Company Name: Star Bulk
Company Ticker: SBLK US
Date: 2019-08-08
Event Description: Q2 2019 Earnings Call

Market Cap: 845.339617678
Current PX: 9.15999984741
YTD Change($): 0.0199998474121
YTD Change(%): 0.219

Bloomberg Estimates - EPS
Current Quarter: 0.217
Current Year: 0.511
Bloomberg Estimates - Sales
Current Quarter: 161.429
Current Year: 576.25

Q2 2019 Earnings Call

Company Participants

- Christos Begleris, Co-Chief Financial Officer
- Petros Alexandros Pappas, Chief Executive Officer & Director
- Unidentified Speaker

Other Participants

- Christopher M. Snyder, Analyst
- Analyst
- Randall Giveans, Analyst

Presentation

Operator

Good afternoon. Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the second 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 listen only mode. There will be a presentation followed by a question and answer session. (Operator Instructions). I must advice you that this conference is being recorded today. 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'm 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 second quarter of 2009. 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 second quarter 2019 financial highlights. In the three months ending June 30, 2019 [ph]PC revenues amounted to .

1.2% higher than the $91.5 million for the same period in 2019. Mostly because of the high number of (inaudible) Adjusted EBITDA for the second quarter of 2019 was up $31.2 million versus $52 million in the second quarter of 2018. The adjusted net loss for the second quarter amounted to $20.5 million or $0.22 loss per share versus $13.4 million adjusted net income or $0.21 gain per share in the second quarter of 2018.

Our adjusted EBITDA and adjusted net income figures include an adjustment of $8.4 million for the accelerated drydocking expenses brought forward from 2020 to 2019. Our TCE rate during this quarter was at 10,549 per vessel per day. During the second quarter of 2019, our average daily operating expenses were at U.S. dollars $ 2939 per vessel per day.

As of June 30th, we have installed 34 scrubber towers half a week. I mean to castlemax Capesize, segment taking advantage of the market weakness in that size during the (inaudible). Overall, we have decided to accelerate to 2019 drive up schedule for the vessels that had worked during 2020 in order to complete works concurrently with a scrubber installations and have no stoppages in 2020, thus maximizing our scrubber return.

Our underwater fleet has grown after taking delivery of our last two,new customers in building vessels as well as eight out of 11 -- measures. We have agreed to sell the [ph]Star Nina and the Star Gamma, which are expected to be delivered to their new owners in the end of September, in the end of August respectively.

As of today, we have $94.5 million common shares outstanding after giving effect to the share buyback visions of new shares in connection with the acquisition of the eight (inaudible) vessels and nations of shares under our equity incentive plans. We have already drawn $34.4 million viewers. The owners of scrubber with another $115.3 million U.S. dollars in place to be drawn at the later stages during the rollout of our program.

We expect to collect approximately $20 million of equity we have repaid through these financing, former total cost base, sounds at $135 million.

Performer net debt at $1.57 billion. Please turn to Slide 4, where we summarize our operational performance. We reported a [ph]fleet wide TCE of $10,549 per vessel per day for the second quarter, which is an over performance of 4% compared to the [ph]adjusted above Index where the first half of 2019, our fleet wide performance was 21% better than we adjusted above the index of $10,880 provincial per day.

This is a result of our strong commercial platform, despite the fact that we had to reposition [ph]tornadoes in the Pacific for scrubber installations in China. The Scrubber Installations program will continue affecting our TCE for the remainder of the year due to increased oversight and repositioning costs. OpEx was at $3939 per vessel per day for the quarter and $3977 for the six month period ending on 30th of June 2019.

The combination of our in-house management and scale of the group enable us to provide our services are some of the lowest costs in the industry, with Starbucks operating force 16% below the industry average. This is complemented by excellent management capabilities, with Starbucks consistently ranked amongst the top five managers evaluated by Rightship.

In slide 5. We're providing an update of our scrubber program. We expect to have 104 of our vessels scrubber fitted by the end of 2019 with the remainder of 10 vessels falling in early 2020. By the end of August, we expect to have 58 scrubber towers installed in China as well as Europe. In order to reduce retrofitting time at the shipyard. We employ 72 specialized technicians that are deployed on border vessels and complete [ph]sudden isolation at sea.

