2023 Interim Results Presentation Transcript

31 July 2023

Speaker: Martin Fruergaard & Michael Jorgensen

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's 2023 Interim Results earnings call. My name is Martin Fruergaard, CEO of Pacific Basin, and I am pleased to have our new CFO Michael Jorgensen with me today, who will speak later on the call.

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 – 2023 INTERIM FINANCIAL RESULTS

I am pleased to report that in the first half of 2023, we generated underlying profit of US$76 million, a net profit of US$85 million and EBITDA of US$189 million. This yielded a return on equity of 9% (annualised), with basic EPS of HK12.9 cents.

Our large **Core** business generated US$96 million before overheads despite the weak freight market. While our **Operating** activity which includes vessels chartered in for less than 12 months, contributed US$17 million, having generated a margin of US$1,550 net per day over 11,000 operating days.

We continue to maintain a healthy financial position with available committed liquidity of US$375 million and net gearing of 7%, as we continued to expand our owned fleet over the period.

Additionally, we have increased our list of unencumbered vessels, with 65 currently unmortgaged.

The Board has declared an interim dividend of HK6.5 cents per share, amounting to a total of US$43.7 million, which represents 51% of our net profit for the period.

This decision is consistent with our distribution policy and reflects our confidence in our strong balance sheet, despite the current uncertainty surrounding global dry bulk demand and freight rates, which continues to impact our industry.

Please turn to slide 4.

Slide 4 – FREIGHT RATES NEGATIVELY IMPACTED BY REDUCED CONGESTION

In the first half of the year, average market spot freight rates for Handysize and Supramax were US$8,640 and US$9,930 net per day respectively.

Despite increased dry bulk demand overall in the first half, freight rates were under considerable pressure due to the unwinding of congestion that increased effective supply.

Looking ahead, we expect grain activity to increase with the onset of the East Coast South America and US Gulf grain seasons. While China's reopening has helped dry bulk demand, additional stimulus would be needed to boost demand further.

Please turn to slide 5.

Slide 5 – CHINA REOPENING SUPPORTING DRY BULK DEMAND

Global dry bulk loading volumes grew approximately 2% year on year, mainly due to China reopening which increased demand for both coal and iron ore.

Minor bulk loadings decreased 0.1% in the period, due to reduced loadings of cement and clinker, forest products and alumina. However, there was an 8% increase in bauxite loadings primarily from Guinea and despite an export ban in Indonesia starting from June 2023.

Grain loadings decreased by 3% year on year, primarily due to reduced grain export from Argentina caused by drought. In the United States, adverse weather conditions and logistical problems led to higher costs for transporting grain on the Mississippi River, which made US grain prices uncompetitive, reducing grain export during the first half of 2023.

Despite delays in the harvest and export process, Brazil was able to export a record amount of grain.

On the other hand, **Coal** loadings increased 6% year on year, largely because of the low base created by the temporary Indonesian coal export ban in January 2022 and record China imports.

Iron ore loadings increased 3% year on year due to beneficial weather conditions in both Australia and Brazil, as well as increased demand in China as economic activity increased post-Covid.

Please turn to slide 6.

Slide 6 – MARKETS EXPECTS IMPROVED DEMAND FUNDAMENTALS IN 2H 2023

Our **core business** generated average Handysize and Supramax daily TCE earnings of US$13,030 and US$13,700 net per day respectively in the first half of 2023, which is a decrease of 51% and 60% compared to the very strong first half of 2022.

For the third quarter, we have covered 82% and 92% of our committed vessel days for Handysize and Supramax at US$9,800 and US$12,700 net per day respectively.

For the second half of 2023, we currently have cover for 57% and 72% of our core vessel days for Handysize and Supramax at US$10,000 and US$12,770 net per day respectively.

Current Forward Freight Agreements commonly referred to as FFA's, for Q3 and Q4 are at US$8,240/US$9,750 per day and US$9,180/US$10,710 per day for Handysize and Supramax respectively.

Please turn to slide 7.

Slide 7 – WE CONTINUE TO OUTPERFORM

In the first half, both our Handysize and our Supramax delivered an exceptional performance and we outperformed the indices by US$4,390 per day and US$3,770 per day respectively.

