1Q25 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 First Quarter Trading Update call. My name is Martin Fruergaard, CEO of Pacific Basin.

I trust you have received our presentation which I will now run through to highlight key points before moving on to the Q&A session.

Please turn to slide 3.

Slide 3 – FREIGHT RATES REBOUNDED AFTER AN EARLY LUNAR NEW YEAR

In the first quarter of 2025, Handysize and Supramax market freight rates followed their seasonal patterns, and market activity reduced leading up to the Lunar New Year at the end of January, after which freight rates rebounded as activity picked up in February.

Market spot rates for Handysize and Supramax vessels averaged US$8,000 and US$7,900 net per day respectively, representing a decrease of 24% and 36% compared to the same period in 2024.

The Baltic Exchange Forward Freight Agreement (FFA) average Handysize rate for the remainder of 2025 is $9,120 net per day, and the average Supramax FFA rate is $9,860 net per day.

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Slide 4 – DRY BULK TRADE ACTIVITIES SLOWED IN FIRST QUARTER

In the first quarter of 2025, global **minor bulk** loadings were approximately 2% higher compared to the same period last year. This growth was driven by notable increases in the loadings of bauxite, cement and clinker. Imports of bauxite from Guinea into China continued to be strong, and China's steel production and exports increased in the first quarter.

In the same period, global **grain** loadings decreased by 16% year on year, impacted by reduced Chinese demand following an increase in domestic supply of corn and wheat amid rising trade frictions. Harvest delays in Brazil also slowed its grain exports, but the country is projected to achieve a record crop in 2025, with significant increase in soybean production. On the other hand, United States saw an 11% year-on-year increase in grain loadings, as the anticipation of tariffs triggered a rush to import more soybeans from the US.

Global **coal** loadings dropped 5% year on year in the first quarter. This reduction was driven by an 11% drop in seaborne coal volumes to China, owing to large stockpiles and increased supply from domestic sources and Mongolia overland. Similarly, coal volumes to India reduced by 6% due to slower manufacturing activity and increased domestic production. However, the decline was partially offset by increased coal imports into other Asian countries such as Vietnam, Malaysia, the Philippines, and Bangladesh.

Global **iron ore** loadings in the period declined by 7% year on year, primarily due to reduced Australian iron ore loadings caused by disruption from consecutive cyclones in January and February. Iron ore loadings destined for China declined by 9%, reflecting weak domestic demand for steel and mounting trade tensions. However, we saw iron ore volumes increase in March and we expect support from post-disruption catch-up in Australia and potential stimulus from China to address the impact of tariffs.

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Slide 5 – TCE EARNINGS REDUCED DUE TO SEASONAL MARKET WEAKNESS

In the first quarter of 2025, our core business achieved average Handysize and Supramax daily time-charter equivalent earnings or “TCE” of US$10,940 and US$12,210 per day respectively. This represents a year-on-year decrease of 1% and 10% respectively.

For the second quarter of 2025 we have covered 77% and 95% of committed vessel days for our Handysize and Supramax core fleet at US$11,390 and US$12,400 per day respectively. These rates are currently higher than market spot rates and Baltic Exchange FFA rates, which stand at US$9,110 and US$9,870 net per day. Our cash break-even levels for owned Handysize and Supramax vessels are US$5,780 and US$6,200 respectively, which include G&A overheads, finance costs and OPEX. These levels ensure our ability to generate a positive cashflow going forward.

For the second half of the year, we have covered 25% and 37% of committed vessel days for our Handysize and Supramax core fleet at US$10,150 and US$12,090 per day respectively.

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Slide 6 – OUR OUTPERFORMANCE INCREASED IN FIRST QUARTER, SUPPORTED BY OUR CARGO COVER IN ANTICIPATION OF SEASONAL WEAKNESS

In the first quarter of 2025, we outperformed the Handysize and Supramax spot market indices by US$2,940 and US$4,380 per day respectively, as we covered the period in anticipation of seasonal weaknesses, especially around Lunar New Year when freight rates typically soften.

In the first quarter of 2025, the scrubbers installed on our six core Handysize vessels and 34 core Supramax vessels contributed US$20 and US$220 per day to our outperformance respectively.

