2024 Interim Results Presentation Transcript

8 August 2024

Speaker: Martin Fruergaard & Michael Jorgensen

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's 2024 Interim Results earnings call. My name is Martin Fruergaard, CEO of Pacific Basin, and I am joined by our CFO, Michael Jorgensen.

Assuming you have already reviewed the presentation, we will take a moment to briefly highlight some of its key points before moving on to the Q&A session.

Please turn to slide 3.

Slide 3 – 2024 INTERIM FINANCIAL RESULTS

In the first half 2024, we generated an underlying profit of US$44 million dollars and a net profit of US$58 million dollars, with an EBITDA of US$158 million dollars. This resulted in a 6% annualised return on equity, with basic EPS of 8.7 Hong Kong cents.

Our large **Core** business generated US$77 million dollars before overheads, with our Handysize vessels contributing US$41 million dollars and our Supramax vessels contributing US$36 million dollars.

During this period, our **Operating** activities, which includes vessels chartered for less than 12 months, experienced significant growth in both vessel numbers and operating days. With a contribution of US$550 per day over 14,120 days, we generated an additional US$8 million for the business.

We have utilised our strong cash generation to reduce debt and enhance our fleet's deadweight carrying capacity, maintaining a healthy financial position with $537 million dollars in committed liquidity and net borrowings of just $32 million dollars.

In view of our first half financial results, the Board has declared an interim dividend of 4.1 Hong Kong cents per share, amounting to US$28 million dollars, which represents 50% of our net profit for the period (excluding vessel disposal gains).

Please turn to slide 4.

Slide 4 – CONTINUING TO REWARD SHAREHOLDERS

Since 2021, we have generated profits of US$1.7 billion dollars, and paid out approximately US$1.1 billion dollars in dividends to shareholders, representing 65% of net profits, highlighting our ability to deliver attractive long-term returns over the shipping cycle.

In addition, we have launched a share buyback programme of up to US$40 million dollars, to be completed by the end of 2024. Since the commencement of the programme, we have repurchased and cancelled approximately 42.7 million shares for a consideration of approximately US$14.6 million dollars.

We aim to create shareholder value through optimising our capital structure, investing in value-adding and countercyclical growth opportunities, and distributing profits to our shareholders in accordance with our distribution policy.

Please turn to slide 5.

Slide 5 – IMPROVING RATES AND REDUCED SEASONALITY IN 1H 2024

In the first half of 2024, average market spot freight rates for the Baltic Exchange Handysize Index and the Baltic Exchange Supramax Index were US$10,970 and US$13,280 net per day respectively.

Higher market freight rates were driven by increased demand for commodities, further supported by fleet inefficiencies related to ongoing disruptions in the Suez and Panama Canals and manageable newbuilding deliveries.

Year to date, we have seen a notable reduction in seasonality, attributed to the imbalance in tonnage between the Atlantic and Pacific regions. These

imbalances are primarily due to the fleet inefficiencies caused by the continued disruptions in the Suez and Panama Canals.

These disruptions led to an unusually large portion of the minor bulk fleet being held up in the Atlantic, resulting in a shortage of vessels available in the Pacific. This scarcity positively impacted the Pacific time charter rates, reminiscent of the peak market conditions we saw during the height of the COVID pandemic in 2021-22.

During July and August, the balance of tonnage between the Atlantic and Pacific has reverted to levels observed in 2023.

Please turn to slide 6.

Slide 6 – TCE EARNINGS REMAIN STABLE

Our **Core business** generated average Handysize and Supramax daily TCE earnings of US$11,810 and US$13,690 per day respectively in the first half of 2024, which is a decrease of 9% and flat compared to first half of 2023.

For the third quarter of 2024, we have covered 87% and 98% of our committed vessel days on our Handysize and Supramax vessels at US$13,750 and US$13,440 per day respectively.

We have covered 60% and 82% of our Handysize and Supramax vessel days for the second half of 2024 at US$12,670 and US$12,640 per day respectively. While our Supramax/Ultramax coverage for the remainder of the year will limit our potential upside if market freight rates continue to strengthen, we anticipate benefitting from an improving market in the fourth quarter of 2024 and into 2025. Nevertheless, we are maintaining sufficient levels of exposure to current spot rates in our Handysize vessels.

