

## Transportation - Shipping

## Year Ahead 2024: Disruptions extend tanker super-cycle, Raise TNK to Buy

Rating Change

## Red Sea turmoil sets the stage for global shipping in 2024

Geopolitical and disruptive events are rapidly impacting the shipping market, leading to vessel lane re-routing, increased ton-mile demand, and fluidity/access at the Suez and Panama Canals. Since attacks on vessels by Yemeni Houthis accelerated in December 2023, transit across the Red Sea and Suez Canal have been severely constrained. As we noted in our joint report on the [Red Sea Disruption](#), the Suez Canal represents 28% of liner volumes, 12% of crude tanker volume, and 4% of dry bulk volume globally. Major container liners (e.g., Maersk, Evergreen, COSCO, Hapag-Lloyd, ZIM), tankers (such as Torm, Hafnia), and charterers (such as Shell, BP) have diverted traffic around Cape of Good Hope, extending voyages 10-15 days on average. Volumes transiting the Red Sea have fallen 70% since the first half of December, with liner volumes down 90% and tanker and bulk volumes both down 20%. Military convoys near the channel are working to return fluidity through escorting commercial vessels, but the dynamic threat ([Expert Call with US Navy Admiral Foggo](#)), has led to a near cessation of trade flows. The recent seizure of a tanker near Strait of Hormuz, which moves 20% of global oil & oil products, by the Iranian Navy indicates potential for additional escalation of fluidity disruptions.

## Fluidity disruptions imply potential upside to rates view

The severity and the duration of disruptions to maritime fluidity are potential drivers to shipping rates in 2024, extending elevated rate levels in our models for a year. Unlike liners, tanker carriers operate mostly under spot charter rate (~90%). Thus, volatility in rates has a more immediate impact to earnings. Although we continue to view the macro backdrop as uncertain, route diversions from Red Sea disruptions and low water levels at the Panama Canal (where daily transit limits will fall 40%, to 18 slots Feb 1 for its Neopanamax lock, from 30-40 slots) should lead to rate strength.

## Strong tanker cash returns; raise TNK to Buy

We expect the Shipping supply-demand balance to remain favorable with rates holding well above carrier breakeven levels, leading to strong cash generation. This should drive accelerating shareholder returns as buybacks and dividends scale. We are increasingly positive on crude tankers as ton-mile demand accelerates given a supportive orderbook backdrop. We are relatively more cautious on the product tanker backdrop, despite rising rate potential, given a rising orderbook (at 12% orderbook-to-fleet, from 6% in 2022 trough). We raise our rating on crude tanker Teekay Tankers (TNK) to Buy (from Neutral) and raise our PO to \$72 from \$56, based on 3.2x EBITDA, given rising rate upside as global shipping fluidity deteriorates. We maintain our Neutral rating on product tanker Scorpio Tankers (STNG), with our \$70 PO based on 6.0x our 2024 EBITDA estimate.

Shipping underperformed in 2023 for 3<sup>rd</sup> time in 5 years

Shipping stocks were up 17% in 2023, underperforming the S&P 500 (+24%) for the 3<sup>rd</sup> time in the past 5 years. The weak relative performance is primarily driven by falling liner returns (-22%) with Asia-West Coast lane priced at \$2,100/fifty-foot-equivalent (FFE) on average in 2023 vs \$10,000/FFE early 2022. In tankers, crude tankers (+25%) outpaced slightly as rates scaled over the course 2023 on record tight supply yet product tankers (+5%) lagged due to a rising orderbook ratio (LR-2 orders at 20% of fleet).

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## Exhibit 1: PO and rating changes

Raise our rating on TNK's shares to Buy

	Price	New Rating	Old Rating	New PO	Old PO
TNK	\$ 57.16	Buy	Neu	\$ 72.00	\$ 56.00
STNG	\$ 65.62	Neu	Neu	\$ 70.00	\$ 70.00

Source: BofA Global Research, Bloomberg.

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## Exhibit 2: Estimate changes

We highlight our increased earnings estimates for TNK on increased pricing targets.

	New 4Qe	Old 4Qe	New '24e	Old '24e	New '25e	Old '25e
TNK	\$ 3.90	\$ 3.24	\$ 14.35	\$ 4.05	\$ 6.65	\$ 1.45
STNG	\$ 3.01	\$ 3.01	\$ 9.05	\$ 9.05	\$ 7.75	\$ 7.75

