2023 Annual Results Presentation Transcript

29 February 2024

Speaker: Martin Fruergaard & Michael Jorgensen

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's 2023 Annual Results earnings call. My name is Martin Fruergaard, CEO of Pacific Basin, and I am joined by our CFO, Michael Jorgensen.

Assuming that you have already gone through the presentation, we will briefly highlight some of the key points discussed in it before we proceed with the Q&A session.

Please turn to slide 3.

Slide 3 – 2023 ANNUAL FINANCIAL RESULTS

First of all, let me extend my appreciation to our dedicated seafarers and shore-based employees who have contributed to delivering a strong set of results in 2023.

In 2023, we achieved a net profit of US$109 million dollars and an underlying profit of US$119 million dollars, with an EBITDA of US$347 million dollars. This resulted in a 6% return on equity and an EPS of 16.5 Hong Kong cents. Despite challenges such as slowing global growth, higher interest rates and increased vessel supply, we delivered a solid result. Our result was largely due to the increased global demand for dry bulk, particularly from China's post-Covid reopening.

Our large **Core** business generated US$167 million dollars before overheads, despite the weaker freight market, while our **Operating** activity which includes vessels chartered in for less than 12 months, contributed US$26 million dollars, having generated a margin of US$1,090 dollars net per day over 23,480 operating days.

Leveraging our high level of cash generation, we have reduced debt, expanded our owned fleet's deadweight carrying capacity, and maintained a robust financial position with US$549 million dollars in available committed liquidity.

In view of our solid financial results, strong cash generation and confidence in the long-term fundamentals of the dry bulk market, the Board recommends a final basic dividend of 1.6 Hong Kong cents per share and an additional final special dividend of 4.1 Hong Kong cents per share, which, combined with the 6.5 Hong Kong cents per share interim dividend distributed in August 2023, amounts to US$82 million dollars, which represents 75% of our net profit for the full year.

This will be the third consecutive year that the Board has returned dividends above 50% of annual net profits, and we continue to be committed to distributing excess cash to shareholders through dividends.

Please turn to slide 4.

Slide 4 – CONTINUING TO REWARD SHAREHOLDERS

Management aims to maintain a robust and flexible capital structure throughout the shipping cycles to meet our commitments, strategic objectives and maximise shareholder returns.

We aim to create shareholder value through optimising our capital structure, investing in value-adding and countercyclical growth opportunities and distributing funds to our shareholders.

Over the last six years we have generated profits of US$1.55 billion dollars, and paid out in excess of US$1 billion dollars in dividends to shareholders, representing 69% of net profits. Highlighting our ability to deliver attractive long-term returns over the shipping cycle.

Our unwavering dedication is evident in our distribution policy, which commits us to paying out at least 50% of our annual net profit (excluding vessel disposal gains).

We continue to retain our general mandate for the buyback of shares of up to 10% of the share capital of the Company, and we will continue to consider this as an additional way to return capital to shareholders.

Please turn to slide 5.

Slide 5 – STRONG SEASONAL RECOVERY IN FREIGHT RATES IN 4Q 2023

In 2023, average market spot freight rates for the Baltic Exchange Handysize Index and the Baltic Exchange Supramax Index were US$8,990 and US$10,680 net per day respectively.

Despite increased dry bulk loadings overall in 2023, Handysize and Supramax market freight rates declined due to decelerating global economic growth, higher interest rates and increased supply due to newbuilding deliveries and limited congestion in China.

In August 2023, freight rates experienced a significant seasonal increase due to various factors. These factors included increased seasonal demand, ongoing growth in tonne-mile demand resulting from the Russia-Ukraine conflict, restrictions on Panama Canal passage, and later on, disruptions in Red Sea transit. These combined circumstances contributed to an improved supply and demand balance which supported higher rates, particularly in the Atlantic basin.

Current Forward Freight Agreements commonly referred to as FFA's, for 1Q and 2Q are at US$11,730 and US$13,930 per day and US$12,990 and US$15,600 per day for Handysize and Supramax vessels respectively - indicating an improving market going forward.

In 2024, freight rates began higher than in 2023, and we started the year with good cover for the first quarter. We have recently observed an increase in seasonal dry bulk demand, a typical trend after the conclusion of the Lunar New Year festivities. Additionally, the limited transit of dry bulk vessels through the Suez and Panama Canals continues to benefit supply, which should also support freight rates.

Please turn to slide 6.

