2022 Quarterly Trading Update Script

13 October 2022

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, Chief Executive Officer of the Company, and I am joined by our CFO, Peter Schulz.

Please turn to slide 3.

Slide 3 – The Minor Bulk Market Remains Supported

The minor bulk freight market in the third quarter of 2022 softened compared to the first half of the year, as increasing inflation and interest rates slowed global growth, and weakening construction activity and zero-Covid policies drove a slowdown in the Chinese economy.

Index spot rates for Handysize and Supramax ships averaged US$16,010 and US$18,740 net per day respectively in the third quarter of 2022, both representing a decrease of 27% compared to the first half of 2022.

Significantly lower than normal grain loadings due to the conflict in Ukraine and a slow start to the US grain season impacted demand in the period.

Despite this the average minor bulk freight rate is historically high and the market has remained considerably firmer compared to pre-pandemic levels.

We see the market supported by:

- continued overall robust loadings in minor bulks
- and an increase in the seaborne coal trade, due to high demand in Europe for non-Russian coal, and this despite record domestic Chinese coal production.

Currently we are experiencing improved market conditions with rate increases for both Handysize and Supramax in the Atlantic market due to improving grain export out of South America and the Continent.

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Slide 4 – Overall Dry Bulk Loadings are Stable

Global minor bulk loadings grew approximately 8% in the year to September compared to the same period last year.

Growth in minor bulk loadings moderated in the third quarter to 5% year-on-year, and we expect the global macroeconomic outlook and slow Chinese economic recovery to weigh on minor bulk demand for the remainder of 2022, with some upside potentially coming from any loosening of Chinese Covid-related restrictions and a revival of residential construction activity.

Weaker container rates also weighed somewhat on the minor bulk market as some cargoes were containerised.

Global grain loadings were down 6% year to date partly as a result of the situation in Ukraine but also due to the US grain season experiencing a slow start as low water levels in the upper reaches of the Mississippi River made barging grain for export difficult.

We expect Ukrainian volumes to continue to grow – assuming an extension of the Ukraine grain exports agreement, and as more owners feel increasingly comfortable engaging in this trade, and for US grain exports to increase as water levels in the Mississippi River rise

Both of these developments would further support the Atlantic freight market going into the fourth quarter.

Coal volumes loaded in the year to September increased 2% compared to the same period in 2021

There is a significant increase in European and Indian coal imports due to global energy security concerns and a general displacement of Russian volumes – helping to mitigate the impact of record Chinese domestic thermal coal production and weak coking coal imports.

The conflict in Ukraine has also had a positive tonne-mile impact as Europe increasingly sources coal from more distant locations such as Australia, United States, Canada and Colombia.

Iron ore volumes declined 1% in the year to September compared to the same period last year.

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Slide 5 – TCE Earnings Remain Healthy – Focus on Taking Cover

Our core business generated average Handysize and Supramax daily TCE earnings of US$23,620 and US$26,640 net per day in the third quarter, representing a decrease of 10% and 21% compared to the first half of 2022.

So far, 74% and 89% of our contracted Handysize and Supramax days in the fourth quarter of 2022 are covered at US$18,760 and US$20,480 net per day respectively.

Our Supramax cover rates we have provided exclude any scrubber benefit, which is currently about US$2,200 per day across our entire core Supramax fleet.

We are focused on optimising our short-term cover to maximise earnings over what is commonly a softer market during the northern hemisphere winter and Chinese New Year periods.

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Slide 6 – We Continue to Outperform On Every Level

Both our Handysize and Supramax vessels outperformed the average Handysize and Supramax indices by US$7,610 and US$7,900 per day, respectively.

In the third quarter our Operating activity generated a positive margin of US$3,860 net per day over 4,780 operating days.

This was our strongest quarterly operating activity performance so far in 2022.

Our performance continues to benefit from our diverse cargo and customer base and the close customer interaction facilitated by our extensive global office network and is again a testament to the great commercial acumen and operational excellence of our organisation both ashore and at sea.

Our outperformance is also reconfirmed by our external benchmarking, and we are pleased to see that we not only outperform the spot market rates index but also our peer group.

A potentially softer market in early 2023 will negatively impact our near term outperformance as well as our operating margins as we have chartered-in commitments, particularly in Supramaxes, taken during the stronger markets earlier this year.

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Slide 7 – Our Investment in Scrubbers is now Fully Recovered

Prior to the IMO 2020 sulphur cap we invested some US$62 million on installing scrubbers on 28 of our Supramax vessels, and are pleased to report that we have now fully recovered this investment – considerably faster than expected.

In the third quarter scrubbers contributed US$2,810 per day to our TCE earnings across our entire core Supramax fleet – equivalent to an annualised run rate of approximately US$49 million.

We have acquired an additional 5 Supramaxes with scrubbers since January 2020, for a total scrubber fitted owned fleet today of 33 vessels.

