Company Name: Star Bulk
Company Ticker: SBLK US
Date: 2020-02-20
Event Description: Q4 2019 Earnings Call

Market Cap: 843.118398013
Current PX: 9.18999958038
YTD Change($): -2.62000041962
YTD Change(%): -22.185

Bloomberg Estimates - EPS
Current Quarter: 0.049
Current Year: 1.978
Bloomberg Estimates - Sales
Current Quarter: 139.667
Current Year: 756.286

Q4 2019 Earnings Call

Company Participants

- Christos Begleris, Co-Chief Financial Officer
- Petros Alexandros Pappas, Founder, CEO & Director
- Nicos Rescos, Chief Operating Officer
- Hamish Norton, President

Other Participants

- Randy Giveans
- Unidentified Participant
- Amit Mehrotra

Presentation

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Fourth 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; and Nicos Rescos, Chief Operating Officer of the Company. (Operator Instructions) There will be a presentation followed by a question-and-answer session. (Operator Instructions)

We now pass the floor to one of your speakers, Mr. Begleris. Please go ahead, sir.

Christos Begleris, Co-Chief Financial Officer

Thank you, operator. I am Christos Begleris, Co-Chief Financial Officer of Star Bulk Carriers. And I would like to welcome you to the Star Bulk Carriers conference call regarding our financial results for the fourth 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 fourth quarter 2019 financial highlights. In the three months ending December 31, 2019, TCE revenues amounted to $148 million, 8.2% higher than $136.8 million for the same period in 2018.

Adjusted EBITDA for the fourth quarter, 2019 was $88.5 million versus $82.4 million in the fourth quarter, 2018. Adjusted net income for the fourth quarter amounted to $34.5 million or $0.36 earnings per share versus $30.3 million adjusted net income or $0.33 earnings per share for the fourth quarter of 2018.

Our adjusted EBITDA and adjusted net income figures for the fourth quarter of 2019 include an adjustment of $4.1 million for the accelerated dry docking expenses brought forward from 2020 to 2019. Our TCE rate during this quarter was 15,535 per vessel per day. Total cash today stands at $110 million with total debt at approximately $1.6 billion.

In terms of financing, we have two new finance facilities to report. We are refinancing two Newcastlemax vessels with up to $55 million with the European lender at very competitive terms. We have agreed with another European lender, a Working Capital Facility of $30 million to support our commercial operations and increase working capital needs related to trading our vessels in the voyage market.

In December 2019, we hedged approximately 12% of our estimated annual fuel consumption by selling the 2020 VLSFO - HSFO spread at the price of $266 per ton. The Company has announced a dividend of $0.05 per share for the fourth quarter of 2019.

Slide 4 shows the summary of our full year 2019 financial highlights. Adjusted EBITDA for 2019, was at $237.2 million versus $260.9 million in 2018. Adjusted net income for 2019 amounted to $24.2 million or $0.26 gain per share versus $86.1 million adjusted net income or $1.12 gain per share in 2018.

Slide 5 graphically illustrates the changes in the Company's cash balance during the fourth quarter. The Company started the quarter with $117.1 million in cash, and generated positive cash flow from operating activities of $53.2 million. After including vessel sale proceeds, debt proceeds and repayments, CapEx payments for scrubber and ballast water treatment system installments and dividend payments, we arrived at a cash balance of $126.3 million at the end of the quarter.

Please turn to slide number 6, where we summarize our operational performance. OpEx was at $3,899 per vessel per day for the quarter and $3,882 per vessel per day for the entire year. Net cash G&A expenses were at $925 per vessel per day for the quarter. For 2019 daily G&A expenses were at $929 per vessel per day, a decrease of 7.5% year-on-year primarily attributed to synergies from the increase in the size of our fleet.

The combination of our in-house management and scale of the group, enable us to provide our services at very competitive costs complemented by excellent ship management capabilities with Star Bulk consistently ranked amongst the top 5 managers evaluated by Rightship. We are also currently number 1 among our listed peers in terms of Rightship rating.

