# Shipping faces lengthy disruptions as Middle East fallout worsens

Analysts see more upside for container shipping and tanker stocks

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Monday, January 29, 2024

The fire on the product tanker Marlin Luanda was extinguished on Saturday. (Photo: French Navy)

The Red Sea crisis — and the Middle East situation in general — is worsening. There's growing conviction that shipping diversions around the Cape of Good Hope will increase in scope and last much longer than initially expected. That should be good news for shipping stocks over time, due to durably longer voyage distances.

The Houthis hit the JP Morgan-owned product tanker Marlin Luanda with a ballistic missile on Friday, setting a cargo tank on fire. The tanker was chartered by trading house Trafigura and loaded with Russian naphtha. The fire was extinguished on Saturday, with all crew safe.

On Sunday, a drone attack by an Iranian-backed militia killed three U.S. service members and injured at least 40 more at a U.S. military site in Jordan. The Biden administration has vowed to respond, raising the specter of a wider Middle East conflict.

“Red Sea diversions are on the rise as continued attacks on vessels in the region are prompting more shipping companies to avoid transiting the area,” said Jefferies shipping analyst Omar Nokta in a client note on Monday.

The vast majority of larger container ships already avoid the Red Sea, and detours are rapidly spreading to bulk commodity shipping.

Citing data from Clarksons, Nokta said that crude tanker transits of the region are now down 22% versus their 2023 average; at the beginning of this year, they were down 5% from last year’s average. Product tanker transits are down 51% versus 2023, after being down 29% versus last year’s average at the beginning of the year, with liquefied natural gas carrier transits down 87% (from 36%) and liquefied petroleum gas carrier transits down 62% (from 23%).

## ‘The script has flipped’ for Zim

Nokta significantly upgraded his view on Israeli container liner operator Zim (NYSE: ZIM), maintaining that “the script has flipped” and Houthi attacks turned Zim’s business “from cash burn to cash machine.”

Nokta had previously estimated that Zim would post adjusted net losses of $260.1 million this year and $506.3 million next year.

His new forecast is drastically different. He projects adjusted net income of $751 million this year, followed by losses of $337 million next year.

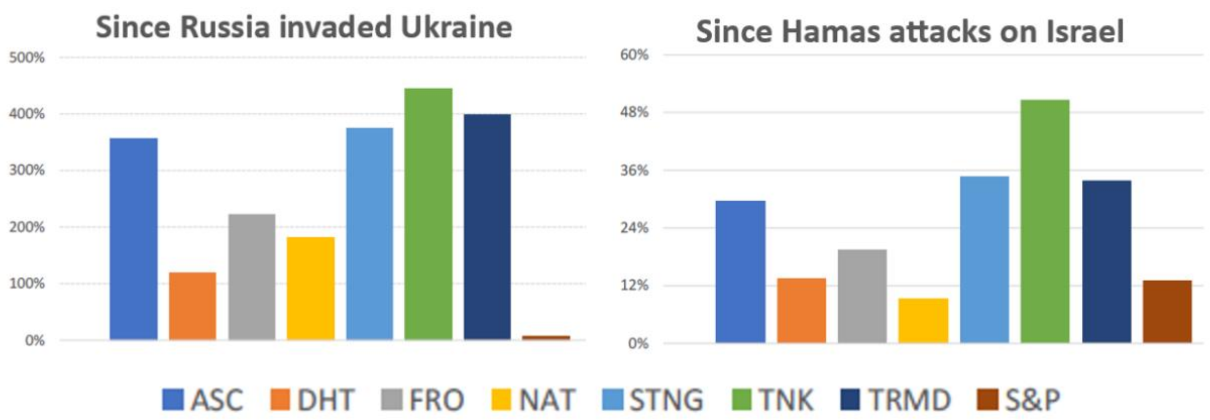
"Red Sea diversions are likely to continue for an extended period, tightening capacity for longer," he said.

Zim's stock closed up 7.5% on Monday, on a day when most shipping equities ended in the red.

## 'Tanker equities should also be added to the list'

According to Evercore ISI shipping analyst Jonathan Chappell, "The adage is that one should stock up on canned beans in times of war. We clearly do not make light of these tragedies, but tanker equities should also be added to the list."

Chappell noted that in periods of geopolitical risk, shipping stocks provide material beta (a measure of volatility versus the broader market). He presented data on outsized tanker stock gains versus the S&P 500 since the invasion of Ukraine and the Hamas attacks on Israel.




Equity gains since the start of the two wars. (Chart: Evercore ISI based on data from FactSet, Evercore ISI Research)

Deutsche Bank analysts Amit Mehrotra and Chris Robertson wrote: “We believe the recent attacks will result in even more ship owners and operators diverting vessels from the area, which could put further upward pressure on spot rates in the coming week.”

“We believe the companies with exposure to the mid-sized crude and product tanker segments will benefit the most from the disruptions,” they said, pointing to Frontline (NYSE: FRO), International Seaways (NYSE: INSW) and Scorpio Tankers (NYSE: STNG).