Company Name: Star Bulk
Company Ticker: SBLK US
Date: 2019-05-23
Event Description: Q1 2019 Earnings Call

Market Cap: 671.84
Current PX: 7.280
YTD Change($): -1.860
YTD Change(%): -20.350

Bloomberg Estimates - EPS
Current Quarter: -0.164
Current Year: 0.269
Bloomberg Estimates - Sales
Current Quarter: 114.286
Current Year: 545.250

Q1 2019 Earnings Call

Company Participants

- Simos Spyrou, 'Co-Chief Financial Officer'
- Petros Pappas, 'CEO'
- Question and Answer, ''
- Hamish Norton, 'President'
- Christos Begleris, 'Co-CFO'
- Unidentified Speaker, ''

Other Participants

- Ben Nolan
- Benjamin Nolan
- Noah Parquette
- Chris Snyder
- Erik Hovi
- Randy Giveans

Presentation

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the First Quarter 2019 Financial Results. We have with us Mr.Petros Pappas, Chief Executive Officer; Mr.Hamish Norton, President; Mr.Simos Spyrou and Mr.Christos Begleris, Co-Chief Financial Officers of the company. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session.

(Operator Instructions) I must advise the conference is being recorded today and we now pass the floor to one of your speakers Mr.Simos Spyrou. Please go ahead, sir.

Simos Spyrou, 'Co-Chief Financial Officer'

Thank you, operator. I'm Simos Spyrou, Co-Financial Officer of Starbulk Carriers, and I would like to welcome you to Starbulk carriers conference call regarding our financial results for the first quarter of 2019.

Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on Slide Number 2 of our presentation. Let us now turn to Slide Number 3 of the presentation for a summary of our first quarter 2019 financial highlights. In the three months, ending March 31, 2019, TCE revenues amounted to $99 million, 21.3% higher than the $81.6 million for the same period in 2018. Adjusted EBITDA for the first quarter 2019 was $43.9 million versus $46.4 million in the first quarter of 2018.

Adjusted net loss for the first quarter amounted to $8.5 million or $0.09 loss per share versus $11.9 million adjusted net income or $0.18 gain per share in Q1 2018. Our time charter equivalent rate during this quarter was $10,624 per day, and if we include the realized profit from freight and banker hedging, our time charter equivalent rate in Q1 2019 amounted to $11,192 per vessel, per day. During the first quarter of 2019, our average daily operating expenses were $4,015 per vessel, per day. Since the beginning of the year, we have drawn and agreed to refinance approximately 329 million of debt, reducing the average margin of these facilities by 217 basis points.

Over the past nine months, we have agreed to refinance approximately 1.04 billion of debt, creating savings of about 10 million annually in interest expenses or $250 per vessel, per day. Following the share repurchase program announced last November, the company has purchased during 2019, 1,535,322 shares, at an average of $7.45 per share, all of which were canceled and removed from our share capital. In total, we have bought back since November, 1,876,685 shares and we have spent $14.6 million so far. Currently, we have $91.75 million common shares outstanding.

During 2019, we have drawn $22.4 million of scrubber debt with another $112.2 million in place to be drawn at a later stage during the rollout of the program. Pro-forma total cash today stands at $170 million with zero remaining equity CapEx at which stage. Slide 4, graphically illustrates the changes in the company's cash balance during the first quarter. There was negative free cash flow of $20.1 million during the quarter.

After including debt proceeds and repayments from our refinancing activities, CapEx payments for our acquisition and scrubber installments sale proceeds and share repurchase expenses, we arrived at a cash balance of 160.2 million at the end of Q1. Please turn now to slide 5, where we summarize our operational performance. Operating expenses were at $4015 per vessel per day for the quarter. Net cash G&A expenses were at $971 per vessel per day versus $1101 per vessel per day in the first quarter of 2018, a decrease of 12% year-on-year, primarily attributed to synergies from the increase in the size of our fleet.

The combination of our in-house management and the scale of the group enables us to provide our services at very competitive costs complemented by excellent ship management capabilities with Star Bulk consistently ranked among the top five managers evaluated by Rightship. Slide 6 highlights that Star Bulk is the lowest cost operator among our US listed rival peers based on latest publicly available information. Star Bulk's operating expenses are approximately 17% below the industry average. In slide 7 and 8, we are providing an update on our scrubber program, which is proceeding as scheduled.