Slide 7 highlights that Star Bulk is the lowest cost operator among our US listed dry bulk peers with operating expenses approximately 20% below the industry average based on latest publicly available information.

In Slide 8, we are providing an update on our scrubber retrofit program. As of today we have 90 certified and operational scrubbers. And additional six scrubber installations are completed at sea and will be certified in the next 10 days.

Since the beginning of the year, our scrubbers have been operating very efficiently, being available 98.4% of the time. We currently have 18 vessels at yards in China performing retrofits. Despite the meaningful delays due to the Corona virus, we expect to have 109 certified scrubbers by the end of the first quarter, and 114 by the end of April.

Slide 9 has an overview of total CapEx payments for our scrubber program. Our total expected CapEx is estimated at $209 million with approximately $150 million of secured debt financing in place. As of February 14, the remaining CapEx is at $30.3 million, all of which is debt financed, with an additional $4.4 million of equity expected to be paid from debt proceeds.

The graph in slide 10 illustrate the current estimated scrubber tower installation scheduled broken down by vessel segment and by quarter, based on expected future milestones.

Slide 11 summarizes the evolution of dry dock expenses and total off-hire days for dry docks as well as scrubber installations. The 2020 numbers are based on current estimates around retrofit planning, vessel employment and yard capacity. These figures incorporate our current understanding of present and future shipyard congestion.

Slide 12 provides Star Bulk's employment coverage for the fourth quarter of 2019. We have fixed employment for 72% of the days of the first quarter of 2020. Our TCE rates of $12,580 per day.

I will now pass the floor to our CEO, Petros Pappas for a market update and his closing remarks.

Petros Alexandros Pappas, Founder, CEO & Director

Thank you, Christos. Please turn to slide 13 for a brief update of supply. During 2019, 41.3 million deadweight were delivered and 7.8 million deadweight was sent for demolition, for a net fleet growth of 32.2 million deadweight or 3.9%. A total of 24.7 million deadweight was reported by Clarksons as firm orders, the lowest since 2016. The order book currently stands at 9% of the fleet, the lowest level since 2002 and only 1 million tons deadweight has been ordered in the initial 50 days of this year.

This we believe, it is not just due to the slow market, but also due to the fact that we do not know what the fuel of the future will be 5 to 10 years down the road. During the second half, scrubber retrofits are estimated to have absorbed 2% of the total fleet and 4% of the Capesize fleet. China's scrubber penetration is estimated to have crossed 14% of the total dry bulk fleets in deadweight terms, expected to reach 23% at the end of 2020.

The average steaming speed of the dry bulk fleet during 2019 was 11.5 knots, and has currently decreased to 11.2 knots following the recent freight market correction and increase in bunker costs. Year-on-year, the drop in speed is to the tune of 0.5 knot.

During 2020, the dry bulk fleet is projected to expand at the pace of approximately 3.5%. However, this could be revised lower as we are currently observing a high rate of demolition of Capesize, and [ph] operates VLOC vessels, and Chinese shipyards are currently experiencing delays related to the Coronavirus. We expect 44 million deadweight of newbuildings and 13 million deadweight of scrapping for a net influx of 31 million tons deadweight.

Let's now turn to slide 14 for a brief update of demand. According to Clarksons, total dry bulk trade during full year 2019 is estimated to have expanded by 1.1%. It's slowed down from 2.6% growth in 2018, mainly due to strong disruptions in iron ore exports, [ph]weak ore ton miles generation and lower soybean exports from Brazil.

Iron ore trade during 2019 declined by 1% in tons and 2.6% in ton-miles. The strong increase of iron ore prices during the first half of 2019 hits still margins across the globe and led to 2.6% decline in crude steel production ex-China. China crude steel and pig iron production increased by 7% and 5.8% respectively. Iron ore imports however increased marginally by 0.5% due to strong supply disruption in Brazil. In Australia, and the combination led to 16 million ton reduction of stockpiles. Brazil iron ore exports contracted by 12.7% or 49.6 million tons.

