1Q24 Quarterly Trading Update
Presentation Transcript

18 April 2024

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, CEO of Pacific Basin, and I am pleased to have our CFO Michael Jorgensen with me today.

Assuming that you have already gone through the presentation, I 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 – US$40 Million Share Buyback Programme

I am delighted to commence our call, highlighting our recent announcement that Pacific Basin is ready to initiate its first ever share buyback programme, based on approval of our share buyback mandate by our shareholders at the upcoming 2024 Annual General Meeting.

This programme, with an allocation of up to US$40 million, is scheduled to run from the 25th of April until the 31st of December 2024. We intend to cancel all shares that we repurchase, thereby improving the value for our remaining shareholders.

The Board's decision demonstrates confidence held in the Company's future, and the long-term prospects of dry bulk demand. This share buyback should also demonstrate our alignment with shareholders, in our belief that our current share price does not fully reflect the intrinsic value of the Company.

This share buyback is another way that we continue to reward shareholders, alongside our track record of returning cash to shareholders through dividends.

We continue to generate healthy cash flows at current freight rate levels, which we are committed to returning to shareholders as part of our distribution policy. Our distribution policy is to pay out at least 50% of our annual net profit in dividends, with any additional distribution in the form of special dividends and/or share buybacks.

A reminder that our ex-dividend date is 25 April 2024, with payment of our final dividend for the 2023 Annual Result being on 9 May 2024.

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Slide 4 – Strong Seasonal Freight Rates In 1Q 2024

During the first quarter of 2024, Handysize and Supramax market freight rates, were above historical averages for this time of the year, excluding the exceptional years of 2021 and 2022. This was due to manageable fleet growth, higher dry bulk loadings, and the ongoing disruptions in the Red Sea and Panama Canal, which are causing reduced fleet efficiency and longer voyages.

Market spot rates for Handysize and Supramax vessels averaged US$10,510 and US$12,310 net per day respectively, representing an increase of 26% and 27% respectively compared to the same period in 2023.

Current Forward Freight Agreements commonly referred to as FFA's, for the second-half of the year continue to be at a premium to current spot freight rates across all dry bulk segments, reflecting market expectations of stronger demand fundamentals. As of 12 April, rates quoted by the Baltic Exchange for 3Q 2024 and 4Q 2024 are US$12,050/US$11,760 net per day and US$14,340/US$13,950 net per day for Handysize and Supramax respectively.

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Slide 5 – Record Total Dry Bulk Loadings – Supported By China

Global **minor bulk** loadings were approximately 3% higher in the first quarter, due to increased loadings of bauxite and salt. While cement and clinker, ores and concentrate, and fertilisers were the largest detractors. We anticipate minor bulk demand to benefit from increased seasonal demand, while improvement in economic activity within the United States, coupled with China's supportive policies aimed at bolstering manufacturing, infrastructure investment, and particularly in residential housing construction, signals promising growth potential.

In the first quarter, global **iron ore** loadings saw a 2% rise, largely attributed to a record first quarter of iron ore loadings from Brazil, which experienced a 15% increase compared to the same period last year. This significant growth was the result of efforts to reduce the effects of rainfall on the extraction, processing, and transportation of iron ore.

Despite lower domestic housing construction, China's steel industry remains robust, fuelled by varied demand from sectors including motor vehicle manufacturing, shipbuilding, infrastructure development and power generation. Excess steel not used domestically is mainly exported via Supramax vessels to Southeast Asia. Chinese steel production saw a 2% decrease, yet exports surged by 31% in the first quarter of 2024 compared to the previous year.

A 1% decrease in global **coal** loadings in the first quarter of 2024 is attributed to reduced loadings from Russia due to import levies aimed at protecting Chinese domestic producers, and from Indonesia, with producers facing additional tariffs on coal shipments. China's demand for imported coal remains robust, driven by limited hydroelectric power generation and energy security concerns, even with high domestic coal production. Meanwhile, India's coal imports rose by 5% year on year, fuelled by strong economic growth and rising electricity needs.

In the first quarter of 2024, global **grain** loadings increased by 1% compared to the same period in 2023. This decrease can be attributed to increased loadings of grain from Argentina, Ukraine and the United States.

Strong global grain production in 2023, along with optimistic forecasts for 2024 grain harvests in countries including Argentina, Australia and Russia, is expected to result in surplus grain availability. The grain export season in South America, which began in March, is expected to result in significant grain loading volumes from Brazil in the second quarter, with Argentina also expected to recover from its 2023 drought-induced low outputs.

Meanwhile, Ukraine has seen a 33% increase in grain shipments compared to 2023, thanks to improved export capabilities. Despite this growth, current grain loading volumes still lag 7% behind the pre-conflict levels of 2021.

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Slide 6 – Positive On 2024 And 2025 Dry Bulk Outlook

Our **core** business generated average Handysize and Supramax daily TCE earnings of US$11,050 and US$13,610 per day respectively in the first quarter of 2024. This represents a year on year decrease of 18% for Handysize, and no change for Supramax.

For the second quarter of 2024 we have covered 84% and 96% of our Core committed vessel days at US$12,290 and US$14,610 per day for Handysize and Supramax respectively.

