Corporate Participants

Petros Pappas
Star Bulk Carriers - Chief Executive Officer

Hamish Norton
Star Bulk Carriers – President

Simos Spyrou
Star Bulk Carriers – co- Chief Financial Officer

Christos Begleris
Star Bulk Carriers - co-Chief Financial Officers

Nicos Rescos
Star Bulk Carriers - Chief Operating Officer

Presentation

Operator:
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the third quarter 2018 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. At which time, if you wish to answer the question, please press star one on your telephone keypad and wait for your name to be announced. I must advise you that this conference is being recorded today.

And we now pass the floor to one of your speakers, Mr. Petros Pappas. Please go ahead.

Petros Pappas:
Thank you, operator. I'm Petros Pappas, Chief Executive 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 third quarter of 2018.

Before we begin, I kindly ask you to take a moment to read the safe harbor statement on Slide 2 of our presentation.

Let us now turn to Slide 3 of the presentation for a summary of our third quarter 2018 financial highlights. In the three months ending September 30, 2018, TCE revenues amounted to $128.7 million, 105.8 percent higher than the $62.6 million for the same period in 2017.

Adjusted EBITDA for the third quarter 2018 was $80.1 million versus $28.6 million in the third quarter of 2017. Adjusted net income for the third quarter amounted to $30.5 million or 35 cents gain per share versus $5.3 million adjusted net loss or eight cents loss per share in Q3 2017. Our time charter equivalent rate during this quarter was $14,521 per day, compared to $9,621 per day in the same quarter last year.

During Q3 2018, our average daily operating expenses were $4,054 vessel per day. During the third quarter, we closed the Songa Bulk and Augustea acquisitions, adding quality vessels to our fleet. On the financing side, we have been very active in refinancing loans of approximately $617 million, eliminating maturities in 2018 and 2019, and improving our interest cost by 70 basis points.

Finally, having repaid all our deferred debt amounts originating from our 2016 restructuring, the company now has no restrictions on vessel acquisitions, new debt, or share buybacks. I will now pass the floor to our co-CFO, Simos Spyrou, for an update on our operational performance for the quarter.

Simos Spyrou:
Thank you, Petros. Slide 4 graphically illustrates the changes in the company's cost balance during the third quarter of 2018. The fleet generated free cash flow of $19.6 million. After including debt proceeds and repayments from our refinancing, CapEx payments for our acquisitions, new buildings and scrubber installments, and cash repayments, we arrived at a cost balance of $238.2 million at the end of third quarter.

Slide 5 highlights Star Bulk's strong liquidity position. Our lean cost structure with a breakeven of approximately $11,600 per day per vessel enables us to de-leverage our balance sheet and create value for our shareholders even at relatively low average charter rates.

On the right-hand side, we provide a breakdown of the net debt position of Star Bulk, which is currently close to $1.25 billion. Star Bulk has zero equity CapEx for the three remaining Newcastlemax newbuilding vessels as there is committed financing in place for the remaining CapEx payments. We expect to take delivery of these vessels during the first half of 2019.

On the bottom right-hand side, we show the positive trend in our adjusted EBITDA and adjusted net income, illustrating four consecutive quarters of positive profitability.

Please turn now to Slide 6 where we summarize our operational performance for the third quarter 2018. The combination of our in-house management and the scale of the group provide us significant cost and quality benefits. OPEX was at $4,054 per day per vessel for the quarter and at $4,018 per vessel per day for the nine-month period of 2018.

Net cash G&A expenses were at $918 per vessel per day for the quarter, a 16.5 percent year-on-year decrease compared to the same period last year, primarily attributed to synergies from the increase in the size of our fleet. Our low-cost structure is complemented by excellent ship management capabilities as Star Bulk is ranked in the top three among managers evaluated by RightShip.

Slide 7 illustrates that Star Bulk is one of the lowest-cost operators among U.S. listed dry bulk peers based on latest publicly available information. Star Bulk is one of the leaders in cost efficiencies with OPEX approximately 15 percent below the industry average.