Looking into 2020, we expect a recovery of iron ore trade, despite the first half seasonal weakness and China's steel demand growth potentially being delayed by the Coronavirus.

Coal trade during 2019 is estimated to have increased by 2.6% in tons but only by 0.8% in ton-miles, a shorter-distance exporters gained market share. China domestic coal production expanded by 5.3% while thermal electricity generation expanded by lesser, 4.2%. A strong hydropower during the first half of the year trimmed thermal coal requirements.

Coal imports increased by 6.8% in 2019, with December seeing a severe contraction of 73% year-on-year, as import clearances came to a halt due to annual import quarters being exceeded. China's domestic coal supply chain disruptions due to the Coronavirus could act positively on coal import demand in the medium term.

During 2019 grain and soybean trade is estimated to have increased by 1.5% and 6.3% in tons and ton-miles respectively on the back of a sharp rise in Latin America coarse grain exports. Indicatively Brazil annual corn exports increased by 89%, global soybean exports however, increased by just 0.8% due to Brazil soybean exports declining by 12.6%.

The tariff free quarters issued for [ph]some US soybean volumes were supportive during the fourth quarter. Nevertheless, with the big population in China having declined by approximately 40%, soybean demand has been undermined.

The Phase 1 trade deal announced during January is expected work way positively on the recovery of US soybean export volumes.

Minor bulk trade during 2019 is estimated to have increased by 1.8% and 2.5% in tons and ton-miles respectively. During 2020, Guinea bauxite exports are projected to expand 10% and generate ton-miles for Capesize vessels. Furthermore, Indonesian export ban on nickel ore will mainly affect shorter distances and therefore it is not expected to have a major impact on ton-miles.

Finally, as a general comment, we expect certain disruptions of both demand and supply of dry bulk commodities due to the Coronavirus but the larger inventory restocking and an upward knee-jerk trade reaction when the situation normalizes. We also remain confident that the fundamental impact of the IMO sulfur regulation will gradually become visible. On the supply side, the smaller sizes are likely to benefit from slow steaming due to lower scrubber penetration in Capes. On the demand side however, we expect Capes to benefit the most from cargo cascade as the switch to more expensive middle distillates, renders larger vessels more economical.

As a result, we remain optimistic regarding the prospects of our scrubber-fitted fleet, and on top of that we expect that once the Coronavirus recedes, a strong recovery in dry bulk volumes will prevail in the ensuing quarters.

Without taking any more of your time, I will now pass the floor over to the operator to answer any questions you may have.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming through. Caller please go ahead, your line is now open.

Randy Giveans

How are you doing gentlemen? It's Randy Giveans from Jefferies. How are you?

Christos Begleris, Co-Chief Financial Officer

Fine, Randy. And you?

Randy Giveans

Doing well. Doing well. All right. So yes, obviously pretty strong performance here on the fourth quarter, your 1Q, kind of quarter-to-date rates are quite impressive as well, especially the 65%, at almost 20,000 for your Capesizes. So looking into that, how much of this outperformance is due to your scrubbers? And then kind of for the next, let's call it 35% in the quarter, current Capesize benchmark rates are 3,000 a day, using a spread of maybe 200 a ton. What is your current rate on a scrubber-fitted Capesize? Is it 8,000, 10,000, 12,000? I just want to try to get a run rate at -- from here.

Petros Alexandros Pappas, Founder, CEO & Director

Well, hi Randy. This is Petros. First of all, we -- you know we are members of the CCL pool of Capes. There are four companies in that pool and about 130 vessels. So therefore, we have some muscle. But the reason the rates are as good as they are is A, because we fix early in December and we try to fix longer duration charters, so that we we -- the spillover into January and February. So partly this is the reason. And the scrubber benefit for January has been on average somewhere around $6,500. Now going forward, I think we will retain roughly the same scrubber benefit for Q1. And as for the markets, we intend to grow -- to fix better than the spot market, but it all depends where this will be going. So I can't give you a forecast about the balance 35%, but you can add whatever you think it is about $6,000 of scrubber benefits perhaps a bit higher than that.