Slide 6, and an overview of the total complex payments of our scrubber program, including the (inaudible) acquisition, our total expected CapEx for the scrubber project is now estimated at $199 million, with approximately $150 million of secured debt financing in place with the project. As of August second. The remaining CapEx is at $95.5 million out of which $19.7 million is equity. We have three (inaudible).

illustrate the scrubber towers installations broken down by vessel segment and by quarter based on expected future milestones.

As of today, we have installed 49 scrubber towers, mostly in the larger and medium sizes, the smaller sizes fully in the latter part of 2019. The slide 8 illustrates our future drive booking schedules, estimates of expenses and [ph]0 5 for the forthcoming quarters based on the current retrofit planning vessel employment and yard capacity.

We provide this slide to give guidance about our future expenses relating to our accelerated driver program. These figures incorporate our current understanding of present and future [ph]CPI congestion , including some buffer. But to [ph]cure congestion is increasing rapidly and we cannot be certain that these figures will not increase.

Slide 9 illustrates Star Bulk's employment coverage for the third quarter of 2019. We have fixed employment for approximately 59% of the days in the third quarter of 2019. at average TCE rates of around $14,420 per day. I will now pass the floor to our CEO Petros Papas, for a market update and his closing remarks.

Petros Alexandros Pappas, Chief Executive Officer & Director

Thank you, Crystal. Please turn to slide 10 for a brief update of supply. During the first half of 2019 a total of 18.3 million deadweight was delivered and 4.5 million deadweight was sent to demolition for a $13.8 million deadweight or 1.6% net increase in fleet size.

Demolition activity as of today stands at 6 million deadweight and has already crossed the full 2018 figure. During the same period, a total of 10.3 million deadweight has been reported by Clarksons as firm orders and an additional 2 million dead weight has been identified as allies or options. The order book currently stands between 11% and 12.5% of the fleet. The Supramax Order books mentioned just 8.8% of the fleet.

The average steaming speed of the [ph]drive up fleet during the first half was 11.5 knots, down 0.2 knots last year due to combination of low freight rates and relatively high 84 prices. At the same time.

Christos Begleris, Co-Chief Financial Officer

(inaudible) are accelerating and they're expected to absorb approximately 3% of the fleet during the second half of 2019. Further constraining vessel supply. During 2019 and 2020 (inaudible) fleet is projected to expand at an annual pace of approximately 2.5%. However, effective supply is unlikely to expand by more than 1.5% per annum due to the (inaudible) is related to scrubber installations and [ph]tank cleanings at the end of 2019 and an incentive to slow steam as of January 2020.

Let us not turn to Slide 11, for a brief update of demand.

During the first half of 2019 and up until the start of the second quarter. The dry bulk market was negatively affected by a series of disruptions in iron and ore exports owing to Vale's iron and ore mine accident and Cyclone Veronica in Australia which came on top of that, additionally, weak seasonality.

In addition, China's coal import restrictions from Australia favored shorter coal exports from Indonesia to the detriment of larger sizes, headwinds reverse towards the end of the second quarter with -- improvements driven by larger vessel sizes, mainly on the back of a recovery of iron ore trade flows and vessel shortages in the Atlantic. The dry bulk market [ph]rallied significantly during July with Cape Size and Panamax Post freight rates recording the highest level since 2015 and 2010 respectively.

During the first half of 2019, Iron and ore exports from Brazil declined by 10.5%, with April volumes contracting 29.1% year-on-year. The lower monthly export figures for January 2012. Australia Iron and ore exports during the first half are estimated to have declined 3% year on year. Nevertheless, steel industry fundamentals and healthy, leading us to believe that the decline experienced our supply driven.

More specifically,(inaudible) iron and crude steel production increased by 9.5% during the first half and combined with a slowdown in imports, has led to a sharp destocking of iron ore at ports. According to Clarkson's iron and ore trade in 2019 is expected to decline by 1.8% and 3.4% in tons and Ton Miles respectively. China's total electricity generation during the first half increased by.

