Pacific Basin Shipping Limited

Press Release

Pacific Basin Announces 2018 Annual Results

Better market conditions, our continued TCE outperformance and our competitive cost structure supported much improved results in 2018

We recorded a net profit of US$72 million, a US$69 million improvement over last year

The Board recommends a final dividend of HK 3.7 cents per share

Hong Kong, 28 February 2019 – Pacific Basin Shipping Limited ("Pacific Basin" or the "Company", SEHK 2343), one of the world's leading dry bulk shipping companies, today announced the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

Mr. Mats Berglund, CEO of Pacific Basin, said:

"The freight market strengthened again in 2018 which, combined with our high laden utilisation, continued TCE outperformance and competitive cost structure, enabled us to record much improved earnings. We booked an EBITDA of US$215.8 million and net profit of US$72.3 million and, in line with our dividend policy, the Board is recommending a final dividend per share of HK3.7 cents, giving full-year dividends of HK6.2 cents.

We acquired seven modern vessels in 2018 including four that we purchased in a 50% equity-funded transaction, while selling one older vessel. We also closed competitively-priced revolving credit and bilateral term loan facilities amounting to US$365 million. These initiatives have increased our owned fleet to 111 ships on the water, helped to enhance our operating cash flow, EBITDA and balance sheet strength, further reduced our already competitive P&L breakeven levels, and positioned us well for the future.

2019 has started weaker than the last two years with a more pronounced Chinese New Year dip, compounded by the US-China trade conflict, Chinese coal import restrictions and iron ore infrastructure disruptions in Brazil that undermined sentiment further. However, the seasonal recovery is now underway.

While fundamentals for our minor bulk segment remain encouraging, we expect to see increased volatility in 2019, influenced by uncertainty about the trade war and slower economic growth, but also by compliance preparations for the 2020 sulphur cap leading to tighter supply. As we have shown before, Pacific Basin has what it takes to navigate such volatility and changes adeptly."

Financial Highlights

	Year Ended 31 December	
US$ million	2018	2017
Revenue	1,591.6	1,488.0
EBITDA #	215.8	133.8
Underlying Profit	72.0	2.2
Profit Attributable to Shareholders	72.3	3.6
Basic Earnings per share (HK cents)	12.9	0.7
Proposed Final and Full Year Dividends per share (HK cents)	3.7/6.2	–

EBITDA (earnings before interest, tax, depreciation and amortisation) is gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; net unrealised bunker swap contract income and expenses; net unrealised forward freight agreements income and expenses; utilisation and write-back of onerous contract provisions; and Charter Hire Reduction adjustments.

Our Fleet (as at 31 January 2019)

	Vessels in operation			Total
	Owned[1]	Long-term Chartered	Short-term Chartered[2]	
Handysize	83	19	30	132
Supramax	27	7	49	83
Post-Panamax	1	1	0	2
Total	111	27	79	217

[1] *An additional 2 vessels purchased and 1 sold during the period are scheduled to deliver by end March 2019*

[2] *Average number of short-term and index-linked vessels operated in January 2019*

BUSINESS COMMENTARY

Performance Overview

Both our Handysize and Supramax contributions increased significantly year on year, enabling our business to generate a much improved underlying profit of US$72.0 million (2017: US$2.2 million). This improvement is due to better markets, continued TCE outperformance and strong cost control leading to increasing profits from our larger owned fleet.

Our average Handysize and Supramax TCE earnings of US$10,060 and US$12,190 per day net were up 21% and 27% respectively year on year, and outperformed the BHSI and BSI spot market indices by 22% and 12% respectively.

Our ship operating expenses of US$3,850 per day and general and administrative overheads of US$740 per day are also very competitive compared to many of our peers, contributing to a competitive overall cost structure and vessel breakeven level on our owned fleet.

Our TCE premium and competitive costs are driven by our ability to draw on our experienced commercial and technical teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in ways that optimise ship and cargo combinations for maximum utilisation and by generating scale benefits and other efficiencies from good systems and strict cost control.

We operated an average of 139 Handysize and 83 Supramax ships in 2018 resulting in 6% and 13% reductions in our Handysize and Supramax revenue days. This reflects an increase in our owned fleet, offset primarily by fewer short-term chartered-in Supramax ships, mainly due to lower Chinese steel export volumes.

We have covered 44% and 63% of our 39,870 Handysize and 19,120 Supramax revenue days currently contracted for 2019 at US$9,370 and US$10,570 per day net respectively.

Positive Initiatives

As announced in May 2018, we committed to purchase four modern vessels for US$88.5 million in a 50% equity-funded transaction that enhances our operating cash flow, EBITDA and balance sheet strength, lowers our P&L breakeven levels, and is accretive to our earnings per share.

We also acquired for cash one secondhand Handysize and one Supramax in April and August 2018 respectively. At the end of 2018, we committed to purchase a Supramax for delivery by the end of March 2019 and we sold an older, small Handysize, thereby trading up to a larger vessel with longer life at an attractive price.

These transactions have increased our owned fleet to 111 ships on the water, grown the proportion of our owned versus chartered ships (especially in Supramax), and reduced our owned vessel daily break-even levels. Including chartered vessels, we operated an average of 224 ships in 2018.

We also continue to invest in state of the art systems with our most notable projects being the development of digital solutions for greater efficiencies and better commercial and operational optimisation and decisions.