Randy Giveans

Good answer. Good answer. All right. Well, that covers that. Now looking at the off-hire days scheduled for the first quarter. It looks like you have 1,208. But only 10 scrubbers set to be installed. You also have I know 36 scrubbers set to be I guess certified during the quarter. So can you help break down the 1,200 days into dry docking versus scrubber retrofits for the 10, versus the certification process for the other I guess 36?

Nicos Rescos, Chief Operating Officer

Hi, Randy. This is Nicos.

Randy Giveans

Hi, Nicos.

Nicos Rescos, Chief Operating Officer

We have 18 vessels at the shipyard now. We took a conscious decision not to move ships out of their slot positions, simply because more people would come back once the Coronavirus is subdued hopefully. We are definitely experiencing delays. We have about five ships performing dry dock at the moment. But what's important is that people have come back to the shipyards as of February 10. And every data goes by, more people are employed on-board the vessels. So we have a realistic expectation to have 13 vessels to go out by the end of March. Actually about five within February. And the remainder, which is basically late arrivals due to some legacy charters to be completed by the end of April. The remaining five ships which we have at sea, they have been already retrofitted and just completing [ph]driving teams and they will be done very shortly. So we have an extended downtime at the shipyards, because of the virus. But what's important is there is activity, and things are finally moving.

Petros Alexandros Pappas, Founder, CEO & Director

I should add here that we had the 11 Delphin Vessels that we took delivery halfway down the year and we had to order their scrubbers. For them at that time and therefore the delay in installing the scrubbers on those vessels.

Christos Begleris, Co-Chief Financial Officer

And just a question on the numbers -- Randy, this is Christos. We have certified 90 vessels out of the total of 114. Therefore, the remaining are essentially 24, and as Nicos said six -- certification for the six are basically going to be completed by the next few days. Therefore, will be down to 18, which are essentially the vessels that are currently in Chinese shipyards.

Randy Giveans

Got it. And then just to clarify the riding teams you mentioned for the at sea, that is just for certification or are they doing some installation as well?

Petros Alexandros Pappas, Founder, CEO & Director

They completed installations at the yards last year and the ships left to complete at sea with riding teams. So they're only pending certification in the next few days.

Randy Giveans

But the riding teams are doing what is essentially installation work?

Petros Alexandros Pappas, Founder, CEO & Director

Right.

Nicos Rescos, Chief Operating Officer

Yeah.

Randy Giveans

Got it. (multiple speakers) Perfect. Well, yeah. Congrats again. I have a few more questions but I won't monopolize the call. So I'll hop off. Thanks so much.

Petros Alexandros Pappas, Founder, CEO & Director

Thanks, Randy.

Operator

(Operator Instructions) Our next question has come through. Caller, please go ahead, your line is open.

Unidentified Participant

Thanks. It's Amit Mehrotra here from Deutsche Bank. Hi, everybody. First question I just wanted to ask about the fuel spread hedge that you guys entered into the quarter. I saw there was a nominal I guess non-cash realized gain in the quarter. But I also want to understand, I don't think there is any benefit to the TCE or revenue from that contract. But I just want to make sure that that's the case and I don't know Hamish, maybe if you want to expand a little bit on the rationale behind that trade?

Hamish Norton, President

Well. Okay. So first to answer your direct question, I think we do not get hedge accounting for that hedge. Therefore it does not go into the TCE calculation. It's basically accounted for as a separate asset. It will go -- sorry, it will go to the TCE next quarter. The realized portion. So anything that -- because up until December 31, it was unrealized, it was just a mark-to-market. Next quarter, the realized parts for the first three months are going to be included in the TCE. And --

Amit Mehrotra

And is that -- all right. Just, just -- let's just focus on that for a second. So there was a $333,000 gain in the first quarter. What is -- I assume the gain is going to be quite a bit larger in the second quarter. Any way to kind of sensitize us to that number? And, so we can think about what the benefit will be to the 2Q TCE? I'm sorry, the Q1 TCE? I apologize.