Our early decision to equip our fleet with scrubbers enabled Star Bulk to acquire them from experienced high-quality European manufacturers as well as secure berths at major shipyards creating a no lean scrubber package at competitive costs. A 101 of our vessels will be scrubber fitted during 2019, and we expect to have 40 scrubber towers installed by the end of this month. We expect to have 60 scrubber towers fitted by the end of next month with installations taking place in China and Europe. In order to reduce retrofitting time at the shipyards, we employed 120 specialized technicians that are deployed on board our vessels and complete some of installations at sea.

Total remaining CapEx today is at approximately $100 million, which would be covered entirely from secured financing. The graph in Slide 8 illustrates the estimated breakdown of the payments by quarter based on carryforward FX rates and expected milestones. It is important to note that we have secured approximately $135 million of debt financing for the program, which we will be drawing down gradually within 2019. As of today, we have drawn 22.4 million of scrubber debt and have no remaining equity that needs to be invested.

Slide 9 illustrates Star Bulk's employment coverage for the second quarter of 2019. We have fixed employment for approximately 76% of the days in the second quarter at average TCE rates slightly above $10,000 per day. I will now pass the floor to our CEO, Petros Pappas for a market update and his closing remarks.

Petros Pappas, 'CEO'

Thank you Simos.

Please turn to Slide 10, for a brief update of supply. During the first quarter of 2019, a total of 8.9 million deadweight was delivered and 2.5 million deadweight was sent to demolition for a 6.4 million net inflow. Demolition activity has now reached 4.8 million deadweight and already stands above the full 2018 scrubbing figure. A total of 9.1 million deadweight has been reported by Clarksons as firm orders this year and up to an additional 3 million deadweight have been identified as LOIs or options.

The order book currently stands between 11.4% and 12.6% of the fleet, depending on how many LOI and options will be exercised, and is approximately 1% below last year's levels. The year's order book stands at just 6.8% of the fleet. The average streaming speed of the dry bulk fleet is at 11.4 knots, down 0.3 knots to last year, due to a combination of relatively low freight rates and a higher HFO price environment. During 2019 and 2020, the fleet is projected to expand at a pace of approximately 2.4%.

However, due to off hires related to scrubber installations and tanks cleaning during 2019 as well as slow steaming during 2020, effective supply is unlikely to expand by more than 1.5% per annum. Let's now turn to Slide 11 for a brief update of demand. During Q1 2019. The dry bulk market was negatively affected by a series of disruptions in iron-ore exports owing to Vale's iron-ore mine accident and Cyclone Veronica in Australia, which came on top of the additionally weak seasonality during this period.

China's coal import restrictions from Australia created further uncertainty in February, and although overall Q1 saw Australian coal exports up by 2.6% year-on-year, shorter distance coal exports from Indonesia increased by 10.6% year-on-year, mostly due to the benefit of smaller sizes and to the detriment of ton miles. During Q1, iron-ore exports from Brazil came almost flat compared to last year, with March volumes however, contracting heavily by 26% year-on-year. Brazil exports continued to underperform during April, down 29.1%, and recorded the lowest monthly export figures since January 2012. Australian iron-ore exports during Q1, declined by 5.6% year-on-year with March volumes also contracting by 17% year-on-year.

Nevertheless, steel industry fundamentals stand healthy, confirming that the declines experienced are not demand driven. More specifically, China's crude steel production increased by 9.1% year-on-year during Q1, and accelerated in April to 11% year-on-year, which combined with a slowdown in imports has led to a sharp destocking of iron-ore at ports. With steel consumption standing at healthy levels as indicated by the pace of declines of steel inventories, further iron ore destocking in Chinese ports might push port stockpiles at much lower levels over the next months. Overall iron ore trade in 2019 is expected to decline with Clarksons projecting minus 1% and minus 2.3% in tons and ton-miles respectively.

Coal imports into China during Q1 2019 decreased by 1% year-on-year. February and March underperformed the most after China imposed coal import restrictions. Australia thermal coal prices received strong downward pressures as a result, which made them competitive to other destinations. China's total electricity generation during Q1 increased by 6% year-on-year thermal coal increased by 4% and hydropower accelerated by 11%.