Along with these, we have 3 scrubber fitted long-term Supramax chartered-in ships – taking our total core scrubber fitted fleet to 36 vessels.

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Slide 9 – Demand Outlook: Near Term Headwinds – Long Term Upside

IMF forecasting global GDP growth of 3.2% for 2022 and 2.7% for 2023, reflecting impacts of higher inflation and interest rates, on-going conflict in Ukraine and a slowdown in the Chinese economy.

Expectations are for dry bulk demand to moderate as is typical going into the northern hemisphere winter and Chinese New Year periods – with the first quarter typically being the weakest of the year.

In the medium to longer term we are optimistic about the prospects of the dry bulk market despite any short-term headwinds.
We expect:

- demand will be supported by significant global infrastructure investment, particularly in emerging markets such as India and countries in the ASEAN region
- global food and energy security issues to support demand and positive tonne-mile for both grain, coal and a number of minor bulks
- the eventual relaxation of China's Covid mitigation controls next year giving rise to further government-led infrastructure investment and support of the residential construction sector

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Slide 10 – Limited new Ordering Despite Elevated Earnings

We see that the long established relationship between dry bulk earnings and newbuilding contracting has been broken.

The dry bulk orderbook is at a record low of 7%, and the uncertainty over new environmental regulations and the high cost of newbuildings, will continue to discourage any significant new ship ordering.

We don't expect the ordering of minor bulk zero-emission ready vessels to be commercially feasible until mid-decade at the earliest.

Clarksons Research forecasting just [0.2]% fleet growth for Handysize and Supramax in 2023 and we expect this to continue to support the market.

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Slide 11 – New Environmental Regulations Should Lead to Capacity Reductions

From next year, ship owners will report individual vessels EEXI and CII data and many will have to implement engine power limitation (EPL), with non-compliance beginning to have real associated consequences from 2024.

The CII, in particular, is expected to have a material effect on vessel speeds and carrying capacity over time as slowing vessel speed is the most effective way to reduce fuel consumption.

Based on our current fleet alone, and assuming our ambition of achieving ‘‘C’’ or better, we estimate a potential reduction in carrying capacity of up to 25% by 2030.

In addition, we expect scrapping to increase in coming years as IMO fuel-efficiency rules will encourage owners to phase out older, less efficient ships.

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Slide 13 – Maintaining Our Strategy – Adjusting as Market Fluctuates

We have over time maintained our strategy to grow and renew our fleet, while adjusting as the market fluctuates.

Our focus has been on minor bulk shipping, operational and cost excellence and all the while organically growing our fleet from 33 owned ships in 2011 to 121 in 2020.

Due to strong second-hand prices we have recently been focused on selling some of our smaller, older Handysize ships, thereby crystallising value and further optimising our fleet to meet tightening environmental regulations.

We have sold 14 Handysize vessels since the beginning of 2020, the latest one being sold in the third quarter 2022.

Vessel values are now softening with the freight market and we have taken advantage of this recent volatility to again consider purchasing high quality second hand vessels, and during the third quarter we agreed to acquire one scrubber fitted Supramax ship which is our first vessel purchase since December 2021.

Going forward we will continue our organic fleet growth and renewal, and will invest in zero-emission-ready ships when they become commercially viable for minor bulk trades and the requisite global bunkering infrastructure is being built out.

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Slide 14 – Focus on Compliance with new IMO Regulations

We will continue to trade our ships efficiently for high laden-to-ballast utilisation, and will constantly seek, assess and implement energy-efficient operating measures – including looking for collaborative solutions with our customers, tonnage providers, ports and other stakeholders.

This will ensure that our existing ships running on conventional fuel oil can maintain sound Annual Efficiency Ratio (AER) ratings and continue to trade for the foreseeable future.

We are preparing ourselves for shipping’s eventual inclusion in the European Union Emissions Trading System (EU ETS) among other EU initiatives to drive decarbonisation in shipping. The European “Fit for 55” package remains subject to negotiations between the European Council, Parliament and Commission, and is now likely to apply to shipping from 2024 onwards.

The consequences of these rules will include the progressive slowing of vessel speeds and, over time, accelerated scrapping as older and less-efficient ships become no longer fit for trading.

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Slide 15 – We are well Positioned for the Future

Given the supportive fundamentals of our industry, market rates continue to be historically high and well above our breakeven levels for both Handysize and Supramax vessels. Despite any short-term headwinds we continue to be excited by the long-term prospects of dry bulk shipping and especially the minor bulk segment.

Our large and modern owned fleet of highly versatile Handysize and Supramax ships, combined with our close customer partnerships, enhanced access to cargo opportunities, competitive cost and high vessel utilisation, makes us well positioned for the future.

Ladies and gentlemen, that concludes our 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.

Goodbye.