2020 Interim Results Presentation Transcript

30 July 2020

Speaker: Mats Berglund

Slide 1-2 – Introduction

Welcome ladies and gentlemen, and thank you for attending Pacific Basin's 2020 Interim Results earnings call. My name is Mats Berglund, I am CEO of the company, and I am joined by our CFO Peter Schulz.

Please turn to slide 3 for a summary slide on our first half highlights.

Slide 3 – 1H 2020 Summary – Solid Performance in Weak but Improving Markets

In a challenging half-year dominated by the global Covid-19 pandemic and related economic disruption, we delivered a positive EBITDA of US$79 million and outperformed Handysize and Supramax market rates by a significant margin.

We are encouraged by the fact that spot market rates have more than doubled since the low point in May. Demand is typically stronger in the second half of the year, and newbuilding deliveries will be fewer, so we have good reason to expect a seasonally stronger albeit volatile second half and we believe that at least the worst of the market is behind us.

Our mid-year committed liquidity amounted to a very strong US$350 million which is valuable in uncertain times like these.

Our vessel operating expenses and G&A overheads are both competitive and well controlled, and are running slightly below last year's levels.

We grew our owned fleet to 117 ships, we continued to reduce our long-term chartered fleet thereby reducing our core fleet breakeven levels further and, overall, we had 235 ships on the water at the end of the period.

Crew changes remain our and our industry's largest operational problem during the Covid pandemic. This is due to entry, exit and quarantine restrictions, and also due to extremely few flights in and out of China. We owe significant gratitude to our seafarers and are supporting them vigorously. We continue to work hard with authorities and industry organisations to push for solutions.

Slide 4 – 2020 Interim Results Highlights

Our underlying results were negatively impacted by weaker dry bulk freight rates due to global efforts to contain the pandemic while the dry bulk fleet continued to grow and, in spite of our continued TCE outperformance and competitive cost structure, we made an underlying loss of US$26.6 million.

Including a US$198.2 million non-cash impairment of our Handysize core fleet – primarily our smallest and oldest Handysize vessels – we made a net loss of US$222.4 million. This impairment does not impact our operating cash flows, EBITDA or available liquidity, and will result in lower depreciation costs, higher EPS and higher return on equity going forward, all things being equal.

Slide 5 – Cover Rates at or above P&L Breakeven

Our core fleet generated average Handysize and Supramax daily TCE earnings of US$7,190 and US$9,980 net per day. While down 22% and 8% year on year, these TCE earnings are highly respectable given index earnings of only about US$4,900 and US$5,700 for Handysize and Supramax respectively.

As at late July, we had covered 60% of our currently contracted Handysize days for the second half of 2020 at about US$8,420 per day net, and 75% of our Supramax days at about US$10,810 per day net. Note that these cover rates indicate a positive trend, and are at or just above our estimated P&L breakeven levels for the second half of 2020.

Slide 6 – Continued Strong Outperformance

We outperformed Handysize and Supramax index rates by US$2,270 and US$4,250 per day respectively in the first half, and our Supramax outperformance was particularly strong due to the significant scrubber benefit that we realised early in the period.

So far, we have achieved a net saving of US$23.1 million on our scrubbers, representing 38% of our roughly US$60 million original scrubber investment. US$7.4 million of the saving was achieved by closing out bunker price spread hedges.

Our operating activity generated a healthy margin of US$1,790 net per day in the first half of the year and US$1,400 net per day in the past 12 months on short-term ships that we chartered specifically to carry spot cargoes.

Our operating activity complements our core business by matching our customers' spot cargoes with short-term chartered ships even when our core ships are unavailable, thereby providing a service to our customers and making a margin and contributing to our group results regardless of whether the market is weak or strong.

Slide 7 - Market Rates have Improved Significantly since May

In slide 7 you can see the development of spot rates so far this year compared with prior years. Seasonal Chinese New Year weakness early in the year was compounded by measures to contain the Covid outbreak in China. Following a partial recovery in March as Chinese activity gradually returned, the market weakened again from late March until early May as the coronavirus spread and severely impacted activity around the world.

Despite estimates of a significant reduction in demand in the first half of the year overall, we have observed increasing levels of trade and enquiries in recent months. This has caused index rates to double since the low point in early May, and rates are above previous lows for this time of year.

