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Star Bulk Carriers 4Q21 Earnings Call

February 17, 2022
4:00 p.m. GMT

Operator: Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Fourth Quarter and Year-end 2021 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 will be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, please press star one on your telephone keypad and wait for the automated message advising your line is open.

I must advise you that this conference is being recorded today.

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

Christos Begleris: Thank you, operator.

I'm Christos Begleris, Co-Chief Financial Officer of Star Bulk Carriers, and I would like to welcome you to our conference call regarding our financial results for the fourth quarter of 2021. Before we begin, I kindly ask you to take a moment to read the safe harbor statement on slide number two of our presentation. In today's presentation, we will go through our fourth quarter and full year results, cash evolution during the quarter, a walk-through of our dividend policy, an overview of our balance sheet and operational updates and the latest industry fundamentals before opening up for questions.

Let us now turn to slide number three of the presentation for a summary of our fourth quarter 2021 highlights. The company reported a record performance for the second quarter in a row. Net income for the fourth quarter amounted to $300.2 million and adjusted net income of $302.4 million or $2.96 earnings per share. Adjusted EBITDA was $355.1 million for the quarter.

On the bottom of the page, you can see the evolution of our adjusted net income and adjusted EBITDA performance. During the last 8 quarters, our adjusted EBITDA has grown more than 10x, illustrating the strong operating leverage Star Bulk has on the improving dry bulk fundamentals. For the fourth quarter, as per our existing dividend policy formula, we declared a dividend per share of $2, payable on March 15, 2022.

On the top right of the page, you will see our daily figures per vessel for the quarter. Our time charter equivalent rate was $37,406 per vessel per day. Our combined daily OpEx and net cash G&A expense per vessel per day amounted to $5,415 per day. Therefore, our TCE less OpEx and G&A is around $32,000. Looking at our chartering coverage for Q1 2022, we have covered 80 percent of our fleet available days at a daily rate of $26,100 per day.

Slide four graphically illustrates the changes in the company's cash balance during the fourth quarter. We started the quarter with $371.7 million in cash and generated meaningful positive cash flow from operating activities of $296.4 million due to the strong freight market. After including debt proceeds and repayments, CapEx payments for ballast water treatment system installments, buyback and the third quarter dividend payment, we arrived at a cash balance of $473.3 million at the end of the quarter.

Slide five has a walk-through of our dividend policy with an example of dividend calculation for the fourth quarter of 2021. As of December 31, we owned 128 vessels and our total cash balance was $473.3 million. With a minimum cash balance per vessel of $2.1 million as of December 31, 2021, on February 16, 2022, pursuant to our dividend policy, our Board of Directors declared a quarterly cash dividend of $2 per share, payable on or about March 15, 2022, to all shareholders of record as of March 2, 2022. The ex dividend date is expected to be March 1, 2022.

Please turn to slide six, where we highlight the continued strength of our balance sheet. Our total cash today stands at $593.7 million. Meanwhile, our total debt stands at approximately $1.5 billion. Our working capital stands at approximately $128 million. Our full year '22 amortization is $207 million. We have five unlevered vessels and no debt maturities until the third quarter of 2023. Year-to-date, our company has distributed dividends of $4.25 per share. We have fixed 55 percent of floating interest rate exposure to LIBOR at an average rate of 45 basis points.

In slide seven, we demonstrate the interim operating leverage and cash flow potential of the company and the illustrative free cash flow per share as well as the potential cash flow yield. For example, with approximately 46,700 fleet available days per year based on the current 2022 FFA curve, Star Bulk would produce $6.4 of free cash flow and a yield of 24 percent.

I will now pass the floor to our COO, Nicos Rescos, for an update on our operational performance.

Nicos Rescos: Thank you, Christos.

Please turn to slide eight, where we provide our operational update. Operating expenses, excluding nonrecurring expenses, was $4,310 for the 12 months ending in 2021. Net cash G&A expenses were at $1,050 per vessel per day for the same period. Despite continued adverse COVID-related restrictions, which have a direct impact on OpEx, the combination of our in-house management and the scale of the group enable us to maintain very competitive costs being the lowest cost operator amongst our peers and continuing to rate among the top 3 of our listed peers in terms of Rightship Ratings. On the ESG front, Star Bulk in 2021 has participated in a Carbon Disclosure Project, the world's leading environmental disclosure platform, achieving the highest score amongst U.S.-listed global companies. Star Bulk will continue focusing on sustainability and integrating it in every process throughout the company.

