Pacific Basin Shipping Limited

Press Release

Pacific Basin Announces 2019 Interim Results

We recorded a net profit of US$8.2 million and an EBITDA of US$101.1 million

One-off negative demand factors led to markedly weaker dry bulk market conditions early in the year which adversely affected the Company's results

Market rates have been firming, the outlook for our minor bulk segments is positive and we are well positioned for the future

Hong Kong, 31 July 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 unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019.

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

"We made a net profit of US$8.2 million, an underlying loss of US$0.6 million and EBITDA of US$101.1 million. Our results for the first half of 2019 were supported by our robust customer-focused business model and competitive cost structure, but adversely affected by markedly weaker dry bulk freight market conditions.

We have taken delivery of six modern secondhand vessels in the year to date, including one Handysize and five Supramaxes, and we completed the sale of an older, small Handysize. We now have 115 owned ships on the water and, including chartered ships, we operated an average of 230 Handysize and Supramax ships overall during the period. We still see upside in secondhand vessel values and will continue to look opportunistically but cautiously at acquiring good quality secondhand ships.

We secured a US$115 million revolving credit facility at a competitive interest cost of LIBOR plus 1.35%, and we are repaying our US$125 million convertible bonds. 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.

Some of the negative demand disruptions are easing, minor bulk demand growth remains sound and IMO 2020 effects on the global fleet bode well for the freight market in our sectors. We expect to see stronger freight market conditions in the remainder of 2019, although with continued volatility due to uncertainty about the trade war, slower economic growth than in recent years and the impact of African Swine Fever on soybean imports to China."

Financial Highlights

	Six Months Ended 30 June	
US$ Million	2019	2018
Revenue	767.1	795.6
Profit attributable to shareholders	8.2	30.8
Underlying (loss)/profit	(0.6)	28.0
EBITDA #	101.1	99.3
Basic earnings per share *(HK cents)*	1.4	5.5
Dividend per share *(HK cents)*	–	2.5

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; and, net unrealised derivative income and expenses.

Our Fleet (as at 30 June 2019)

	Vessels in operation			Total	Total Capacity (million DWT)
	Owned[1]	Long-term Chartered[2]	Short-term Chartered[2]		Owned[1]
Handysize	82	19	33	134	2.70
Supramax	30	6	74	110	1.71
Post-Panamax	1	1	0	2	0.12
Total	113	26	107	246	4.53

[1] An additional 2 Supramax vessels delivered into our fleet in July 2019

[2] Average number of chartered-in vessels operated in June 2019

BUSINESS COMMENTARY

Performance Overview

Our results for the first half of 2019 were supported by our robust customer-focused business model and competitive cost structure, but adversely affected by markedly weaker dry bulk freight market conditions. We made a net profit of US$8.2 million (2018: US$30.8 million), an underlying loss of US$0.6 million (2018: US$28.0 million profit), and EBITDA of US$101.1 million (2018: US$99.3 million), although EBITDA was positively affected by new lease accounting standards.

While our average Handysize and Supramax daily TCE earnings of US$9,170 and US$10,860 per day net were down 6% and 7% year on year, our outperformance over the BHSI and BSI indices increased to 59% and 39% respectively.

Our ship operating expenses ("Opex") of US$3,990 per day, general and administrative ("G&A") overheads of US$730 per day and favourable financing costs of US$820 per day are also very competitive by industry standards.

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, optimisation and strict cost control.

We have covered 56% and 76% of our Handysize and Supramax vessel days for second half 2019 at US$9,050 and US$10,790 per day net respectively.

Positive Growth Initiatives

In the first half of 2019, we took delivery of four modern secondhand vessels (one Handysize and three Supramax), three of which we committed to purchase in 2018, and we completed the sale of an older, small Handysize. Two further modern Supramax acquisitions delivered into our fleet in July, expanding our owned fleet to 115 ships. Including chartered ships, we operated an average of 230 Handysize and Supramax ships overall during the first half of the year.

Strong Balance Sheet

In May we closed a new US$115 million syndicated 7-year reducing revolving credit facility secured against 10 of our previously unmortgaged ships, raising fresh capital at a competitive interest cost of LIBOR plus 1.35%. The new facility further enhances our funding flexibility and reinforces our already competitive vessel break-even levels.

During the period, holders of our convertible bonds due in 2021 exercised their right to redeem US$122.2 million of the convertible bonds on 3 July 2019, and on the same date we exercised our option to redeem all the remaining bonds totalling US$2.8 million on 2 August 2019.

As at 30 June 2019, we had cash and deposits of US$314 million, providing sufficient liquidity to repay the US$125 million convertible bonds in full. We had net borrowings of US$687 million, which is 37% of the net book value of our owned vessels at mid-year.