Source: BofA Global Research estimates

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## Company Updates

### Teekay Tankers: Raise to Buy as rates accelerate

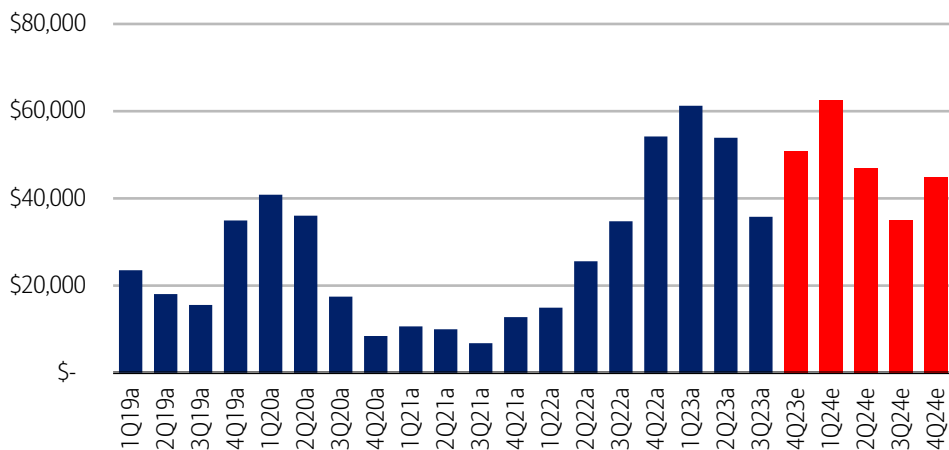
Teekay Tankers operates 53 mid-sized crude tankers (27 Aframaxs and 26 Suezmaxes; Aframaxs are 80,000k-120,000k deadweight tonnes (dwt), and carry ~600,000 barrels of oil (~25 mil gallons); Suezmaxes are 160,000 dwt, and carry 800k—1 mil barrels of oil (~40 mil gallons). The company mainly trades its vessels in the spot market (96% of fleet, or 51 ships trade in the spot market). Given its elevated exposure to immediate shifts in spot charter rate activity (vs liners, with mostly contract exposure) it should see immediate earnings gains as spot tanker rates accelerate higher.

We believe the dynamic threat of Houthi attacks and consequent re-routing of vessels around the Cape of Good Hope will continue to increase ton-mile demand, thus elongating the supernormal tanker rate cycle. Lower transit limits across the Panama Canal to 18 ships/day (from 30-40 under normal fluidity conditions) could lead to further ton-mile demand upside. We expect these factors to offset the uncertain macro backdrop, as well as OPEC production cuts, as longer sailing routes lead to increased demand for capacity to move the same volume of crude. New vessel adds over the next 3 years are expected to be negligible, with tanker orderbook near record low levels (~7%). We increase our 2024 average fleet TCE target to \$47,000/day from \$28,000/day, given our more upbeat pricing view.

We raise our rating on TNK's shares to Buy and increase our PO to \$72 (from \$56), based on 3.2x our 2024e EBITDA vs 7x previously, lowered to the bottom of its 3x-7x range as we see mid-sized crude tanker rates sustaining at cycle peak levels, well above its cash breakeven, given increased fluidity challenges. We increase our 4Q23, 2024 and 2025 EPS estimates to \$3.90, \$14.35, and \$6.65, from \$3.24, \$4.05, and \$1.45, respectively.

#### Exhibit 3: Teekay Tankers Fleet TCE Estimates

We increase our 2024 average fleet TCE target to \$47,000/day from \$28,000/day previously.



Source: BofA Global Research estimates and company reports.

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### Scorpio Tankers: Dividend ramp likely by 1H24

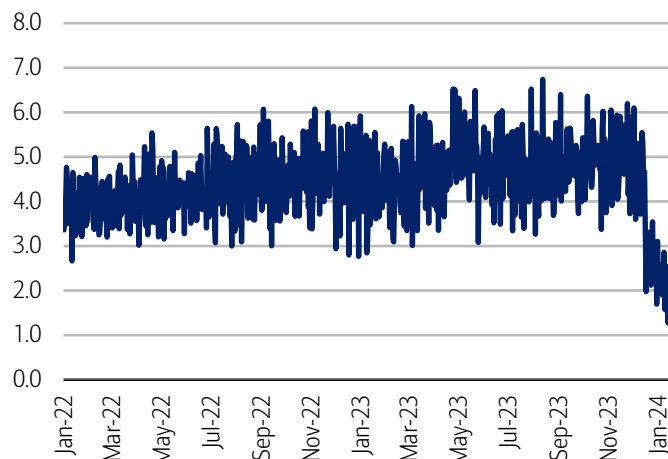
Scorpio Tankers is a leading product tanker operator, with a fleet of 110 product tankers and 90% of its fleet in the spot market. Rates have remained muted since the onset of fluidity disruptions at the Red Sea. However, we believe product tanker rates have the potential to ramp in the coming weeks as LR-2 rates are negotiated higher given longer sailing days. The company aims to ramp its dividend payout as its net debt moves below its vessel scrap value, which we expect it will achieve by 2Q24.

