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# Star Bulk Carriers 2Q22 Earnings Call
**August 5, 2022**
**11:00 a.m. ET**

**Operator:**

Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Second Quarter 2022 Financial Results. We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; Mr. Nicos Rescos, Chief Operating Officer; 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'll be a presentation followed by a question-and-answer session. (Operator Instructions) I must advise you that this conference is being recorded today. I will now pass the floor to one of your speakers today, Mr. Begleris. Please go ahead, sir.

**Christos Begleris:**

Thank you, operator. I am Christos Begleris, co-CFO of Star Bulk Carriers, and I would like to welcome you to our conference call regarding our financial results for the Second Quarter of 2022. Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation. In today's presentation, we will go through our second quarter results, cash evolution during the quarter, an overview of our balance sheet, an update on our scrubbers and vessel operations, the latest on the ESG front, and our views on industry fundamentals before opening up for questions.

Let us now turn to slide number 3 of the presentation for a summary of our second quarter 2022 highlights.

Net income for the second quarter amounted to $200.2 million and adjusted net income of $204.5 million or $2 adjusted earnings per share. Adjusted EBITDA was at $258.3 million for the quarter. For the second quarter, as per our existing dividend policy, we declared a dividend per share of $1.65, payable on or about September 8, 2022.

The graph on the bottom of the page highlights the cumulative performance over the last 12 months, which illustrates the strength of the platform in the robust dry bulk market. Our last 12 months' adjusted EBITDA is $1.12 billion and adjusted net income is $907 million.
Over the same period, we have returned a cumulative dividend of $6.55 per share or $674 million to our shareholders. In the top right of the page, you will see our daily figures per vessel for the quarter.

Our time charter equivalent rate was $30,451 per vessel per day. Our combined daily OpEx and net cash G&A expenses per vessel per day amounted to $5,684. Therefore our TCE-less OpEx-less G&A is $24,767 per vessel per day. Looking at our chartering coverage for the third quarter of 2022, we have covered 61% of our fleet's available days at the daily rate of $29,000 per day.

Slide 4. Rapidly illustrates the changes in the company's cash balance during the second quarter. We started the quarter with $444.4 million in cash and generated meaningful positive cash flow from operating activities of $239.9 million due to the strong freight market.

After including debt proceeds and repayments, CapEx payments for ballast water treatment system installments, and the first quarter dividend payment, we arrive at a cash and cash equivalent balance of $385.6 million at the end of the quarter.

Please turn to slide number 5. (technical difficulty) continued strength of our balance sheet, our total cash today [ph] stands at $474 million. Meanwhile, our total debt stands at (technical difficulty). We have refinanced $310 million of old facilities (technical difficulty) have decreased our annual regular debt repayments by $11 million and reduced our interest costs by $4 million per year as a result of achieving significantly low margins.

Our next 12 months' amortization is $188 million, after the completion of the recent [ph] refinancings, we have 12 and 11 vessels with market value in excess of $210 [ph] million and (technical difficulty) payments but which we're in the process of refinancing.

In an increasing interest rate environment (technical difficulty) 55% of floating interest rate exposure at an average fixed rate of 45 basis points and an average remaining maturity of 1.7 years.

I will now pass the floor to our CFO, Simos Spyrou to talk about the scrubbers and provide an update on our operational performance.

**Simos Spyrou:**

Thank you, Christos. In slide 6, I would like to update investors about our scrubber investment. We're pleased to report (inaudible) in a time span of 2.5 years we have reported $250 million scrubber investment. This cost includes unrelated capital expenditure as well as higher costs involved in the installation of our scrubbers. On the scrubber utilization front, Star Bulk (technical difficulty) 108,000 scrubber operating days (technical difficulty) with 95% of our (technical difficulty) based on consumption of approximately 700,000 tons of HSFO consumed per annum.

Indicatively, the average Hi5 spread achieved during the second quarter was $323 per ton. As you can see at the bottom part of the slide, the total cost Hi5 spread is in backwardation (technical difficulty).

Please turn to slide 7, where we provide an operational update. Operating expenses excluding non-recurring expenses was at $4,674 for the quarter -- second quarter 2022. Net cash G&A expenses were $1,010 per vessel per day for the same period. Despite continued (inaudible) COVID-related expenses and inflationary pressures, which have a direct impact on our operating expenses, the combination of our in-house management and scale of the group, enables us to sustain a very competitive cost base and maintain our position as the lowest cost operator amongst our peers.

In addition, we continue to rate at the top among our listed peers in terms of rights (inaudible). Slide 8 provides the fleet snapshot and some guidance around our future dry bulk and ballast water system expenses for the next 12 months and relevant total off-hire days. Our expected dry bulk expense for the next 12 months is estimated at $33.2 million for the dry bulk 73 [ph] vessels with another $13.4 million towards our vessel upgrade CapEx.