Slide 6 – RECORD TOTAL DRY BULK LOADINGS – SUPPORTED BY CHINA REOPENING

Global dry bulk loading volumes grew approximately 2% year on year, supported by China's reopening.

Minor bulk loadings increased 1% in 2023, due to increased loadings of bauxite, steel and ores & concentrates. Bauxite continues to be the main driver of increased minor bulk loadings primarily from Guinea and which are mainly carried in Capesize and Panamax vessels.

Grain loadings decreased by 1% year on year due to limited exports of grain from Argentina and United States due to drought, while Ukraine Black Sea exports remain affected due to the conflict. Brazil achieved record grain loadings in 2023, benefitting from favourable weather conditions, improved agricultural practices and increased demand from China.

On the other hand, **Coal** loadings increased 4% year on year, largely because of record Chinese imports, despite record domestic coal production. India also imported record coal as favourable economic growth drove increased electricity demand.

Iron ore loadings increased 4% year on year due to increased production from Australia and Brazil. Additionally, there was a significant rise in exports from India which is predominately carried on Supramax vessels.

Please turn to slide 7.

Slide 7 – SOLID 2023 RESULT – INCREASINGLY POSITIVE ON 2024 AND 2025 OUTLOOK

Our **Core business** generated average Handysize and Supramax daily TCE earnings of US$12,250 and US$13,830 net per day respectively in 2023, which is a decrease of 48% and 51% compared to a much stronger 2022.

Our TCE earnings in the fourth quarter 2023, for both our Handysize and Supramax vessels were positively impacted by prior period freight tax adjustments, which relate to freight earnings completed by our vessels in the past few years, and are not changes in accounting treatment.

For the first quarter 2024, we have covered 100% of our committed vessel days on both our Handysize and Supramax vessels at US$11,170 and US$13,480 net per day respectively.

For 2024, we have covered 54% and 71% of our core vessel days for Handysize and Supramax at US$10,160 and US$12,610 net per day respectively.

Please note our Supramax forward cover estimates exclude the scrubber benefit, which is currently about US$1,110 per day, across our core Supramax fleet.

We continue to be long vessels, and believe we hold sufficient backhaul cover to optimise our voyages – such as by combining fronthaul and backhaul trades – and thus enhance our vessel utilisation and earnings. Our focus will be to maximise earnings with higher paying fronthaul cargoes.

Please turn to slide 8.

Slide 8 – WE CONTINUE TO OUTPERFORM AND GROW OPERATING ACTIVITY DAYS

In 2023, our Handysize and our Supramax vessels outperformed the indices by US$3,260 per day and US$3,150 per day respectively.

Our large core fleet of Handysize and Supramax vessels contributed US$97 million and US$70 million dollars respectively.

Our Handysize and Supramax vessels have now outperformed the index over the last 9 and 10 quarters respectively.

Our Supramax vessels outperformance has benefited from scrubbers installed across our core fleet, with scrubbers contributing US$850 dollars per day to our outperformance in 2023. Currently our Core fleet comprises of 57 Supramaxes, of which, 32 are fitted with scrubbers.

Our **Operating activity** generated a positive margin of US$1,090 net per day over 23,480 operating days. Our operating days increased 18% as compared to the same period last year. We continue to target further growth in our operating business, which provides us with an ongoing opportunity to leverage our commercial and operational expertise, as well as our global proximity to our customers, to generate additional income for the business.

Our operating activity margin was compressed in the fourth quarter of 2023, as a result of the need to cover cargo positions in a fast upwardly moving freight market during the end of the period.

Please turn to slide 9.

Slide 9 – HANDYSIZE – IMPROVING COST COMPETITIVENESS

Our Handysize owned vessel costs have decreased mainly due to lower crew repatriation costs as Covid-related controls have been relaxed.

We continue to improve our cost competitiveness with our indicative owned fleet cash breakeven level reducing to US$4,930 per day, which is a 13% reduction year on year.

Please turn to slide 10.

Slide 10 – SUPRAMAX – REDELIVERING FIVE HIGHER-COST CHARTERS IN 2024

Our Supramax and Handysize owned vessel depreciation costs increased mainly due to higher dry docking costs and investments in fuel-efficiency technology including silicone and anti-fouling paints.

Our blended Supramax costs remain cost-competitive, and we are scheduled to redeliver five higher-cost long-term chartered vessels during 2024. These vessels were chartered during the higher rate environment of 2022.

Our indicative owned fleet cash breakeven level reduced to US$5,090 per day, which is a 2% reduction year on year.