We maintain our Neutral on STNG's shares and \$70 PO, which is based on 6.0x our 2024 EV/EBITDA. While we remain positive on the improving rate outlook, we remain cautious given the rising orderbook-to-fleet ratio for the product tanker group of 12% vs 6% at 2022's trough (as we noted in our [STNG Call Takeaway](#)).

# Red Sea Disruptions Transit Impacts

## Exhibit 4: Red Sea Vessel Gross Tonnage (Millions)

Vessel tonnage arriving Red Sea is down 70% from 1H of December

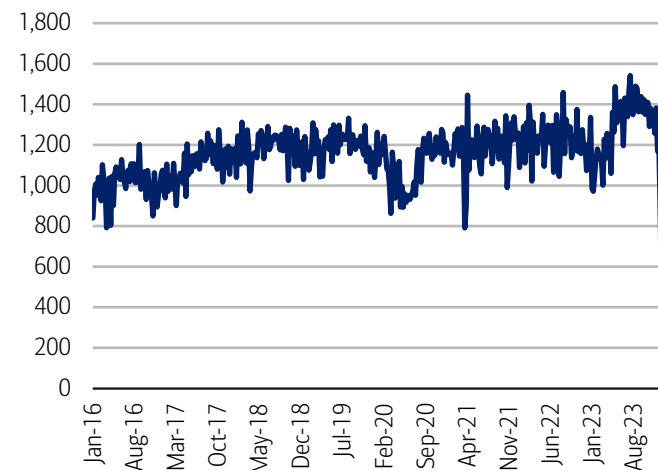


Source: BofA Global Research and Clarksons.

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## Exhibit 5: Containership TEUs Through Suez Canal

Container boxes moving through the Suez has fallen 80%.

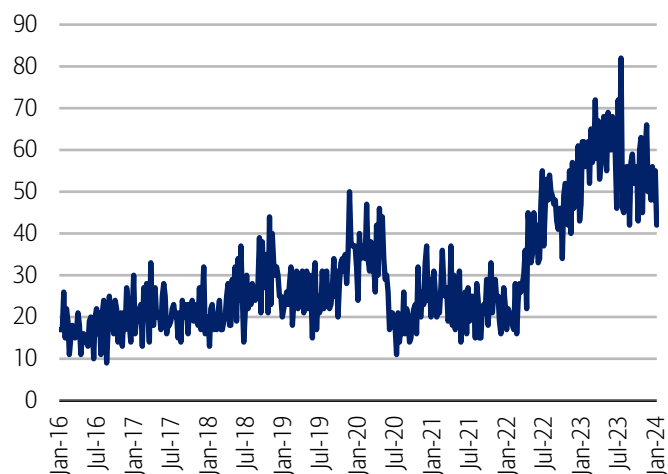


Source: BofA Global Research and Clarksons

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## Exhibit 6: Crude Tanker Transits through Suez Canal

Crude tanker transits fallen to 40/week, down structurally since OPEC cuts

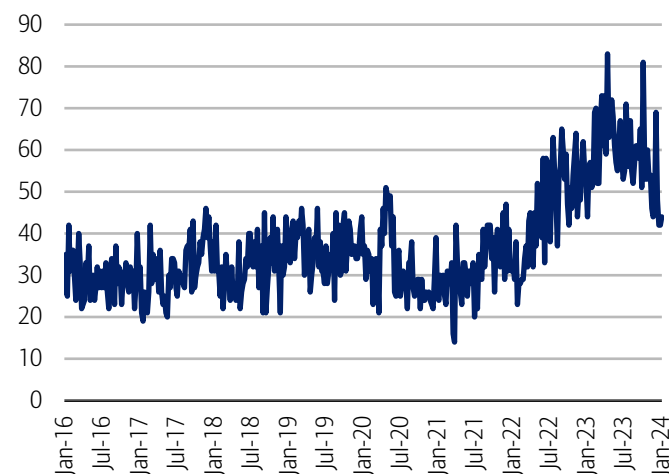


Source: BofA Global Research and Clarksons

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## Exhibit 7: Product Tanker Transits through Suez Canal

Weekly Product Tanker transits remaining stable at 40-50 ships in January.



Source: BofA Global Research and Clarksons

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# Orderbook to Fleet Ratios

## Exhibit 8: Container Orderbook to Fleet Ratio

Container orderbook to fleet ratio is 24%, down from 30% at peak.



Source: BofA Global Research and Clarksons.

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## Exhibit 9: Tanker Orderbook to Fleet Ratio

Tanker orderbook at 7% of fleet, near historical trough levels.