Petros Alexandros Pappas, Chief Executive Officer & Director

[ph]10.3% year-on-year, power generation on hydro power increased 11.2% and restricted thermal power growth 2.5%, domestic coal production increased 3.4% during the first half and coal imports increased 62.2%. China has announced restrictions on lower quality coal imports and has set as a target to keep 2019 imports at the same level to 2018. It is still too early to evaluate if the Chinese restrictions will have an impact on the shipping markets.

India and Southeast Asia countries are expected to absorb a potential surplus created from China's restrictions. Indian coal imports are estimated to have increased by approximately 19% and are (inaudible) to remain strong throughout the year. Clarkson's project Coal Trade Growth of 0.6% in tons, but minus 0.3% in ton miles respectively [ph]its sorted distance is have prevailed during the first half of 2019.

The US, China trade war has had a strong effect on soybean trade flows during the last 18 months. US soybean exports during 2018 decreased 14% in tons and 30% in ton miles with Q4, 2018 export volumes down by 40% to 2017. China soybean imports during the first half decreased 15% as a result. Furthermore, over the last twelve months, the pig population in China is declined 25% due to the outbreak of the African swine flu.

Coals, grains and minor bulks, including bauxite, are projected to continue to grow the annual pace of [ph]circa 4% during 2019 and 2020, bauxite, nickel and manganese are trade volumes are projected to increase from 214 million tons during 2018 to 273 million tons during 2020 with the majority of [ph]Guinea bauxite transport -- transported on Cape Size and Newcastlemax vessels to China with a positive effect on ton miles and Atlantic Cape Size requirements.

According to Clarkson's, total dry bulk trade is a project to expand approximately 1.1% during full year 2019 and will rebound above 3% during 2020. Finally, as a general comment, we expect inflationary pressures during related to IMO 2020 to incentivize restocking across all dry bulk cargoes during the second half of 2019

In general, we remain optimistic for the end of the year and expect that the 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.

Questions And Answers

Operator

Thank you. Ladies and gentlemen we will now begin the question and answer session. (Operator Instructions) We will now take our first question. Please go ahead, your line is now open.

Christopher M. Snyder, Analyst

This is Chris Snyder from Deutsche Bank on from it. So the first questions on the [ph]Kate market , which seems to be driving market demand and sentiment even more than normal obviously rates spike with valley ramping and limited Atlantic supply and now we're starting to see rates pullback as supply is returning into the Atlantic. So my question is, have we hit a steady, more balanced state here in the low to mid 20,000 levels? Or do you see more downward pressure over the near term as supply continues to return into the Atlantic?

Unidentified Speaker

Hi, Chris. Thank you for the question. We're very positive about the capsized market, at least until the end of this year, the market got as strong as it did because there was -- there were very few capes in the Atlantic, for various reasons, like for example, that the markets were tough previously and vessels would not dare to ballast back to the Atlantic once they were in the Far East. Also, banking prices were relatively high and they were also installing scrubbers and therefore, what happened was that, as you also said, there were less vessels in the Atlantic and that led to a strong increase in the market, which pulled the whole market up.

Now there are vessels going back, as you said, and -- the situation is getting easier, perhaps. But at the same time, there are so many scrubber installations and dry docks taking place at the same time. And as the Chinese yards are very, busy with all these vessels, [ph]right out times in scrubber installation times are getting longer. So I would not be surprised to see vessels.

Unidentified Speaker

All of of companies that have not been extremely well prepared and have not fixed forwards staying in shipyards for like 60 days. That is going to take a big percentage of the capes out of the market for the next five months. I think there are about 60 below seas and about a 130 capes that still need to install scrubbers.

Hence, in our view, this market is going to be -- continued to be strong during the next five months. We saw that the 30,000 plus and now it's like low 20s. Since yesterday, the market went up by $2,000. So in our view, it's going to be a strong market with ups and downs, but I expect them to be above $20,000 for the near future.

