

## The floating Greeks

### The IPO of Tsakos Energy Navigation gives the yahoos, and Barry Parker, something to talk about

The mixed fortunes of tanker investors over the past year did not deter those who recently stepped up and bought \$95.3m of Tsakos Energy Navigation ("TNP") stock in one of the few IPOs on the New York Stock Exchange. The volatile ways of the underlying tanker market are generally well known to investors, and presently, the whole group is on an upward course. It looks like the hedge funds, who have bought on the dips, are partly responsible for the present tide lifting all boats, including those of the small guys ( who spend far too much time complaining on the Yahoo! bulletin boards about managements, or pontificating on what OPEC will do).

TNP does not yet have a bulletin board on Yahoo!, where heavily aliased guys are typified by the disgruntled ex-tanker broker who is absolutely shocked that tanker shares sometimes lose value, gradually swinging around the company's net asset value (NAV) number. Many of these bulletin board denizens only know shipping and will take down more shares of whatever is floated, especially when IPO prices are too high, but with the recent run-up in share prices, even the habitués of tanker stock boards have been smiling.

Investors must understand the vagaries of freight rates, newbuilding prices and second hand prices. I think that the current crop of shipping IPOs on Wall Street will continue to provide value to buyers who prudently time their entries and exits. Those well educated and very savvy Greek IPO boys now want to project a corporate style, comparable to the large integrated oils and traders comprising their customer base. That means a public listing and a permanent business. Asset play? Well, that depends on who you ask.

We saw IPOs last year from Stelios ( Stelmar's symbol is "SJH") and Peter G (General Maritime, ticker "GMR"). Nick Tsakos had been eyeing a New York listing for some time, and in early March saw the confluence of a quiet IPO scene and a rising stock market as building a base for the next rally. In early March, TNP shares began trading in New York. Reflective of the newly emerging interest in the sector from institutional investors, one of the big buyers of TNP was Omega Advisors, a hedge fund running \$2.5 billion, controlled by ex-Goldman Sachs research guru Leon Cooperman (who has repeatedly expressed and pointedly taken the view that stocks are "increasingly like commodities"- think gold and silver).

Nick already had a track record in the sometimes illiquid Oslo markets, where TNP has traded since 1993, and got a successful secondary offering done in 1996. He has always valued the corporate image- a benefit of a public persona and a hallmark of the younger generation of Greek owners. Nick's ex-sea captain father started the family business in the early 1970s. After his studies at Columbia University in New York and City University in London, Tsakos was quick to ride the first IPO bandwagon in the late 1980s with Global Ocean Carriers ("GOC"). Around this time, Peter G, who worked for Nick's father after graduation from Dartmouth's prestigious business school, was crafting private placement shipping deals at New York's Drexel Burnham while Stelios was learning the family business at Troodos Shipping (after graduating LSE and City University). GOC's flirtation in late 1997 with high yield debt ended less than auspiciously, in one of the many restructurings which occurred during 1999. A private investment vehicle, Maritime Investment Fund (MIF), operating mid-sized tankers was also launched in the mid-1990s. With MIF's name change to Tsakos Energy Management, the company is listed in Norway as "TEN", with the "TNP" appellation in New York.

The TNP actual offering was priced at \$15 per share, down slightly from the \$16-\$18 that underwriters JP Morgan-Chase were hoping for. TNP earned \$2.56/share in

2001, up from \$1.43. But, showing the positive flipside of cautious pricing, the shares actually held steady in the first few days of trading, which also reflects the more upbeat tone emerging regarding tanker shares. Indeed, GMR, which had been battered in the market after a higher than expected launching price last summer, and then badmouthed at Yahoo!, has made a nice recovery since late 2001, rising up well above \$12 (compared to its nadir at \$8). Both TNP's and GMR's prices are close to analysts' NAV estimates, and both represent approximately six-fold earnings for the previous 12 months.