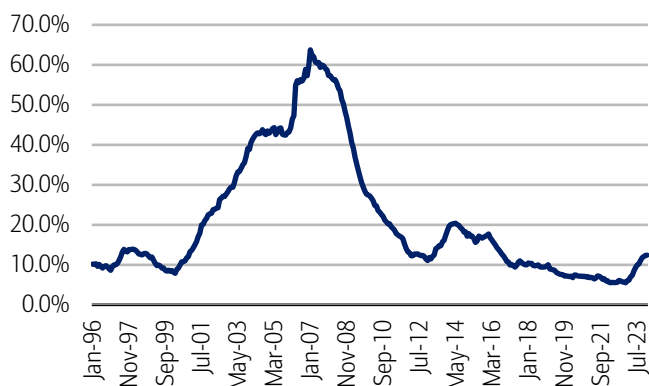


Source: BofA Global Research and Clarksons.

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## Exhibit 10: Product Tanker Orderbook to Fleet Ratio

Product tanker orderbook at 12% of fleet, up from 6% of fleet at trough.



Source: BofA Global Research and Clarksons.

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## Exhibit 11: Aframax Product Tanker Orderbook by Vessel Count

LR-2 product tanker orderbook ramping close to historical peak levels.



Source: BofA Global Research and Clarksons.

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## Exhibit 12: Aframax Crude Tanker Orderbook to Fleet Ratio

Mid-sized tanker orderbook to fleet ratio remains at record low of 5%.



Source: BofA Global Research and Clarksons.

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## Exhibit 13: Suezmax Crude Tanker Orderbook by Vessel Count

Suezmax orderbook remains well below historical average levels.



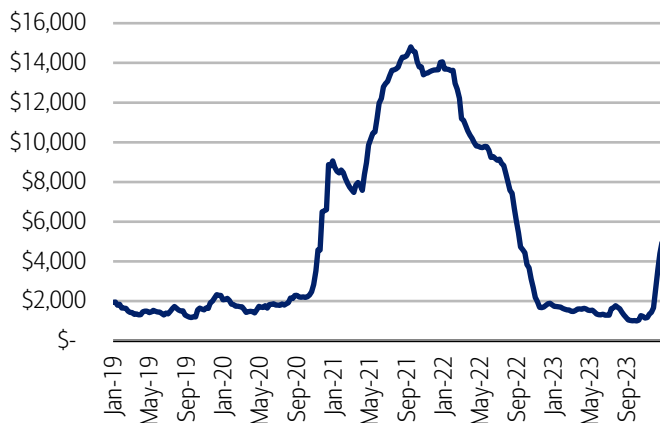
Source: BofA Global Research and Clarksons

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# Charter Rates Time-Series

## Exhibit 14: Container Liner Shanghai-Rotterdam Rates (\$/FFE)

Asia-Europe rates have surged to \$5,000/FFE from \$1,000/FFE in January.

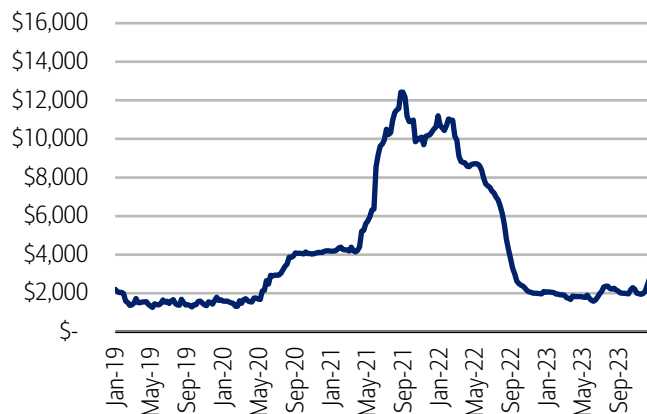


Source: BofA Global Research and Drewry.

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## Exhibit 15: Container Liner Shanghai-Los Angeles Rates (\$/FFE)

Asia-US West Coast rates jumped to \$4,000/FFE from \$2,000/FFE in January.

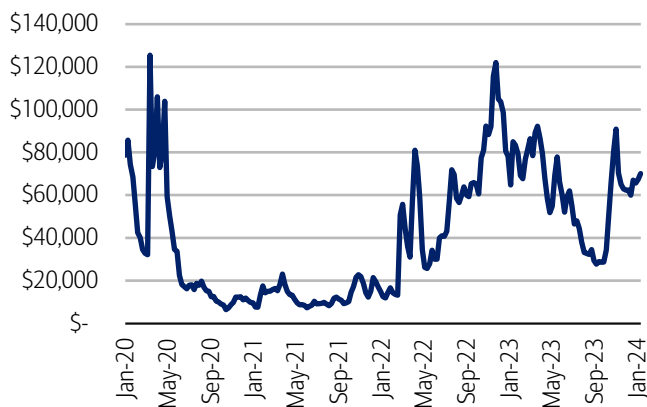


Source: BofA Global Research and Drewry.

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## Exhibit 16: Suezmax Tanker Time-Charter Equivalent Rates

Suezmax rates remained steady at \$70,000/day during the Red Sea attacks.