Slide nine provides a fleet snapshot and some guidance around our future dry bulk and ballast water system installation expenses for the next 12 months and a relevant total off-hire days. Our expected dry bulk expense for the 12-month period is estimated at $30.3 million for the dry docking of 31 vessels with another $19.2 million towards our ballast water CapEx. In total, we expect to have approximately 787 off-hire days for the forward 12-month period. We anticipate that 97 percent of our fleet will be fitted with ballast water systems within the first half of 2022. The above numbers are based on current estimates around dry dock and retrofit planning, vessel employment and yard capacity.

On the scrubber utilization front, Star Bulk has by now accumulated 109,000 days of scrubber operating experience. With high five fuel spreads having stabilized at levels of around $200 per ton based Singapore stock market prices, where we bunker 60 percent of our total annualized volume, we expect to have recouped our scrubber investment in full by the end of the second quarter 2022. With an estimated annualized consumption of 800,000 tons of basis a fall across the fleet, for the remainder of 2022, at a conservative stock high five differential of $150 per ton, we'll be subsidizing our breakeven by $2,600 per vessel per day. With 94 percent of our vessels scrubber fitted, a continued increasing in the high 5 spread can be a significant value generator for our company.

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

Petros Pappas: Thank you, Nicos.

Please turn to slide 10 for a brief update of supply. During 2021, a total of 38 million deadweight was delivered and 5.2 million deadweight was sent to demolition for a net fleet growth of 32.8 million deadweight or 3.6 percent. New orders placed during 2021 increased to 40 million deadweight from a depressed 23.7 million deadweight during 2020. Despite the rebound of ordering activity, the newbuilding order book remains at a historical low level of 6.8 percent of the fleet. Deliveries during 2022 are expected to total 29.7 million deadweight and 26.4 million deadweight in 2023.

Present order book for 2024 is just 11.8 million tons with Japan quoting newbuilding slots for October 2024 onwards. It could be the 2024 deliveries will face difficulty exceeding 20 million tons deadweight. Such a supply picture is basically unprecedented in the recent history of dry shipping. Increased uncertainty on future propulsion along with surging shipbuilding costs have helped keep new orders under relative control, whilst the strong increase in containers orders was filling up CPR capacity. Furthermore, the sales of global steel prices has pushed scrap prices to record levels and may make demolition of over its tenants an attractive option during seasonal downturns and especially after the implementation of the EEXI CII regulations get underway starting 2023.

Port congestion increased to record levels during the third quarter of 2021 due to COVID-19 related quarantines, China's 0 tolerance policy and other seasonal bottlenecks, moreover, increased political tensions, enhanced trade inefficiencies, reducing fleet utilization. Despite the high freight rate environment, average steaming speed of the dry bulk fleet increased by only 2 percent to 11.7 knots during 2021 due to strongly augmenting market costs. As the world reopens from COVID-19, we expect oil prices to receive continuous upward pressures and support higher scrubber savings. Furthermore, a high bunker cost environment, along with new environmental regulations, will incentives slow steaming during the next few years. As a result of the above trends, net fleet growth is projected to correct slightly below 2.5 percent during 2022, 2 percent during 2023 and potentially much lower in 2024.

Let's now turn to slide 11 for a brief update of demand. According to Clarkson, total dry bulk trade during 2021 is estimated to have expanded by 4.2 percent in ton miles. In the first half of 2021, total dry bulk volumes experienced a strong recovery due to synchronized global economic stimulus and to the gradual reopening of economies supported by vaccination programs.

On the other hand, the Chinese steel sector went through a strong slowdown during the second half of the year as a consequence of emission caps, high commodity prices and a weak housing market. It is important to note here that the global 2021 demand for commodity imports excelled without China increasing its imports during the year. It was the rest of the world that produced the 4.2 percent expansion in trade mentioned above. The world economic reopening from COVID-19 is still at early stages, with the IMF projecting global GDP growth of 4.4 percent for 2022 and 3.8 percent for 2023.

According to Clarkson, total dry bulk trade is projected to expand by 2.2 percent during 2022. The Indonesian coal export ban in January, the weather disruptions in Brazil and the Chinese Winter Olympics have affected trade volumes during the first months of the year.