Current values of scrubber benefits are approximately US$30 and US$250 per day across our Core Handysize and Supramax fleet respectively.

Current Forward Freight Agreements commonly referred to as FFAs, for 3Q and 4Q are at US$12,320 and US$14,430 per day and US$12,490 and US$14,550 per day for Handysize and Supramax vessels respectively - indicating stability in the market going forward.

Please turn to slide 7.

Slide 7 – SHORT-TERM SUPRAMAX PERFORMANCE IMPACTED BY INCREASED COVER AND REDUCED SEASONALITY

In the first half of 2024, we outperformed the BHSI and BSI on both our Handysize and Supramax vessels by US$840 per day and US$410 per day respectively.

However, our Supramax outperformance was affected by the increased costs associated with chartering short-term core vessels in the Pacific. This was necessary due to the high near-term cargo coverage. We had anticipated that this high near-term cargo coverage would benefit our outperformance, provided the market followed historical seasonal trends.

Our customer- and cargo-focused business model requires us to take in short-term chartered vessels to optimise and supplement our owned and long-term chartered fleet.

As always, our outperformance is negatively impacted by the upwardly moving freight rate environment due to the lag between fixing and executing voyages. However, an improving market is ultimately beneficial, as we will benefit from higher freight rates as we secure new cargo contracts over time.

Our outperformance continues to benefit from the scrubbers installed across our Core fleet of Handysize and Supramax vessels, which have contributed US$30 and US$720 per day respectively to our outperformance over the first half of 2024.

As previously discussed, our Operating activities have seen significant growth, with the number of operating days increasing by 29% year over year. We are pleased with our ability to scale these activities effectively, demonstrating the support we enjoy from our customers. To support this growth, we have been investing in our workforce and systems, while recent office openings in Dubai and Singapore have increased our access to customers and cargo.

Our strategy continues to focus on increasing profitable operating days on a year-on year basis and restoring our outperformance on our Supramax vessels.

Please turn to slide 8.

Slide 8 – HANDYSIZE – FURTHER REDUCTIONS IN OPEX COSTS

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

We continue to improve our cost competitiveness with our indicative owned fleet cash breakeven level reducing to US$4,620 per day, which is a 6% reduction year on year.

Please turn to slide 9.

Slide 9 – SUPRAMAX – REDUCING LONG-TERM CHARTER COSTS 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, which we chartered in during the higher rate environment of 2022, and we expect the last of these vessels to be re-delivered by September 2024.

Our indicative owned fleet cash breakeven level is US$5,120 per day, which is a 1% increase year on year.

I will now hand over to Michael who will present the financials.

Speaker: Michael Jorgensen

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

Please turn to slide 11 for an overview of our P&L Statement and financial performance.

Slide 11 – MARKET STRENGTH BOOSTS TCE EARNINGS AND CHARTERED VESSEL COSTS

As you can see from the slide, despite the rise in our daily TCE earnings, both our underlying profit and EBITDA have declined. This decline is primarily due to a significant increase in chartered vessel costs, along with higher expenses related to bunkers, port disbursements, and other voyage costs, all driven by increased business activities.

Below underlying profit, our net profit was further improved by gains on vessel disposals, our hedging portfolio and the write-back of a provision related to a settlement in the period.

Please turn to slide 12.

Slide 12 – SUSTAINING FINANCIAL FLEXIBILITY

As you will see, our cash position remains unchanged at US$261 million dollars, and we end the period with US$537 million dollars in available liquidity.

Looking at the details, our operating cash inflow for the period was US$103 million dollars, and that is inclusive of all long-- and short-term charter hire payments. This compares with US$150 million dollars in the first half of 2023.

We had US$8 million dollars in proceeds from the sale of one smaller Handysize vessel which we delivered in the period.