Petros Alexandros Pappas, Founder, CEO & Director

So, Amit. We have fixed a number of tons per month essentially so it's month that passes, we are realizing a gain or a loss. So the realized portion that we have for January, February and March is going to be included in the TCE result of the first quarter.

Amit Mehrotra

So is it linear? So I know you guys talked about booking 10% of your fuel consumption, I think you said it's 1.2 million tons in total.

Petros Alexandros Pappas, Founder, CEO & Director

Yes. Yes. We have we have booked 84,000 tons for the year. So --

Hamish Norton, President

7,000 tons per month.

Petros Alexandros Pappas, Founder, CEO & Director

7,000 tons per -- each month.

Unidentified Participant

So we take the 266 whatever the mark-to-market is against the 266 and that's the gain on the number of tons?

Christos Begleris, Co-Chief Financial Officer

Correct. And just to clarify. Amit just to clarify, this is Christos. The guidance figures that we provided for Q1 obviously do not include any of the benefits from the hedges that we have done.

Amit Mehrotra

Yeah. I mean it's a pretty small, right? I mean you're talking about -- it's a pretty small number, right? Anyways, just given how much you guys have hedged.

Christos Begleris, Co-Chief Financial Officer

Yeah. I mean it's 12%.

Amit Mehrotra

Yeah.

Christos Begleris, Co-Chief Financial Officer

And I guess you had a question about the rationale for the trade. And the rationale basically is that if you assume a constant charter rate for a ship without a scrubber which of course is not necessarily an assumption that holds all the time, then you know the charter rate for a ship with the scrubber is determined by that fuel price spread. So we're basically just hedging 12% of the return on our scrubber investment for 2020.

Amit Mehrotra

Right. No, I got it. That makes sense. And obviously, that's a good trade given what's happened with oil prices in the spread over the last couple of months. And I wanted to understand the step-down that we should expect at least if you can help us calibrate expectations for the second quarter. And I'm really talking about second quarter here in terms of bookings, which is what you're going to announce three months from now. Because a lot of the strength in the first quarter TCE just reflects voyages that may have started in December when the spot market was much stronger.

And so is it your expectation when you guys report bookings or what you're doing today, let's just say it like that. What you're doing today prospectively, are you around break-even levels of that $11,000 on a blended basis? Or would you guys report bookings in the second -- in the first quarter? For the first -- for the second quarter, should we expect maybe something in the 6,000, 7000, 8000 on a blended basis, because the spot market is just so low? I just want to make sure the expectations are calibrated -- our expectations are calibrated?

Petros Alexandros Pappas, Founder, CEO & Director

Hi Petros. We have only booked about 14% of our Q2 days at around $13,500. But I think most of it is actually, let me see -- half of that -- of those fixtures are Capes. And as I said the average is about $15,500 for 15% -- for 14%.

Amit Mehrotra

So was that, was that -- Petros was that 14% booked in January or is it still booked in December on longer term voyages?

Petros Alexandros Pappas, Founder, CEO & Director

That was booked on an average, December and January. And we are actually also looking at contracts for our Capes, for the whole year. So -- because, you see, if you fix for Q2, for Q3-Q4, -- now off the top of my head this would be about $15,500, and to add it to that, let's say $6,000 for the scrubber benefit. That would end up being $21,500. So it doesn't hurt to fix a bit through the year and at $21,500. That's the --

Amit Mehrotra

So you're going to -- so you're saying that there's a market right now to time charter Capesize vessels that are scrubber-fitted for 2020?

Petros Alexandros Pappas, Founder, CEO & Director

No. With the fixed vessels FFA at $15,500 on the three quarters, plus the scrubber differential.