However, growth is expected to accelerate during the second quarter, supported by seasonality, Chinese stimulus, raw materials restocking needs and improved vaccination rates worldwide. Moreover, record high commodity prices are providing a strong incentive to producers of dry bulk cargoes to expand output and exports during the next few years, whilst just-in-time stocks may be replenishing on adjusting case basis.

Iron ore trade expanded by 1.6 percent during 2021 and is projected to expand by 1.3 percent during 2022. China steel production decreased by 2.2 percent during 2021 as the government imposed strict production curves during the second half that is expected to last until the end of the Winter Olympics. Steel production from the rest of the world increased by 13.5 percent during 2021, leading to tighter iron ore supplies and record high prices. Brazil iron ore exports continue to recover from the 2019 disaster and increased by 5.1 percent during 2021. The Chinese government announced last week that the deadline for the steel sector to hit peak emissions has been delayed by 5 years to 2030. This is a positive development for iron ore trade prospects during the next 5 years.

Coal trade rebounded by 7.9 percent during 2021 and is projected to expand by 2 percent during 2022. China and India thermal electricity output increased at a higher pace than domestic coal production during 2021 and the combination created a shortage of supply that pushed power plant stocks lower and prices to new record highs. During the last months of the year, China domestic coal production increased in order to help raise stocks ahead of the winter, reduce prices and be less dependent on imports.

The Chinese ban on Australian coal forced power utilities and steelmakers to diversify and seek coal cargoes from longer distance sources such as South Africa, Colombia, the U.S., and Canada, but also from Indonesia that experienced longer delays from quarantines. Coal demand from other major importers like Europe, Japan and Korea increased significantly during 2021 due to recovering demand as well as global energy shortages and record high prices that incentivized the switch from gas to coal. Indonesia implemented a ban on coal exports during January to safeguard the stable supply of the domestic utilities. Full year Indonesia exports are expected to remain at the same levels with 2021, which indicates a significant increase in volumes over the ensuing months.

Grain trade expanded by 1.3 percent during 2021 and is projected to expand by 3.1 percent during 2022. China's demand for grains is projected to remain strong as the hog herd has fully recovered from the 2018 African swine fever outbreak, and the 5-year plan will be focusing on food security. South American crop yields have recently been downgraded due to the severe drought conditions that have also led to delays. Nevertheless, North and South American grain and soybean exports are expected to experience an increase during 2022 and generate significant ton miles for Supramax, Panamax vessel sizes.

Minor bulk trade expanded by 5.6 percent during 2021 and is projected to expand by 2.7 percent during 2022. We expect smaller gear vessels to continue to benefit from a synchronized consumption recovery of minor bulk trades and the spillover effects of the strong container sector. Shortages of steel products and the positive price arbitrage inserted by a strong increase of

Pacific exports to the Atlantic. Moreover, expanding West Africa bauxite exports will continue to inflate on miles for Capesize vessels.

Finally, our outlook for the dry bulk market during 2022, '23 and '24 remains positive. The record low order book, combined with the lack of yard space, uncertainty on future vessel propulsion, increased inefficiencies and new CII regulations coming into force created favorable supply side picture for our industry and support our optimistic view on the prospects of the dry bulk market.

Without taking any more 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 please press star one on your telephone and wait for the automated message advising your line is open. To cancel your request please press star two. Once again, that’s star one if you wish to ask a question.

Your first question comes from the line of Amit Mehrotra of Deutsche Bank. Please ask your question.

Amit Mehrotra: Thanks, operator. (Inaudible). Yes, I was still here. The operator, there's an automated message -- sorry about that. Well, first of all, congrats on the quarter and the year. I wanted to ask about the cash flows for the first quarter. So you have 80 percent of the first days booked of the first quarter days booked at $26,000 a day. Obviously, that's a very, very solid number relative to your breakeven. I'm just trying to understand what that translates -- based on our math, it translates to well over $1 of dividend in the quarter.

No, I know, Hamish, you're going to say that's my job and not your job to come to an estimate. But I guess the more specific question is, I'm trying to understand the moving parts on the cash flow. Obviously, there's some working capital considerations. There's maybe liquidity or cushion per vessel considerations. I'm just trying to understand how should we think about the dividend payment, how that translates relative to the TC that you'll book in the first quarter?