Handysize and Supramax vessels have outperformed the index over the last 7 and 8 quarters respectively.

The Supramax outperformance benefited from the 33 scrubbers installed across our core owned fleet, with scrubbers contributing US$1,050 per day to our outperformance over the period. The current value of Supramax scrubber benefits is approximately US$610 per day.

Our **operating activity** generated a positive margin of US$1,550 net per day over 11,000 operating days. Operating days increased 20% compared to the same period last year.

Operating activity margins benefitted from the re-delivery of more expensive short-term time charter in vessels from previous periods.

Please turn to slide 8.

Slide 8 – HANDYSIZE – IMPROVING COST COMPETITIVENESS

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

We continue to improve our cost competitiveness with our indicative owned fleet cash breakeven level reducing to US$4,920 per day.

Please turn to slide 9.

Slide 9 – SUPRAMAX – MAINTAINING COST COMPETITIVENESS

Despite the increase in costs on a small number of long-term chartered vessels, our blended Supramax costs remain cost competitive.

We continue to maintain our cost competitiveness with our indicative owned fleet cash breakeven level reducing to US$5,010 per day.

Please turn to slide 10.

Slide 10 – COUNTER CYCLICAL GROWTH WHILE RENEWING OUR FLEET

During the period we continued to grow and renew our fleet. Specifically, at the beginning of the year, we capitalised on Supramax vessel values which softened due to market weakness, allowing us to make counter cyclical purchases. Meanwhile, we continued to also focus on selling smaller, older Handysize vessels during the period.

We acquired 5 Ultramax vessels, 1 Supramax vessel, and 1 Handysize vessel - with all vessels delivered into our core fleet.

We sold 2 Handysize vessels over the period, with both now being delivered.

We received the first of three Japanese-built 40,000 deadweight tonne Handysize newbuildings to our core fleet through long-term time charters, and expect the remaining two to be delivered in the second-half.

Including all currently agreed sales and purchases our fleet consists of 120 owned Handysize and Supramax vessels and, including chartered ships, we have over 280 vessels on the water.

We continue to progress with the design of methanol-fuelled zero-emission vessels in collaboration with our two Japanese partners. We expect to be ready to contract our first generation dual-fuel zero-emission newbuildings by the end of 2024, with delivery expected to be well ahead of our original 2030 target.

I will now hand you over to Michael who will present the financials, and I will be back afterwards with outlook and strategy summaries.

Speaker: Michael Jorgensen

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

I am delighted to join Pacific Basin as its new CFO, and I am eager to engage with the investor and media community.

Without further ado, let's dive into the next slide.

Please turn to slide 12 for an overview of our P&L.

Slide 12 – POSITIVE EARNINGS DESPITE WEAK FREIGHT MARKET

As you can see given our lower daily TCE earnings, both our underlying profit and EBITDA were lower, despite decreased owned vessel and chartered costs.

Our G&A has decreased mainly due to lower discretionary remuneration provisions given our result for the period.

Below underlying profit, our net profit was further improved by gains on vessel disposals and our hedging portfolio.

Please turn to slide 13

Slide 13 – SIGNIFICANT SHAREHOLDER DISTRIBUTION

Our operating cash inflow for the period was US$150 million, and that is inclusive of all long and short-term charter hire payments. This compares with US$486 million in the first half of 2022.

We had US$43 million in proceeds from the sale of three smaller Handysize vessels and one Ultramax vessel which we delivered in the period.

Capex spending remains well controlled, and for the first half 2023 totalled US$210 million, of which we paid approximately US$187 million for one second-hand Handysize, two second-hand Supramax, six second-hand Ultramax vessels, and around US$22 million for dry dockings and Ballast Water Treatment Systems.

We expect capex for 2023 to be approximately US$60 million, predominately relating to dry dockings and Ballast Water Treatment Systems, and excluding any vessel purchases.

We paid US$174 million in dividends relate to the 2022 final basic and special dividend of HK26 cents per share we paid in May 2023.