Nevertheless, China's domestic coal output has remained largely flat during the first four months of the year on a series of mines safety inspections which we view as a positive. At the same time Indian coal imports are estimated to have increased by approximately 20% during Q1 and are projected to remain strong during this fiscal year. Clarksons projects coal trade growth of 1.7% and 1.8% in tons and ton-miles respectively. The US China trade dispute and the imposition of 25% tariffs on US imports by China is taking its toll on soybean trade since Q4 2018.

Brazil has smartly picked up the slack with its exports increasing by 30.8% year-on-year during Q1. And while some purchases from the US have been observed US cargoes underperformed compared to last year as indicated by weekly export volumes. Chinese soybean imports declined by 14.4% year-on-year in Q1 with demand having also been affected by the African swine flu outbreak. Total grain trade including soybeans is projected to increase by 1.7% and 2.7% in tons and ton-miles terms in 2019 after contracting in 2018.

According to Clarksons, total dry bulk trade is projected to expand by approximately 1.2% during full year 2019 and to rebound above 3% during 2020. Finally as a general comment potential inflationary pressures related to IMO 2020 in our opinion will stimulate early destocking across all type of cargoes during the second half of 2019. As a result we remain optimistic for the end of the year and expect that a combination of lower supply and recovering demand is likely to surprise us to the upside. Without taking any more of your time.

I will now pass the floor over to the operator to answer any questions, you may have.

Question and Answer, ''

Operator

(Operator Instructions) Your first question is from Ben Nolan from Stifle. Your line is open.

Ben Nolan

Yeah, great.

Thanks, guys. My first question relates to -- well I have a few questions and I'll start with the easier ones. So as it relates to the buyback program obviously you guys were pretty active in the quarter and clearly with the shares blow now. I would suspect that's probably certainly a better use of capital than buying ships.

But, how do you weigh in sort of the preservation of balance sheet, making sure that in case the market is slower to recover that you're not overextended? At what point are you -- do you slowdown that buyback program or even close to that?

Hamish Norton, 'President'

Ben, it's Hamish Norton. We do not want to debt finance buyback program and frankly, we don't want to finance buyback program with financial the balance sheet as it exists today. The buybacks earlier this year were largely financed with the effective proceeds from not buying the Rickmers ships where we had a put call arrangement, where we were assuming that Rickmers would either put the ships to us or it would be commercially compelling to exercise the call option, which would have reduced our cash balances. And in the event Rickmers chose not to exercise the put option and we chose not to exercise the call option and that left us with more cash than we had forecast.

It was essentially equivalent to selling those ships at the put price.

Ben Nolan

Okay. So, reading through into where we are now, given kind of the state of the market we shouldn't expect you at least in the immediate term to be aggressively buying back shares based on --

Hamish Norton, 'President'

No, not unless we finance it with the sale of ships.

Ben Nolan

Got it.

Okay. No, that's very clear, Appreciate that Hamish. And then my next question, I'll turn it over relates to the logistics business. I was just counting the operating days in the quarter relative to the last quarter.

It seemed like they were up almost 17% quarter-on-quarter. Is that something that was opportunistic? Or is that logistics side of the business something that you are purposefully growing and expect to continue to grow?

Christos Begleris, 'Co-CFO'

Ben, this business basically is expanding. That's why you saw a higher movement around -- we fixed more vessels and that was -- that's all. That's it.

Ben Nolan

Okay. So, then that certainly leads me to the next part of the question, I guess. When thinking through that business, are you -- do you ever take that long? Or short positions or maybe another way to think about that is -- this logistics part of the business does it tend to for you guys in a way you envision it, does it --should it smooth the results or amplify the results?

Christos Begleris, 'Co-CFO'

Well, the reason we started this is because we want to get into the voyage business. So basically up to now -- now I think we are already a year more than 1.5 years doing this business.

So up to now we tried to keep a balanced feet so that we're not too long or too short, we're basically practicing. And the only time we were not balanced basically or was the first quarter of this year where we went short on FFAs because that was partly a hedging tool for us. As I have said in the past between August and December of every year, we try to hedge the first three to six months of the next year because as we all know, these are the lower activity quarters. So, through Star Bulk itself -- through Star Logistics and by fixing physically our vessels on shortened periods, we actually went short.

