanker outfit will be the centerpiece of a re-emergent OSG.

This comes at a time that another coastwise player, Seacor, which makes money in just about anything it does, has formed a joint venture with Avista Capital Partners, a private equity investor with considerable energy expertise to exploit opportunities in the sector. Seacor is putting its seven vessels (five of which are owned) into the new company. One must wonder whether the new joint venture will contribute to the re-emergence of the felled giant, in a bid to consolidate the sector.

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