In addition to our emphasis of cost control, we are very focused on having the highest standards of vessel safety and maintenance to meet the requirements of our most demanding clients.

In Slide 8, we provide -- we are providing an update on our scrubber program, which is proceeding as scheduled. Total expected CapEx as of November 2018 is at $152.2 million. The graph below illustrates the estimated breakdown of the payments by quarter based on current forward FX rates and expected milestones.

Note that we have secured approximately 70 percent debt financing for the scrubber program, which we will be drawing down gradually within 2019.

By the end of the year, we will have completed the installation of scrubbers on three vessels, two Newcastlemaxes and one Capesize. We have already started preparatory work with riding teams in numerous vessels while at sea, thereby reducing off-hire time and increasing our optionality for the timing and location of the final scrubber installation.

We expect to have the entire fleet scrubber fitted by end of 2019 and we estimate about 5 percent off-hires across our fleet for 2019 for scrubber installations. I will now pass the floor to Hamish for a discussion on our scrubbers program.

Hamish Norton:
Yes. Thank you, Simos. So, have a look at Slides 9 and 10.

Given the recent discussions in the press on scrubbers, which I'm sure has entertained many of you, we would like to lay out a few relevant facts based on actual research. Sulfur is not a pollutant in the ocean. It's a pollutant in the air, but not in the ocean. It's a natural component of seawater and it already exists in very large quantities in the sea in the form of sulfate.

According to two of the papers that are referenced in that slide, Nyman and Tokerud and Kohl and Nielsen, if you basically create a layer of sulfur that's already in the ocean, it would form a layer of five feet thick or for those of you in Europe about a meter and a half, adding on top of that meter and a half of sulfur, all of the sulfur that exists in known oil and coal reserves, you would add a paper-thin layer, actually thinner than most paper, 30 microns.

So, several studies and, of course, field testing that scrubber owners that we've spoken with have done indicate that the sulfate increase from scrubbers is completely insignificant when compared with the quantity already in the seas. Now, CO2 emissions have been mentioned by some and according to a 2012 paper by the Danish Environmental Protection Agency, they estimated that the refining of heavy fuel oil into distillates creates 400 kilograms of CO2 per ton of refined heavy fuel oil, essentially wasting that fuel-creating excess CO2, whereas the use of scrubbers allows heavy fuel oil to be used with almost no excess CO2.

Scrubbers not only remove sulfur, but they also remove inhalable particulate matter emissions and reduce those by approximately 80 percent, being most effective with the smaller particulates as well as the black carbon. Particulates in the air are hazardous to human health and if you don't use a scrubber, they then end up falling in the oceans.

Moreover, if somebody without a scrubber burns compliant fuel, they emit harmful heavy metals and polycyclic aromatic hydrocarbons into the air, which then fall into the sea. With a scrubber you take those heavy metals and polycyclic aromatic hydrocarbon and wash them directly into the water without going into the air, where they can be breathed, and the concentrations in the wash water are orders of magnitude below the levels of concern as expressed by the IMO and also according to European Union water surface quality standards.

So, scrubbers are one of the options on hand to meet the IMO's regulatory requirements, alleviating the air pollution caused by sulfur without having any proven negative effect on seawater. I will now pass the floor back to Petros for a market update and his closing remarks.

Petros Pappas:
Thank you, Hamish. Please turn to Slide 11 for a brief update of supply. During the first three quarters of 2018, a total of 22.8 million deadweight has been delivered and 3.1 million deadweight was sent to demolition for a 19.7 million deadweight net inflow. By the end of 2018, the dry bulk fleet is projected to increase by 2.5 percent.

A total of 22.1 million deadweight has been reported by Clarksons as firm orders up to now and an additional 8 million deadweight have been identified as LOIs or options. The order book currently stands between 10 percent and 12 percent of the fleet depending on how many identified LOIs and options will be exercised.

During 2019, '20, deliveries are projected to expand at the similar pace to that of 2018. However, due to projected scrubber installations and tanks cleaning off-hires during 2019 and slow steaming, and increased scrapping during 2020, effective supply is unlikely to expand by more than 1 percent to 1.5 percent per annum.