Our borrowings decreased due to net repayments of US$38 million.

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Slide 14 – HEALTHY BALANCE SHEET

Despite significant shareholder distribution, we continue to maintain a healthy financial position with US$375 million of available committed liquidity and have reduced debt while expanding our fleet.

Our net borrowings now represent 7% of the net book value of our owned vessels, and as Martin previously mentioned, we have increased our list of unencumbered vessels, with 65 currently unmortgaged.

Our goal going forward is to ensure that we maintain our strong available liquidity position for potential growth investments, while still providing returns to our shareholders through dividends.

We have a distribution policy of paying out at least 50% of annual net profits.

I will now hand you back to Martin for his outlook and strategy slides.

Speaker: Martin Fruergaard

Thank you Michael,

Please turn to slide 16.

Slide 16 – CHINA REOPENING SUPPORTING DRY BULK DEMAND

China Covid-reopening policies are supporting dry bulk demand. Coal loadings to China increased over 70% year on year due to energy security concerns and low hydroelectric output, despite record domestic coal production. China has continued to import coal from Australia, but still relies heavily on Indonesia and Russia for its coal imports.

China's minor bulk demand increased 5% over the period, with the main minor bulks including bauxite, ores & concentrates and forest products.

Please turn to slide 18.

Slide 18 – LIMITED DRY BULK SHIPYARD CAPACITY AND ORDERS FORMING SUPPPLY CRUNCH

High newbuilding prices, uncertainty around emissions regulations and long delivery times of about three years have continued to discourage any significant new ship ordering over the period. First half 2023 newbuild ordering was down 18% compared to first half 2022, and the dry bulk orderbook is at near decades low of 7.4% of total fleet.

World shipyard capacity remains limited, and well below peak capacity of 10 years ago, with the majority of incremental new shipyard capacity concentrated on higher margin non-dry bulk vessels.

We continue to think that newbuilding order will remain limited as designs for zero-emission-capable vessels are developed over time.

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Slide 19 – IMO ADOPTS MORE AMBITIOUS GHG STRATEGY – NET ZERO BY 2050

In July, IMO adopted a revised and more ambitious greenhouse gas strategy with a goal for international shipping to achieve net-zero emissions by or around 2050, with indicative interim checkpoints. IMO's target is therefore now aligned with our own net zero by 2050 target to which we committed in 2021.

Initial targets will be a reduction of 20% of total emissions by 2030, and 70% reduction by 2040.

These regulatory pressures are on the rise, and we expect new regulations to be introduced in the future.

The consequence of decarbonisation regulations will result in the need for vessels to further reduce speeds over time and, in due course, for accelerated scrapping as older and less-efficient vessels become no longer fit for trading.

The low orderbook and efforts to reduce carbon intensity will potentially create a shortage of vessels and provide long-term structural undersupply to the market.

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Slide 22 – REMAIN OPTIMISTIC ABOUT THE SUPPORTIVE FUNDAMENTALS OF OUR INDUSTRY

In the short term we believe that global dry bulk demand will continue to be impacted by higher interest rates, inflation and weaker global economic activity with the potential for a recession in some economies. While China's reopening has helped dry bulk demand, additional stimulus would be needed to boost demand further. These headwinds will continue to have a negative effect on dry bulk freight rates in the short term and potentially for the remainder of 2023.

In the longer term, we remain optimistic about the supportive fundamentals of our industry.

Dry bulk demand is expected to be supported by substantial global infrastructure investment with a focus on emerging markets such as India and ASEAN countries, as well as concerns over food and energy security worldwide.

Our view is that environmental regulations, both existing and upcoming, will deter excessive new vessel orders for some time and support dry bulk rates. We have a positive outlook on the future of the dry bulk market, and expect to generate more sustainable earnings in the long-term due to underlying demand and supply fundamentals.

We are excited about the future of dry bulk shipping, supported by our modern fleet that can meet the diverse needs of our customers. Our staff operate globally with a local presence, which we utilise to drive insight and knowledge back into our business, so we can deliver the best service and access cargo opportunities.

Ladies and gentlemen, that concludes our 2023 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.