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Star Bulk Carriers 1Q22 Earnings Call
May 25, 2022
11:00 a.m. ET

Operator: Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the First Quarter 2022 Financial Results. We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; Mr. Nicos Rescos, Chief Operating Officer; Mr. Silos Spyrou; and Mr. Christos Begleris, Co-Chief Financial Officers; and Charis Plakantonaki, Chief Strategy Officer of the company.

At this time all participants are in a listen only mode. There will be a question -- presentation followed by a question and answer session at which time if you wish to ask a question please press "star" and "1" in your telephone keypad and wait for the automated message advising your line is open. I must advise you that this conference is being recorded.

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

Simos Spyrou: Thank you, operator. I'm Simos Spyrou, 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 first quarter of 2022. Before we begin, I kindly ask you to take a moment to read the safe harbor statement on Slide number 2 of our presentation.

In today's presentation, we will go through our Q1 results, cash evolution during the quarter, a walk-through of our dividend policy, an overview of our balance sheet and operational update and ESG update and the latest industry fundamentals before opening up for questions.

Let us now turn to Slide number 3 of the presentation for a summary of our first quarter 2022 highlights. The company reported the strongest first quarter result in Star Bulk's history. Net income for the first quarter amounted to $170.4 million, and adjusted net income of $175.6 million or $1.72 adjusted earnings per share. Adjusted EBITDA was at $225.9 million for the quarter.

For the first quarter, as per our existing dividend policy, we declared a dividend per share of $1.65, payable on June 16, 2022. With the graph on the bottom of the page, we want to highlight the cumulative performance over the last 12 months, which illustrates the strength of the platform in a rising dry bulk market. Our last 12 months adjusted EBITDA is at EUR 1.04 billion, and adjusted net income of EUR 831 million. At the same time, we have returned a cumulative dividend of $576 million to our shareholders.

On the top right of the page, you will see our daily figures per vessel for the quarter. Our time charter equivalent rate was $27,405 per vessel per day. Our combined daily operating expenses and net cash G&A expenses per vessel per day amounted to $5,812. Therefore, our TCE less OpEx and G&A is around $21,600 per day per vessel.

Looking at the similar fleet-wide adjusted TCE less operating expenses and G&A figure on a full year basis, Star Bulk has been able to significantly outperform the adjusted peer average by more than $5,000 per day per vessel, implying an annual EBITDA overperformance of more than $230 million on a 128 vessels fleet and demonstrating how assets are efficiently utilized in the Star Bulk platform.

Looking at chartering coverage for the second quarter of 2022, we have covered 74 percent of our fleet available days at a daily rate of $29,760 per day per vessel.

Slide 4, graphically illustrates the changes in the company's cash balance during the first quarter of 2022. We started the quarter with $473.3 million in cash, and generated meaningful positive cash flow from operating activities of $229.2 million, due to the strong freight market.

After including debt profit and repayments, CapEx payments for ballast water treatment systems installments and the fourth quarter dividend payment, we arrived at a cash balance of $444 million at the end of the quarter.

Slide 5 has a walk-through of our dividend policy with an example for the dividend calculation for the first quarter of 2022 of $1.65 per share. As of March 31, 2022, we owned 128 vessels, and our total cash balance was at $440 million. With a minimum cash balance per vessel as of March 31, of $2.1 million per vessel.

On May 24, 2022, pursuant to our dividend policy, our Board of Directors declared a quarterly cash dividend of $1.65 per share payable on June 16 to all shareholders of record as of June 30, 2022. The ex-dividend date is expected to be June 2, 2022.

In the last 12 months, our company has distributed dividends of $5.6 per share. We should note here that our dividend policy as announced is heavily dependent on changes in working capital. In a rising freight and bunkers market, our receivables and our inventories are increasing, and this affecting our working capital.

Given recent rally in the market and the increase in bunker prices, we currently estimate that our working capital will increase by approximately $40 million in the second quarter of 2022, negatively affecting our cash balance at quarter end and our dividend for the quarter by approximately $0.40 per share. This is a timing difference driven by the difference between when earnings are recognized and when cash comes in, and it will reverse at some point in the future.

Please turn now to Slide 6 where we highlight the continued strength of our balance sheet. Our total cash today stands at $533 million. Our total debt stands at approximately $1.47 billion. Our next 12 months amortization is approximately $200 million. We have six unlevered vessels and no debt maturities until the end of the third quarter of 2023. We have fixed approximately 55 percent of our floating interest rate exposure to LIBOR at an average rate of 45 basis points.

In Slide 7, we demonstrate the inherent 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 year, Star Bulk will produce $6.1 of free cash flow per share and a yield of 19 percent.

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

Nicos Rescos: Thank you, Simos. Please turn to Slide 8, where we provide operational update. OpEx excluding nonrecurring expenses were $4,747 per vessel per day for Q1 2022. Net cash G&A expenses were $1,065 per less per day for the same period.

Despite continued adverse coverage-related restrictions and inflationary pressures, we saw a direct impact on OpEx, the combination of our in-house management and the scale of the group enable us to sustain a very competitive cost base and maintain our position as the lowest cost operator amongst our peers. In addition, we'll continue to rate among the top three of our lipid peers in terms of rides rate.