As a result of a 15 percent average increase in 2018 bunker prices, the steaming speed of the dry bulk fleet has overall decreased to approximately 11.5 knots which should, in effect, translate the equivalent of a 2 percent decrease in tonnage supply.

Let's now turn to Slide 12 for a brief update of demand. According to Clarksons, the 2018 dry bulk trade is projected to grow by 2.5 percent in tons and 2.9 percent in ton miles. Strong steel prices and profit margins have supported the 7 percent year-on-year increase in global steel production during Q3.

This was led by China, which registered a double-digit growth of 10 percent. China's environmental restrictions have also led to a 42 percent year-on-year decline of domestic iron ore production during the initial 10 months of 2018. Despite the combination of strong steel production and lower domestic iron ore production, Chinese imports of iron ore have experienced a decrease of 0.5 percent till the end of October 2018 as a result of increased use of scrap and a draw in iron ore stockpiles.

Despite the increased production of the new SD11 mine, Brazil iron ore exports have to-date only expanded by 1.9 percent due to poor weather conditions, political unrest, and the Anglo-American pipe leakage incident in the first half of the year.

In the third quarter, Brazilian exports expansion recovered by 8.5 -- 8.4 percent versus the same quarter of 2017. The positive ton mile effect created an unusually strong Capesize market during July and August. However, as of last September, a wave of VLOCs in the Atlantic and the delivery of nine VLOC newbuildings pushed the Atlantic Capesize market to oversupply. Australian iron ore exports increased by 3.2 percent in the first nine months of the year, but during the last couple of months they have contracted year-on-year basis.

While the seasonal rebound of Australian iron ore exports was anticipated for Q4, the BHP train derailment on the November 5th proved to be a major setback to such expectations. China coal imports increased by 11.4 percent during the first nine months of the year with strength seen in both thermal coals and coking coal. Thermal coal imports demand has been supported by 7.5 percent growth in electricity generation, a sluggish rise in hydropower generation growth and flat domestic coal production. At the same time, Indian coal imports have increased by 8 percent between April and October 2018 while coal stocks continue to stand at critically low levels.

China's National Development and Reform Commission announced last week that it will tighten coal imports until the end of 2018. This appears to be a network to support the domestic coal industry and put downward pressure on international coal prices. However, it is still unclear if the import restrictions will apply to all Chinese provinces, and we find it unlikely that the regulation will remain in place beyond Christmas.

The U.S.-China trade dispute and the imposition of 25 percent tariffs on U.S. imports by China has had a significant impact on soybean trade this year. During the first 10 months of the year, Brazil soybean exports increased by 15.8 percent. The U.S. soybean season, on the other hand, is experiencing a very weak start with volumes down by approximately 40 percent compared to last year.

Chinese imports of soybeans are down 0.5 percent year to date and in mid-October, the Ministry of Agriculture of China issued new standards of protein content in animal feed, which could help trim soybean requirements if adopted by farmers.

Finally, we do not believe that the extent of the recent market sell-off is justified by underlying fundamentals and we expect cargo supply during 2019 to recover lost 2018 volumes. Furthermore, the IMO sulfur regulation is now only 13 months away and we expect it will lead to a decrease in overall supply of vessels through slow steaming and accelerated scrapping, affecting markets positively.

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

Operator:
Thank you. Ladies and gentlemen, if you wish to ask a question today, please press star one on your telephone keypad and wait to hear a message advising your line is open. Should you wish to cancel your request, please press star two. Once again, that's star one if you wish to ask a question.

And we'll now take your first question from Jefferies in the line of Randy Giveans. Please go ahead.

Randy Giveans:

Hey, everyone. This is Randy Giveans from Jefferies. How are you?

Hamish Norton:
Fine.

Petros Pappas:
We're good. Thank you.