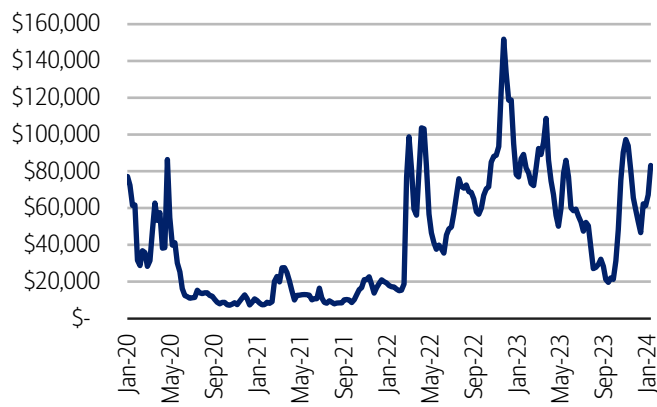


Source: BofA Global Research and Clarksons.

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## Exhibit 17: Crude Aframax Tanker Time-Charter Equivalent Rates

Crude Aframax rates increased 30% to \$80,000/day since January.

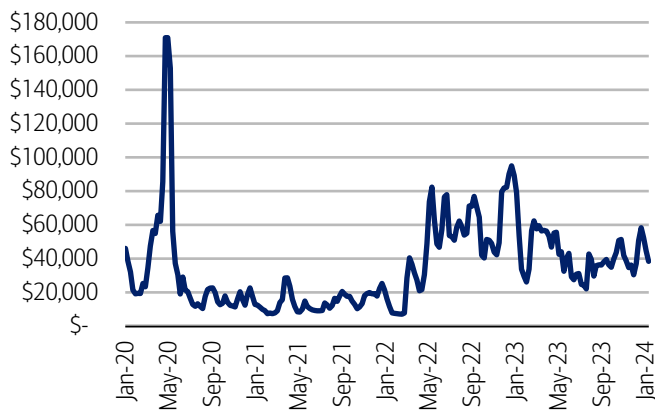


Source: BofA Global Research and Clarksons.

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## Exhibit 18: LR-2 Product Tanker Time-Charter Equivalent Rates

LR-2 Product Tanker rates remain steady at the \$40,000/day level.

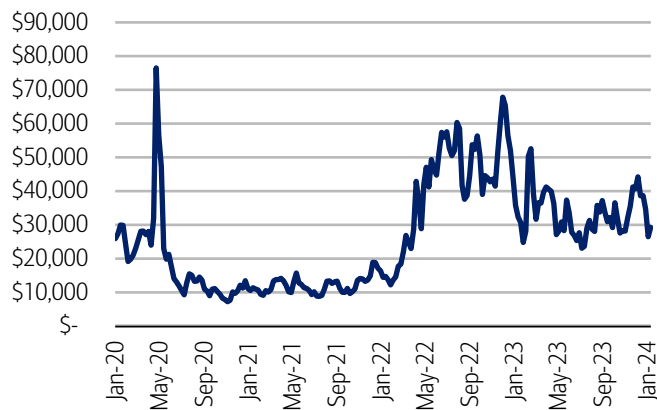


Source: BofA Global Research and Clarksons.

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## Exhibit 19: MR Product Tanker Time-Charter Equivalent Rates

MR Product Tanker rates remain steady at the \$30,000/day level in January.



Source: BofA Global Research and Clarksons.

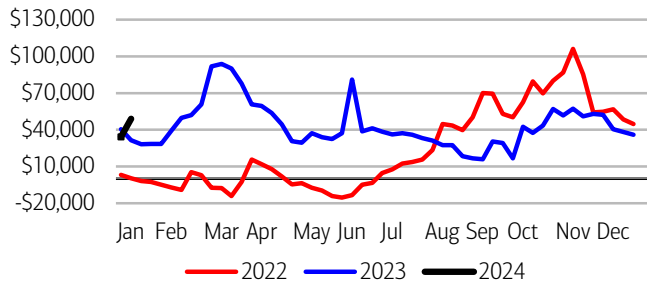
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# Weekly Shipping Rates

## Exhibit 20: VLCC Spot Rates

VLCC Spot Rates at \$49,065 as of 01/12/2024

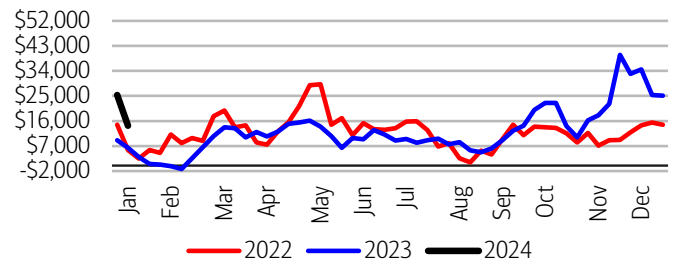


Source: BofA Global Research and Clarksons

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## Exhibit 21: Capesize spot Rates

