Star Bulk Carriers Corp.
Fourth Quarter Earnings Call
February 17, 2023

Presenters
Petros Pappas - Chief Executive Officer
Hamish Norton - President
Simos Spyrou - Co-Chief Financial Officer
Charis Plakantonaki - Co-Chief Financial Officers
Nicos Rescos - Chief Operating Officer
Christos Begleris - Chief Strategy Officer

Q&A Participants
Chris Robertson - Deutsche Bank
Omar Nokta - Jefferies

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Fourth Quarter 2022 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; Mr. Nicos Rescos, Chief Operating Officer; and Mrs. Charis Plakantonaki, Chief Strategy Officer 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 would like to ask a 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.

I will now pass the floor to one of your speakers today. Mr. Spyrou, please go ahead, sir.

Christos Begleris
This is Christos Begleris. Thank you, operator. I'm 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 2022.

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 Q4 results, cash evolution during the quarter, an overview of our balance sheet, an update on the banker benefit and vessels operations, the latest on the ESG front and our views on industry fundamentals, before opening up for questions.

Let us now turn to slide number three of the presentation for a summary of our fourth quarter 2022 highlights. Net income for the quarter amounted to $86 million and adjusted net income of $93 million or $0.84 per share, adjusted earnings per share. Adjusted EBITDA was $135 million for the quarter. For the fourth quarter, as per our existing dividend policy, we declared a dividend per share of $0.60 payable on or about March 14, 2023.

The graph on the bottom of the page highlights the cumulative performance over the last 12 months, which illustrates the strength of the platform in a robust dry bulk market. Our last 12 months adjusted EBITDA is $809 million and adjusted net income is $609 million. Over the same period, we have returned a cumulative dividend of $5.10 per share or $526 million to our shareholders.

Since 2021, we have declared a total dividend of $9.35 per share or $961 million. On the top right of the page, you will see our daily figures per vessel for the quarter. Our time charter equivalent rate was $19,590 per vessel per day. Our combined daily OpEx and net cash G&A expenses per vessel per day amounted to $5,182. Therefore, our TCE less OpEx and G&A is approximately $14,400 per day.

Slide four graphically illustrates the cash flow bridge for Q4. We started the quarter with $393 million in cash and generated positive cash flow for operating activities of $116 million. After including debt proceeds and repayments, CapEx payments for energy saving devices and ballast water treatment system installments and the third quarter dividend payment, we arrived at a cash balance of $286 million at the end of the quarter. For the calculation of our dividend distribution, we have backed the debt prepayment of $44 million that we drew on January 2023 to end at an adjusted balance of $331 million.

Please turn to slide five where we highlight the strength of our balance sheet. Our pro forma total liquidity to-date stands at $356 million. Meanwhile, our total debt stands at $1.32 billion. Since 2022, we have completed refinancings totaling $430 million that reduced our interest costs by approximately $5.2 million per year as a result of achieving significantly lower margins. Our next 12 month amortization is $186 million.

We have 13 unlevered vessels with market value of $176 million and no debt maturities until 2024. In an increasing interest rate environment, we have interest rate swaps with an outstanding notional of approximately $722 million fixed at an average rate of 46 basis points for an average remaining maturity of 1.1 years. As of December 31, 2022, the mark-to-market value of these swaps was $33 million.

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

Nicos Rescos

Thank you, Christos. In slide six, we will illustrate how Star Bulk continues to benefit from a widening of the fuel spread between HSFO and VLSFO. Our 120 scrubber fitted vessels have surpassed 131,000 operating days with an average system availability of 99.5%. With the current Hi5 spread at healthy levels, our scrubbers meaningfully contribute to our profitability.

The high power (ph) fuel spread currently hovers at around $230 per ton based Singapore export prices, where we cater for approximately 60% of our annual fuel demand. Indicatively, the average lifetime spread achieved in Q4 was $253 per ton and $274 dollars per ton for the full year of 2022.

For instructive purposes, on the top right of the slide, we present a sensitivity table that shows the impact that market benefit can have on our bottom-line based on consumption of approximately 700,000 tons of HSFO per annum for our scrubber-fitted vessels.

Please turn to slide seven, where we provide an operational update. OpEx, excluding non-recurring expenses, was $4,205 for Q4 2022. Net cash G&A expenses were $977 per vessel per day for the same period. During calendar 2022, Star Bulk assumes management of an additional 19 vessels from third-party managers, streamlining ship management operations and costs spreader. In addition, we continue to rate at the top amongst our listed peers in terms of Rightship safety score.