Randy Giveans:
All right. Well, first to Professor Norton. I really appreciate the scrubber science lesson there. Hopefully that clarifies some of the scuttle about the impact to marine life. Now with that, what are the plans for scrubber installations throughout 2019? Should we expect a …

Hamish Norton:
Well, we're going to put them all on in 2019 except for the ones we've already put on in 2018. And …

Randy Giveans:
Got it. But in terms of how many days of downtime to install each, and will you pull forward drydockings or do most of them kind of …

Hamish Norton:
Well, maybe Nicos Rescos should address that question.

Randy Giveans:
OK.

Nicos Rescos:
Hello, everyone. I expect the full installations to take place in about 18 days. We are still doing a little work at (sea, where we are writing things) where we expect the time for full installation at the yard to be around 11 to 12 days.

Hamish Norton:
So, on average, Randy, you should expect, as we said, 5 percent of our days in 2018 off-hires across the fleet.

Randy Giveans:
Perfect. All right. Then …

Hamish Norton:

But also, Randy, you can see the latest presentation that we have uploaded, we have a page with the remaining CapEx on the scrubbers -- that's Page 8 of the presentation, which shows you how much we expect as outflow for the quarter in 2019. So, you see that the major outflows are in Q1 and Q2 2019, which coincides with the majority of scrubber installations in our fleet.

Randy Giveans:
Perfect. Yes, I wasn't sure if that was a kind of front-leading CapEx before the installations later in the year or whatnot, but that clarifies. And then looking at your short-term charters, you have about 25 or so vessels expiring in the next few months. What are you plans on those? Do you have a kind of good mix for spot versus charter?

Petros Pappas:
Well, first of all, a couple of months ago when we were looking at the trade war, although we didn't think that it was going to affect that much the market and as we were thinking that this would affect more the smaller sizes, we took the decision to start fixing as vessels were coming out free, mostly through the first quarter of next year and a bit into the second quarter.

So, right now, we have fixed a number of vessels. Actually, probably more than 25 or much more than 25 of our vessels. And as they come free, depending on how things move, we may continue to charter for shorter periods.

The smaller vessels we're not actually installing scrubbers first. We're installing the scrubbers on the bigger vessels, the Newcastlemaxes and the Capes. And therefore, January -- I mean, Q1 and Q2 are mostly dedicated to bigger vessels and then Q3, Q4 to smaller vessels. And for that reason, we have the flexibility to fix out.

Now, if the spot market is low, where vessel opens, and we have much better income on short period, we'll probably take the short period because if we take the lower spot rate, we may never recover. So, we're continuing the similar policy to what we had up to now.

Randy Giveans:
Perfect. So then one more quick question, congrats on the debt refinancing. I can pay a dividend so forth, but with your shares trading at a 40 percent discount to NAV, are share repurchases an option?

Hamish Norton:

Yes, yes. Share repurchases are an option. We're looking into share repurchases and the primary areas of thinking are how to finance the share buyback and how many shares to buy back? And we'll get back to you when we figured it out.

Randy Giveans:
Looking forward to it. All right. Thanks again. Happy Thanksgiving.

Petros Pappas:
Thank you.

Hamish Norton:
Thank you.

Petros Pappas:
You too.

Hamish Norton:
Yes.

Operator:
Thank you. We will take our next question from Deutsche Bank with the line of Amit Mehrotra. Please go ahead. Your line is open.

Amit Mehrotra:
Hi. Amit Mehrotra with Deutsche Bank. Hi, everybody. Hey, Hamish, let me just push back on you on that share repurchase for a quick second.

I mean, one of the biggest problems with shipping companies is there's not on to float in -- for the stocks to trade. Liquidity is an issue. Why would you buy back stock because that would just exacerbate the -- especially with Star Bulk, just given the consolidation of the share capital base already?

Hamish Norton:
Yes. Well, you make a good point and liquidity is important, but it just seems so stupid not to buy back shares at the discount to NAV that we're seeing right now that we're strongly considering it. No disagreement that it has cost in terms of liquidity and so on.

But it's like the proverbial $20 bill on the sidewalk. The economy says it can't be there, because if that was really a $20 bill, somebody would have picked it up.

Amit Mehrotra:
Right. Yes …

Hamish Norton:
And we feel like we have to pick it up.