Hamish Norton: Well, the working capital is actually working in our favor from 4Q 2021 to 1Q 2022 because the rates are down slightly. So the working capital basically is released. It's not a big effect, but it's beneficial to cash balances. And otherwise, there should be no real surprises.

Petros Pappas: If I may, Amit, I mean, if there is any sort of clues from our presentation pointing to what potentially the dividend could be, you see our cash balance today of $594 million. Now obviously, this comes down by $204 million when we pay our dividend on March 15. Also the debt principal payments for the quarter are normally skewed towards the end of the quarter. But you basically get a feeling of potentially what the dividend will be.

Amit Mehrotra: Right. And the debt repayment is included in the $11,000 a day. So is it as simple as taking whatever the TCE is 26 or whatever it will be less the $11,000 times the revenue days and that's kind of the dividend payment because you're at your maximum threshold might even be better than that because of the working capital benefit in the quarter?

Petros Pappas: Yes. And correct, as you said, the threshold -- the cash threshold effectively stays at the $2.1 million per vessel that it was in December 31, 2021. So that does not increase from now onwards.

Hamish Norton: Right. So we don't have to build anything. We don't have to build that balance first. So that's the benefit for the dividend in Q1 versus Q4.

Amit Mehrotra: Yes. So it's much cleaner. I got it. OK. And then now a couple more questions, if I could. So the debt paydown is obviously included in your breakeven, which you mentioned. Hamish, I know that you talked about kind of a desire to get to a net debt neutral position. What I'm trying to figure out is your stock price is now around $30 per share, over $3 billion of market cap. Do you have any appetite? Or do you see an opportunity to accelerate that deleveraging? Or do you expect it to naturally happen with respect to the debt amortization?

Hamish Norton: Well, we may find opportunities to acquire vessels in an accretive way at this point, we'll see. But we're basically focused on maximizing the dividend per share and basically benefiting shareholders to the greatest extent possible, and we may have a chance to do that.

Amit Mehrotra: Right. And I guess those ship for share deals that were so accretive a couple of years ago. I mean, obviously, you guys are more of a platform now. Your currency is more attractive. People may be willing to take even more of a discount for that liquidity. Is that a fair characterization of the opportunities you're seeing on the ship for share side?

Hamish Norton: Well, I mean, certainly, we continue to see opportunities, and there may, in fact, be even better opportunities to sell shares for cash and buy vessels for an attractive price as well.

Amit Mehrotra: Right. OK. And then last question for me, maybe a little bit out of left field, but Hamish, I've heard stories of big retailers using actually dry bulk vessels to move containers. And the benefit of that, obviously, is dry bulk ships can kind of work around the -- you don't have to call at congested container terminals. I assume that's obviously a very niche market, but super interesting nonetheless. I was wondering if that's something that is in fact happening. And just given your position as the company's position as the biggest dry bulk, I'm sure they're seeing opportunities to be able to do that as well.

Hamish Norton: Well, I mean, it's happening to some extent, it's primarily happening with small vessels with handysize vessels, particularly handysize vessels with so-called box-shaped holes. And so we are actively looking into trying to do movements like that, but it's a challenge especially with the larger ships. But it's benefiting us as it's benefiting all of the dry bulk players because it's taking some capacity out of the market. And of course, cargo is moving from containers to small dry bulk carriers also are taking up some dry bulk capacity. So for example, like bag price is an example of that.

Amit Mehrotra: OK. All right. Thank you for taking my questions. Congratulations again. Appreciate the time.

Hamish Norton: Thank you, Amit.

Petros Pappas: Thank you, Amit.

Operator: Thank you. We will now take our next question. Please go ahead, your line is now open.

Omar Nokta: Hi, guys. Omar Nokta from Clarksons. Thanks for the presentation. Just had a couple of follow-ups and maybe touching a little bit on Amit's question.

Maybe just kind of from a step-back perspective, how do you guys approach 2022 now and beyond in terms of company strategy, at least in relation to how you approach maybe '21, you guys were obviously quite acquisitive last year, early last year? And then definitely before that, you've got the dividend now underway for the past several quarters, culminating with the $2 you just declared. Valuation-wise, your stock has done very well and it's now gotten to a premium valuation. So I just wondered maybe just kind of how do you guys approach strategically the company as you look out here over the next 12 to 24 months.