So at that time Star Logistics was short. And the result actually you can see from the fact that on average, the spot market was something like 7,000 -- 7,300 on the three types of vessels that we operate, but our time charter equivalent was 11,200. So that is partly due to the hedging that we did including Star Logistics, and it is also partly due to the fact that -- we overperformed also because the market fell obviously.

Benjamin Nolan

Okay.

And going forward, obviously, you hope that this would be added into earnings, but do you think it will smooth that curve, as it sort of did in the first quarter? That's part of the objective, I suppose.

Petros Pappas, 'CEO'

Well, it depends. I mean, as I said, before 2020, we are basically going to be balanced. So it won't have a major effect on the curve.

After 2020, we want to do voyage business. So...

(technical difficulty)

Benjamin Nolan

Hello. I think, I might have cut out. Okay, if you can still hear me, I appreciate it. Thanks, guys.

Operator

Your next question is from Noah Robert Parquette from JPMorgan. Your line is now open.

Noah Parquette

Thanks. I wanted to ask -- the IMO meeting came and went and it doesn't look like there'll be much development, but I would like to hear your thoughts on like the proposal of a regulation of speed or speed limits or average speed or what have you.

Do you think it as the prospect? Like any potential of actually happening and what time, frame? I'd just love to hear your thoughts on that proposal. (technical difficulty)

Operator

Ladies and gentlemen, I think we have lost the speaker line of Petros. Please standby whilst I reconnect him. Thank you.

Petros Pappas, 'CEO'

Sorry, Ben. Hello? operator, can you hear us?

Operator

You're now back in the room, Petros. Thank you.

Petros Pappas, 'CEO'

Thank you, Ben?

Unidentified Speaker, ''

Petros Pappas, 'CEO'

Yes.

Okay, so...

Noah Parquette

It's Noah, I think, Ben -- we lost you.

But, yes, I don't know if you heard my question I was asking about the IMO proposal for the speed regulations and speed limits. What you thought about that whether that has any chance of happening?

Petros Pappas, 'CEO'

Well, I'm in favor -- our company is in favor of that proposal. And actually, if you guys remember, we were vocal about it even on the investor calls about two years ago. We're talking about a situation where, if vessels, for example, reduce the speed by 15%, emissions would be reduced by about 30%.

And the IMO regulation is talking about a 40% reduction in emissions by 2013. Now, if we could have 30% within a day, why wouldn't we do it? This is would be good of course, for the environment, and it would be good for shipping as well. And it is very easy to implement. I understand though that there were differences of opinion, as to how to attain this goal and every country came in with their own views.

So I do not think this is something that will happen immediately. But I think that at some point, reason will prevail and it will pass in one form or another.

Noah Parquette

Okay. And then, I want to ask about the soybean trade.

Obviously, you went through detail on that and tariffs have affected it. We've seen a bit of a bounce back from the US cargoes. I guess, what I want to know is what chance is there that -- that normalizes without the tariffs going away. I mean? can China continue this for a good period of time, in terms of you guys front loading from Brazil or whatever, but -- or is it going to -- we have to wait till the tariffs are reversed.

Petros Pappas, 'CEO'

Well, last year they did. Of course, this year, we also have the swine flu problem, which puts less pressure on China because I think that like between 10% and 20% of the swine population was culled. And therefore, there's going to be less, less need for imports. The soybean -- China's soybean imports are about 1.7% of world trade.

So if that was reduced by 10%, it would be like 0.17% of world trade, which would be like 7 million or 8 million tons. Every ton counts, today. I think that if the trade war continues, China will continue to try to get -- to import soybeans from other countries like Brazil and Argentina. The distance there is somewhat longer than it is from the US But I think it will have a slight negative effect overall.

Noah Parquette

Okay. And then, I just want to ask, I guess, modeling question in terms of increase in drydocking expenses. I know, you guys' expense is not amortized, drydocking expenses. And I don't think this is the case, but just for my means, the scrubber expenses will not show up on this line item, right? And I guess, what caused the increases? Is there going to be an increase this year as normal drydocking is incurred along with the scrubbers? Or just wanted to get an understanding of that.