When facing the shipping industry, promoters of IPOs like TNP try to paint their companies with boring but steady industrial patina. Consider that proceeds from TNP's offering are earmarked partly to finance the 10 ships on order (in addition to 16 trading now), hardly the stuff of a quick flip approach. With money raised from investors, representing a little over 37 per cent of the post-money company value (approximately \$25m), plus \$15m from the Tsakos family (bringing its stake up above 26 per cent in the company) TNP hopes to chip away at close to \$400m of shipyard debt on newbuilding orders and pay off some bank debt. This is a young fleet, with 16 varying size ships in the crude and products trades mainly built in the mid- to late 1990s (except for some MIF holdovers) and 10 newbuildings on order. A handful of the vessels are traded spot, with the balance on short time charters or longer contracts that renew at rates tied to spot indices. Affiliated Tsakos companies provide the technical management, mirroring arrangements at peer companies. There are some powerful contrasts at work here, as the institutional investors see tanker stocks as volatile instruments with the potential for quick upside moves. Buyers like Omega are not in business to hold stocks for decades. Or, consider another TNP buyer, an Israeli-American outfit called Sunrise Securities (Nathan Low). Sunrise is a high-tech venture capital outfit with a special situations/value desk that recently took a punt on a silver mine, and one must wonder whether investors view TNP, and similar tanker stocks, as commodity plays.

It gets better if you consider that GMR, availing itself of veteran shipmanagers, is clearly catering to the oil company spot charterers in the Atlantic Basin, GMR's primary mode of operations. Genmar's fleet now totals 29 vessels, mainly Aframaxes, with the majority of ships being double-hulled. The original fleet, an amalgam from various partnerships assembled by Peter G throughout the 1990s, was augmented with the acquisition of vessels from SCF others.

A big chunk of GMR shares, nearly 7 per cent in January 2002, are held by commodity trading advisor Louis Bacon, who now runs Moore Capital (tied to Soros, the Rothschilds and Tudor Investments), often from his private island overlooking New York's tony Hamptons. Bacon, who once worked with legendary commodity trader Paul Tudor Jones, has invested in the same silver mine as Sunrise. He joins a roster of hedge fund GMR shareholders roster including Oaktree (ex-Drexel guys) and Wexford, both early investors with Peter G.

The hedge fund managers who buy these stocks all cavort together at East Hampton's Maidstone Arms, a place reeking of old Ivy League money, where young tanker owners also enjoy being seen. Do these money men talk about who has Suezmaxes and who has Aframaxes, and whether ships were built in Japan, Korea or in the Ukraine? No, not really, as long as vessels pass oil company inspections. But you can sense the smart money massing for some big oil movements not anticipated by the marketplace. The disgruntled investors on Yahoo! should watch the professional investors, now accumulating tanker stocks, instead of moaning and groaning. Then they should sell after the second pop upward.

Of the NYSE Greek trio, SJH has risen in value since its conservatively priced IPO and, with a price up above \$16 per share, is actually trading at a premium to recently recalculated NAV and a P/E ratio near 6x. The analysts attribute the NAV premium to the high proportion of solid time charter cover, 2/3 of the fleet availability booked throughout 2002, and nearly 40 percent of 2003 deliverability already spoken for.

Stelmar already has 27 tankers- Handymaxes, Panamaxs and Aframaxs. This includes two Panamaxs that will be delivered directly into two-year charters with SONAP this spring. A conservative approach suits a more cautious investor - among Stelmar's largest holders is Neuberger and Berman, an old style money manager which holds shares for investors, rather than a new age hedge fund rolling the dice for its small coterie of wealthy backers. Among a non-Greek group of similar stocks, Teekay also commands a premium to most NAV calculations. Amazingly, after the run-up in late February to early March, the analyst at Lehman Brothers, citing a lackluster forecast for oil movements, actually downgraded some of the tanker stocks, although GMR escaped his wrath. The paradox is that market spikes are often short-lived, so that GMR, with less capacity committed on timecharters, is now far better positioned to capitalise if a market frenzy ensues.