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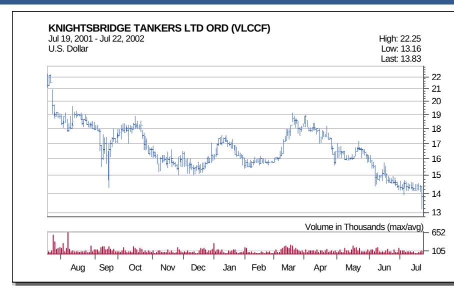
Research Note
TRANSPORTATION

KNIGHTSBRIDGE TANKERS

RATING: HOLD

PRICE: $13.83	TICKER: VLCCF
PRICE TARGET: $15	MARKET CAP: $236MILLION
S & P 500: 820	NASDAQ: 1283



SOURCE: *FactSet*

TOTAL DEBT / CAP	35%	PROJ. 3-YR. EPS GROWTH	5%
TOTAL NET DEBT (mm)	$124	AVG. DAILY TRADE VOLUME	21,900
SHARES OUT (mm)	17.1	BOOK VALUE P/S (3/31/02)	$13.94
52-WEEK RANGE	$22-$14	DIVIDEND/YIELD	$1.80 / 13.0%

EPS (DEC.)	2001	2002E			2003E		
		OLD	NEW	YOY	OLD	NEW	YOY
IQ	$1.13	$0.18		(84%)	$0.18E		0%
2Q	0.46	0.19		(60%)	0.19E		0%
3Q	0.19	0.19E		0%	0.19E		0%
4Q	0.21	0.19E		(10%)	0.19E		0%
Year	$1.99	$0.75E		(62%)	$0.75E		0%
PE		18.4x			18.4x		
Dividend	$3.02	$1.80E			$1.80E		
Yield		13.0%			13.0%		

VLCCF: 2Q Dividend Comes In At The Guaranteed Minimum; Reducing Price Target To $15

- **VLCCF announced a 2Q02 dividend of $0.45 per share, representing the minimum guaranteed by Shell International Petroleum**
- **We expect new tonnage delivering in 2H02 to maintain pressure on freight rates**
- **Tanker demand is likely to show modest seasonal improvement in the near term, although for full-year 2002, oil demand is projected to grow a mere 0.3%**
- **2002 and 2003 dividend payments are estimated at the minimum guarantee of $1.80**
- **Price target of $15 is based upon a 12% dividend yield**

OPINION

We expect the weak freight rate environment to cause 2H02 earnings to come in below last year's levels. We are projecting VLCCF to generate $0.45 in cash flow per share in the third quarter, all of which should be paid out to shareholders in the form of a dividend. Our estimated 2002 dividend of $1.80 represents the minimum guaranteed by Shell International Petroleum.

We believe a yield of 13% sufficiently compensates investors willing to wait out the near-term weakness in the freight market. On this basis, we are shifting to a Hold rating on VLCCF shares. We are reducing our price target from $20 to $15. Our new price target is based upon a 12% dividend yield and our $1.80 dividend estimate for 2002.

Knightsbridge Tankers announced a cash dividend distribution of $0.45 per share to be paid on August 7, 2002, to shareholders of record as of July 25, 2002. The distribution is for charterhire paid to Knightsbridge Tankers for the second quarter by Shell International Petroleum for use of VLCCF's five double-hull VLCC tankers. Under the charter agreement, Shell pays a minimum charterhire of $32,569/day at the end of each quarter and, in the event that spot market rates exceed this minimum, Shell must also pay any excess charterhire. 2Q02 spot rates did not exceed the minimum rate. All cash flow generated by Knightsbridge Tankers is then distributed to VLCCF shareholders.

The current charters with Shell International Petroleum expire in February 2004. Shell has the option to extend the charter for an additional seven-year period, with a prior eight-month written notice. The charterer has the sole discretion to exercise that option for one or more of the vessels. The nominal operating expense of $10,500/ship/day, which is included in the $32,569/day minimum rate, will increase to $14,900/ship/day for the extension period, raising the minimum guaranteed rate to $36,969/day after February 2004.

In the event Shell decides not to exercise the extension option, at least five months prior to the end of the original term (around February 2004), VLCCF shareholders will be entitled to vote on a proposal to sell the vessels and to distribute the net proceeds to the shareholders. The board will make a recommendation to stockholders that may involve a sale, a rechartering, or other disposition of the five vessels.

INDUSTRY FUNDAMENTALS OUTLOOK

As of July 1, 2002, worldwide tanker capacity stood at 289.0 million dwt, down 0.6% from 290.6 mdwt as of January 1, 2002. The change in capacity during 1H02 was driven by new capacity deliveries totaling 10.4 mdwt (3.6% of the fleet) and scrapping of 11.1 mdwt (3.8%).

Demolition averaged a healthy 1.8 mdwt per month during the first five months of the year; however, it came to a complete halt in June. We project average monthly scrapping of 2.3 mdwt for the balance of 2002 and 1.8 mdwt per month during 2003. Based upon these estimates and 17.1 mdwt and 29.5 mdwt scheduled for delivery during 2H02 and 2003, respectively, we estimate that the world tanker fleet will grow 0.9% in 2002 and 2.6% in 2003.