Thanks.

Petros Pappas, 'CEO'

No, the scrubber expenses basically are capitalized and will be amortized as of January 1, 2020. We will start amortization them. The drydock expenses are expensed as we are doing up to now anyhow.

So basically, we will have as an indication about 52 drydocks this year spread primarily -- mainly during the second and the third quarter of the year.

Simos Spyrou, 'Co-Chief Financial Officer'

Noah, as far as installations of scrubbers are concerned, we have 52 installations during drydocks, and we have 50 installations this year I'm talking about, alongside in combination with doing it at sea. So the ones that we do during drydock basically they're finished during the normal drydock time. Ones we do alongside, they are half of the time is alongside and half of the time is at sea.

So we actually operate, while we're installing them. So we're trying that way to minimize the loss of time that we have. One thing that we've done is that we pushed all -- we brought forward all our drydocks for 2020, and we're doing them in 2019. That way we don't have to stop our vessels twice for -- once for drydock and once for scrubber installation.

That's one thing. And we really don't lose anything because on drydocks, there are five year cycles. So whatever is due in 2020 would have been done the drydock on the third year. We can do the drydock instead on the second year of the cycle, and we still -- the next drydock will be after three years.

So we remain within the cycle. We do them earlier, which means of course, more expensive this year and more off-hires. But next year, we have zero drydocks and hopefully zero scrubber installations if we stick to our program, which we're doing right now. And we will be able to trade unobstructed for the whole year -- during the year that we expect to make much better profits.

Noah Parquette

Okay. That's helpful. Goodbye and thanks.

Petros Pappas, 'CEO'

Thank you.

Operator

Your next question is from Amit Mehrotra from Deutsche Bank. Your line is open.

Chris Snyder

Hey. This is Chris on for Amit.

So just following up on the IMO meeting. The language was not super clear, but it seems like they're going to evaluate these open loop scrubbers over the next two years and make a decision in 2020. So I guess one, am I interpreting this correctly? And two, what do you guys think is the real risk of seeing a potential open loop scrubber ban in international waters? And then if a decision is made in 2021, I'm assuming there would be a grace period before any potential ban would even go into effect.

Hamish Norton, 'President'

Okay.

First of all, we think that the likelihood of an open loop scrubber ban is very small in international waters. A large majority of the countries that express their opinion on the subject agreed that more research was needed, but wanted to make sure that the conclusion of the IMO was based on science and not politics. And the science here is coming pretty strongly that open loop scrubbers are not in fact the source of pollution of any significance at all. In fact, there was a recent sea ballast study that just came out that concluded that, even if you ran an open loop scrubber import and they did an accumulation study that after a year, the level of pollutants would be between zero and 15,000 of the European Union limits.

So it doesn't appear to be something that is likely to end up being concerning. But, regardless of what happens two things, we think are going to be very helpful. One is, the IMO is very slow to move, and it is going to be quite difficult for the IMO to change any substantial regulations around open loop scrubbers before 2022. And the second thing is that there does seem to be a very substantial on the poor grandfathering of scrubbers that we're putting in good faith before any change in regulation.

So we're pretty optimistic that this is not going to be a serious problem for us.

Chris Snyder

Okay. Thank you for the color. Really, helpful.

And then just kind of staying on the topic of scrubbers. It seems like scrubber penetration for the cape fleet is expected to line up in the 25%, to 30% range, still the minority of the fleet, but definitely a meaningful amount. What level of penetration would you start to worry about maybe, other like shipowners competing away some of the fuel savings?

Hamish Norton, 'President'

Well, I mean the more scrubbers that are installed, the more the savings is in effect competed away. But, while you may have 25% to 30% scrubber penetration eventually in a Capesize fleet, we don't think that, that is going to exist in January of 2020.

And I don't know if Nicos Rescos is there, but I think he had some views -- Chief Operating Officer had some views on the percentage of the cape fleet that's likely to be scrubber equipped, as of January.

Unidentified Speaker, ''

Well, we are monitoring carefully what is happening with installations in the Far East mainly. Our count is about 800 retrofits on the dry bulk sector. With the way things are going, we believe less than half would be ready by January 1st, 2020 and with the remainder coming in throughout the year.