Balance Sheet

In June, we closed a US$325 million reducing revolving credit facility with a syndicate of eight leading international banks, and in November we closed another US$40 million bilateral term loan facility. These facilities refinance or extend existing facilities secured over a total of 69 of our owned ships at a competitive interest cost of LIBOR plus 1.5%. They extend our overall amortisation profile and further enhance our funding flexibility with access to long-term committed funding at an attractive cost which contributes to our competitive vessel P&L breakeven levels.

As at 31 December 2018, we had cash and deposits of US$342 million and net borrowings of US$619 million, which is 34% of the net book value of our owned vessels at the year end.

Outlook & Position

The IMF recently adjusted its 2019 global economic growth forecast down to 3.5%, citing rising trade protectionism and instability in emerging markets as well as a slowdown in Europe. However, this still represents a healthy level of growth which, widely-spread geographically, continues to bode well for minor bulk demand.

Supply is expected to be kept in check as many shipowners in our segments refrain from ordering new ships. Clarksons Research estimates combined Handysize and Supramax net capacity growth of 2.0% for 2019 against 4.3% growth in minor bulk tonne-mile demand.

The trade conflict between the United States and China has resulted in import tariffs on a wide range of goods traded between the two countries and has undermined sentiment. Affected goods include US agricultural products, primarily soybean, as well as forest products and cement. However, our cargo diversity and cargo book provide some insulation from these protectionist actions and, despite the weaker US-China trade, minor bulk freight rates were mostly stronger through 2018 compared to corresponding periods in 2017.

A resolution between the United States and China could provide the dry bulk market with a boost, while a protracted trade conflict could further undermine global GDP growth and consequently overall trade and dry bulk demand.

We expect to see increased volatility in 2019, influenced by uncertainty about the trade war and slower economic growth, but also by compliance preparations for the 2020 sulphur cap leading to tighter supply. New environmental regulations like this disrupt existing supply and discourage fleet growth.

The gap between newbuilding and secondhand prices remains large and we still see upside in secondhand vessel values. We will continue to grow by looking opportunistically at good quality secondhand ship acquisitions as prices are still historically attractive, resulting in reasonable breakeven levels and shorter payback times. We will also consider opportunities to trade up by selling smaller, older ships and buying larger, younger secondhand ships with longer life at attractive prices.

Our healthy cash and net gearing enhance our ability to take advantage of opportunities to grow our business and attract cargo as a strong partner.

Our robust customer-focused business model, high laden utilisation, global office network, experienced people, larger owned fleet and competitive cost structure position us well for the future.

About Pacific Basin

Pacific Basin Shipping Limited (www.pacificbasin.com) is one of the world's leading owners and operators of modern Handysize and Supramax dry bulk vessels. As at 31 January 2019, the Company operated over 200 dry bulk ships of which 111 are owned and the rest chartered. Pacific Basin is listed and headquartered in Hong Kong, and provides a quality service to over 500 customers, with approximately 3,800 seafarers and 336 shore-based staff in 12 offices in key locations around the world.

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ibj AWARDS 2018

Winner: Customer Care Award

Consolidated Income Statement

For the year ended 31 December

	2018 US$'000	2017 US$'000
Revenue	**1,591,564**	1,488,019
Cost of services	**(1,507,705)**	(1,463,311)
Gross profit	**83,859**	24,708
Indirect general and administrative overheads	**(6,003)**	(5,310)
Other income and gains	**30,459**	20,431
Other expenses	**(2,416)**	(4,226)
Finance income	**3,513**	3,651
Finance costs	**(35,866)**	(35,998)
Profit before taxation	**73,546**	3,256
Tax (charges)/credits	**(1,262)**	354
Profit attributable to shareholders	**72,284**	3,610
Earnings per share for profit attributable to shareholders (in US cents)		
Basic earnings per share	**1.64 cents**	0.09 cents
Diluted earnings per share	**1.61 cents**	0.09 cents

Consolidated Balance Sheet

As at 31 December

	2018 US$'000	2017 US$'000
Assets		
Non-current assets		
Property, plant and equipment	**1,807,672**	1,797,587
Goodwill	**25,256**	25,256
Derivative assets	**1,745**	1,233
Trade and other receivables	**8,900**	5,254
Available-for-sale financial assets	**-**	569
Restricted bank deposits	**58**	58
	1,843,631	1,829,957
Current assets		
Inventories	**85,488**	71,774
Derivative assets	**214**	4,834
Assets held for sale	**6,450**	-
Trade and other receivables	**88,679**	80,275
Cash and deposits	**341,744**	244,636
Tax receivable	**-**	116
	522,575	401,635
Total assets	**2,366,206**	2,231,592
Equity		
Capital and reserves attributable to shareholders		
Share capital	**45,205**	43,554
Retained profits	**202,262**	154,387
Other reserves	**983,742**	963,194
Total equity	**1,231,209**	1,161,135
Liabilities		
Non-current liabilities		
Derivative liabilities	**9,912**	5,790
Long-term borrowings	**737,377**	776,876
Provision for onerous contracts	**-**	12,731
Trade and other payables	**5,537**	10,203
	752,826	805,600
Current liabilities		
Derivative liabilities	**7,374**	772
Trade and other payables	**150,559**	143,878
Current portion of long-term borrowings	**223,716**	104,092
Taxation payable	**522**	-
Provision for onerous contracts	**-**	16,115
	382,171	264,857
Total liabilities	**1,134,997**	1,070,457