Capesize Spot rates at \$14,327 as of 01/12/2024

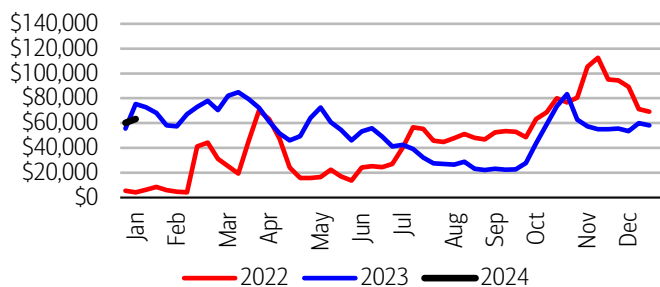


Source: BofA Global Research and Clarksons

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## Exhibit 22: Suezmax Spot Rates

Suezmax Spot Rates at \$63,145 as of 01/12/2024

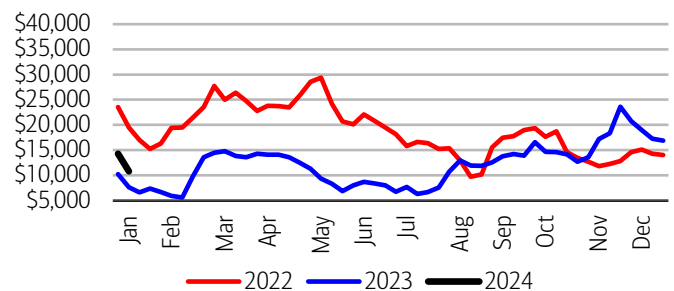


Source: BofA Global Research and Clarksons

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## Exhibit 23: Panamax Spot Rates

Panamax Spot Rates at \$10,807 as of 01/12/2024

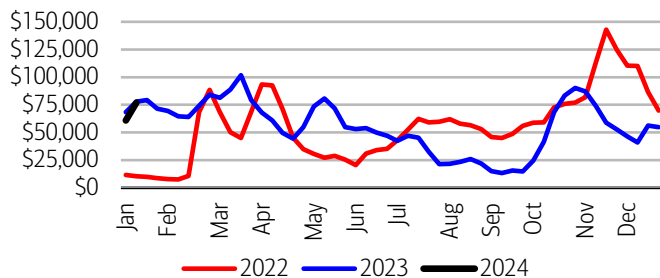


Source: BofA Global Research and Clarksons

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## Exhibit 24: Aframax Spot Rates

Aframax Spot Rates \$76,948 as of 01/12/2024

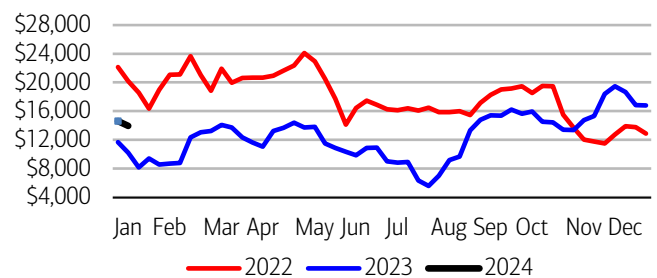


Source: BofA Global Research and Clarksons

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## Exhibit 25: Supramax Spot Rates

Supramax Spot Rates at \$13,950 as of 01/12/2024

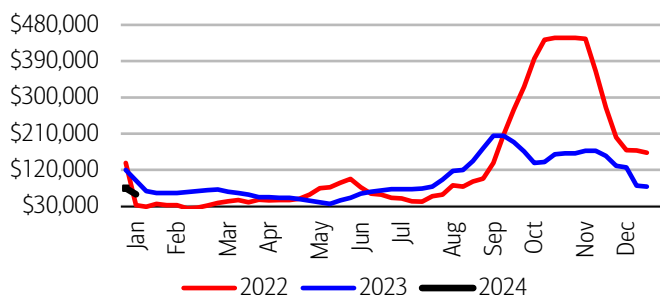


Source: BofA Global Research and Clarksons

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## Exhibit 26: LNG TFDE Spot Rates

LNG TFDE Spot Rates at \$60,000 as of 01/12/2024



Source: BofA Global Research and Clarksons

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## Exhibit 27: Yearly and Quarterly Gas Carrier Rate Data

LNG Carrier Rate is down 1QTD and down YTD

Gas Carrier	1QTD Average	2024 YTD Avg.	Orderbook % of Fleet
LNG TFDE	\$67,500	\$67,500	76%
% chg. Y-Y	-6%	-30%	

Source: Clarkson

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**Exhibit 28: Yearly and Quarterly Tanker Rate Data**

