2024 Annual Results Presentation Transcript

28 February 2025

Speaker: Martin Fruergaard

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's 2024 Annual Results earnings call. My name is Martin Fruergaard, CEO of Pacific Basin.

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 – 2024 ANNUAL FINANCIAL RESULTS

In 2024, we generated an EBITDA of US$333 million dollars, an underlying profit of US$114 million dollars and a net profit of US$132 million dollars. This resulted in a 7% return on equity and an EPS of 19.9 Hong Kong cents.

We have a strong balance sheet, with net cash of about US$20 million dollars and available committed liquidity of US$548 million dollars.

Our **Core** business generated US$178 million dollars before overheads, benefitted from the stronger freight market, while our **Operating** activity contributed US$17 million dollars, having generated a margin of US$630 dollars per day over 27,610 days.

In view of our sound cash generation, the Board recommends a final dividend of 5.1 Hong Kong cents per share. Combined with the interim dividend distributed, this amounts to US$61 million dollars, which represents 50% of our net profit for the full year, excluding vessel disposal gains, consistent with our distribution policy.

The Board has also approved another share buyback programme of up to US$40 million dollars in 2025, as our shares continue to trade substantially below the current market value of our assets.

Please turn to slide 4.

Slide 4 – DISTRIBUTING CASH THROUGH DIVIDENDS AND SHARE BUYBACK

In 2024, we completed the announced US$40 million dollars share buyback programme, buying back and cancelling a total of 138 million shares, which reduced our issued share capital by 2%, after a CB conversion in June 2024 resulting in the issue of 30 million shares. This, combined with the recommended final dividend, means we are committed to distributing about US$101 million dollars or 83% of our 2024 net profit, excluding vessel disposal gains.

Since 2021, we have generated approximately US$1.75 billion dollars in profits and are distributing around US$1.17 billion dollars, or 67% of total net profits, excluding vessel disposal gains.

We believe that buying back our own shares at a significant discount to NAV is a strategy that enhances shareholder value more effectively than acquiring second-hand vessels at current prices.

Please turn to slide 5.

Slide 5 – MARKET FREIGHT RATES IN 2024 WERE HIGHER THAN 2023

In 2024, average market spot freight rates for the Handysize and Supramax increased 24% and 21% year on year to US$11,120 and US$12,920 net per day, respectively.

Firmer dry bulk demand growth, especially Chinese demand for coal, iron ore and bauxite, supported the freight market in 2024, while disruptions in the Panama Canal and the Red Sea ironed out seasonality and drove tonne-mile demand. However, the market weakened in the fourth quarter, as transits through the Panama Canal normalised, along with weaker-than-expected grains exports.

Current Forward Freight Agreements or FFAs, indicate steady improvement in the remainder of the first quarter of 2025, despite hovering below the overall levels in 2024.

As freight rates corrected in the fourth quarter in 2024, we anticipated a weaker start to 2025 and actively took cover for the first quarter at rates higher than the current spot market rates. Dry bulk market activity has picked up since the early Lunar New Year holidays at the end of January.

Please turn to slide 6.

Slide 6 – STRONG TONNE-MILE DEMAND PARTICULARLY FOR COAL & IRON ORE

Global dry bulk loading volumes grew approximately 2% year on year, driven by robust Chinese demand.

Minor bulk loadings increased 3% in 2024, due to increased loadings of bauxite, agribulk, steel and forest products. Bauxite continued to drive minor bulk loadings mainly from Guinea, and mainly carried by larger bulk carriers. China's weak property market dampened their demand for construction materials including cement and steel. Excess steel produced was exported, leading to a 26% year-on-year increase in Chinese steel export.

Grain loadings increased by 4% year on year due to increased loadings from Argentina and the US which had recovered from drought in 2023, while Ukraine's grain loadings increased 84% year on year with the success of its own corridor despite ongoing conflict. Brazil's strong soybean export at the start of the year was eroded by delays in corn exports and limited grains transport due to drought in the fourth quarter of 2024.