In total, we expect to have approximately 1,000 off-hire days for the full 12-month period.

We anticipate that 98% of our fleet will be fitted with ballast water systems by the end of Q4 of 2022. The above numbers are based on current estimates around dry bulk and retrofit planning, vessel employment, and yard capacity.

I will now pass the floor to Nicos Rescos -- Charis Plakantonaki for an ESG update.

**Charis Plakantonaki:**

Thank you, Simos. Please turn to slide 9, where we highlight our continued leadership on the ESG front. A major new redevelopment is a decision by Star Bulk's Board of Directors

To establish an ESG Committee which will guide and support management on environmental, social, and governance matters in order to ensure that the company promote and integrate ESG in its strategy and business operations.

On the environmental front, Star Bulk has taken part for a second year in the annual assessment cycle for the Carbon Disclosure Project. In addition, we are actively participating in the Iron Ore Consortium along with some of our major charters to assess feasibility of the green corridor on the Australia-East Asia route up to 2050.

Furthermore, in an effort to continuously improve on our sustainability performance, we have participated in the annual S&P Global Corporate Sustainability Assessment, which will provide us with a score and ranking based on various financially relevant ESG criteria.

Finally, from the societal point of view, Star Bulk has partnered with UNICEF to provide psychosocial support to refugee women and children who have fled to Greece as a result of the war in Ukraine.

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

**Petros Pappas:**

Thank you, Charis. Please turn to slide 10 for a brief update of supply. During the first half of 2022, a total of $15.6 million deadweight was delivered, and $1.8 million deadweight was sent to demolition for a net fleet growth of $13.8 million deadweight for 1.5% year to date and 3% year-on-year. The supply outlook is the best in the recent history of dry bulk shipping. The order book stands at only 7.1% of the fleet with just $9.4 million deadweight reported as firm orders between January and June.

Uncertainty on future propulsion, along with surging shipbuilding costs has helped keeping new orders under control. While shipyards continue to fill 2025 capacity with more profitable to the shipyards vessels. Furthermore, despite the correction of global steel prices during the second quarter, inflated scrub prices may simplify the demolition of average [ph] tonnage without scrubbers during seasonal downturns.

We expect this to intensify after the implementation of the EEXI-CII regulations that come into effect as of 2023. The average steaming speed of the fleet has decreased by 2.8% during the last year to 11.3 knots, as a result of a strong increase of bunker costs. We expect oil prices and bunker cost to remain inflated for the next quarters amidst the sanctions imposed by the western countries on Russia. This situation, along with the new environmental regulations will continue to incentivize slow steaming and will also support wider scrubber savings.

Global port congestion and especially Capesize congestion in China had experienced a decline during the last months as pandemic-related restrictions are easing and reduced arrivals help ease for delays. Having said that, congestion for smaller vessel types remains at high levels due to changes in trading patterns and seasonal bottlenecks. As a result of the above trends, net fleet growth is projected to drop below 2.5% in 2022 and is unlikely to exceed 2% during 2023 and 2024.

Let's now turn to slide 11 for a brief update of demand. According to Clarkson, total dry bulk trade during 2022 and 2023 is projected to expand by 0.1% and 1.7% in tons and by 1.4% and 1.9% in ton-miles respectively. During the first half of 2022, total dry bulk volumes were down by approximately 0.5% mainly due to a 6% decrease of Chinese imports as a result of a candid zero COVID policy, export disruptions, and the war in Ukraine. However, the growth is expected to recover during the rest of the year supported by export seasonality and winter stocking needs worldwide.

Furthermore, there is softening of coal, grain, and minor bulk trade patterns to longer haul routes will inflate ton-miles and help moderate the weaker volumes seen during the first half of 2022. Iron ore trade is expected to expand by 0.2% in tons and 0.1% in ton-miles during 2022. China's steel industry went through a strong slowed down over the last year, due to significantly higher input costs and a weak real estate market during the first half of the year still output from China decreased by 6% and from the rest of the world by 3% due to the negative profit margins and a drop of production from the high energy intensive electric car furnace.

Nevertheless, China big iron output is experiencing a recovery supported by infrastructure stimulus, and Iron ore port stockpiles during the second half of the year experienced a sharp decline. During the first half of the year, Brazil iron ore exports decreased by 7% with Valerie [ph] simply announcing an annual guidance between 310 million tons and 320 million tons, which is flat from last year but indicates higher shipments for the rest of the year.

Coal trade is expected to contract by 0.4% in tons but to expand by 3.3% in ton-miles during 2022. Sanctions announced by major importers on Russian coal, limited capacity for expansion (inaudible) producers, and soaring gas prices have boost coal prices to record high levels. European buyers are restocking coal ahead of the winter and that's substituting imports from Russia with Australia and Indonesia. While Russia is exporting more coal to China, India, and other Asian countries, a situation that is benefiting ton- miles.