Tanker Rates are down 1QTD, but mixed YTD

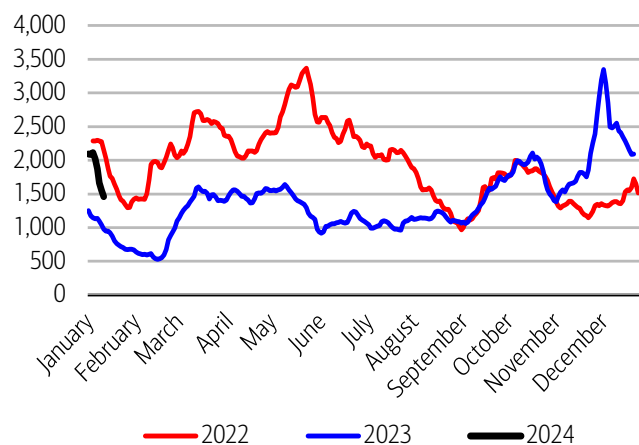
Tanker	1QTD Average	2024 YTD Avg.	Orderbook % of Fleet
VLCC	\$41,667	\$41,667	2%
% chg. Y-Y	-24%	-4%	
Suezmax	\$61,726	\$61,726	5%
% chg. Y-Y	-13%	15%	
Aframax	\$68,902	\$68,902	11%
% chg. Y-Y	-11%	24%	

Source: Clarkson

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**Exhibit 30: Baltic Dry Index**

Baltic Dry Index is at 2,110 as of 01/12/2024

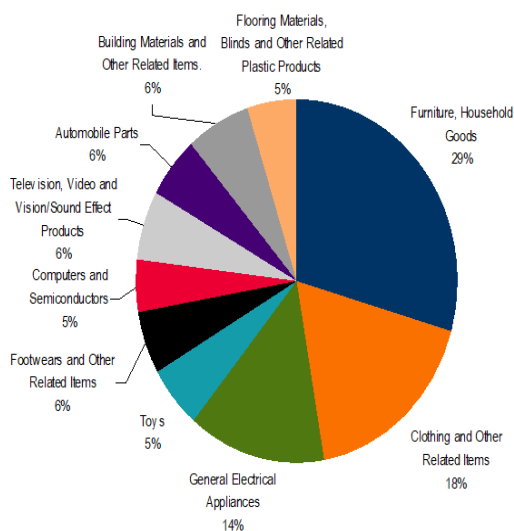


Source: Bloomberg

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**Exhibit 32: Container Breakdown by Commodity**

Furniture, Household &amp; Goods represents almost 30%



Source: OOCL, BofA Global Research estimates

**Exhibit 29: Yearly and Quarterly Dry Bulk Rate Data**

Dry Bulk Rates are up 1QTD and YTD

Dry Bulk	1QTD Average	2024 YTD Avg.	Orderbook % of Fleet
Capesize	\$19,849	\$19,849	5%
% chg. Y-Y	246%	60%	
Panamax	\$12,562	\$12,562	9%
% chg. Y-Y	25%	5%	
Supramax	\$14,283	\$14,283	8%
% chg. Y-Y	29%	15%	

Source: Clarkson

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**Exhibit 31: Shipping Rates**

Shipping Rates are mixed year-over-year

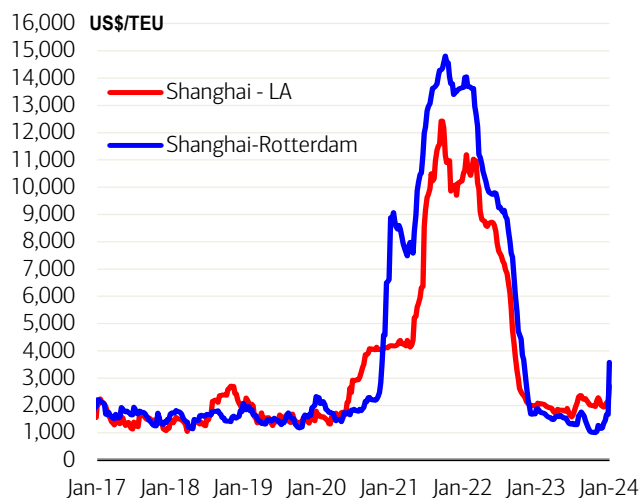
Vessel Type	Current Wk 01/12/24	Prior Wk 01/05/24	YOY Wk 01/13/23	Seq % Change	YOY % Change
VLCC	\$49,065	\$34,268	\$31,351	43.2%	56.5%
Suezmax	\$63,145	\$60,307	\$75,283	4.7%	-16.1%
Aframax	\$76,948	\$60,856	\$77,763	26.4%	-1.0%
LNG TFDE	\$60,000	\$75,000	\$93,750	-20.0%	-36.0%
Baltic Dry Index	1,460	2,110	946	-30.8%	54.3%

Source: Bloomberg and Clarkson

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**Exhibit 33: Container Rates – Shanghai Containerized Freight Index (SCFI)**

Shanghai – LA and Shanghai – Rotterdam are up year-over-year



Source: Chinese Shipping, and BofA Global Research

## Investment Rationale

### Teekay Tankers Limited

Given its elevated spot exposure, Teekay Tankers is highly leveraged to rates, which are likely to see upside following Red Sea disruption and longer haul voyages around the Cape of Good Hope. It remains mostly focused on the spot market (96% of its fleet), having ended most contracts, and on deleveraging its balance sheet, now net cash. We see benefit in deleveraging and longer hauls and upside in rates outpacing the demand decline, supporting our Buy rating on its shares.