Coal loadings decreased 1% year on year, as demand declined in European countries and some East Asian countries under their renewable energy transition agenda. Chinese coal demand remained robust in 2024 due to lower domestic production and hydroelectric output in the first half of 2024.

And finally, **iron ore** loadings increased 4% year on year, driven by increased production from key exporters Australia and Brazil, along with strong Chinese demand due to its steady steel production, which benefitted from improved steel margins given favourable iron ore prices and robust steel demand especially from South East Asia.

Please turn to slide 7.

Slide 7 – TCE EARNINGS REMAINED STABLE IN 2024, AND WE ENTERED 2025 WITH HIGH COVER FOR Q1

In 2024, our **Core business** achieved average Handysize and Supramax daily TCE earnings of US$12,840 and US$13,630, this represents a 5% increase and a 1% decrease compared to 2023, respectively.

In the fourth quarter of 2024, we reversed freight tax provisions from prior periods, which positively impacted our Handysize and Supramax TCE earnings by US$1,280 and US$1,920 per day respectively. This resulted in a full-year increase in our Handysize and Supramax TCE earnings by US$320 per day and US$470 per day respectively.

We do not anticipate any further prior-period freight tax adjustments affecting our future TCE calculations.

For first quarter 2025, we have covered 92% and 100% of our committed vessel days for our Handysize and Supramax core fleet at US$10,770 and US$12,680 per day, respectively. These rates are higher than the current market spot rates, as well as the FFA rates, which are about US$8,230 for Handysize and US$8,480 for Supramax in the first quarter.

We have more open days left this year, having covered 40% and 56% of our committed days compared to 54% and 71% this time last year.

Please turn to slide 8.

Slide 8 – OUR OUTPERFORMANCE CONTINUED, BUT SUPRAMAX PERFORMANCE IMPACTED BY HIGH SHORT-TERM CARGO COVER AND REDUCED SEASONALITY

In 2024, our Handysize and our Supramax vessels outperformed the indices by US$1,720 and US$710 per day, respectively. If we exclude the positive impact from the reversal of freight tax provisions, the outperformance would have been US$1,400 and US$240 per day, respectively.

Handysize outperformance continued to improve over the year, driven by well-timed cargo coverage and our ability to optimise through triangulated trading.

On the other hand, our Supramax outperformance was limited by our high cargo cover, as we anticipated the usual seasonal declines in the freight market, which unseasonally only materialised in the fourth quarter of 2024. In the fourth quarter of 2024, our Supramax fleet outperformed the index by US$3,620 per day, or US$1,700 per day when excluding the impact from reversal of freight tax provisions.

In 2024, our **Operating activity** generated a margin of US$630 per day. Our operating activity margin was impacted by unforeseen weather-related disruptions and congestion in the fourth quarter of 2024, especially related to Chinese steel export.

Our operating activity days increased 18% year on year to 27,610 days in 2024. We will continue to expand our operating business, allowing us to capitalise on market volatility.

Please turn to slide 9.

Slide 9 – HANDYSIZE – DAILY CORE VESSEL COST EDGED UP DUE TO HIGHER DEPRECIATION AND LONG-TERM CHARTERED COSTS, DESPITE LOWER OPEX

Our Handysize daily core vessel costs have increased marginally. Although OPEX decreased with normalised crew costs, higher depreciation costs from drydocking and fuel-efficiency investments, along with a slight increase in long-term chartered vessel costs due to delivery of long-term chartered newbuilding vessels, increasing the blended core vessel cost by 2% to US$8,750 per day.

We continue to remain cost-competitive with our indicative owned fleet cash breakeven level further reducing to US$4,710 per day before G&A, representing a 4% decrease year on year.

Please turn to slide 10.