On the demand side, global oil demand, which registered a year-over-year decline of 1.0% in 1Q02 and 0.3% growth in 2Q02, is estimated by the International Energy Agency to increase only 0.3% in 2002.

U.S. oil inventories, which typically represent a source of incremental oil demand due to restocking needs, are 1.3% above last year's levels, based upon the latest data from the American Petroleum Institute. Crude oil and gasoline stocks are both 1.2% below 2001 levels, while distillate fuel (heating oil, etc.) inventories are up a solid 12.8%. Given these figures, restocking activity is unlikely to pick up significantly in the fall.

Based on the aforementioned supply/demand dynamics, we expect freight rates to remain under pressure in 2H02, as the market absorbs new capacity. Consequently, we project that VLCCF will generate freight rates at or below the $32,569/ship day level and will pay out only the minimum guaranteed dividend of $0.45 per quarter in 2H02.

Exhibit 1: Income Statement

				2001				2002			
	2001	2002E	2003E	Q1	Q2	Q3	Q4	Q1	Q2	Q3E	Q4E
End of Quarter				03/31/2001	06/30/2001	09/30/2001	12/31/2001	03/31/2002	06/30/2002	09/30/2002	12/31/2002
# Days During Period	365	365	365	90	91	92	92	90	91	92	92
Freight Rate (**Act.**/[Est.]):	**$44,217**	$32,569	$32,569	**$68,506**	**$42,949**	**$25,163**	**$33,360**	$20,000	$20,000	$19,000	$22,000
YOY %-Change	-15.5%	-26.3%	0.0%	215.5%	11.0%	-57.4%	-57.3%	-70.8%	-53.4%	-24.5%	-34.1%
Average Spot Rate [1]	$38,535			$61,226	$35,653	$33,455	$23,808	$17,592	$14,767		
Charterhire (TCE)	$80.7	$59.4	$59.4	$30.8	$19.5	$15.0	$15.3	$14.7	$14.8	$15.0	$15.0
Nominal Opex	*($19.2)*	*($19.2)*	*($19.2)*	($4.7)	($4.8)	($4.8)	($4.8)	($4.7)	($4.8)	($4.8)	($4.8)
Net Charterhire (Bareboat)	$61.5	$40.3	$40.3	$26.1	$14.8	$10.2	$10.5	$9.9	$10.0	$10.2	$10.2
Management fee	(0.8)	(0.8)	(0.8)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Administrative expenses	(0.1)	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBITDA	60.6	39.3	39.3	25.9	14.5	9.9	10.3	9.7	9.8	9.9	9.9
D & A	(17.7)	(17.6)	(17.6)	(4.4)	(4.4)	(4.4)	(4.4)	(4.3)	(4.4)	(4.4)	(4.4)
EBIT	43.0	21.8	21.8	21.5	10.1	5.5	5.8	5.4	5.4	5.5	5.5
Interest expense & fin. costs	(8.9)	(8.9)	(8.9)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Interest Income	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest Expense, net	(8.5)	(8.5)	(8.5)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Other Expense	(0.4)	(0.4)	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBT	34.0	12.8	12.8	19.3	7.9	3.3	3.6	3.1	3.2	3.3	3.3
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	34.0	12.8	12.8	19.3	7.9	3.3	3.6	3.1	3.2	3.3	3.3
Cash Flow (NIDA)	51.7	30.4	30.4	23.7	12.3	7.7	8.0	7.5	7.6	7.7	7.7
Shares Outstanding	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
E.P.S.	$1.99	$0.75	$0.75	$1.13	$0.46	$0.19	$0.21	$0.18	$0.19	$0.19	$0.19
YOY % Growth	(30.0%)	(62.4%)	0.0%	519.1%	34.2%	(78.9%)	(85.1%)	(83.8%)	(59.7%)	0.0%	(10.1%)
Cash flow (NIDA) / share	$3.02	$1.78	$1.78	$1.38	$0.72	$0.45	$0.47	$0.44	$0.44	$0.45	$0.45
Dividends avail. per share	**$3.05**	**$1.80**	**$1.80**	**$1.39**	**$0.72**	**$0.45**	**$0.48**	**$0.44**	**$0.45**	**$0.45**	**$0.45**
Dividends earned in period	**$3.02**	**$1.81**	**$1.80**	**$1.39**	**$0.72**	**$0.45**	**$0.46**	**$0.45**	**$0.45**	**$0.45**	**$0.45**
Dividends payments	**$3.01**	**$1.81**	**$1.80**	**$0.45**	**$1.39**	**$0.72**	**$0.45**	**$0.46**	**$0.45**	**$0.45**	**$0.45**
Dividend Record Date				01/26/2001	04/27/2001	07/26/2001	10/25/2001	01/25/2002	04/25/2002	07/25/2002	
Dividend Payment Date				02/09/2001	05/11/2001	08/09/2001	11/08/2001	02/08/2002	05/08/2002	08/07/2002	

[1] Average Spot Rate as reported by Clarkson Research Studies Ltd.

Source: Company documents and Lazard Frères & Co. LLC estimates.

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RATING	GUIDELINE (return targets may be modified by risk or liquidity issues)
Buy	Expected to produce a total return of **20% or better** in the next 12 months.
Hold	Fairly valued; total return in the next 12 months expected to be **±10%**.
Sell	Stock is expected to **decline by 10% or more** in the next 12 months.

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