During the first half of the year, China and India have increased their domestic production significantly in order to help raise stocks, reduce prices, and be less dependent on imports. However, India's stockpiles still stand at relatively low levels and the imported coal mix remain high in order to avoid last year's blackouts and therefore strong demand is expected after the monsoon season.

Grain trade is expected to contract by 3.7% in tons and 0.5% in ton-miles during 2022. Ukraine exports account for approximately 10% of total grain trade and since the invasion in late February, exports have fallen to almost zero. During the first half of the year, grain shipments declined by 11.5% as a result of war or weather conditions in Brazil and a strong spike in prices. On the other hand, U.S. soybean outstanding sales stand at record high levels for this time of the year, while the Brazilian corn season has started with inflated volumes indicating stronger grain trade during the second half and the fourth quarter.

During the next few years, China's demand for grains is projected to be strong as the five-year plan is focused on food security and inventory building. Minor bulk trade is

expected to expand by 1.1% in tons and 2.1% in ton-miles during 2022. Minor bulk trade has the highest correlation to global GDP growth and is receiving support from the strong containership markets. The IMF projects global GDP growth to slow down to 3.2% during 2022 and 2.9% during 2023. Shortages of steel products in the Atlantic and a positively priced arbitrage to further inflate backhaul close from the Pacific and provide support for year tonnage.

Moreover, expanding West African bauxite exports continue to inflate ton-miles with the year-to-date exports up by 8%. Finally, we remain optimistic for the prospects of the dry bulk market, now the company is well positioned to enjoy and take advantage. The record low order book combined with the lack of yard space, upcoming environmental regulations, and high bunker costs, and some pressing orders and speeds and create a favorable supply side picture for our industry in the long term.

On the demand side, there are short-term risks, but strong commodity flows over longer distances due to the change of trade partners are expected to support earnings over the next years.

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:**

Thank you, sir. (Operator Instructions) I show our first question comes from the line of Amit Mehrotra from Deutsche Bank. Please go ahead.

Chris Robertson: Hi, guys. This is Chris Robertson on for Amit. Thanks for taking our call.

I just wanted to ask. So you have relatively young Newcastlemaxes and Ultramax Vessels as well. So you spent quite a bit of time talking about the scrubber premiums. But could I ask about the premiums you're getting or uplift you're getting on -- on the younger eco vessels?

**A:** Yeah, you're talking, Chris, about the premiums due to vessels being under as opposed to due to the scrubbers?

**Chris Robertson: Correct.**

**A:** Well, the younger vessels have lower consumption than the older vessels and therefore in effect, they have on the one hand, they have the advantage of being eco, on the other by burning more -- less tons they get less over scrubbers (inaudible) So for example, and (inaudible) burns, let's say 40 tons measures and older (inaudible) 50 tons. On the one hand, I have said the eco advantage but on the other hand it make them 10 tons worth of scrubber benefit less.

Chris Robertson: Okay. Yeah, that's fair. Thanks for clarifying that. My next question is on, you guys mentioned the speed of the fleet around 11.3 knots at the moment. How do you foresee that evolving over the next few quarters and into 2023? And could you quantify or kind of look at the effective capacity reduction that you expect?

**A:** It depends on two things. First of all, it depends on the price of bunkers, and second, it depends on what -- how the market rates are. So, if the highest speed will be at a very -- at very high rates and very low bunker prices and the lowest speed would be with very high bunker prices are very low speeds. We expect the oil prices remain where they are not to fall much and therefore we also -- we also expect that with take off to the market to be decent during the next four, five months especially for the quarter.

Therefore, we think that speed will remain where it is at around 11 point range notch give or take. Now as -- as (inaudible) time, 1-knot difference from 11.3 to 12.3 is about -- I think that's about a 9% reduction, or 8.5% the reduction and you multiply that by 60%, so that's -- that's about less, about 5% effect on supply. So one knot less or one knot more in speed would be plus or minus 5% on supply.

**Chris Robertson:** Okay. Yeah, thanks for that. My last question here is around the unwinding of the Chinese port congestion. And also as it relates to the containership market, so let's say containership rates fall from here and port congestion eases. What do you think the impact will be to the dry bulk rates?

**A:** Well, we -- first of all, congestion has -- Chinese concession has eased mostly of the Capesize sector. I think I was reading a figure of like 68% less congestion this year than last year, which we think actually it has run its scores, if anything and as we expect to have much more iron ore trade during the next four, five months. We believe that for the Capesize possession will actually increase in China going forward.

Regarding -- regarding Supramax containership market and Supramax vessels, yes, if containerships -- containership rates collapse, this will have a negative effect on -- on Supramax. However, I was just last week I saw that containers from a well-known public big public shipping company fixed for three years for like $54,000. So it doesn't seem to me that the containership market is yet that much affected to have a major impact on -- on the Supramaxes.