Slide 10 – SUPRAMAX – REDUCED DAILY CORE VESSEL COST DUE TO REDELIVERIES OF HIGHER-COST LONG-TERM CHARTERED VESSELS

Our Supramax owned vessel depreciation costs also increased due to higher drydocking costs and investments in fuel-efficiency technologies including silicone paints.

After the redelivery of higher-cost long-term chartered-in vessels, our long-term chartered vessel days decreased and daily costs reduced 10% year on year to US$16,310, as a result, our blended Supramax daily core vessel cost also dropped 5% to US$9,650.

Our indicative owned fleet cash breakeven level increased slightly by 1% year on year to US$5,130 per day before G&A.

Please turn to slide 12.

Slide 12 – HIGHER FREIGHT RATES AND INCREASED ACTIVITY IMPROVED TCE EARNINGS WHILE HIGHER CHARTER COSTS KEPT EBITDA STABLE

Revenue and TCE earnings increased due to high activity level and higher freight rates, but higher chartered cost of vessels required to fulfil cargo commitments on our Supramaxes resulted in a slightly lower EBITDA in 2024.

Our G&A has increased slightly predominately due to increased staff costs related mainly to our digitalisation and optimisation efforts.

Our net profit was US$132 million dollars, further improved by gains on vessel disposals of five older Handysize vessels.

Please turn to slide 13.

Slide 13 – HEALTHY CASH GENERATION AND FINANCIAL FLEXIBILITY

We continue to maintain a robust financial position with US$548 million dollars of available committed liquidity, which includes US$282 million dollars of cash and deposits.

Our operating cash inflow for the period was US$259 million dollars, inclusive of all long and short-term charter hire payments, compared to US$286 million dollars in 2023.

We realised US$44 million dollars from the sale of five older Handysize vessels, which have an average age of 20 years.

Our Capex amounted to US$128 million dollars, which included US$46 million dollars for drydockings, about US$40 million dollars initial payment for four newbuilding dual-fuel Ultramax low-emission vessels, and about US$43 million dollars for two vessels delivered into our fleet in 2024.

We paid a total of US$66 million dollars in dividends, which included 2023 final basic and special dividend of HK5.7 Hong Kong cents per share, and the 2024 interim dividend of HK4.1 Hong Kong cents per share we paid in August 2024.

We spent US$40 million dollars to buy back shares under our 2024 share buyback programme, and our net cash outflow from borrowings was US$36 million dollars in 2024.

Please turn to slide 14.

Slide 14 – OUR BALANCE SHEET ALLOWS FOR FLEXIBLE CAPITAL ALLOCATION

Our balance sheet remains strong, and we returned to a net cash position of US$20 million dollars end 2024, from a net borrowing of US$39 million dollars end 2023. Our owned vessels' total net book value was about US$1.7 billion dollars, while their market value was estimated to be higher, at US$2 billion dollars according to composite broker valuations. As at 31 December 2024, we had 59 vessels that remained unmortgaged.

Our goal is to optimise our capital allocation and ensure a robust, safe and flexible capital structure, which will enable us to make strategic and counter-cyclical investments, pursue growth initiatives, and deliver value to our shareholders going forward.

Please turn to slide 16.

Slide 16 – MINOR BULK TONNE-MILE FORECAST TO GROW 2.3% IN 2025

Minor bulk tonne-miles are expected to grow by 2.3% in 2025, supported by broad-based trade demand and global economy, which is estimated to grow by 3.3% according to latest IMF forecasts, and increased trade volumes for minor bulks such as cement and clinker, ores and concentrates, fertiliser, and steel.

However, the demand for iron ore is expected to moderate due to reduced Chinese domestic housing construction and rising steel trade protectionism. Similarly, coal demand is anticipated to decline given ample stocks in China, increased domestic production in India, and transition to renewable energy in European countries and some East Asian countries.

