Clarkson Capital Markets ,January 17, 2012
Analyst: Michael S. Pak, CFA
SECTOR: Product Tankers
Companies Mentioned: **<u>(CPLP) - OUTPERFORM w/ $11.00 Price Objective</u>**

Structural Changes Drive Our Positive Outlook for 2012

The product tanker sector remains our Favorite Shipping Sector.

We reiterate our positive stance on the product tanker sector heading into 2012.

Our Sector Call : BUY: (CPLP) & (STNG)

Over the next 12-18 months, we expect tightening vessel supply-demand balance, based on positive structural demand changes relative to declining vessel orderbook.

Overall, we project net product tanker fleet growth in-line with demand growth at 4% in 2012.

In 2013, demand growth of 4% could exceed supply growth by 100 basis points, based on our analysis.

In our view, the product tanker fleet growth and orderbook are among the most favorable across shipping.

As a result.... we forecast 2012 product tanker spot rates of:

$16,125 / day for LR2 ==> (up + 54% year-over-year)
$15,625 / day for LR1 ==> (up +102% year-over-year)
$14,750 / day for MR ==> (up + 94% year-over-year)

We see a price floor on asset values.

At present, MR product tanker values for newbuild and 5-year old second-hand vessels are at $35 million and $27.5 million, respectively.

These values are 11.00 % - 22.00% below their 10-year historical averages.

In our view, the historically low charter rates and asset values along with shipbuilding cost inflation provide some downside protection against further price weakness.

We continue to recommend stocks with a significant exposure to the product tanker market and reiterate our Outperform ratings on Capital Product Partners (CPLP), Scorpio Tankers (STNG), and Tsakos Energy Navigation (TNP).

<u>Our two favorite ideas are</u>
1) (CPLP) as a quality yield play
2) (STNG) as a high operating-leverage play.

Both (CPLP) & (STNG) have adequate liquidity and capital structures to weather the prevailing weak charter rate environment, in our view.