Slide 9 provides a please snapshot and some guidance on our future driver and ballast water system expenses for the next 12 months and a relevant couple of high days. Our expected drydock expense for the next 12 months is estimated at $36.4 million, with a dry docking of 35 vessels with another $16 million towards our vessel upgrade CapEx.

In total, we expect to have an approximate 1,200 off-hire days for the forward 12-month period. We anticipate that 98 percent of our fleet will be ballast water fitted by the end of Q4 2022. The above numbers are based on current estimates around dry bulk and retrofit planning, vessel employment and yard capacity.

On the scrubber utilization front, Star Bulk has by now surpassed 100,000 days of scrubber operating experience. High pipe spreads have been volatile throughout the year, and is currently hovering around $300 per ton base

Singapore's spot prices, where we cater for 60 percent of our annual fuel demand.

We expect to have recouped our scrubber investment in full by the end of Q2 2022. With an estimated annualized consumption of 800,000 tons of heavy fuel oil across the fleet, a conservative price of $150 per ton, will be reducing our cash rate given by $2,600 per vessel per day. 94 of our vessel vessels being scrubber-fitted, a continued increase in high fire spread can be a significant value generator for our company.

I'll now pass the floor to our Chief Strategy Officer, Charis Plakantonaki, on ESG (inaudible).

Charis Plakantonaki: Thank you, Nicos. Please turn to Slide 10, where we highlight our continued efforts on ESG. Consistent with the start of decarbonization strategy to lead in tests efforts to phase out greenhouse gas emissions, we have signed and announced incumbent participation in a lion consortium along with three of our major charters, BHP, Rio Tinto and Oldendorff.

This partnership let try the global maritime forum, we create a framework for the development of a Green Corridor for the iron ore trade between Australia and East Asia, a route that accounts for more than 22 million tons of CO2 equivalent this year or more than 2.5 percent of global shipping emissions.

The part in the consortium will only assess the economic infrastructure and logistics for the supply and bunkering of green ammonia as well as the necessary commercial agreements and first ever mechanisms to enable a viable Australia and East Asia iron ore corridor.

Through this work, and with inputs from the wider value chain and the public sector, we aim to set the foundation and accelerate the real-world implementation of 0 emission shipping in this specific trade route, and to catalyze green corridor developments also in other parts of the world.

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

Petros Pappas: Thank you, Charis. Please turn to Slide 11 for a brief update of supply. During the first four months of 2022, a total of 11 million deadweight was delivered and 1.5 million deadweight was sent to demolition for a net fleet growth of 9.5 million deadweight or 3.4 percent year-on-year. The supply outlook is the best we have seen in the recent history of dry bulk shipping.

The order book has decreased to record low 6.6 percent of the fleet with just 3.5 million deadweight reported as new firm orders between January and April. Uncertainty on future propulsion along with certain shipbuilding costs have helped keep new orders under control. while the strong increase in contingency orders is filling up CPR capacity. Net fleet growth is projected to drop below 2.5 percent in 2022 and is unlikely to exceed 2 percent during '23 and '24.

Furthermore, increase of global steel prices has put scrap prices to multiyear highs of more than $650 per LBT and may incentified the evolution of average tonnage during seasonal downturns. We expect this to intensify after the implementation of the EXI CII regulations that will come into effect as of 2023. The average steaming speed of the dry bulk fleet has decreased by 3.1 percent year-on-year to 11.4 knots as a result of a strong increase of bunker costs.

We expect oil prices and subsequently bunker costs to remain inflated for the next few quarters amid the sanctions imposed by the Western countries to Russia and the gradual recovery of economies from the pandemic. Bulk congestion stands close to record high levels and around 4.3 percent higher than last year due to changes in trading patterns, increased political tension, quarantines and seasonal bottlenecks.

Let's now turn to Slide 12 for a brief update of demand. According to Clarksons, total dry bulk trade in tons during '22 and '23 is projected to expand by 0.3 percent and 1.7 percent, respectively, but 1.6 percent and 2 percent in ton miles. The war in Ukraine has negatively affected the economic outlook worldwide with the IMF projecting global GDP growth to slow down to 3.6 percent during '22 and '23. Inflationary pressures on energy and food have a negative impact on end user demand, especially in low-income regions.

During the first quarter of 2022, total dry bulk volumes were down by approximately 0.7 percent as a result of the Indonesia export ban on coal, China Winter Olympics and 0 COVID policy, poor weather conditions in Brazil and the war in Ukraine.

However, growth is expected to accelerate during the rest of the year, supported by seasonality, Chinese stimulus and restocking needs worldwide, while just-in-time stocks may be replenishing on a just-in-case basis due to political uncertainty and the fear of future assumptions. Furthermore, there is sampling of coal, grain and steel product trade patterns to longer-haul routes are inflating ton miles and have helped moderate the decrease in volumes.

Iron ore trade is expected to expand by 0.7 percent, both in tons and ton miles during 2022. China steel production decreased by 8.5 percent during the first quarter, amid the huge uncertainty over the country's property market and production curves related with the Winter Olympics. Nevertheless, production has recovered significantly during the last months and stands slightly below last year's record levels.