Amit Mehrotra:
I guess. I mean, we could take it offline. I just think further decapitalizing the company is not necessarily the right strategy but I understand what you're saying.

Let me just ask one follow-up on the scrubber installations. I understand the timeline. I think that was really helpful, but the question I have is you have to install like two per week or something like that next year. And it just seems like -- the question I have is you're pre-welding all the pipes and stuff on when the ship is at sea, you've done three already but what are the risks around this type of scale of installation? And if you could just help us talk about your experience on the installations of the three that you already have and how that's going because if everything goes well, that's great, but what are the risks around this type of installation in the space in which you're doing it?

Hamish Norton:
So, probably Nicos Rescos should answer that question.

Nicos Rescos:
Hello again. Well, addressing the question that goes back to the planning we've been doing for a year and a half and it goes to the engineering, which remains the bottleneck for most owners at the moment. Some we've been taking care of for quite a while. Owner supplies (with that) pretty rare materials like the special piping but does not require welding, plastering for epoxy, you have to secure all the suppliers in position.

And we'll have multiple riding teams with expertise on scrub installation from other industries taking care of what takes place at sea, all of it's certified by class. So, none of the steps before or during the final installation of the shipyard takes place without having all the necessary approvals. We expect by the end of the year to have completed a total of nine installations, three of them will be fully operational, the other ones waiting to be switched on later into 2019.

Amit Mehrotra:

Yes, OK but how about the two that are already operational, any issues there in terms of the installation? I think there were two, if I'm not mistaken, are there any issues that cropped up? Yes.

Hamish Norton:
You are correct. You are correct. We are very happy with the results. We've been operating our first scrubber since early April.

We've been doing all kinds of tests to the system. We're very happy with the operations, very happy with the consumptions, and the results and it's a learning curve for everyone, but most importantly, the equipment is reliable. And that's why our choice is on selected majors on scrubbers have been based on that track record and materials and the relevant warranties.

Petros Pappas:
And these were the two early orders as a test case.

Hamish Norton:
Yes, the decision was not to stop operating throughout the year even if we do not need to run them just to gain experience on exactly what to expect going forward with future installations. So, we're very happy with the initial phase-in period.

Amit Mehrotra:
OK. That's helpful. Thanks. And then just last question from me on the scrubbers.

I think in addition to the 115 or so that you're going to install, you've got options for 70 plus more scrubbers. I would assume you have to take a decision on that pretty soon, just given the lead times. So, can you just update us on that and what you guys are thinking about doing there?

Hamish Norton:
Well, we are looking at -- sorry. Yes. Sorry. Why don't you go ahead, Petros.

Petros Pappas:
Yes, we have arranged our options to be able to go ahead with them even the first few months of next year and we're talking to various -- well, we have already discussed that we are considering whether we should be taking vessels on charter at some point and also, we're considering in doing cooperations with other companies that might need assistance or procurement of such equipment, potential tools. So, we have them on the side and we can declare them anytime we like and this is a great advantage for our company.

Amit Mehrotra:

Great. But would your CapEx budget next year change if you declare those options?

Hamish Norton:
It would change if we declare the options under most scenarios. We're looking at some potential scenarios where the CapEx budget would not change, but where the scrubbers might benefit us more indirectly.

Amit Mehrotra:
OK. One quick one from me on the dividend questions, Randy, asked this -- started asking it, but just wanted to follow up. Number one, do you want to pay a dividend? And if so, what's the timing around that decision with respect to the Board?

And then third point, which is maybe the most important point, I know Hamish you're probably been thinking a lot about this as well, is the philosophy around how to structure a payout because there's many different ways for a shipping company to restructure a dividend payout, some more sustainable than the others. Can you just talk about that?

Hamish Norton:
Well, OK. So, the answer is we'd love to be paying a dividend. We think given the share price right at this moment, that a share repurchase may be a better way to return cash to the shareholders than a dividend right at this moment, but over the medium-term, assuming that the market does a bit better as we expect it will, then we would certainly be looking at dividends. And if we can pay a large dividend, we'd love to be able to pay a large dividend.