Analyst

I appreciate that color. And then just kind of following up on the capes so obviously, China's steel production growing 10%. At the same time, the iron ore imports are falling mid single-digits year-on-year dynamic that doesn't feel like it can continue to persist. Have you seen China return to the iron ore import market now that iron ore prices have kind of come down pretty sharply here over the last couple of weeks?

Unidentified Speaker

Well, China has stocks that are about between $118 million to $120 million tons. So they will have to come back into the market. As we were always saying, we believed that this slowdown in the math -- in Chinese imports was more due -- was more supply driven than demand driven. So now that Brazil has increased its come back into the market and we have all these long [ph]haul cargoes, we believe that the market will be sustained going forward.

And I'm basically talking about the next five, six months as of next year. We believe here that the effect of the environmental regulations is going to be relatively strong. And if, for example, vessels are obliged to burn diesel instead of fuel, which there is a difference between the two -- between $200 and $300, depending on the place and the time, if vessels all of a sudden have to burn non-stop or fitted vessels disloyal at $700 per ton, it is almost certain that they will slow down their speed and.

Unidentified Speaker

As we have said before, again, a one not decrease in spin equals about 7% decrease in supply of vessels, which is huge.

Christopher M. Snyder, Analyst

Yeah. Thank you for that. And then my second question. So the price of high sulfur fuel oil has spiked in a couple of key regions, most notably Singapore. [ph]How much is this just driven by supply is starting to transition ahead of demand or is there something maybe more structural that could weigh on in other 2020 spread [ph]scrubber economics .

Unidentified Speaker

We think this is a temporary thing, totally temporary. There was also a very high barging for some reason in Singapore I think now it's normalizing. Just to give you an idea. Yesterday we bought fuel oil at I think $250 per ton in the Atlantic. So that doesn't seem to me like it's going up.

Christopher M. Snyder, Analyst

No, not at all. Well, I appreciate the time, that's it for me. Thank you.

Unidentified Speaker

Thank you.

Operator

We will now take our next question. Please go ahead. Your line is now open.

Randall Giveans, Analyst

How are you gentlemen, it's Randy Giveans from Jefferies. How's it going?

Christos Begleris, Co-Chief Financial Officer

Hi Randi.

Randall Giveans, Analyst

Excellent, quick question for me. So first there I've seen some headlines and delays discover retrofits recently. However, you're kind of bucking that trend. Able to pull for your dry dock and a retrofit schedule. How is that possible?

Unidentified Speaker

Well, I we haven't pulled our scrubber retrofit schedule forward from what our scrubber retrofit schedule started out being. We've managed kind of to keep it at the same pace. What we've done basically is as part of our scrubber retrofit program. We've pulled forward the dry docks on all those ships that we're getting, scrubbers that had a dry dock scheduled in 2020.

We're doing not just the scrubber retrofit in 2019, but the dry dock work in 2019. And we had arrangements with Major Shipyard Group in China. Basically, we had a contract in place for a while. That's put us in a relatively strong position as the Shipyards get more and more congested.

Randall Giveans, Analyst

Just to clarify these dry docks that we're bringing forward every five years of.

Unidentified Speaker

We have to [ph]do to drive blocks and we are allowed to have the first dry dock on the second or third year, all these dry dock that we're pushing forward is our world view on the third year. We're doing them on the second year and therefore we don't lose any time on the cycle. It is just doing them earlier during the five year period.

Randall Giveans, Analyst

Got it. And then this thing I see guidance for 114 scrubbers versus 118 vessels. Can you reconcile those four?

Yeah That's right. There are [ph]four sad for Lauren vessels that will have to do without scrubbers.

Okay. These are all old super pump stations.

Unidentified Speaker

Yes.

Randall Giveans, Analyst

You operate those without scrubbers or were you kind of get those out of the fleet?

Unidentified Speaker

We will probably sell them or if not -- if the market is very strong, we may keep them through next year.