Going forward, we expect further improvement over the next quarters as Beijing will promote infrastructure construction to boost domestic economic and social development, while iron ore stockpiles are declining at a high pace and consumption stands at elevated levels.

Brazil iron ore exports decreased by 8.5 percent during the first four months of the year, but Vale has recently reconfirmed the annual guidance of 320 million tons to 335 million tons, indicating inflated shipments for the rest of the year.

Coal trade is expected to expand by 0.5 percent in tons and 4 percent in ton miles during 2022. Sanctions announced by major importers on Russian coal limited capacity for expansion of Atlantic producers ensuring gas prices have pushed coal prices to record high levels.

European buyers at near to secure energy commodities and are substituting imports from Russia with Australia and Indonesia, while Russia is exporting more coal to India and other Asian countries, a situation that is benefiting ton miles. During the last months, China and India have increased their domestic production in order to help raise stocks, reduce prices and be less dependent on imports.

However, India is in the midst of an energy crisis as the stockpiles are available for only eight days of consumption, and the government is even urging utilities to increase coal imports in order to avoid last year's blackouts.

Credit rate is expected to contract by 3.8 percent in tons and 0.4 percent in ton miles during 2022. Ukraine exports account for approximately 10 percent of total grain trade. And since the invasion in late February, exports have fallen dramatically.

Importers have turned to the U.S., Australia and Europe for additional quantities. U.S. outstanding sales are close to record high levels for this time of the year and indicate a healthy North American grain season during the second half of 2022. Exports from Brazil have also decreased due to poor weather conditions, resulting in weaker than expected soybean production. China's demand for grades during the next years is projected to remain strong as the 5-year plan is focused on food security and inventory building.

Minor bulk trade is expected to expand by 1 percent in tons and 2 percent in ton miles during 2022. Minor bulk trade has the highest correlation to global GDP growth and has received support from the strong container ship markets. Shortages of stay products in the Atlantic and the positive price arbitrage should further inflate backhaul flows from the Pacific and provide support for gear tunnels. Moreover, expanding West Africa bauxite exports continue to deflate ton miles with year-to-date capesize exports up by 15 percent.

Finally, our outlook for the dry bulk market remains positive, and our company is well positioned to enjoy and take advantage of it. Main driver remains the limited supply growth with a historically low vessel order book and the upcoming environmental regulations further suppressing orders and speeds whilst demand in tons may only increase by 0.3 percent during 2022-ton miles are expected to increase by 1.6 percent, heavily tilted towards the second half of the year due to longer distances arising out of severe trade dislocations.

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. We will now begin the question and answer session. If you wish to ask a question please press “star” and “1” in your telephone keypad and wait for the automated message advising your line is open. Please state your first and last name before you ask your question. If you wish to cancel your request please press “star,” “2.”

Once again, if you wish to ask a question please press “star” and “1.” And your first question, your line is open. Please go ahead.

Christopher Robertson: Hi, good morning. This is Chris Robertson at Jefferies. How are you?

Petros Pappas: Hi, Chris. Good morning.

(Cross-talk)

Christopher Robertson: Good. So I was wondering if you guys could break down just on the vessel segment, the average TCE rates you've earned quarter-to-date. So I know you talked about 74.3 percent at the average of 29,759, but if you could go into a little bit more detail on the various segments, that would be helpful.

Simos Spyrou: Hold on one moment, Chris, please.

Petros Pappas: Chris, you mean the coverage for the first quarter or the coverage for the second quarter?

Simos Spyrou: The numbers create are as follows: for Capes, we have covered approximately 69 percent at 26,750; for Panamaxes, we have covered 78 percent at approximately 30,000, that's Panamaxes and Kamsarmaxes; and then for Supras and Ultras, we have covered 81 percent at 32,000. And sorry, that was (inaudible).

Christopher Robertson: That’s super helpful. Thanks guys. I’ll hop back in the queue.

Operator: And your next question. Your line is open. Please ask your question.

Drew Millegan: Hi. This is Drew Millegan, I'm with the Woodworth Fund. So I just had a question for some additional clarification. And it looks like you guys are having a -- you’re doing very well. Congrats on that. You mentioned there's a regulation coming in that you think is going to increase the scraps going forward come 2023. I didn't quite catch what -- do you have any more detail on what that is that you're expecting?

Petros Pappas: Hi, Drew, it's the environmental regulations that actually obliges vessels to reduce their consumption the consumption versus the speed. So the vessels will have to start performing better going forward and consuming less fuel oil, and there is the older vessels, some of the older vessels and especially some vessels that are from third tier yards. They may not be able to do that without reducing their speed substantially. And if the vessels reduces speed substantially, this means that supply is cut and therefore, that's good for the market.

Drew Millegan: OK. Thanks.

Operator: Thank you. Once again if you wish to ask a question please press “star” and “1.” No more questions at this time. Please continue.

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

Simos Spyrou: Thank you.

Operator: Thank you, and this concludes today's conference call. Thank you for participating. You may now disconnect.

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