## Price objective basis & risk

### Scorpio Tankers Inc. (STNG; C-2-7; \$65.62)

Our \$70 price objective is based on an 6.0x EV/EBITDA multiple on our 2024 EBITDA estimate. Our valuation multiple is near the bottom of its 5x-9x historical trading range given we are at historically high product tanker rates, as global mobility strengthens, pricing rebounds as inventories reach decade-lows, orderbook remains at historic-lows, and ton mile demand is rising. The negative impacts from COVID disruptions are fading (North America and Europe stronger, Asia stabilizing) though softening economic outlook may weaken demand for refined products. Our multiple is below the bottom end of its range as earnings are set to significantly compound.

Upside risks to our PO are volatile charter rates, better-than-expected spot product tanker rates in 2022-23, lower-than-expected vessel deliveries in 2022-24, a spike in global oil demand, and higher-than-expected levels of scrapping in the market.

Downside risks to our PO are drop off in mobility (return of lockdowns, war disruptions, which have shown to increase ton mile demand), liquidity risk given rolling debt through 2024 versus cash generation (which depends on day rates rising above the daily fixed cost base), a weaker-than-expected rate environment, overcapacity due to greater-than-expected vessel deliveries and lower-than-expected scrapping rates, and weaker global demand for refined products.

### Teekay Tankers Limited (TNK; C-1-7; \$57.16)

Our \$72 price objective is based on 3.2x our 2024E EBITDA. Our multiple is at the bottom of Teekay's trading range (3.0x-7.0x) as crude tanker rate levels sustain historic peak levels after Russia's invasion of Ukraine with disruptions at the Red Sea and Panama Canal drought driving longer-haul trade flows, in and orderbook remains near historic lows.

Downside risks are: (1) Higher leverage levels, with exposure to cyclical and volatile spot market, (2) Risks to the global economy, (3) Risks of further OPEC production cuts and declining oil prices, (4) re-charter risk for vessels on charter.

Upside risks are: (1) a rapid upturn in spot rates, (2) continued debt paydown, or (3) M&A improving valuation for its assets and therefore NAV.

## Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



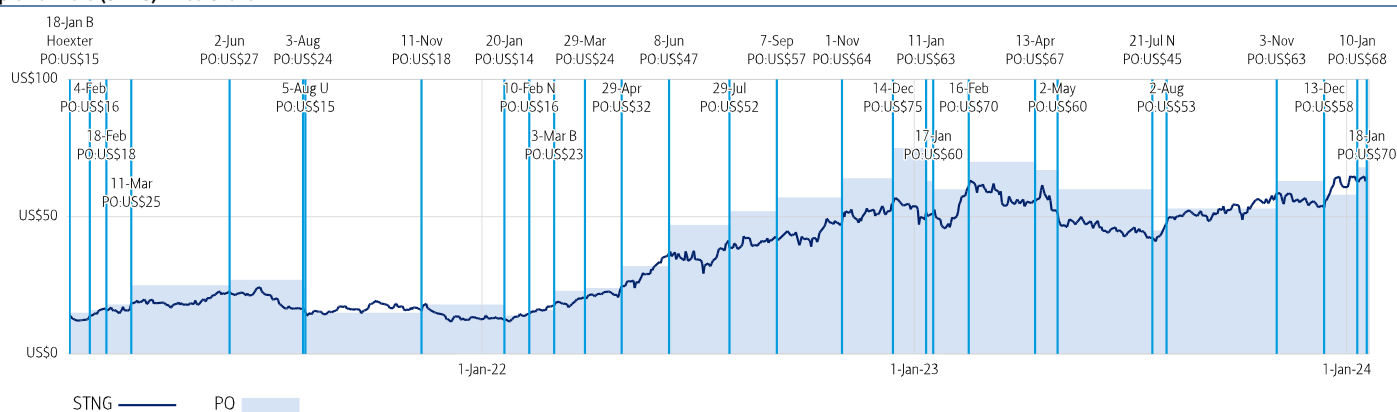
## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>NEUTRAL</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
<b>UNDERPERFORM</b>				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

## Disclosures

## Important Disclosures

## Scorpio Tankers (STNG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Teekay Tankers (TNK) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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