2022 1Q Trading Update Script

13 April 2022

Speaker: Martin Fruergaard

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's First Quarter Trading Update call. My name is Martin Fruergaard, Chief Executive Officer of the Company, and I am joined by our CFO, Peter Schulz.

Please turn to slide 2.

Slide 2 – Strong Rates Momentum Continues

The minor bulk freight market in the first quarter of 2022 was significantly stronger than the same period last year, driven by strong supply and demand fundamentals.

Index spot rates for Handysize and Supramax ships averaged US$20,550 and US$23,900 net per day respectively in the first quarter of 2022, representing a 47% and 51% increase respectively compared to the same period in 2021.

It was overall a good quarter, despite increasing economic and geopolitical uncertainties, but still with minor bulk demand up - driven predominantly by loadings of construction materials, cement, clinker and aggregates.

Going forward, we believe growth in minor bulk loadings will continue to support rates despite normalising global economic growth, war in the Ukraine, and Covid-related uncertainty in China.

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Slide 3 – Minor Bulk Demand Driving Higher Rates

Global minor bulk loadings grew approximately 12% in the first quarter 2022 compared to the same period last year.

Construction materials were the main driver, in particular cement, clinker and aggregates which are up 19% year-on-year.

We believe increased global infrastructure spending and some relaxation of Chinese domestic property construction curbs will be supportive of minor bulk demand for the remainder of 2022.

Reduced Black Sea grain exports in March contributed to lower year-to-date grain loadings of 3% compared to the first quarter of last year as both Ukrainian and Russian exports have been disrupted. Expectations are for a significant reduction of Black Sea grain exports in 2022.

Some of these lost volumes will be replaced by other producers, most notably the United States, Argentina, Brazil and Australia as higher grain prices will incentivise farmers around the world to increase plantings for export, with these volumes benefiting overall tonne-mile demand.

The disruption is unfortunately also driving global food security concerns, especially in China which could further increase seaborne trade.

The South American grain exports are now picking up, which we expect will support dry bulk demand in the second quarter.

Coal volumes in the first quarter of 2022 decreased 1% compared to the same period in 2021. January coal loadings decreased 14% largely due to Indonesia's coal export ban.

Since the ban was lifted we have seen a significant increase in enquiries, as well as increased tonne-mile impact from higher demand from countries in Europe which we expect will source more non-Russian coal throughout 2022.

Iron ore volumes declined 3% in the first quarter of 2022 compared to the same period last year mainly impacting the earnings of the cape size vessels. The decline was due to seasonal weather impacting mining operations from key producers in Brazil and Australia, as well as Chinese New Year holidays and emission controls during the Beijing Olympics.

2022 Chinese steel production is expected to remain within 2021 levels, and we expect China's steel output to rebound in the second quarter when output cuts are expected to be eased in northern China, and the typical strong demand season begins.

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Slide 4 – 1Q22 TCE Earnings Significantly Above 1Q21

Our core business generated average Handysize and Supramax daily time-charter equivalent earnings of US$23,810 and US$32,510 net per day in the first quarter, representing an increase of 117% and 122% compared to the first quarter of 2021, respectively.

Our earnings benefitted from a very high first quarter employment cover when entering 2022, in particular for our Supramax vessels. The decision to maximise first quarter coverage was made during the strong market in the fourth quarter of 2021, in expectation of a usually seasonally weaker first quarter market.

For the second quarter of 2022 we have covered 75% and 92% of our core vessel days at US$23,970 and US$31,250 net per day for Handysize and Supramax, respectively.

So far, 26% and 35% of our contracted Handysize and Supramax days in the second half of 2022 are covered at around US$16,440 and US$21,590 net per day respectively. The cover for the second half of the year comprises a higher proportion of older long term contracts which are lower than the current market.

We have significant opportunity to add cargo fixtures and long-term contracts to our remaining 2022 book – at rates which based on prior years we would expect to be higher compared to the first quarter which is normally the weakest quarter in the year, and also a relatively large percentage of backhaul contracts bringing the vessel back to the loading areas.

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Slide 5 – Outperformance Back On Track

Both our Handysize and Supramax vessels outperformed the average Handysize and Supramax indices by US$3,260 and US$8,610 per day, respectively.

Our performance continues to benefit from our diverse cargo and customer base and the close customer interaction facilitated by our extensive global office network.