Hamish Norton: Well, I mean, basically, strategically, we will protect the dividend. Dividend is very important to us and to all the shareholders. And we'll try to build value in the share, and we'll try to delever as we've been doing. And so I mean, basically, it's a continuation of the strategy we've had, we will favor growth when we can do it in a way that's good for the shareholders.

Petros?

Petros Pappas: Yes. Also basically preparing for the future when we will move to green fuels, this is a very important part of our strategy, and we have to think how we're going to deal with that.

Christos Begleris: Hamish, anything else to add?

Hamish Norton: No, I'm going to say, we've got a lot of people devoting a lot of time to decarbonization.

Omar Nokta: Very good. And I guess, Petros, you talked a bit about the market. And definitely, it's been a bit of a unique one at that. Obviously, '21 was a very good year and the best year for dry bulk since the financial crisis. But we didn't get much support from the Chinese industrial markets. Obviously, iron ore was basically flat. You couldn't really count on China being active or consistently active and yet the small ships really led the way. And we're kind of seeing potentially something like that again, at least for the first 1.5 months of '22. Is this kind of a -- is this a sustainable way for the dry bulk trade to be budget in your eyes for the smaller midsized buses to continue to just plow higher and stay firm despite some inconsistency out of the Chinese iron ore trade?

Petros Pappas: Actually, well, first, don't forget that they have their Communist Party celebration towards October, November. And usually, China wants to show excellent results, great GDP growth every five years. So this is a very important incentive, I think, for them to fire up their economy. We have started seeing signs of that because the iron ore reserve ratio by a few basis points. We think that they will cut taxes. They will be giving out more loans going forward, and they will support infrastructure. So we actually believe that China will rebound right now the first couple of months, it was the Olympics, and we wanted to have the blue sky. So that's why it went slower.

Also, what's important is that the steel production emission limits are pushed back to 2030. A few months ago, the limit was 2025, that is going to incentivize industrial activity. The one thing I personally wonder about is the COVID strategy they are following. This 0 COVID policy, I'm not sure whether it will create any issues for their economy. I understand from our Chairman, who was visiting China, being the President of the Greek Olympic Committee and the European Committee that they are developing vaccines against the Omicron, and they hope to be able to deal with that. Now if they don't deal with that, we will have the advantage of off-hires and less efficiency. If they manage to do that, on the other hand, it may incentivize more trade. So overall, we are actually much more positive about China this year than last year.

Omar Nokta: Just one further question for me. Just wanted to ask about the ATM. You had a comment in the release that you haven't touched it, which makes sense. And in fact, you bought back stock during the fourth quarter. How do you think about the $75 million ATM now? The stock has gradually been evolving here towards a premium to NAV again. Do you just punch that ticket? Is it as simple as you've gotten now a premium valuation? Do you start to tap into that ATM? Or is that just for down the line use?

Hamish Norton: Well, as we stated, we haven't used it so far. We will use it when it's good for the shareholders, basically, if we can buy ships at a price that looks attractive relative to the value we get for our shares and it's accretive to the dividend, accretive to our earnings, accretive to our cash flow per share and probably also allows us to reduce the average age of the fleet will use it, and that will be good for everybody.

Omar Nokta: OK. Yes, just wanted to -- just to hear it from you how you approach it, and it's not just as simple as a premium to NAV means you issue stock and then eventually maybe you finally use for it if it comes to head in hand.

Hamish Norton: It's going to be hand in hand. Yes.

Omar Nokta: Great. Well, thanks, Hamish. Thanks, Petros. I'll turn it over.

Petros Pappas: Thank you, Omar.

Operator: We will now take our next question. Please go ahead, your line is now open.

Randall Giveans: Howdy, Team Star Bulk. It's Randy Giveans from Jefferies. How's it going?

Hamish Norton: Hi, Randy.

Petros Pappas: Hi, Randy.

Randall Giveans: Hey, hey. Two questions for me. Obviously, you just gave the quarter-to-date rate guidance, which is above expectations, frankly. Can you give some color on that on a per maybe asset class basis? Just trying to get a sense for maybe your Newcastlemax kind of scrubber premiums?

Petros Pappas: For which?

Christos Begleris: He is asking about Newcastlemax scrubber premiums.