So that's our view, and we're trying to update it regularly, but we see significant bottlenecks both on the equipment side and on the shipyard side.

Chris Snyder

Yes.

Petros Pappas, 'CEO'

Yes, but also one other thing is that even if 50% of the Capes had scrubbers, the other 50% would not. So when the charters are looking for a vessel that can do the job as cheaply as possible, I suppose that they would go first for the 50% of the scrubber Capes and then for the rest.

And therefore, we think there's going to be a two tiered market. Well, having said that we don't expect there's going to be more than 10% or 15% of the Capes with scrubbers on the 1st of January and Feb. That's even a high number.

Chris Snyder

Yes.

Thank you for that. And then I guess just lastly a modeling question. I think you guys said there's 52 drydocks in 2019 mainly in Q2 and Q3. So just for modeling, is it safe to assume that the drydock expense in these quarters is going to come in above the Q1 level?

Hamish Norton, 'President'

Chris, yes.

As we said before, we are expecting to have 52 drydocks throughout the year. The cost that we are budgeting overall is about $50 million for the entire year. We have covered about 9 to 10 in the first quarter. And we have the vast majority of the remaining during Q2 and Q3.

Chris Snyder

Okay, thank you. That's it for me. I appreciate the time guys.

Petros Pappas, 'CEO'

Thank you.

Operator

Your next question is from Erik Hovi from Clarksons. Your line is open.

Erik Hovi

Hi, guys. So from what we can see guiding on the second quarter rates today, it looks fairly good the market considered.

So on the $10,150 per day average rate for the larger vessels, what kind of rates do you see guys see on the Newcastlemax compared to the Capes?

Petros Pappas, 'CEO'

Well, today's example is that we have an offer on one Newcastlemax of ours. It's still Q2 today, so at $17,500 net on the Newcastlemax. (Technical Difficulty)

Unidentified Speaker, ''

Hello? Do we have Erik on line?

Unidentified Speaker, ''

It sounds like Erik may have dropped off.

Operator

No further questions at this time.

Petros Pappas, 'CEO'

Okay. And with that the operator...

Operator

Okay. Our next question is from Randy Giveans from Jeffries. Your line is now open.

Randy Giveans

Hey, how do you do gentlemen? How's it going?

Petros Pappas, 'CEO'

Good.

How are you doing?

Randy Giveans

Good. All right. A few quick questions following up on the scrubber strategy. You had 40 vessels that are going to have scrubbers like you said by May, I guess this month.

What are you going to kind of do with those in the next few months? Are you going to test the technology? Are you going to be running the scrubbers, so that you maybe don't have to? Are you going to test a different high sulfur fuel oils in the coming months? What are your plans for those 40? And then for the remainder, you have 52 drydocks, 50 at-sea installations what have you, what's the difference in terms of time and cost savings between those two kind of retrofit options?

Petros Pappas, 'CEO'

The vessels that have already scrubbers installed, we are basically run continuously. And this is good because that way we see whether there are any small problems that need to be rectified. And therefore, they are being run. Actually, we have installed a scrubber in April 2018.

That was our first scrubber. And I think it's been running since then. Yes. It's been running since then.

What was the second question?

Randy Giveans

Before I get to the second question, running since then and working good, it's scrubbing it below the 0.5%, no problems there?

Petros Pappas, 'CEO'

Yes. No problems whatsoever.

Randy Giveans

All right. Cool.

Follow-up is the drydocks versus at-sea installations. What's the difference in terms of time and cost savings between those two retrofit options?

Petros Pappas, 'CEO'

Okay. So the drydocks actually up to now have on average taken us 23 days. And within those 23 days, we're able to install the scrubbers as well, and we've done it every time.

On the alternative, where we install -- where we do preparations and -- we do it two ways, either we install the scrubber, and then, we sail and we do all the other works at sea or we do the works first -- the ancillary works and then we go to port and we install the scrubber. On average, this takes us up to now 16 days. So, it's not it is not a matter of economics that much, it is a matter of availability of yards. We have booked yards from 1.5 years ago to do that.

So we have accessibility but the yards are so pressured right now by everybody, that you may go there and have to wait for a few days. So in a way -- by doing that, we secure the 16 days, which -- 16 days of hire and not more than that, and we make the life of shipyards easier. Cost wise it is about the same. Whether we install at the shipyard or we install -- we do part of the installation at sea, the cost is about the same.