Randall Giveans, Analyst

All right. Last question for me. You said going on the possible selling of ships, Starbulks shares exceeded 11 bucks just two weeks ago, back to 9, 20 or so today pretty good move today with shares trading at a (inaudible) and obviously with rates in 3Q19 and beyond looking pretty strong, our share repurchase is still contingent on the sale of ships or would you use free cash flow as well for that?

Unidentified Speaker

I think at this point, we still don't feel like using free cash flow to buy back shares. But, if we have sales of ships, we might use those proceeds to buy back shares depending on the share price.

Our thinking is is pretty much the same as it has been for a while on that topic.

Randall Giveans, Analyst

Got it Yep, just enough to change with the recent pullback. Oh, well, that's it for me. Thank you again.

Unidentified Speaker

Thank you.

Operator

Thank you. We will now take our next question. Please go ahead. Your line is now open.

Analyst

[ph]Eric Alva Clarkson's . Hi guys. Also, regarding the accelerated, dried up schedule you have so it is something, I guess you answered most of it already. But is this something you think that other owners are able to accomplish as small or is that something that only you are able to do? And for those at the dry dock, you can think that installation

time.

Increase that's said with the condition in the (inaudible) scrubber installation.

Unidentified Speaker

first of all, I think owners that have had contracts in place for a while with shipyard groups may be able to do what we're doing. If you have not had a contract in place for a while, it would be challenging. And the second question

Analyst

well, the second is whether there will be longer.

Unidentified Speaker

Yeah. I mean, fate basically our estimate of the dry dock and scrubber installation schedule takes into account increasing congestion at the shipyards. And we don't think it's going to get longer. But, the reason we hedged our bets a little is that it's hard to predict exactly how congested these shipyards can get. But I mean, we think we've put in a buffer that's sufficient for the increasing congestion that we anticipate.

Analyst

Okay. That's that's really helpful. I guess that's it for me. Thank you guys.

Unidentified Speaker

Thank you. Thank you.

Operator

Once again, (Operator Instructions). We will now take our next question. Please go ahead. Your line is now open.

Analyst

Good morning, everyone. [ph]JM of value investors edge . Good quarter considering the dynamics of the market and even better fixtures for Q3, I just a bit of housekeeping. I might have missed it in the opening comments. You mentioned previously 100% scrubber installation for the fleet, but I see one 114 total scrubbers on Slide 7 versus a 118 are there four ships that are no longer getting scrubbers or those ships that are earmarked for sale or what what's going on there.

Unidentified Speaker

Those are four ships that are not getting scrubbers that we may sell or operate depending on the strength of the market.

Analyst

Okay, that makes sense. Thanks, (inaudible). And then looking at your cash balances, I understand there's about $20 million positive coming back from scrubber financing a cash balance is a little low, but the current ratio looks good. What kind of cash buffer are you looking for the company before you can really go heavy on either repurchases here at these prices or reinstating a dividend? .

Unidentified Speaker

It's not just cash buffer it's also market outlook. And, I think we have always stated that in a strong market, we want to be a significant dividend player. And that sentiment hasn't changed. And, let's hope for a continued strong market.

Analyst

Yeah, excellent (inaudible) that yes, go ahead.

Unidentified Speaker

Well, machinery purchases, we stated before that right now, given our cash balance, you may see us buyback shares utilizing proceeds from sale of vessels.

Analyst

Yeah, that makes sense. It's just plain that arbitrage with the [ph]NAV and looking into your net asset value now. I see you guys in the mid 14s and then that's without giving you any credit for these scrubbers and also without including any sort of positive cash flow that I'm expecting the third quarter. So definitely a huge [ph]disconnect right now in the market and the more you can act on that, the better. you have a situation here with the rates running quite healthy. keeps in the 20s and the stock is falling. So that's a perfect opportunity take advantage of the arbitrage. Thank you, gentlemen, for your time today.

Unidentified Speaker

Thank you.

Operator

(Operator Instructions) We have no further questions at this time. Please continue.

Unidentified Speaker

Thank you very much, operator. Thank you, everybody. We have nothing else to add. Have a nice summer vacation, everyone.

Operator

That concludes the conference for today. Thank you for participating, you may all disconnect.