3Q24 Quarterly Trading Update
Presentation Transcript

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Speaker: Martin Fruergaard

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's Third Quarter Trading Update call. My name is Martin Fruergaard, CEO of Pacific Basin.

Assuming you have already reviewed the presentation, I 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 – LIMITED SEASONALITY CONTINUES

During the third quarter of 2024, Handysize and Supramax market freight rates, were again, above historical averages for this time of the year. Despite uncertainties associated with global trade and economic growth, elevated interest rates and conflicts in Ukraine and the Middle East, increased demand for grains, minor bulks and iron ore has supported market freight rates, which have shown limited seasonal volatility due to fleet inefficiencies from disruptions in the Suez and Panama Canals.

Market spot rates for Handysize and Supramax vessels averaged US$11,700 and US$13,820 net per day respectively, representing an increase of 53% and 45% respectively compared to the same period in 2023.

As of October 11, the Baltic Exchange Forward Freight Agreements indicate Handysize rates for the fourth quarter of 2024 at $11,390 net per day, while Supramax rates are $13,040 net per day. Looking ahead to the first quarter of 2025, Handysize rates are projected at $9,510 net per day, and Supramax rates at $11,080 net per day.

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Slide 4 – RECORD TOTAL DRY BULK LOADINGS – SUPPORTED BY CHINA

Global **minor bulk** loadings were approximately 2% higher in the third quarter of 2024 compared to the same period last year. Loadings of bauxite, agribulk and fertilisers increased by 19%, 11% and 2% respectively while ores & concentrates and aggregates were the largest detractors falling by 8% and 7% respectively.

In the third quarter of 2024, global **iron ore** loadings increased by 1% year-on-year, mainly due to record loadings from Brazil on long-haul voyages to China. Brazilian loadings rose by 3% compared to last year, thanks to better operational efficiency, reopening of new capacities and new projects. China's domestic steel consumption is low due to reduced property sector demand. The surplus steel is being exported in record volumes, mainly using Supramax vessels to Southeast Asian destinations. In the first eight months of 2024, Chinese steel production declined by 3%, while exports increased by 21% in the first nine months and by 16% in the third quarter.

In the third quarter of 2024, global **coal** loadings remained flat year-on-year. This was due to a 9% increase in Indonesian loadings, supported by favourable weather and a higher production quota. China's coal demand stayed high despite high domestic production and improved hydroelectric output. Coal loadings to India rose by 3%, driven by strong economic growth and high electricity demand.

Global **grain** loadings in the third quarter of 2024 were 6% higher than the same period in 2023, with Argentina and the United States increasing their loadings by 51% and 33% respectively. Brazilian loadings fell by 8% due to delays in corn loading caused by low water levels in the Amazon River. Ukraine's grain loadings surged by an impressive 367% compared to the same period in 2023, though they were still 24% lower than in 2021, before the military conflict began.

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Slide 5 – TCE EARNINGS REMAIN STABLE

In the third quarter of 2024, our core business generated average Handysize and Supramax daily time-charter equivalent earnings of US$13,740 and US$12,220 per day respectively. This represents a year-on-year increase of 35% and 6% for Handysize and Supramax respectively.

For the fourth quarter of 2024 we have covered 74% and 84% of our core committed vessel days at US$12,570 and US$12,190 per day for Handysize and Supramax respectively.

In the fourth quarter of 2024, we anticipate reversing the provisions made in relation to prior-period freight tax. These reversals are expected to positively influence Handysize and Supramax TCE earnings for the fourth quarter of 2024. While the reversal of the provision is subject to certain conditions and adjustments, it is expected to be a lower amount than the reversal made to our TCE earnings for the same period in 2023.

We are focusing on optimising short-term earnings while increasing our overall 2025 coverage. For the first quarter of 2025, we have covered 19% and 29% of our core vessel days at US$10,170 and US$12,590 per day for Handysize and Supramax respectively. This period is usually softer due to the northern hemisphere winter and Lunar New Year celebrations.

We have many open days for 2025, enabling us to benefit from stable market spot rates. Limited transit of dry bulk vessels through the Suez Canal should support tonne-mile demand and freight rates. Additionally, Chinese fiscal stimulus is expected to support commodity demand, further supporting the market.

Our owned fleet with substantially fixed costs is the main driver of our profitability, with an approximate cash break-even level (excluding general and administrative overheads and drydocking costs) for Handysize and Supramax vessels of US$4,620 and US$5,120 per day respectively in the first half of 2024. We continue to generate healthy cash flows at current freight rate levels.

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Slide 6 – SUPRAMAX PERFORMANCE IMPACTED BY HIGH NEAR-TERM CARGO COVER AND REDUCED SEASONALITY

In the third quarter of 2024, we outperformed the Handysize spot market index by US$2,040 per day but underperformed the Supramax spot market index by US$1,600 per day. Our Supramax underperformance was due to higher costs of chartering short-term core vessels needed for our high near-term cargo coverage in the Pacific, as we couldn't optimise our fleet balance between the Atlantic and Pacific basins.