Amit Mehrotra:
And the philosophy around the payout structure?

Hamish Norton:
Well, look, as we have said many times, our goal is to deleverage Star Bulk as much as possible and potentially completely, which would allow us to pay out almost everything if we succeed in doing that, and that's our long-term goal.

Amit Mehrotra:
Yes. All right. I'm going to hop off. I have another question but I don't want to hog the time, so I'll just get back in the queue. Thank you all for answering my questions. I appreciate it.

Hamish Norton:
Welcome.

Operator:

Thank you. As a reminder, ladies and gentlemen, it is star one if you wish to ask a question. And we'll now take our next question from Stifel in the line of Ben Nolan. Please go ahead. Your line is open.

Ben Nolan:
Great. Hi, guys. This is Ben Nolan from Stifel. I had – well, this sort of ties in to the dividend or buyback question or whatever. You guys have options for several more of those E.R. vessels – E.R. Capital vessels that come due early next year. With the shares trading where they are relative to NAV, how do you think about your use of capital whether to move forward on those options or not?

Hamish Norton:
Well, look, the beautiful thing about options is that you don't have to decide what to do with an option until it expires. And we're going to get as much information about the market as we can before exercising the option to buy those ships.

Now, of course, Rickmers has an option that is not quite a mirror image of our call option to put the ships. And, of course, that's his option, not ours.

Ben Nolan:
Right.

Hamish Norton:
But a third of that purchase price is payable by us in common shares at NAV.

Ben Nolan:
Right.

Petros Pappas:
Correct. And, Ben, we expect the remaining two thirds to be in cost, which are going to be financed by a regular debt financing. So, in a sense, when options are going to be exercised, we do not expect to use our existing cost.

Ben Nolan:
OK. Well, that's helpful. And I appreciate that there is the put on the other side. Just thinking through thematically how maybe you're feeling about your – what you're doing with your capital relative to either spending it organically on the shares or buying more, obviously, low-hanging vessels, and I understand the option value there and just sweating it out.

But my next question relates to something that Randy brought up in terms of renewing the charters on some of the vessels and there I didn't see the slide in there this time kind of outlining which vessels have charters, but was just curious, Petros, if you can frame in anywhere on average you have rechartered vessels relative to where rates are now or maybe how – the rates that you had indicated that you booked so far in 4Q?

Petros Pappas:
Well, we have chartered mostly our smaller vessels and we have chartered them, I would say, around 15 percent to 25 percent higher than where they presently are.

Ben Nolan:
OK. That's very helpful. All right. Well, and I think you kind of covered a lot of what I would have asked with Amit, so I'll turn it over there, but I appreciate the time, guys.

Petros Pappas:
Thank you.

Hamish Norton:
Thank you.

Operator:
Thank you. And we will now take our next question from JPMorgan with the line of Noah Parquette. Please go ahead. Your line is open.

Noah Parquette:
Hi, yes. I just wanted to – I mean, most of them have been addressed but on IMO 2020, I wanted to know what your views were on compliance initially and then maybe over time? Thanks.

Hamish Norton:
Well, so, I think the ability of ship owners to not comply has been exaggerated by a lot of commentators. So, in particular, as of March 1, 2020, it will be illegal to carry high-sulfur fuel unless you have a scrubber. And that opens up easy enforcement by port state control. And so, any port state that chooses to apply penalties to people, who show up with high-sulfur fuel oil with no scrubber, can do so.

And based on the history in eco zones, we expect the punishments to be pretty severe in most civilized places. And the United States, the European Union, Australia, China, we all expect to enforce this pretty vigorously. And if you look at those places, almost all cargoes, well, certainly the vast majority of cargoes either begin or end at those ports. So, by – sometime in March of 2020, we expect compliance to be pretty thorough one way or another.

Petros Pappas:
And the penalties will not just be monetary. The penalties will be, for example, a vessel goes to the port and has heavy fuel on board or a blend that doesn't comply, the vessel might be obliged to discharge all this fuel oil and that would be an extremely expensive exercise and a lot of loss of time. So, that would probably be worse than just the monetary penalty.