Our **operating activity** generated a daily average margin of US$820 per day over 6,950 operating days in the first quarter, representing increases of 61% and 4% year on year, respectively.

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Slide 8 – GROWTH IN TONNE-MILES PROJECTED TO BE MINIMAL

The near-term dry bulk demand outlook is clouded by uncertainties from increasing trade and geopolitical tensions. However, ongoing disruptions in the Red Sea and potential shifts in trade flows could provide some support to tonne-mile demand.

Minor bulk continues to see broad-based increases in projected volumes, driven by manganese ore, bauxite and fertilisers. However, demand for construction materials such as cement and steel products remains weak, hinging on global economic development which is expected to remain uncertain in the near term.

Iron ore demand is projected to be under pressure due to reduced Chinese domestic demand and heightened trade frictions, which have prompted plans to again curb steel output - although we have recently seen an increase in Chinese steel exports.

Coal demand in major importing countries such as China and India is expected to decline due to increased supply from domestic production and Mongolia overland, while the transition towards renewable energy in Europe and some Asian countries continues to impact global coal demand. We expect some support to come from ASEAN countries such as Vietnam and Malaysia, while anticipated stimulus in China to counteract the impact of tariffs could potentially boost demand for coal.

Brazil is projected to achieve a record grain crop yield in 2025, and China is expected to shift its grain imports from the US to Brazil due to intensified trade tensions, which translates into more tonne miles. However, China's plan to reduce its reliance on grain imports given increasing protectionism may weigh on global grain trade volumes.

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Slide 9 – MINOR BULK FLEET FORECAST TO GROW 4.5% AS DELIVERIES PEAK IN 2025 AND SCRAPPING REMAINS SLUGGISH

In 2025, global net fleet growth is projected to outpace demand growth. Global dry bulk and minor bulk fleet are estimated to grow 3% and 4.5% in 2025, respectively. This growth is driven by an increase in newbuilding deliveries, particularly in the Handysize and Supramax segment, which is estimated to account for around 5% of combined fleet growth in 2025, while minor bulk fleet scrapping is forecast to be only 0.5% of the fleet.

However, the long-term supply fundamentals remain favourable, with the total dry bulk orderbook and the combined Handysize and Supramax orderbook both currently standing at around 10% only, while newbuild ordering activity recorded a 90% year-on-year decrease in the first quarter. New orders continued to be constrained by limited yard capacity and uncertainties around decarbonisation and the proposed US port fees on Chinese-built ships.

Meanwhile, the scrapping pool continued to expand given limited scrapping and aging fleet, with Handysize and Supramax vessels over 20 years old representing 14% and 12% of the existing fleet, which is larger than the current orderbook, pointing to a foundation for long-term structural supply shortage, which is likely to be accelerated by decarbonisation regulations in shipping.

In addition, about one third of the minor bulk fleet was delivered between 2009 and 2012 and their replacement will be required in the next decade.

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Slide 10 – DISRUPTIONS IN THE RED SEA PERSIST

The situation in the Red Sea remains volatile, as earlier ceasefire attempts unravelled and disruptions in the region continued. This highlights just how fragile truces of geopolitical tensions can be and their continuous impact on shipping, which in this case has resulted in increased tonne miles as shipping companies have been rerouting vessels around South Africa.

We continue to monitor these situations closely. Although the dry bulk sector is less impacted compared to other shipping sectors, there could be further pressure on dry bulk tonne-mile demand if transits through the Suez Canal normalise, which remains uncertain at the moment.

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Slide 11 – 2025 MARKET OUTLOOK

Growing protectionism and geopolitical conflicts around the world bring uncertainties for dry bulk shipping and the global economy, but they may also present opportunities depending on market and government responses.

Global commodity demand is expected to remain steady in 2025, broad-based minor bulk and grain volumes could potentially offset the impact of softening demand for iron ore and coal due to high stockpiles and the weak property market in China. Further stimulus in China is expected to meet its economic growth target of around 5% amidst rising challenges and to counteract the potential impact of tariffs.