In the third quarter of 2024, the scrubbers installed on our 33 core Supramax vessels contributed US$460 per day to our outperformance. Additionally, the scrubbers fitted to our four core Handysize vessels added US$40 per day to our outperformance.

Our **operating activity** contributed positively, with margins improving sequentially. In the third quarter of 2024, we achieved a margin of US$1,300 per day over 6,950 operating days. We currently operate around 154 short-term chartered vessels, aiming to increase operating days and maintain positive margins year-on-year. Our operating activity complements our core business by matching customers' spot cargoes with short-term chartered vessels, making a margin and contributing to our results in both weak and strong markets.

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Slide 7 – US$40 MILLION SHARE BUYBACK PROGRAMME ONGOING

Since the commencement of our US$40 million share buyback programme in May 2024, we have repurchased approximately 105.8 million shares for a consideration of about US$31.7 million. During the third quarter of 2024, we repurchased approximately 54.9 million shares for a consideration of about US$14.5 million, capitalising on the weakness in our share price over the period.

By proactively choosing to repurchase our own shares at a significant discount compared to the intrinsic value of our assets, we currently recognise it as a more advantageous strategy compared to acquiring second-hand vessels. We continue to finance the buyback of our shares through our available cash flow and internal resources, while maintaining sufficient financial resources for the continued growth of our operations. This share buyback programme is intended to continue until 31 December 2024.

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Slide 9 – IMPROVING DEMAND OUTLOOK FOR MINOR BULKS IN 2025

We are anticipating an ongoing disruption to Suez Canal transit, which will impact fleet efficiency and increase tonne-mile demand. On a positive note, there's a broad-based increase in demand for minor bulks, including cement and clinker, metals and ores, agribulks, fertiliser and steel. We're also expecting a rise in bauxite production from Guinea, with most of the exports heading to China.

However, reduced Chinese domestic housing construction is likely to limit iron ore demand for steel production.

The global shift towards renewable energy is expected to decrease overall coal demand, although there is still robust demand driven by energy security concerns in China, India and Vietnam.

Climate changes are expected to continue affecting domestic crop output, which may lead to increased grain trade volumes. Additionally, the rising global demand for diversified diets and protein will continue to stimulate import demand for feed grains and soybeans.

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Slide 12 – CANAL DISRUPTIONS CONTINUE TO SUPPORT TONNE-MILE DEMAND

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 on longer voyages to avoid this key transit route. To minimise the risk to our seafarers and vessels, we will continue to take the much longer routes around Africa.

Meanwhile, the Panama Canal has experienced increased rainfall in recent months, boosting water levels and leading to an increase in transits and normalised vessel waiting times.

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Slide 14 – OUR DISCIPLINED GROWTH AND RENEWAL STRATEGY REMAINS UNCHANGED

Due to the rise in vessel prices and our goals to further decarbonise, we have been selling our older vessels. Since 2021, we have sold 24 older vessels, including 22 Handysize, one Supramax, and one Ultramax, all at attractive prices.

During the third quarter, we sold two of our older Handysize vessels, taking advantage of historically high prices of second-hand vessels.

Our fleet is expanding with the addition of larger and more efficient Handysize and Supramax newbuilding vessels. Since 2021, we have purchased 20 modern second-hand vessels, comprising six Handysize and 14 Supramax/Ultramax.

This year, we also declared our intention to exercise a purchase option on one 58,000 dwt Japanese-built Supramax vessel built in 2016.

We continue to maintain discipline in our approach to acquiring high-quality, modern second-hand vessels to renew our fleet. We believe there is financial benefits in investing in dual-fuel Low Emission Vessels, which will offer market-leading operational efficiency to our fleet while enabling us to gradually decarbonise. In 2024, we will assess our readiness to commit to ordering such a design, ensuring delivery well in advance of our initial 2030 target. This strategic move not only aligns with our sustainability goals but also positions us at the forefront of innovation in the industry, enhancing our competitive edge and demonstrating our commitment to environmental responsibility.

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Slide 15 – 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 third quarter of 2024, we took delivery of a long-term chartered 40,000 dwt Handysize newbuilding from Japan. We await the arrival of the first of four long-term chartered 64,000 dwt Ultramax newbuildings and the third of four long-term chartered 40,000 dwt Handysize newbuildings for delivery in the fourth quarter of 2024.

In 2025, we have the opportunity to exercise purchase options on four Japanese-built Handysize vessels, allowing us to acquire these vessels at a price below the current market value for these types of second-hand vessels.

Ladies and gentlemen, that concludes our third quarter trading update 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.