Randy Giveans

And then, for remaining Newcastlemaxs, are those coming out of the shipyard with scrubbers? And then what's the timing of those last two deliveries?

Christos Begleris, 'Co-CFO'

The last two -- this is Christos. Basically the last two Newcastlemaxs, one is coming end of June and the other's coming by July. So the one that is coming out in the end of June is going directly to a shipyard to have the scrubber installed next door. The one that's coming out in July will have the scrubber installed.

Randy Giveans

Perfect. All right. And then kind of lastly, I've seen news regarding Vale. It's been pretty much all over the place with mines restarting and shutting and other dams possibly on the brink of failure what have you.

So all that being said just trying to get your in-house view on how many million tons of I guess, decreased Vale production or exports, is Star Bulk, the guys in that room expecting this year relative to 2018? I know, you've quoted Clarksons and their estimates, but trying to get your in-house view on that.

Petros Pappas, 'CEO'

Okay. Well. Last year's last year Brazil exported 390 million tons of iron ore or so.

Out of that 365 was Vale, and 25 were other companies. If you remember the Anglo American, who was producing between 17 million tons and 20 million tons of iron ore, had some problems with some pipeline, so they stopped exports at a time. Now, Anglo American is back. So let's say let's see -- that 80 million tons of Vale's 365 have been affected.

We expect to see the Brucutu back -- the 30 million of Brucutu back in the next very few months. And therefore, we expect that there is probably going to be about 45 million tons to 50 million tons of loss of exports from Vale. However, we'll have to add the 20 million of Anglo American, the 10 million of Trafigura that came into the market this year. And if you look at SD11.

They are going to be increasing Vale's SD11 mine. They will be increasing by about 15 million tons to 20 million tons. So overall, we expect that the loss is not going to be more than 15 million tons to 20 million tons for the whole year, but we think that exports will accelerate in the second half of the year because the demand is there. You can see that from where the price is today $102 per ton.

And one other thing which is interesting is that, I read that SD11, which will be producing, which is presently producing about 75 million tons per annum is going to double their export capacity in 2020. So if that happens, I think we're back on the road with Brazil. At the same time of course, Australia is -- which was affected by the cyclone is now exporting as normal. And one good thing that happened with the Vale problems for the market is that there are about 50 VLOCs stuck in Brazil waiting for Vale to load them and therefore, these assist the market.

Randy Giveans

Okay. Kind of summing it all up, it seems like supply is slowing, a lot of vessels are coming on for scrapping, retrofits for scrubbers, demand in your estimate should strengthen pretty strong in the back half of the year especially 2020. Obviously, your spot rate is still pretty depressed. Capesize is at $12,000 a day, although the four freight agreements in 4Q are closer to $18,000 and then, the time charter rates are still in the mid to high teens.

So all that being said, you could have fully equipped scrubbers by the end of this year. For 2020 or maybe even starting in 4Q, '19, do you expect almost full spot exposure? Or if you want to kind of hedge your bets and lock away some long term charterers on some of the scrubber equipped vessels.

Petros Pappas, 'CEO'

There are two things, we have to think about. First, we have to think what the rates are going to be on a scrubber less vessel.

And second, we have to think of what the differential between heavy fuel oil and gas oil is going to be. So -- before we start talking about hedging, because we could hedge one thing like we could hedge the FFAs for example, and we could leave the bunker differential open or we could do the other -- or we could hedge the bunkers and leave the charter, the FFA -- the chartering of the vessel is open or do a little bit of both. That will depend. I mean, it's still too early to take this decision.

Our view is that we're going into a strong market in the second half of the year and next year. And depending on what rates we see, we will take our decision. As things are today, I would not hedge for 2020 yet.

Randy Giveans

Got it.

All right. Well, thanks -- thank you for the time and that's it from me.

Petros Pappas, 'CEO'

Thank you.

Operator

No further questions at this time.

Speaker, please continue.

Petros Pappas, 'CEO'

No further comments on our side either. Thank you, operator.

Operator

Thank you.

That does conclude the conference for today. Thank you all for participating. And you may now disconnect.