Capex spending remains well controlled, and for the first half of 2024 totalled US$48 million dollars, of which we paid approximately US$25 million dollars

for the remaining balance of one second-hand Ultramax vessel, and around US$23 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, predominantly relating to dry dockings and investments in fuel-efficiency technology and excluding any vessel purchases.

We have paid US$38 million dollars in dividends, which relates to the 2023 final basic and special dividend of HK5.7 Hong Kong cents per share which we paid in May 2024.

As mentioned earlier, since the commencement of our share buyback programme, we have repurchased and cancelled approximately 42.7 million shares for a consideration of approximately US$14.6 million dollars however, only US$14 million was concluded by 30 June.

Over the period, repayments following the normal amortisation profile of our loans amounted to US$32 million dollars, while our borrowings only decreased by US$4 million dollars as we extended and increased an existing term loan by an additional US$29 million dollars.

Please turn to slide 13.

Slide 13 – OUR BALANCE SHEET ALLOWS FOR FLEXIBLE CAPITAL ALLOCATION

Despite significant shareholder distribution through our dividend and share buyback programme, we continue to maintain a healthy financial position with US$537 million dollars of available committed liquidity, which includes US$261 million dollars of cash and deposits.

Our net borrowings are unchanged at 2% of our owned vessels' net book value, and we currently have 61 unmortgaged vessels as of 30 June.

We continue to maintain optionality in our long-term chartered portfolio with purchase and extension options, allowing us to exercise if we see value.

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 15.

Slide 15 – RECORD TOTAL DRY BULK LOADINGS – SUPPORTED BY CHINA

Global dry bulk loading volumes grew approximately 2% year on year.

Minor bulk loading volumes were up by 2% due to higher loadings of bauxite, forest products and steel. 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 increased by 4%, driven by significant contributions from Argentina, Ukraine and Brazil. Argentina experienced a 29% rise in grain loadings compared to the previous year, recovering from crop yields that were previously affected by drought. Ukraine’s Black Sea loadings surged by 53% year on year, reflecting the country’s enhanced export capabilities since the onset of the conflict. Additionally, China’s import of Brazilian grain increased by 21% year on year, supporting tonne-mile demand, while imports from United States decreased by 18% year on year.

On the other hand, **Coal** loadings decreased by 2% year on year primarily due to reduced loadings to Japan and Europe, despite increased coal demand from India, China and Vietnam. China significantly increased import of Australian coal, since the lifting of the coal ban, which continues to support tonne-mile demand, while imports from Indonesia and Russia decreased.

Iron ore loadings increased 5% year on year due to increased loadings from Brazil and India, as well as record demand in China. Brazilian and India iron ore loadings increased 15% and 19% year on year respectively, positively impacting tonne-mile demand. While China's housing construction remains subdued, the decline in steel demand is being compensated by growth in the infrastructure and manufacturing sectors. Additionally, excess steel production is supporting record levels of exports.

Please turn to slide 17.

Slide 17 – CANAL DISRUPTIONS CONTINUE TO SUPPORT TONNE-MILE DEMAND

Water levels in the Panama Canal have progressively improved as we have now entered the rainy season which extends from May to December. While some restrictions continue to be in place, vessel transits are expected to increase over time.

We continue to monitor developments in the Red Sea and the Gulf of Aden, which remain complex and a safety concern for shipping. This has added to tonne-mile demand, as vessels are being rerouted around the Cape of Good Hope.

These issues will continue to reduce effective supply and provide support for rates going forward.

Please turn to slide 18.

Slide 18 – MANAGEABLE FLEET GROWTH AND AGEING FLEET PROFILE

In the first half of 2024, we observed a nearly 13% decline in newbuilding orders for Handysize and Supramax vessels. This decrease is primarily attributed to rising newbuilding costs and uncertainties surrounding environmental regulations.

We interpret limited scrapping over the period as a positive indicator of improving dry bulk freight rates. The positive market outlook will encourage

owners to invest in dry docking for older vessels, ensuring they can continue trading for a little longer.