Slide 8 – Total Dry Bulk Cargo Loadings Hit All-Time High in June

Turning to slide 8, you will see that indicative cargo loading data points to a 1.7% reduction in overall dry bulk loadings compared to the same period last year.

However, note the strong bounce back in June when volumes reached an all-time high.

Slide 9 – 1H 2020 Cargo Volume by Main Cargo Sector

On slide 9, we show indicative cargo loading data for each of the main dry bulk cargo sectors.

Grain volumes grew strongest at +12% compared to last year, driven by record exports from East Coast South America and by recovering Chinese soybean demand as swine fever is receding.

If you look at the scale of the charts, you will see that the strong volume increase in June was led by (1) minor bulks and (2) iron ore.

This is primarily driven by strong Chinese economic activity with domestic steel production in June recording an all-time high.

Coal and construction materials were the weakest performers, affected by lower energy consumption and construction slowdowns throughout the world due to the pandemic, but a recovery is hopefully underway with coal volumes edging up in June, albeit from low levels.

Slide 10 – Supply Growth Has Been High But is Expected to Slow

Slide 10. Clarksons Research estimates that the global dry bulk fleet grew 2.2% net during the half year, mainly due to significant Panamax and Capesize newbuilding deliveries and very little scrapping.

However, we expect lower supply growth in the remainder of the year as newbuilding deliveries will be fewer and due to scrapping being allowed again as the Indian sub-continent scrapyards are gradually opening up.

Uncertainty over environmental regulations and future vessel designs will result in less new ship ordering and deliveries, leading to tighter supply. Currently scheduled newbuilding deliveries in 2021 are down 34% compared to 2020 deliveries as forecast one year ago.

The Handysize and Supramax orderbook is smaller than for the larger ships and the lowest in percentage terms since the 1990s. We expect the overall dry bulk orderbook percentage to reach an all-time low later this year.

I now hand you over to Peter who will present the financials, and I will be back afterwards with a wrap-up.

Speaker: Peter Schulz

Slide 12 – Financial Results

Thank you very much Mats. Good afternoon ladies and gentlemen. Please turn to slide 12.

The Group posted a US$79.2 million positive EBITDA but an underlying loss of US$26.6 million in the first half of 2020 as a result of weaker market conditions. The net loss of $222.4 million was mostly due to the US$198.2 million non-cash impairment of our Handysize fleet.

While our owned vessel costs increased during the year as we added more owned vessels to our fleet, the per day costs reduced due to lower travel costs. G&A also decreased primarily due to less travel and various other cost reductions.

Since the Group has posted a loss, the Board has decided not to declare any interim dividend for the period.

Slide 13 – Handysize and Supramax Contributions

As our core Handysize TCE earnings per day were below our core blended costs per day, our Handysize fleet posted a negative contribution of US16.0 million in the first half of 2020.

However, our core Supramax TCE, boosted by the scrubbers on 28 of our vessels, was over US$1,000 per day higher than the core blended cost which yielded an overall positive Supramax contribution of US$5.0 million.

Our Operating activity contribution was a strong US$12.5 million or $1,790 per day.

Slide 14 – Handysize – Core Business Vessel Costs Before G&A

On slide 14, our Handysize owned vessel costs reduced to US$7,530 per day mainly due to lower operating expenses related to less travel. We should expect these costs to increase again post-pandemic. Our depreciation costs on the other hand increased slightly due to the installation of ballast water treatment systems. However, depreciation on our Handysize vessels will reduce by about US$600 per day going forward due to the recent impairment.

The cost per day of the long-term charters were above market rates. However, these are gradually expiring and we are replacing them with owned ships at lower breakeven levels and with short and medium term chartered in ships.

We have covered 60% of our second half committed days at US$8,420 per day which is at expected second half blended P&L break-even levels.

Slide 15 – Supramax – Core Business Vessel Costs Before G&A

Our Supramax owned vessel daily costs reduced to US$8,540 per day for the same reason we saw a reduction on our Handysizes.

As is the case in the Handysize segment, our cost of long-term chartered Supramaxes was above market rates in 2020. However, 75% of our committed days in the second half of 2020 has been covered at above our blended P&L breakeven level.

Slide 16 – How to Model Pacific Basin

On the next slide, we re-iterate how to model our business.

For each segment, the core TCE multiplied by the number of core revenue days provides the revenue, and the core blended cost multiplied by the number of core vessel days provides the cost.