On the other hand, climate change is expected to continue affecting domestic crop outputs, which may lead to increase in grain import volumes. Improvements in crush margin and hog prices in China may also support grain demand.

Please turn to slide 17.

Slide 17 – MINOR BULK NET FLEET GROWTH PEAKING IN 2025 WITH SUPPLY FORECAST TO INCREASE 4.4%

The minor bulk fleet is forecast to grow by 4.4% due to more deliveries in 2025 from orders placed during the strong market in 2021 and 2022, while scrapping is forecast to remain muted at about 0.5% of the fleet.

The combined orderbook is currently about 10.9% of the total fleet, which we consider manageable compared to historical figures.

Additionally, the scrapping pool continues to increase, with approximately 14% and 11% of Handysize and Supramax capacity being over 20 years old. Going forward we believe emissions regulations will likely further reduce effective dry bulk supply through slower speeds, accelerated scrapping, and increase downtime for retrofitting energy-saving technology.

Therefore, we are confident in our sector's long-term prospects despite the short-term supply increase.

Please turn to slide 18.

Slide 18 – DISRUPTIONS UNWINDING AS PANAMA CANAL NORMALISED BUT RED SEA STILL UNCERTAIN

Transits through Panama Canal normalised after an increase in rainfall since the rainy season began in May 2024.

As for the Suez Canal, the Houthis have suspended attacks on non-Israeli shipping in the Red Sea under the Gaza ceasefire agreement. However, transits have yet to recover, as shipping companies maintain caution and insurance costs remain high.

A smaller proportion of dry bulk fleet transits the Suez Canal compared to other shipping segments, particularly containerships. Shipbrokers estimate a 1% to 3% drop in dry bulk tonne-mile if Suez Canal transits fully recover.

Please turn to slide 19.

Slide 19 – 2025 MARKET OUTLOOK

Global commodity demand is expected to remain steady in 2025, despite easing demand for iron ore and coal. Additional support may come from anticipated further economic stimulus measures from China to meet growth targets, with a focus on expanding domestic demand and supporting consumption. Further disruptions arising from geopolitical tensions, trade tariffs or extreme weather conditions could potentially increase tonne-mile demand.

The current dry bulk fleet orderbook is around 10.4%, and net fleet growth in 2025 is estimated to remain steady at 3% year on year.

Rising protectionism could negatively impact the global economy and trade, while tariffs and widening deficits in the US could drive domestic inflation, impacting interest rate cuts.

The complete unwinding of Red Sea disruptions would result in decreased tonne-mile demand, although this impact is relatively limited in our sector. Additionally, the anticipated peak Handysize and Supramax vessel deliveries in 2025, with an estimated net fleet growth of 4.4%, is expected to outpace the 2.3% growth in minor bulk tonne-mile demand, while scrapping is forecast to remain limited until the IMO formalises its next decarbonisation regulations.

We remain cautiously optimistic about the year ahead and are prepared to seize any opportunities arising from increased volatility in 2025.

Please turn to slide 21.

Slide 21 – DISCIPLINED APPROACH TO FLEET GROWTH AND RENEWAL WITH AMBITION TO REDUCE EMISSIONS AND MAXIMISE GROWTH OPTIONALITY

We maintain our disciplined approach to the growth and renewal of our fleet, by acquiring modern second-hand vessels counter-cyclically while selling our older and less-efficient vessels to unlock values. With LEVs orders and long-term charters of newbuilding vessels that come with purchase options, we aim to maximise our growth optionality with the ambition to reduce emissions and transition to net zero by 2050.

In 2024, we exercised a purchase option on one 58,000 deadweight-tonne Supramax vessel built in 2016, and we sold five older Handysize vessels, with an average age of 20 years, for a net proceed of about US$44 million dollars.

Since 2021, we have been increasing our carrying capacity and fleet efficiency by selling 25 older vessels with a total capacity of 0.8 million deadweight tonne, including 23 Handysize vessels, one Supramax and one Ultramax vessels, and acquiring 20 second-hand vessels with a total capacity of 1.1 million deadweight tonne, including 6 Handysize vessels and 14 Supramax and Ultramax vessels.