Decarbonisation regulations are expected to have significant implications, necessitating vessels to reduce speeds progressively and eventually leading to an accelerated scrapping of older, less efficient ships. Currently, around 14% of the Handysize fleet and 11% of the Supramax fleet are over 20 years old. Additionally, one-third of the fleet, which was built between 2009 and 2012, will reach 20 years of age starting in 2029. Well balanced fleet growth, combined with the timely retirement of outdated vessels, will help to maintain a favourable supply-demand balance in the future.

Please turn to slide 21.

Slide 21 – GROWTH STRATEGY REMAINS UNCHANGED

We remain committed to our long-term strategy to expand and renew our fleet. Our focus remains on growing our Supramax and Ultramax fleet while replacing our Handysize vessels with younger, larger, and more efficient ships. This approach not only enhances our operational efficiency but also ensures that we are well-prepared to meet the increasingly stringent environmental regulations.

Due to the rise in vessel prices, especially in the second-hand market, we have been selling our older vessels. Since 2021, this has included 20 Handysize, one Supramax and one Ultramax vessel, all at attractive prices.

Over the same period, we have purchased 20 modern second-hand vessels, comprising 6 Handysize and 14 Supramax/Ultramax vessels. By staying selective and disciplined in our investment strategy, we have managed to expand our fleet with newer, larger, and more efficient vessels, achieving our highest carrying capacity to date.

Based on the estimated market value of our owned fleet of US$2.2 billion dollars, we retain significant value, well above our net book value of US$1.7 billion dollars.

During the period, we sold two of our older Handysize vessels.

Please turn to slide 22

Slide 22 – GROWTH OF CORE FLEET VIA LONG-TERM CHARTERS, WITH ADDED OPTIONALITY

In addition to acquiring vessels from the second-hand market, we can grow our Core fleet through long-term inward charter of vessels that showcase the latest Japanese designs, maximum fuel efficiency, and, in some cases, are equipped with scrubbers.

These long-term chartered vessels offer options to extend the charter agreement period at a fixed rate and/or purchase the vessel at a predetermined price. Extension and purchase options provide optionality as markets develop, allowing us to exercise if we see value.

In the first half of 2024, we received the first of four long-term chartered 40 thousand deadweight tonne Handysize newbuildings, and in July, we took delivery of the second, and we have six more being delivered before Q1 2026.

We also declared our intention to exercise a purchase option on a 58 thousand deadweight tonne Supramax vessel built in 2016, with delivery in the second half of 2024. This option highlights the potential value of retaining purchase options on long-term charters, with this particular option priced in Japanese yen, a unique feature not shared by all purchase options.

To achieve our goal of complete decarbonisation, we will need to invest in dual-fuel low-emission vessels. Collaborating with our Japanese partners, we have made good progress on a design for vessels that can run on both fuel oil and methanol. We will consider in 2024 whether we are ready to contract to build such a vessel with delivery well ahead of our original 2030 target.

Please turn to slide 23

Slide 23 – WE REMAIN OPTIMISTIC ABOUT THE SUPPORTIVE FUNDAMENTALS OF OUR INDUSTRY

Over the period, we have seen increased demand for dry bulk commodities, even amidst concerns about global economic growth, high interest rates, conflicts in Ukraine and Palestine, and the negative effects of reduced Chinese housing construction. Despite these challenges, we have seen growth, and continue to remain optimistic about the supportive fundamentals of our industry and the overall global economic outlook.

Our strategic vessel positioning aligns with our commitment to a customer- and cargo-focused approach. This will necessitate short-term charters to complement our owned and long-term chartered fleet, which over this period were at a higher cost than anticipated due to reduced seasonality in rates.

While we won't get the market right every time, we are pleased to see a healthy dry bulk market, in which we continue to see limited new vessel ordering and broad-based demand for the commodities we ship. We are optimistic about the industry's future. This optimism is buoyed by promising future contract rates and volumes, our increased activity level, and our industry-low cash break-even level. Additionally, supported by positive optionality in our core fleet.

In the second half of 2024 we anticipate an increase in global dry bulk loadings, fleet inefficiencies and tonne-mile demand due to the limited transit of dry bulk vessels through the Suez and Panama Canals.

Ladies and gentlemen, that concludes our 2024 Interim 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.