Please turn to slide 11.

Slide 11 – RENEWING OUR FLEET

During the period, we acquired eight high-quality, Japanese-built, modern, second-hand vessels. These included six Ultramax vessels, one Supramax vessel and one Handysize vessel.

In 2023, we have sold eight vessels, consisting of seven Handysize and one Supramax vessel with an average age of 20 years. Additionally, we sold one Handysize vessel in 2024, which we expected to deliver to the buyer by May 2024.

Given increasingly strict existing and incoming decarbonisation regulations, such older and less efficient vessels will become increasingly challenging to operate. We therefore consider it wise to gradually divest ourselves of our least efficient vessels.

We remain committed to our long-term strategy to grow our owned fleet of Supramax vessels by acquiring high-quality, modern, secondhand vessels, and to renew our Handysize fleet by replacing our older and less-efficient Handysize vessels with younger and larger Handysize vessels.

Our core fleet consists of 132 Handysize and Supramax vessels and, including chartered vessels in our Operating business, we have approximately 266 vessels on the water overall.

Please turn to slide 12.

Slide 12 – FUTURE FLEET GROWTH

To support the future growth and renewal of our core fleet, we have signed agreements for the long-term inward charter of both Handysize and Ultramax vessels. During the period, we took delivery of three Japanese-built Handysize vessels on long-term time charters. These time-charters all come with options to extend the charter agreement period at a fixed rate and/or purchase the vessel at a fixed price.

Additionally, we have signed long-term charter agreements for four Japanese-built Handysize newbuildings, all with scrubbers, as well as long-term time-charters for four Ultramax newbuildings. Each of these time-charters also come with an option to extend the charter agreement at a fixed rate, as well as having the option to purchase the vessels at a fixed price, which further expands our optionality.

It is important to note that these Handysize and Supramax vessels are newer, larger, and more efficient, with the ability to earn approximately 20% and 16% above the spot freight rates of our current average core Handysize and Supramax fleet respectively.

Our collaboration with NSY and Mitsui is progressing well in designing an efficient dual-fuel vessel capable of running on fuel oil or sustainable methanol. However, we remain cautious in our approach to investment in newbuildings due to current historically high newbuilding prices. We expect to be ready to build such a vessel, with delivery well ahead of our original 2030 target. However, we anticipate ordering activity within our sector for such dual-fuel mid-size dry bulk low-emission vessels will be limited in 2024.

I will now hand you over to Michael who will present the financials, and I will be back afterwards with outlook and strategy summaries.

Speaker: Michael Jorgensen

Thank you very much Martin, and good evening ladies and gentleman.

Please turn to slide 14 for an overview of our P&L Statement and financial performance.

Slide 14 – POSITIVE EARNINGS IN A CHALLENGING MARKET

As you can see given our lower daily TCE earnings, both our underlying profit and EBITDA were lower, despite decreased owned vessel and chartered costs.

Our G&A has decreased mainly due to lower discretionary remuneration provisions given the lower result for the period.

We took a one-off non-cash impairment of US$16 million dollars relating to eight of our smaller Handysize vessels. It is important to note that their carrying values represent only 4% of our owned fleet. These eight vessels are below 30 thousand deadweight tonnes, with an average age of 15 years, which have less earnings capacity compared to our main fleet of standard Handysize and Supramax vessels.

Below underlying profit, our net profit was further improved by gains on vessel disposals.

Please turn to slide 15

Slide 15 – STRONG CASHFLOW AND INCREASED FINANCIAL FLEXIBILITY

Our operating cash inflow for the period was US$286 million dollars, and that is inclusive of all long and short-term charter hire payments. This compares with US$874 million dollars in the full year 2022.

We had US$92 million dollars in proceeds from the sale of eight smaller Handysize vessels, one Supramax vessel and one Ultramax vessel which we delivered in the period.

In December 2023, we successfully concluded our first sustainability-linked unsecured revolving credit facility of US$150 million dollars. This facility will give us improved financial flexibility, and aligns with our commitments to sustainability, with interest margin adjustments tied to carbon intensity and crew safety performance, which we prioritise among our most important ESG issues.

Capex spending remains well controlled, and for 2023 totalled US$252 million dollars, of which we paid approximately US$190 million dollars for one second-hand Handysize vessel and eight second-hand Ultramax vessels, and around US$62 million dollars for dry dockings and investments in fuel-efficiency technology, which Martin discussed earlier.