As vessel values softened in recent months following the decline in freight rates, we will continue to assess strategic and counter-cyclical investment opportunities when they arise in the market.

Please turn to slide 22.

Slide 22 – FIRST NEWBUILDING LOW-EMISSION VESSEL (LEV) ORDERED: ADVANCING TOWARDS NET ZERO BY 2050 AND ENHANCING OPTIONALITY

In November 2024, we contracted four 64,000 deadweight-tonne dual-fuel methanol Ultramax newbuilding LEVs from our Japanese Partners, for a consideration of US$46.5 million dollars each, with expected delivery in 2028 and 2029. Given the current orderbook and age profile of minor bulk fleet, as well as with tightening regulations and limited shipyard capacity, we believe we are making the right move at the right time.

The deal is based on various considerations and expected benefits. These include added financial values from FuelEU emissions pooling and selling overcompliance credits, which can accelerate payback, as well as savings from using renewable fuel compared to the cost of carbon tax and penalties associated with conventional fuels, which are expected to rise with more emissions regulations from, among others, the IMO.

This move aligns with our long-term initiative to transition to net zero emissions by 2050.

Please turn to slide 23.

Slide 23 – LONG-TERM CHARTERS ADDING OPTIONALITY

Our long-term chartered newbuilding vessels provide us with the opportunities to grow and improve efficiency without initial cash outlay. In 2024, three 40,000 deadweight-tonne Handysize newbuildings and one 64,000 deadweight-tonne Ultramax newbuilding were delivered into our fleet. After redelivering some long-term chartered vessels, we had 17 vessels at the end of 2024 that have extension and purchase options.

In 2025, we retain purchase options on four Handysize vessels and on one Ultramax vessel, and we will evaluate whether to exercise these options.

By maximising optionality, we can better navigate market volatility, and remain agile and competitive in different stages of the shipping cycle.

Please turn to slide 24.

Slide 24 – WE ARE CHARTING A COURSE FOR SUSTAINABLE GROWTH

We are well-prepared to navigate the short-term uncertainties anticipated in 2025 as we plan for long-term growth.

Our market position remains strong as we continue to be fully customer and cargo focused. We aim to grow our position as both an owner and operator in the minor bulk segment. By maintaining a long open position, we can leverage market cycles as we optimise our short-term positions to capture market volatility.

In view of the market development, we are committed to further improving our costs and striving for a sector-leading cost base. We are enhancing our performance management approach and continuing to invest in performance, digitalisation, and data use to continuously improve our productivity and profit margins.

We aim to grow the company by implementing a disciplined and counter-cyclical strategy for our fleet growth and renewal. This involves acquiring modern second-hand vessels while selling older and less-efficient vessels. We maintain a prudent approach and continuously evaluate vessel price development to maximise value creation through timely investment and divestment in our fleet.

For capital allocation, we aim to maintain a robust and flexible capital structure with high liquidity, enabling counter-cyclical investment. We have limited committed CAPEX, mainly relating to our usual drydocking and investments in fleet optimisation, excluding any vessel purchases.

We remain positive about the long-term fundamentals and prospects of dry bulk shipping.

Finally, following a search that presented us with a number of excellent candidates, we today announced that Mr. Jimmy Ng will join us on 12 May 2025 as our new Chief Financial Officer. Please see our announcement dated today for a summary of his professional experience with US and European investment banks and, since 2008, with Hutchison Port Holdings. I look forward to welcoming Jimmy to the team shortly and am confident that he will be a valuable addition to our leadership team and contribute well to the continued growth and success of Pacific Basin.

Here I would like to conclude our 2024 Annual Results presentation by thanking our colleagues at sea and ashore for their contributions to our results.

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.