Randall Giveans: In general, that's one specific question, but seeing if you can provide a little more color as a breakdown per asset class instead of 80 percent of --

Petros Pappas: The Q4 results or Q1?

Randall Giveans: 1Q-to-date.

Petros Pappas: Yes. OK. Q1. Actually, we've covered 61 percent of our Cape fleet at about $24,300. We've covered about 96 percent of our Panamax fleet at about $25,800. And we have covered 85 percent of our Supra fleet at about $27,500. So the coverage is about 81 percent and about $26,000, that's a bit below that. And this is a net figure, which includes scrubber benefits.

Hamish Norton: It's generally speaking, the forward market for the scrubber spread.

Randall Giveans: Yes. Got it. That's fair. Thank you for the granularity there. And then kind of bigger picture questions, it's been touched on earlier, but the dividend above $2 a share, great to see that, great to see the share buybacks, doing the right things here. Now going forward, assuming you do look to eventually grow the fleet, it seems like the secondhand asset values have softened in recent weeks despite the FFA curve rising. So how do secondhand acquisitions compare to newbuildings at these levels?

Petros Pappas: Secondhand, the newbuildings, right. Still, newbuildings are more expensive than secondhand. Like, for example, I was asking yesterday the Japanese, how much would the Newcastlemax cost, Newcastlemax and when they had the earliest delivery. Probably their earliest delivery is at end '24, beginning '25 and the price would be above $70 million. Now China would probably be somewhat cheaper than that. I would probably venture to think $65 million or thereabouts. And a 5-year-old Newcastlemax today would probably be around $52 million in China, a few more million in Japan -- for a Japanese vessel.

Hamish Norton: Yes. Neither one of those ships would burn ammonia.

Petros Pappas: Yes. We're talking about normal fuel vessels. If we are to talk about LNG ability that would probably add between 10 and $13 million, $14 million on the price. So you see that for a 5-year older vessel, the differential is about 20 -- about $17 million, $18 million.

Randall Giveans: Sure. And then I guess, briefly, since you opened that can of worms, any thoughts on LNG dual fuel versus ammonia versus traditional fuel, if you were to place a newbuild order?

Petros Pappas: First of all, we're not minded to place newbuilding orders. If we were to, we would have to research this very carefully on a well to wake basis, well to propeller basis to make sure that LNG is the right solution even on an interim basis. I think that our strategy as we see it right now is to keep our fleet within the parameters -- within the environmental parameters of the future, the CII ones and once we know what the new fuels are and when there is enough infrastructure for them and enough quantities, then we may decide which way to go. But that's not for tomorrow, this is probably for between '25 and '28. So that's actually in terms of shipping.

Hamish Norton: Yes. In the meantime, we're obviously focused on decarbonization through better bottom paints to reduce wholesaling, whole cleaning robots, energy-saving devices, route and speed optimization, and then we're also looking at carbon capture, which is -- it looks like it may be more practical than we would have thought even a few months ago.

Randall Giveans: Yes. No, that's fair. Nice to see the shares above $30. I was confident it would get here this year, just didn't think it be the soon. So congrats, again.

Hamish Norton: Thank you.

Operator: We will now take our next question. Please go ahead, your line is now open.

Benjamin Nolan: Hey, this is Ben. I for one was confident that we get to $30 by now. But I wanted to delve in a little bit, those rates again for the first quarter really well better than what I was thinking they would be. Can you maybe talk to -- as you look at that, what maybe is the split between spot versus time charter contracts? In other words, do you have much time charter contract in there? And is there any -- should we think that there will be some spillover into the second quarter or the back half of the year?

Petros Pappas: Yes. OK. Well, -- as we said, we're about 80 percent covered. We are covered at somewhat higher level than that for a fraction of the 80 percent. But generally, our intention is to keep the fleet as spot as we can because we are expecting a stronger market right after the Chinese Olympics are over.

Benjamin Nolan: Right. OK. We are certainly seeing a stronger market, specifically in the handy or well, anything Ultramax and be lower. But Hamish, you said earlier, that priority number one is to protect the dividend. To me, it seems like the easiest and best way to do that is to take volatility out of the equation. That is most obviously done through time chartering vessels. But you could also say, well, what about locking in more of the interest rates or taking other aspects as volatility out. How do you factor those 2 things, wanting to protect the dividend, but while at the same time, having market exposure?

