Diamond S IPO: Rising MR values float more boats

By Barry Parker from New York

Private equity investors continued their moves towards creating liquidity, the prelude to an exit transaction. Diamond S Shipping Group, put together by Wilbur Ross, best known as a distress investor, First Reserve, known for its forays into energy, and more recently, joined by Cargill, which swapped three product tankers for a piece of the company in late 2013, has filed a prospectus for an IPO in the product tanker sector.

Up to $100m worth of common stock could be sold in the offering, led by Jefferies and by BA Merrill Lynch. On offer is a stake in a business that owns 33 product tankers- 30 of which are on time charter at healthy rates averaging in the $16,000's, before profit sharing, with many tied up well through 2015. The fleet of modern vessels, all built in top South Korean yards in 2008 – 2010, was bought mainly in 2011, from Cido Shipping.

In a related transaction, Diamond S announced that it would "….further expand [its] fleet, in part from proceeds of this offering, through the purchase of ten newbuild product tankers from a Korean shipyard…". This is a reference to a just-announced deal where seller Theodore Angelipoulos of Metrostar, a consummate market timer, would be selling 10 vessels being built at SPP to the Diamond-S entity, to be delivered from late 2014 through early 2016, for around $38m each, subject to the success of the share offering.

The proceeds of this IPO will go towards the 10-ship purchase, alongside additional debt to be arranged. For the calendar year 2013 (saddled with temporary setbacks from seven vessels returned by OSG, now re-chartered, and prior to the purchase of three ships from Cargill) adjusted EBITDA was running around $100m. Based on the contemplated money raise, and after debt is put in place to pay Metrostar, the ratio of EV to EBITDA could possibly sit around 12x or above, if the promoters want to position for large returns. This would be on the high side, but certainly not off the shipping charts where MR tankers are concerned.

The company, led by Craig Stevenson, is first class all the way. The big question, as is always the case in shipping asset plays, is whether the timing is right for a US listing. Though the prospectus emphasis the stability, and, ergo downside protection, from vessels on charter to high quality names, it is noteworthy that the MR sector failed to participate in the big tanker run-up that occurred in late 2013 and into 2014 as traders devoted more attention to VLCCs and suezmaxes.

The prospectus notes that carrying values of vessels presently exceed their charter free values. Happily, impairment write-downs are not in the works, and transactions in the sector, like those at $38m, are trending higher. A number of analysts have pointed to hefty ordering in the products sector, where many ships will be hitting the water in 2015 and 2016- the time that Diamond-S's present charters run off, and the ten Metrostar newbuilds will be delivering.

Though the industry section, by Fearnley's, pegs vessels on order in the MR tanker category as only 23.2% of the existing fleet, MR tankers are expansively defined in the Glossary as vessels from 25,000 dwt to 59,999 dwt. In the 47,000-51,000 dwt category, where Diamond-S vessels, including the newbuilds, are grouped, the percentage on order would be far higher. On the demand side, new trade patterns, which would have European refineries sourced from far afield, including from the U.S. Gulf, where products refined from Eagle Ford shale are exported, are only beginning to emerge in a big way. By 2016, we will know much more.