Now turning to our Operating activity – which in the first quarter generated a positive margin of US$3,320 net per day over 5,160 operating days.

Operating activity margins remain high and we continue to see opportunities in this strong, yet volatile rates environment to generate further positive earnings

This is a strong market outperformance by Pacific Basin in a volatile global environment – and it is again a testament to the great commercial acumen and operational excellence of our organisation both ashore and at sea.

Please turn to slide 6.

Slide 6 – Our Fleet Renewal Continues

Our vessel purchasing has slowed in recent months as asset prices approached historical highs, and we expect our vessel purchasing activity to be reduced compared to last year.

During the first quarter of 2022 we sold four of our smaller older Handysize ships. Second-hand sales price development for Handysize ships that are 20 years or more of age, have outperformed younger ships, while selling these smaller older Handysize ships crystallises value and further optimises our fleet.

Our long-term growth and fleet renewal strategy continues unchanged.

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Slide 7 – Historically Low Orderbook

Despite strong earnings and healthy balance sheets for most dry bulk owners, we expect that new ship ordering – in particular for Handysize and Supramax ships – will remain restrained, discouraged by uncertainty about the future fuels and vessel designs and technology that will be required to meet coming decarbonisation regulations.

According to Clarkson Research only 36 dry bulk vessels with a total 2.8 million dwt have been ordered year to date, a reduction of 70% and 74% respectively compared to the same period in 2021.

The overall dry bulk orderbook is currently 6.6%, representing a reduction of 0.4 percentage points since the beginning of the year – as deliveries have outpaced new ordering.

In addition to a shrinking orderbook and lower future deliveries, we expect scrapping to increase in coming years as IMO fuel-efficiency rules will encourage owners to phase out older, less efficient ships.

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Slide 8 – Net Fleet Growth Reducing

Clarksons Research estimate dry bulk net fleet growth of 2.2% in 2022 and 0.4% in 2023, with scrapping of 0.8% in 2022 and 2.3% in 2023.

We believe long term scrapping in dry bulk will increase due to tightening environmental regulation. If current earning levels continue in to 2023 we might consider Clarksons Research scrapping estimate a little on the optimistic side, but we see higher scrapping from 2024 onwards driven by the tightening environmental regulations.

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Slide 9 – Our Sustainability Strategy And Focus Areas

We continue to prioritise the quality of our service and the safety and wellbeing of our ships' crews. Covid restrictions still create inefficiencies and complications with the repatriation of some of our seafarers and the associated higher costs we described at our Annual Results presentation.

While we commit to only owning and operating zero-emission vessels by 2050 – we must also focus our efforts on the current fleet we have, as we target to achieve an AER rating of ''C'' or better from 2024 onwards. This will require us to install power reduction devices on approximately 73 of our owned ships to comply with IMO's EEXI energy efficiency requirements.

I look forward to updating you further as we progress on our decarbonisation journey.

Please turn to slide 10.

Slide 10 – We Continue To Be Optimistic About Our Market

First quarter of 2022 has started firmly compared to the same period last year. We expect demand especially for minor bulks, grain and coal in 2022 to remain strong, and we see further tonne-mile demand due to changes in trade flows and issues of food and energy security.

At the same time the orderbook is 6.6% - meaning fleet growth in 2022 and beyond is likely to be moderate. Clarksons Research expects 2.4% Handysize and Supramax fleet growth for 2022. From 2023 onwards IMO environmental regulation will further constrain supply through speed reduction.

However, there are a number of risks that we monitor:

So far changes in trade flows caused by the very sad conflict in Ukraine has positively impacted tonne-mile demand for some commodities, but we continue to monitor the impact that military conflict can have on global growth, and grain flows later in the year.

We also monitor the Covid situation in China, even though we are positive on the full year 2022 demand outlook in China as policy support focuses on investment in infrastructure, manufacturing and green investment which all rely on minor bulk commodities.

However, despite these risks we continue to be optimistic about the long term health of the dry bulk market. This healthy market, our strong cash generation and limited expected capex spending enables us to continue to reward shareholders by returning capital.

Ladies and gentlemen, that concludes our Trading Update presentation. I will now hand over the call to our operator for Q&A.

[Q&A]

I'd like to thank you again for joining us today and for your continued support of Pacific Basin. If you have any further questions, please contact Peter Budd from our Investor Relations department.

Goodbye.