Hamish Norton: Yes. That's obviously -- that's one of the central dilemmas of running a dry bulk company because if you reduce volatility, you probably also reduce the average profitability. And so there's a trade-off between being willing to accept volatility at high average rates and getting rid of volatility and maybe suffering from lower average rates, basically, what we hope is the solution to that is reducing balance sheet leverage so that we can deal with operational volatility, while having perhaps a lower total volatility in our results. But it's always the dilemma.

Christos Begleris: And Ben, if I may add, this is Christos, on the interest rate side, we basically locked 55 percent now of the outstanding indebtedness on the base rate at levels of around 45 basis points. And that's locked essentially for the next 2.5 years. So we are protected to a big extent from volatility in base interest rates. On the chartering side, as Hamish said, we were there to cover the smaller vessels for the first quarter because we thought that the market would be weaker. But from where we stand right now, drive up fundamentals, we feel confident about the market. And therefore, as Petros said, going forward, we are mostly spot.

Petros Pappas: But if we see rates that we consider to be very strong for the next quarters, we may have some more. But our usual strategy is during the last 4 months of each year to try to cover the first 3, 4 months of the next year because seasonally, Q1 is weaker than the rest of the quarters.

Benjamin Nolan: Right. OK. That's all very helpful. And then lastly for me, Hamish, you talked about the possibility of using your shares either generating cash from the sale of shares or using your shares to do acquisitions so long as or with the caveat that whatever you do, it's going to be accretive to the dividend. And then you were just talking about wanting to focus on delevering the balance sheet as much as possible to protect against volatility. Does that effectively mean that if you are out in the market to do acquisitions, anything you would do would probably need to meet a threshold such that it comes with very little or no debt and then is still also accretive? Is that the right way to think about it?

Hamish Norton: Well, first of all, we're not very leveraged now. So it's not that much of a stretch to buy a very low leverage shift and have it be accretive to the dividend. So yes, I mean, basically, we want it to be accretive, and we do want it and we don't want to build leverage. So you hit the nail on the head.

Christos Begleris: Ben, let me come back to the previous question just a bit regarding hedging. If you look at the order book and actually '22, '23 and almost '24 are closed. We are looking at an average supply of maximum 25 million tons per annum for three years. This is about 2.7 percent of the existing fleets. And then we are starting to face the environmental regulations, which will apply some vessels to be scrapped. Others will have to slow down speed. And let's not forget that 1 knot in a slower speed equals about 6 percent less supply. And there's going to be vessels going to dry docks in order to do all these good things that Hamish mentioned earlier. So we think that we're coming up to a great market for the next few years, which is mostly supply led and also environmentally led. So we fear less keeping a fleet more spot than potentially at other times in our company's carrier.

Benjamin Nolan: All right. Well, thanks to all of you. I'm done with my questions now. I'll turn it over. Thank you.

Hamish Norton: Thank you, Ben.

Operator: We will now take our next question. Please go ahead, your line is now open.

Magnus Fyhr: Yes, hi. This is Magnus Fyhr, H.C. Wainwright. Congratulations on the quarter and also joining the $3 billion market club. It's a very exclusive club in dry bulk shipping.

Hamish Norton: Thank you, Magnus.

Magnus Fyhr: First -- most of my questions have been answered, but I was just curious since you mentioned that potential acquisitions going forward. With 128 vessels, where -- I mean, is there a limit on how many ships you can manage? Or it's 150 to 200 vessels, is that kind of the max or is there really no maximum?

Hamish Norton: I think that's probably effectively not a maximum, but.

Petros Pappas: Well, we organized our company into fleets as far as operations and technical are concerned and maintenance -- marine maintenance. So basically, the more vessels we have, the more fleets we will have. And then on the other hand, the positive thing about it is the economies of scale that we manage and also G&A should lower. So I don't think there's going to be a problem. We'll just have to work the management we have to work a bit harder, I suppose.

Magnus Fyhr: Very good. So the $4 billion club may not be too far in the future. Thank you.

Hamish Norton: Thank you, Magnus.

Operator: We have no further questions at this time. Please continue.

Petros Pappas: No more comments, operator. Thank you very much.

Operator: That does conclude the conference for today. Thank you for participating. You may all disconnect.

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