Amit Mehrotra

Got it. Okay. That's very helpful. Thank you. And then the last one for me, I guess, obviously the fuel spread expectations have come in. If you look at the spreads today for 2020, it's kind of $160, $165, in 2021, it's $150, and that's quite a bit down. Obviously fuel prices, or oil prices have come down significantly. So I guess Hamish or anyone that wants to answer this. How do you think about that curve? There's obviously been a lot of developments in the energy markets and especially demand outlook with respect to China. Is that a transitory impact or it's just the very low-sulfur fuel is just more available than it used to be, that may be people expected, few months ago? Any -- Hamish, any thoughts on like how you expect the spread --what's driving the spread to contract? And actually right now if you're -- what is the spread in Rotterdam or Singapore relative to that $160 average for the full year?

Hamish Norton, President

Well. Okay. So Amit, a lot of what's driving the spread is the lack of demand for refined product right now. And in particular, gasoline and diesel demand is way down. And we recently heard that the highest crack spread. The most profitable product a refinery can make right now is 0.5% sulfur fuel for ships, which is a very unusual state-of-affairs. And what that's doing is it's leading the refineries to maximize their output of 0.5% sulfur fuel. At the same time there is substantially reduced demand for 0.5% sulfur fuel for ships. Because, the fact is shipping traffic is way down. All of this is basically due to the virus.

So if the virus were magically to go away tomorrow and economic activity were to snap back, we would expect to see the, the spread between the price of high-sulfur and low-sulfur fuel expand quite sharply primarily due to an increase in the price of low-sulfur fuel. And then you asked -- can you repeat your question if that's --?

Amit Mehrotra

The current spread right now --the current spread right now?

Hamish Norton, President

All right.

Amit Mehrotra

Yeah. You're getting.

Hamish Norton, President

So it's about -- it's close to the $180 levels. Amit for calendar -- for calendar '20 we see sort of the spread being at $170 levels. For calendar ' 21, it's at the $160 levels that you mentioned before.

Petros Alexandros Pappas, Founder, CEO & Director

I think I've spoken, Singapore it was at $190 something.

Hamish Norton, President

Actually. Right.

Amit Mehrotra

Yeah. For right now. Right now. That makes sense. Okay. That's all I had. Thank you for answering my questions. I appreciate it.

Petros Alexandros Pappas, Founder, CEO & Director

Thank you, Amit.

Operator

(Operator Instructions) We have a caller. Please go ahead. Caller, your line is open.

Randy Giveans

Hey, guys. Randy Giveans of Jefferies. One follow-up question.

Hamish Norton, President

Hi, Randy.

Christos Begleris, Co-Chief Financial Officer

How are you doing?

Randy Giveans

Awesome. All right. Okay. Cool. Rates are obviously below OpEx. Asset values have fallen a little bit as a result. As such I'm sure there are and maybe will be some incremental owners looking to sell some assets soon. So with that, what are your thoughts on maybe further ships for shares acquisitions? Is that kind of additional kind of consolidation likely here in the coming months? Or are you kind of all set with your current fleet?

Hamish Norton, President

Well. Randy. As always, to the extent we can grow the company in a way that is beneficial to our dividend per share and keep our leverage at the same or lower levels and allows us to issue our shares at net asset value to buy ships. We're always looking at that. And obviously, the lower the share price the more challenging those deals are to get done. But as you've seen, sometimes we've managed to surprise ourselves and get these deals done despite any headwinds from the share price. We'll see is the answer.

Randy Giveans

Okay. I'll let to you go with that. Thanks. Thanks so much.

Petros Alexandros Pappas, Founder, CEO & Director

Thank you, Randy.

Operator

As there are no further questions waiting, so I'll hand the call back to Mr. Pappas.

Petros Alexandros Pappas, Founder, CEO & Director

No further comments, Operator. Thank you very much for attending this call.

Operator

Thank you very much. Ladies and gentlemen, that does conclude the call for today. Thank you all for participating. You may now disconnect.