We expect capex for 2024 to be approximately US$65 million dollars, predominately relating to dry dockings and investments in fuel-efficiency technology, and excluding any vessel purchases.

We paid US$218 million dollars in dividends, which relates to the 2022 final basic and special dividend of HK26 Hong Kong cents per share which we paid in May 2023, and the interim dividend of HK6.5 Hong Kong cents per share in August 2023.

Our borrowings decreased due to net repayments of US$81 million dollars, following the normal amortisation profile of our loans.

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Slide 16 – HEALTHY BALANCE SHEET

Despite significant shareholder distribution, we continue to maintain a healthy financial position with US$549 million dollars of available committed liquidity, which includes US$262 million dollars of cash and deposits. This is while we reduced debt and expanded our deadweight carrying capacity by 4%.

Our net borrowings are now just 2% of our owned vessels' net book value, and we currently have 62 unmortgaged.

Our goal going forward is to ensure that we maintain a robust, safe and flexible capital structure.

Our distribution policy is to pay out dividends of at least 50% of our annual net profit (excluding vessel disposal gains). Whereby, any additional distributions can be in the form of either special dividends and/or share buybacks.

I will now hand you back to Martin for his outlook and strategy slides.

Speaker: Martin Fruergaard

Thank you Michael,

Please turn to slide 18.

Slide 18 – 2024 MINOR BULK TRADE VOLUMES EXPECTED TO IMPROVE FURTHER

Minor bulk seaborne demand is forecast to increase 3% in 2024, which is supported by improved global macroeconomic conditions and increased demand from China.

While iron ore and coal demand forecasts are down, we see further upside to estimates given positive Chinese government policy support to reinvigorate growth, particularly through investment in infrastructure.

Limited transits through the Panama Canal is expected throughout the first half of 2024, while developments in the Red Sea and the Gulf of Aden continue to remain complex. The combination has resulted in an increase in tonne-mile demand, as vessels are being rerouted from these key transit routes – which we expect to continue to support tonne-mile demand.

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Slide 19 – LIMITED HANDYSIZE AND SUPRAMAX NEWBUILDING DELIVERIES FROM 2026

High newbuilding prices, uncertainty around emissions regulations and long delivery times of about three years have continued to discourage any significant new ship ordering over the period. 2023 Handysize and Supramax newbuild ordering was down 22% compared to 2022, and the dry bulk orderbook is currently 8.5% of total fleet.

World shipyard capacity remains limited, and well below peak capacity of 10 years ago, with the majority of incremental new shipyard capacity concentrated on higher margin non-dry bulk vessels.

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Slide 22 – ON TRACK TO NET ZERO BY 2050

Our focus is on the gradual decarbonisation of our fleet. Regulation must lead, and IMO and EU rules have taken effect in 2023 and 2024 to start driving the transition.

We continue to watch and prepare for further decarbonisation regulations such as, FuelEU Maritime – which is a directive to drive the gradual take-up of renewable and low-carbon fuels when trading in, to and from EU, which will be effective from 2025.

We also note the proposal for a package of maritime fuel carbon intensity reduction rules known as the US Clean Shipping Act & International Marine Pollution Accountability Act. This proposal is to implement requirements for shore-power and a greenhouse gas levy which is applicable to voyages in, to and from the US – with the aim of zero emission by 2040.

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Slide 25 – WE REMAIN OPTIMISTIC ABOUT THE SUPPORTIVE FUNDAMENTALS OF OUR INDUSTRY

In the medium term we believe dry bulk demand will be supported by substantial global infrastructure investment with a focus on emerging markets such as India and ASEAN countries, as well as concerns over food and energy security worldwide.

Our view is that environmental regulations, both existing and upcoming, will deter excessive new vessel orders, will force progressively slower vessel speeds and eventually also accelerate scrapping - supporting dry bulk rates. We have a positive outlook on the future of the dry bulk market, and expect to generate more sustainable earnings in the long-term due to underlying demand and supply fundamentals.

Our business has a promising future, and I eagerly anticipate the growth and progress of our Company and industry. As we embark on the journey to tackle various opportunities and challenges, we have the chance to distinguish ourselves in the transition of dry bulk shipping to a low-carbon economy and continue to be leading the way in dry bulk shipping.

We are enthusiastic about the long-term potential of dry bulk shipping. We believe that the robust demand for dry bulk shipping will continue, and we look forward to playing our part in the growth of the industry.

Ladies and gentlemen, that concludes our 2023 Annual Results presentation.

I will now hand over the call to our operator for Q&A.

[Following 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.