Noah Parquette:
OK. That's very helpful. I guess just to follow up on the capital structure dividend question. I think in the past you said that that's placing the shipping company limited, given there's no tax benefits and I think you said your perfect capital structure is then zero net debt at the market peak, and I think you mentioned that was your long-term goal.

Can you talk a little bit about – a little bit more detail about a way to get to that goal and what your time frame is? Thanks.

Hamish Norton:
Well, if you can tell us how the market will evolve over the next two or three years, we can tell you how we'll do it. But we are constrained by the dry bulk charter market in terms of how we're going to get there and how long it's going to take us.

In an ideal world, we'd have Capes earning $60,000 a day, our share trading at 2.5 times NAV, and then I would tell you we would get there pretty quickly. But in a market where charter rates are much lower and the share is at a fraction of NAV, it's much harder. So, it's one of these things, where knowledge of the future would be a great asset.

Noah Parquette:
OK. Fair enough. Thank you.

Operator:
Thank you. We will now take our next question from Morgan Stanley with the line of Max Shillalies. Please go ahead. Your line is open.

Max Shillalies:
Hi. This is Max Shillalies from Morgan Stanley. Can you hear me?

Hamish Norton:
Yes.

Petros Pappas:

Yes. Hi, Max.

Max Shillalies:
Perfect. Thank you. A couple of questions on slow steaming, and I apologize if I missed it, but what is your expectation for kind of what percentage of the fleet that it takes out of capacity? What percentage of the fleet do you expect to install scrubbers. And where is your fleet optimized speed-wise with a scrubber and without a scrubber?

Petros Pappas:
Hamish, I'll take the first part …

Hamish Norton:
Petros, do you want take that or do you want me to take that? Sorry.

Petros Pappas:
Take the scrubber part, then I'll take the rest.

Hamish Norton:
OK. So, with a scrubber, assuming that heavy fuel oil is inexpensive relative to its price today, the optimum commercial speed of the fleet will be pretty high and so we would expect ships to go in the dry bulk fleet with scrubbers to go on the order of 14 knots if they can.

Now, we would, by the way, be all in favor of regulating speeds in dry bulk and other forms of shipping in order to reduce CO2 emissions. So, I'm not talking about what we think is the right thing to do, but simply what the commercial optimum speed would be in the absence of regulation and, of course, ships without scrubbers would go slower.

And maybe Petros wants to talk about that.

Petros Pappas:
Yes, about a year and a half ago, every such call I was finishing, advocating that vessels should actually – that there should be a mandatory speed limit on vessels because if you, for example, decrease speed by 10 percent, the emissions decrease by 20 percent or thereabouts, and that would be a very quick and efficient way – short-term way until we find other ways to be able to reduce emissions.

So, I was doing it every time. Now it has – a lot of people have caught on it and, of course, as Hamish said, we are in favor of it if it's ever going to take place. Now, if – vessels presently on the dry side are going at about 11.5 knots speed.

So, if speed – the speed is a function of the charter rates and the price of bunkers. So, if bunkers are very expensive then speed goes down, but if the charter rates go up, then speed will go up again.

So, if a vessel is going at 11.5 knots and you reduce speed by, let's say, 1.5 knots down to 10, this would be – this would actually mean a reduction of supply to the tune of about 10 percent. So, of course, that would lead to a reduction of emissions by 30 percent, and it would lead to much stronger market as well.

Max Shillalies:
OK. That's helpful. Thank you. And then, I guess, it's becoming a little bit more clear that the larger vessels, Capesize vessels will be able to find heavy sulfur fuel on major ports.

So, what's your view on smaller vessels being able to find that fuel maybe at smaller ports, not those major ports?

Petros Pappas:
Well, what one has to do is we'll have to be organized. A few months ago, people were worried about whether they would find distillates. Now, it seems that this point has been settled. Now, our vessels go through small and big ports.