While tariffs and other protectionist measures, such as the proposed US port fees, could suppress trade volumes, drive up inflation and hinder global economic growth, the versatility of the dry bulk trade could potentially lead to an increase in tonne-mile demand as trade flows shift, resulting in longer voyages and increased congestion, providing some support to the dry bulk freight market.

Uncertainty around trade, decarbonisation and US policy has dampened enthusiasm for newbuilding orders, and this continues to support supply fundamentals in the longer term, despite near-term pressure from new deliveries pushing estimated minor bulk net fleet growth of 4.5% above estimated demand growth of 1% in 2025.

However, the current total dry bulk orderbook of around 10% and limited newbuilding orders, coupled with the expected mid-term decarbonisation measures from the IMO which are likely to result in speed reduction and increases in fleet inefficiency and scrapping, provide the basis for favourable long-term supply fundamentals.

We are cautious about the development and uncertainty in the global market, but we believe our experienced and customer-focused global organisation, our financial strength, and the versatility of our business position us well to navigate these uncertain times and take advantage of the arising opportunities.

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Slide 13 – DISCIPLINED APPROACH TO FLEET GROWTH AND RENEWAL WITH AMBITION TO IMPROVE EARNINGS CAPACITY AND MAXIMISE GROWTH OPTIONALITY

Our core fleet is the major contributor of our profits, and it consists of 123 Handysize and Supramax vessels, of which over 70% are Japanese built. Our strategy is to grow and renew our fleet, but we maintain a disciplined approach, especially amidst uncertainty in the market and the prevailing vessel prices.

In the first quarter of 2025, we continued to add larger and younger vessels to our owned fleet by exercising purchase options for two long-term chartered Japanese-built Handysize vessels. We also sold and delivered three older, smaller Handysize vessels, with an average age of 21 years old, as part of our renewal strategy.

Since 2021 we have purchased 22 larger and younger second-hand vessels, while selling 28 older, smaller vessels, this added over 200,000 dwt of net capacity to our fleet, equivalent to a 4% increase in the total dwt of the fleet.

In November last year, we ordered four dual-fuel methanol LEV newbuildings in Japan for delivery in 2028 and 2029, which we believe are well timed and will contribute positively to our future earnings. LEV newbuildings provide Pacific Basin with additional optionality for growth and to meet the industry's target of Net Zero by 2050.

Last week, IMO announced that agreement has been reached on its mid-term measures designed to force ships to adopt cleaner fuels from 2028 or face financial penalties. We are currently evaluating the measures and their expected impact. We support the efforts of IMO in respect to reduction of GHG emissions and believe the agreed measures are an important step forward for the shipping industry and that they will support our initial investments in fuel optimisation as well as dual-fuel methanol LEV newbuildings. We hope the rules will be adopted at the next MEPC session in October 2025. More is required to accelerate the transition, but, if adopted, it will be an important milestone and the right step forward to decarbonise the shipping industry.

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Slide 14 – LONG-TERM CHARTERS ADDING OPTIONALITY

Long-term inward charter of vessels, particularly newbuildings built in Japan with latest design that maximises fuel efficiency, enables us to expand our core fleet without overextending our finances, while maintaining maximum optionality as they come with options that allow us to extend the charter or to purchase the vessel at a fixed price.

We currently have firm commitments for 20 long-term chartered vessels, four of which are due for delivery between 2025 and 2026, consisting of three 64,000 dwt Ultramaxes and one 42,000 dwt Handysize. These newbuildings are all being built in Japan and will be equipped with scrubbers.

As mentioned earlier in first quarter we declared purchase options on two long-term chartered vessels which will be delivered during the summer. In the second half of 2025, we can declare purchase options on additional two Handysize vessels built in 2017 and 2020, and one Ultramax vessel built in 2017, all from Japanese shipbuilders and attractively priced.

In light of the uncertainties ahead, we remain close to our customers and are continuously optimising our short-term cargo commitments to position ourselves optimally in what is expected to be a volatile market.

At the same time, we have the financial strength to pursue growth opportunities that normally arise from increased market uncertainty, which will position us well for the next market upturn.

Ladies and gentlemen, that concludes our 2025 first 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 Cameron Ip from our Investor Relations department.

Goodbye.