For the second half 2024 we have covered 36% and 47% of our core vessel days at US$9,280 and US$11,840 per day for Handysize and Supramax respectively. Cargo cover rates exclude scrubber benefits and operating activity. Current values of scrubber benefits are approximately US$70 and US$1,500 per day across our Core Handysize and Supramax fleet respectively.

We currently have a significant percentage of open days for the remainder of the year. We expect to benefit from higher market spot rates as seasonality improves commodity demand following the end of the first quarter of 2024. Additionally, the limited transit of dry bulk vessels through the Suez and Panama Canal, should support tonne-mile demand and, in turn, freight rates.

Our core business with substantially fixed costs is the main driver of our profitability, with an approximate cash break-even level (including General and Administrative Overheads) for Handysize and Supramax vessels of US$5,960 and US$6,120 per day respectively in 2023.

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Slide 7 – We Continue to Outperform And Grow Operating Activity Days

Our Handysize and Supramax TCE earnings outperformed the spot market indices by US$540 per day and US$1,300 per day respectively in the first quarter.

Our outperformance in the first quarter of 2024 was negatively impacted by our proactive strategy to take cover. Historically, we have been proactive in taking short-term cover for the first quarter, which is typically a softer market during the northern hemisphere winter and Lunar New Year periods.

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$940 per day respectively to our outperformance over the first quarter 2024.

Our **operating** activity also contributed positively, generating a margin of US$510 per day over 6,660 operating days in the first quarter of 2024, a decrease of 53% and an increase of 32% year on year respectively.

We currently operate approximately 169 short-term chartered vessels, with a focus to increase operating days and margins on a year-on-year basis.

Our operating activity complements our core business by matching our customers' spot cargoes with short-term chartered vessels, making a margin and contributing to our results regardless of whether the market is weak or strong.

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Slide 12 – Canal Disruptions Continue To Support Tonne-mile Demand

We're actively monitoring the complex situations in the Red Sea and the Gulf of Aden, which are concerns for maritime operations. Additionally, restrictions in the Panama Canal have forced us to reroute dry bulk vessels on longer journeys, increasing demand for tonne-miles. To protect our crew and ships in the Red Sea, we are opting for the much longer route around Africa. Although the Panama Canal's water levels have improved, vessel transit restrictions are likely until the latter half of 2024, impacting supply and supporting freight rates.

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Slide 14 – Future Fleet Growth

In 2023, we took delivery of three out of eleven newbuildings that are part of our long-term time-charter commitments with the remaining eight vessels scheduled for delivery between now and the first quarter of 2026. We expect the delivery of the first of four chartered 40,000 dwt Handysize newbuildings in May 2024, and we await the arrival of a chartered 64,000 dwt Ultramax newbuilding in the fourth quarter of 2024.

Our fleet is expanding with the addition of these larger and more efficient Handysize and Supramax newbuilding vessels. These long-term time-chartered vessels have an earnings capacity approximately 20% higher than our current average Core Handysize and Supramax fleet.

Each of these timecharters come with an option to extend the charter agreement at a fixed rate, and we have the option to purchase the vessels at a fixed price, which further expands our optionality.

Our collaboration with Nihon Shipyard and Mitsui has progressed well in designing an efficient dual-fuel vessel capable of running on fuel oil as well as sustainable methanol. However, we remain cautious in our approach to investment in newbuildings due to current historically high newbuilding prices. 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. We anticipate ordering activity for such mid-size dual-fuel dry bulk low-emission vessels will be limited in 2024.

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Slide 15 – Renewing Our Fleet

We continue to be disciplined buyers of second-hand vessels given historical high prices, while remaining committed to our long-term strategy to grow our owned fleet of Supramax vessels by acquiring high-quality, modern, second-hand vessels, and to replace our older and less-efficient Handysize vessels with younger and larger Handysize vessels.

In the first quarter, we sold a 2004-built Handysize vessel, anticipating challenges and higher costs from stricter decarbonisation regulations. We plan to gradually divest our least efficient ships.

With new and second-hand vessel prices expected to stay historically high due to rising newbuilding costs and limited yard capacity, we will remain cautious in our investment in second-hand vessels.

Including all currently agreed sales and purchases, our Core fleet consists of 132 Handysize and Supramax vessels and, including short-term chartered vessels in our Operating business, we currently have approximately 302 vessels on the water overall.

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Slide 18 – Our Strategic Direction Remains Unchanged

In 2024, freight rates began higher than in 2023, and it is encouraging to see the level of support for freight rates during the first quarter of 2024, which is historically a softer period for demand. We remain significantly exposed to spot freight rates due to a considerable number of uncontracted vessel days in 2024, while maintaining this approach into 2025. We expect to benefit from higher spot rates, as normal seasonality improves commodity demand following the end of the first quarter of 2024. Additionally, there will be an ongoing benefit to supply and tonne-mile demand from limited transit of dry bulk vessels through the Suez and Panama Canals.

We are pleased that we continue to grow our fleet through long-term time-charter newbuildings and we continue to reward shareholders through the return of cash through dividends and share buybacks.

We remain excited about the long-term prospects of dry bulk shipping, thanks to the positive demand for the commodities we ship. These are supported by favourable supply-side fundamentals and the ongoing implementation of both existing and new decarbonisation rules.

Ladies and gentlemen, that concludes our First Quarter 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.