Operating Activity can be calculated using the daily operating margin multiplied by the number of operating days.

Our core owned and long-term chartered-in vessels have largely fixed costs and an increase or decrease in achieved freight rates will directly impact the underlying profit. We say that for each US$1,000 change in daily TCE, the underlying profit and operating cash flow of the Group will change between US$35-40 million, taking into account that we typically have 20-25% long-term forward cargo cover for the next 12 months at any point in time.

Slide 17 – Cash Flow Analysis

The operating cash flow for the first half of 2020 was US$77.5 million, inclusive of all long and short-term charterhire payments. Despite lower TCE rates this was actually US$5.3 million higher than the same period last year due variations in working capital.

Our borrowings increased due to drawing down US$212.7 million on existing and new committed loan facilities, offset by regular amortisation of US$59.0 million. The new facility we drew on was a US$30.1 million bilateral 7-year reducing revolver secured against three vessels which we closed in June at a very competitive cost of LIBOR plus 1.60%.

Capex consisted of US38.4 million paid for three vessels delivered in the first half of 2020 and US$52.2 million in dry dockings, scrubbers and ballast water treatment systems. We docked some 20 vessels during the period.

Including the dividend payment in May 2020, our cash position increased to US$316 million at the end of the period.

Slide 18 – Significant Committed Liquidity

Our committed liquidity was US$349.5 million at the end of the period – a significant number. In the second half of 2020, we expect regular maintenance capex of around US$20 million and about US$80 million in scheduled debt service. In addition, a US$50 million unsecured revolver is maturing in November. We expect all these commitments to be comfortably met by existing liquidity and operating cash inflow.

At the end of June 2020, our net borrowings were 41% of the net book value of our owned vessels, which is a 6%-point increase on the end of 2019 but well below our KPI of maximum 50%. This is driven by the net increase in borrowings and the impairment of our Handysize vessels.

I now hand you back to Mats for his wrap-up.

Speaker: Mats Berglund

Slide 20 – Our Strategic Direction and Priorities

On slide 20, we share with you a summary of our key strategic priorities for the medium to longer term.

Unlike many other shipping companies who are increasingly going asset light, we will continue to develop our somewhat unique business model of having both (a) a fully integrated, core, asset heavy model with owned and in-house managed ships, allowing us to control safety and service quality to our customers, AND (b) an asset light model where we use short-term chartered in ships to provide a service to our customers while making a margin regardless of whether the market is weak or strong.

Our plan is to continue to grow primarily our owned Supramax fleet, while in Handysize we trade up by replacing smaller with larger size vessels.

Over the long term, we see upside in secondhand values but, out of caution during this period of very uncertain market conditions, we have paused our spending on growing our owned fleet, preserving our capital, unless we find particularly compelling opportunities.

Like most other shipowners, we are not contracting newbuildings with old technology due to their high price relative to secondhand ships, lower returns, and because of the uncertainty over new environmental regulations, and we will wait until low-emission ships become technically and commercially viable.

We are investing in further optimisation, systems and process improvement on and across our ships and in our offices. Initiatives include fuel and energy savings, automation, software and AIS data analysis to improve our competitive edge both on revenue and costs.

We have a strong cash position and will continue to keep our balance sheet and liquidity strong, enhancing our ability to take advantage of opportunities to grow our business and attract cargo as a strong partner even in challenging times.

Slide 21 – Well Positioned for the Future

Wrapping up, we have worked hard over several years to streamline and focus the company, and grow our Handysize and Supramax business. We have reduced both Opex, G&A and the cost of long-term charters significantly over the years. Our healthy balance sheet and strong liquidity position, combined with our outperforming business model, experienced staff, substantially larger owned fleet and competitive cost structure, position us well for the future and for what we believe will be improved freight market conditions in the second half.

Covid-19 has been a very unfortunate set-back for businesses and people all over the world. This makes for significant uncertainty and markets will likely remain volatile. But we do expect that at least the worst of the market is behind us and that we will see a seasonally stronger second half assisted by stimulus measures and fewer newbuilding deliveries, which should bode well for our business both in the second half and beyond.

Ladies and gentlemen, that concludes our results presentation. Lines will now be opened for any questions you may have. Operator, over to you.

[Q&A]

Thank you for joining us today, and thank you for your continued support.