Also, one interesting thing is that congestion on Supramxes is actually increased by a bit like 6%. So all in all, on the Capesize question, I think we will see more congestion. On the Supramax question, it will have an effect but I don't think it's going to be immediate.

**Chris Robertson:** All right. Yeah. Thank you very much for the time. And congrats on the solid quarter.

**Omar Nokta:** Yeah. Just wanted to ask you, you guys have secured several new credit facilities and extended your maturities, lowered your cost base. You now have 12 unencumbered ships. I guess, are you going to give us maybe a sense of why you have those down in terms of market value? And then maybe give us a sense of what you're thinking about those ships going forward? Are those sales candidates or they're just for flexibility sake?

**A:** Well, as I think you can appreciate, we make a policy of not discussing the value of our fleet in terms of backing for ship because frankly, the ships are worth more in our hands than in the hands of others because of the way we operate them. And the ships that are unencumbered are unencumbered more or less by happenstance. They're not particularly sales candidates.

**Omar Nokta:** Okay, thank you. That's pretty clear. And -- and this is maybe (inaudible) little nuance. I noticed and then maybe just so happens to give as well but you spent $20 million on the buyback this year, buying at an average price of let's say $25 million and you've issued close to $20 million also under the ATM at $31 million. So, definitely good pricing on both counts, but is that a coincidence that they're lined up like that $20 million (inaudible)?

**A:** No. It's not, it's not a coincidence. We are -- we basically had an arbitrage situation lined up where we could issue shares and buy assets in a way that was very advantageous for the shareholders. And sort of in the middle of that the arbitrage situation started becoming less probable and our share price started to drop. So basically, we spent precisely the money that we raised by issuing shares on buying back shares at a lower price and so in effect, retired from shares at zero net cost.

**Omar Nokta:** Okay. And so do you think that would be how you guys approach it in the future?

**A:** Well, hopefully, in the future, we'll be able to issue shares and buy loads of vessels in a way that very profitable for the shareholders.

Omar Nokta: Yeah. Yes. Very good. And one final one, I just. I saw in the cash flow statement, a $35 million (inaudible) outlay. Just -- I don't think I've noticed that before and just wondering what that. If you give me a sense of what that's -- that was for?

**A:** You see more of this. This was just a short-term investment we placed for below six months. But since the maturity was after the end of the quarter June 30th, under U.S. GAAP we have to report them not in our costs but in our investment portfolio. However, you know that these products -- these bills [ph] are considered to be in reality cost. So we consider them cost and we are them back to the cash balance for the calculation of the dividend. All of these bills are maturing within the third quarter.

**Omar Nokta:** Got it. Okay. Thanks for that. It makes sense. Thank you. I'll turn it over.

**Climent Molins:** Good morning. Thank You for taking my questions. I want to start by asking about the dividend. You've declared another very strong distribution equal to like the quarter one payout despite the slightly lower cash balances at the end of the quarter there. What has been the drivers behind this decision? And should you expect this to be rebalanced looking at the remainder of the year?

**A:** It's the same dividend policy. It's not -- it's not a management decision. The cash balance, divided by the number of shares outstanding, came up with $1.65 based on the formula and it was a pretty mechanical operation, and I think you can anticipate that we would go through the same basically mechanical calculation every quarter.

**Christos Begleris:** So Climent, this is Christos. So it was basically a coincidence that the dividend for the second quarter just equaled the figures of the dividend of the first quarter. Essentially, as Hamish said, what counts is the exact cash balance at the end of each quarter and the number of shares.

**Climent Molins:** Yeah. It makes sense. Your extensive program, retrofit program is yielding outstanding results given the outside spreads (inaudible) and although the spread in the futures market is slower scores should continue to provide a significant tailwind. Is there any willingness to hedge part of your 2023 bunker consumption or do you prefer to remain open?

**A:** At the moment, there is quite a steep discounts of the 2023 forward curve on the spread compared to the prices that we're getting now. Indicatively, the spread in Singapore is in the high $200s close to $300 per ton. And the calendar '23 right now is at levels around $160, $170 per ton. (inaudible) essentially, that we have repaid the entire investment and even our expectation of a strong energy markets and a widespread in 2023.

The talk right now even what we know now is basically while the spot market also the spread. Of course we may change decision in the future.

**Climent Molins:** All right. Thank you very much for the color. Thank you for taking my questions. And congratulations for another excellent quarter.

**Operator:**

Thank you. That concludes our Q&A session for today. At this time, I'd like to turn the call back over to Mr. Petros Pappas, CEO for closing remarks.

**Petros Pappas:** Thank you, operator. No further remarks. Have a nice summer to everybody.

**Operator:** Thank you, everyone, for participating in today's conference call. This concludes the program. You may all disconnect.