So, one thing one would have to do would be to supply heavy fuel oil to the smaller vessels whenever the opportunity arises and basically run the vessels with higher heavy fuel quantities then we would run them today. So, I do not think there's going to be a major problem in that. I think there's going to be a number of major ports that we will be able to find the heavy fuel oil at. Sometimes we may need to balance what they do, or even in the extreme circumstances, we might need to get distillate but do not forget that the smaller vessels usually fill up in volume, not in dead weight.

And therefore, it is easy to fill up a vessel's tanks up to 100 percent and you're not going to lose cargo because of that. So, we don't see -- foresee much of a problem.

Hamish Norton:
Yes. Just to put some numbers on that, the smaller ships have in excess of 60 days range, when they fill their tanks full. When people think of this is a problem, they think about filling the tanks the way they do it today, which is very seldom, filling the tanks all the way full. But I think in 2020 at least until we see what the situation is, our practice would be when we find heavy fuel oil to fill the tanks all the way.

Petros Pappas:

Yes. And for example, Newcastlemax that takes 2,000 tons of fuel oil and especially if you go at lower speed, you can – and you burn 20 tons, you can actually sell for 100 days. That's going from China to Brazil and back to China and then almost back to Brazil. So, I don't think there's going to be a problem there.

I was just reading the other day that there are refineries in South Africa, for example, which is not a really major banking port that will have a problem because they will have additional heavy fuel oil capacity. I don't think there's going to be an issue, but one has to be organized and, nevertheless, the vessel go with half empty tanks.

Max Shillalies:
I appreciate the color, guys. Thank you.

Petros Pappas:
Thank you.

Operator:
And we will now take our next question from Deutsche Bank from the line of Amit Mehrotra. Please go ahead. Your line is open.

Amit Mehrotra:
Hi, guys. It's Amit here from Deutsche again. Thanks for the follow-up. So, obviously just one on scrubbers, the big bet that you are making on scrubbers.

I think – I mean, correct me if I'm wrong, but effectively it's just a bet on the price differential between high and low-sulfur fuels. And I wanted to understand, Hamish, how confident you are on that aspect of that investment, because Paddy Rodgers and Euronav, their objection to scrubbers is not just environmentally driven. It's also their belief that the spread may not be as wide as what's implied by (intermittent) fuel and then …

Hamish Norton:
Well, first of all, yes, I mean, we have an argument with anybody who says that scrubbers are not as environmentally friendly as burning other sorts of compliant fuel. We actually think that scrubbers are more environmentally friendly than burning compliant fuel without a scrubber.

But in terms of the business case, the more people, who think that scrubbers are stupid from a commercial point of view, the happier we are. So, we really don't want to convince anybody that scrubbers are a good business decision and I'm happy that as many people think that scrubbers are as stupid as possible.

Amit Mehrotra:
I get it. But the question – I mean, you're not really answering the question. The question is I think you sat on a Board of a refinery a while ago, so you really know about the oil company's ability to make compliant fuel enough of oil …

Hamish Norton:
Well, let's put it this way. Do you think the price of heavy fuel oil is going up or down and do you think the price of the low sulfur fuel is going up or down? So, keep those answers to yourself, but I'll tell you that at the current spread between heavy fuel oil and low sulfur fuel, we're happy.

Amit Mehrotra:
OK. That's fair. Let me just ask one quick one, a nuance question on the buybacks. So, it's your view that you could just simply go to the open market and buy shares or could the company actually become a liquidity provider for one of the large shareholders has been in the capital base for a while? And the answer I think is important because …

Hamish Norton:
We have no intention of buying back Oaktree shares.

Amit Mehrotra:
OK. All right, guys, that's all I have. Thank you so much. Appreciate it.

Hamish Norton:
Thank you.

Operator:
Thank you. We have no further questions at this time, so I'll hand it back for closing remarks.

Petros Pappas:
No closing remarks, operator. Happy Thanksgiving to everyone and thank you for attending.

Operator:
Thank you. Ladies and gentlemen, that does conclude your presentation for today. Thank you all for participating. You may now disconnect.

END