Outlook & Position

The IMF expects the global economy to gradually strengthen in the second half of the year and into 2020, partly as a result of Chinese economic stimulus and continued loose monetary policy in the United States and Europe. As published in July, the IMF forecasts global economic growth of 3.2% in 2019 and 3.5% in 2020.

Uncertainty over new environmental regulations and the gap between newbuilding and secondhand prices continue to discourage new ship ordering, and the small Handysize orderbook continues to be a positive factor for the health of our segments in the medium term.

The dry bulk freight market is expected to benefit in the second half of 2019 and early 2020 from many larger ships being taken out of service for several weeks for scrubber installation. We believe the market for smaller dry bulk ships like ours will benefit also over the longer term, as they will consume more expensive low-sulphur fuel and therefore be incentivized to operate at slower speeds which reduces supply.

Clarksons Research estimates combined Handysize and Supramax net fleet growth of around 2.3% for 2019 and 1.3% for 2020 despite limited scrapping, while minor bulk tonne-mile demand is expected to grow more than 4% in 2019 and 2020.

We expect to see seasonally stronger freight market conditions in the second half of 2019, although with continued volatility influenced by further uncertainty about the US-China trade war, slower economic growth than in recent years and the impact of African Swine Fever on soybean imports to China.

Key catalysts for improvement on the demand side are expected to include the onset of the Black Sea grain export season and a return to normal levels of grain traffic out of the Mississippi River and iron ore exports from Brazil. Market rates have been firming, especially in the Atlantic.

We still see upside in secondhand vessel values and will continue to look opportunistically but cautiously at acquiring good quality secondhand ships where prices are attractive.

2019 is a year heavily influenced by preparations for new environmental regulations. At the same time, several one-off market disruptions caused a pause in market momentum during the first half of the year. We have chosen to position many of our owned ships for dry docking this year to install ballast water treatment systems on our Handysize and Supramax vessels and scrubbers on a majority of our Supramaxes to set us up for what we believe will be stronger years ahead. We think the market momentum will return and we are well positioned to benefit.

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 July 2019, the Company owns 115 dry bulk ships. Including chartered ships, we operated an average of 230 Handysize and Supramax ships overall during the first half of 2019. Pacific Basin is listed and headquartered in Hong Kong, and provides a quality service to over 500 customers, with approximately 3,800 seafarers and over 330 shore-based staff in 12 offices in key locations around the world.

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Unaudited Condensed Consolidated Income Statement

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
Revenue	**767,140**	795,643
Cost of services	**(735,882)**	(751,100)
Gross profit	**31,258**	44,543
Indirect general and administrative overheads	**(3,582)**	(3,621)
Other income and gains	**367**	8,064
Other expenses	**(189)**	(1,739)
Finance income	**3,323**	1,218
Finance costs	**(22,344)**	(17,157)
Profit before taxation	**8,833**	31,308
Tax charges	**(616)**	(556)
Profit attributable to shareholders	**8,217**	30,752
Earnings per share for profit attributable to shareholders (in US cents)		
Basic earnings per share	**0.18**	0.70
Diluted earnings per share	**0.18**	0.69

Unaudited Condensed Consolidated Balance Sheet

	30 June	31 December
	2019	2018
	US$'000	US$'000
Assets		
Non-current assets		
Property, plant and equipment	**1,847,922**	1,807,672
Right-of-use assets	**103,292**	-
Subleasing receivables	**5,314**	-
Goodwill	**25,256**	25,256
Derivative assets	**1,370**	1,745
Trade and other receivables	**33,500**	8,900
Restricted bank deposits	**59**	58
	2,016,713	1,843,631
Current assets		
Inventories	**88,682**	85,488
Current portion of subleasing receivables	**6,553**	-
Derivative assets	**1,464**	214
Assets held for sale	**-**	6,450
Trade and other receivables	**102,559**	88,679
Cash and deposits	**313,694**	341,744
	512,952	522,575
Total assets	**2,529,665**	2,366,206
Equity		
Capital and reserves attributable to shareholders		
Share capital	**46,566**	45,205
Retained profits	**183,697**	202,262
Other reserves	**1,007,251**	983,742
Total equity	**1,237,514**	1,231,209
Liabilities		
Non-current liabilities		
Long-term borrowings	**768,864**	737,377
Lease liabilities	**77,818**	-
Derivative liabilities	**11,071**	9,912
Trade and other payables	**3,194**	5,537
	860,947	752,826
Current liabilities		
Current portion of long-term borrowings	**232,067**	223,716
Current portion of lease liabilities	**45,170**	-
Derivative liabilities	**1,170**	7,374
Trade and other payables	**151,956**	150,559
Taxation payable	**841**	522
	431,204	382,171
Total liabilities	**1,292,151**	1,134,997