Turning to slide eight, we provide a fleet snapshot and some guidance around our future drydock and vessel upgrade expenses and the relevant total of high days. We have completed our BWTS (ph) installation program across the fleet and in line with EEXI and CII regulations, we will continue investing in upgrading our fleet further with energy saving devices and telemetry, aimed in improving our fuel consumption and reducing our environmental footprint, further enhancing the commercial attractiveness of the cargo fleet.

Our expected project expense for calendar 2023 is estimated at $27.8 million with a drydocking of 31 vessels with $141.1 million towards our vessels upgrade CapEx. In total, we expect approximately 870 days of off-hire for the same period. The above numbers are based on current estimates around drydock and retrofit planning, vessel employment, and yard capacity.

I will now pass the floor to our Chief Strategy Officer, Charis Plakantonaki, for an update on our ESG efforts.

Charis Plakantonaki
Thank you, Nico. Please turn to slide nine, where we provide an update on the ESG margins. For the second year in a row, Star Bulk has participated in the Carbon Disposal Project achieving a score of B and improving its performance versus last year where it had scored a B minus. This rating continues to place the company at management level, indicating a maturity of taking coordinated action and climate issues. It also places Star Bulk above both the industry average of C and the global average of C which indicates awareness level.

During 2023, Star Bulk will aim to continue improving its environmental stewardship by measuring and reporting for the first time also its Scope 3 emissions, namely the emissions that we indirectly affect in our value chain. On the regulatory front, Star Bulk has taken all necessary technical and operational measures to ensure compliance with the EEXI and CII targets as set by the international maritime organization which came into force in January 2023.

We continue enhancing our well-being program, both on board its vessels and onshore, and also making contributions towards vulnerable groups, environmental protection, education, and sports. With regards to the company's governance, Star Bulk is deploying new systems to optimize its commercial and operational performance and is also further strengthening its cyber security systems, processes, and controls.

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

Petros Pappas
Thank you, Charis. Please turn to slide 10 for a brief update of supply. During 2022, a total of 31.2 million dwt was delivered and 4.5 million dwt was sent to demolition for a net fleet growth of 26.7 million dwt or 2.8% year-over-year. The supply outlook continues to be the best we have seen in the recent history of dry bulk shipping. Uncertainty on future propulsion, high ship building costs, and limited ship yard capacity until 2025 have helped keep new orders under control.

The order book stands at record low levels of 7.3% of the fleet with just 25.9 million dwt reported as firm orders during 2022. Furthermore, scrap prices have stabilized at elevated levels and should make demolition of overage and fuel-efficient tonnage an attractive option during seasonal downturns on the back of the EEXI, CII regulation. The average (audio gap) speed of the dry bulk fleet decreased by 3.2% to 11.3 knots during the last year due to record high bunker costs and a weaker freight market.

We expect oil prices and bunker costs to remain inflated in the medium term, amid the sanctions on Russian oil and strong demand of energy related commodities. The situation along with a new environmental regulations will continue to incentivize slow steaming and support higher scrubber savings.

Global port congestion experienced a correction during the second half of 2022. Due to a gradual easing of restrictions and the strong decrease of Chinese imports during the first half.

Nevertheless, global congestion remains above pre-COVID levels, especially for smaller vessel types, due to changes in trading patterns related to the war and seasonal bottlenecks. As a result of the bulk trends, net fleet growth is unlikely to exceed 2% per annum over the next three years.

Let's now turn to slide 11 for a brief update of demand. According to Clarksons, total dry bulk trade during 2022 is estimated to have contracted by 1.9% in ton miles. Trade was affected by the war in Ukraine, weaker Chinese imports, and a slowdown of global economic activity due to surging commodity prices, inflation interest rate hikes, and a strong U.S. dollar.

During 2023, dry bulk demand is projected to increase by 2% in ton (ph) miles with the IMF forecast for global GDP growth presently standing at 2.9%. We believe that the relaxation of the strict zero COVID policy and reopening of the Chinese economy will have a strong positive effect for the dry bulk market with larger sizes benefiting the most during the second half of the year. Furthermore, the shift of coal, grain, and minor bulk trade patterns to longer haul routes due to inefficiencies related to the war in Ukraine will continue to inflate ton miles.

Iron or trade contracted by 3.4% during 2022 and is projected to expand by 0.4% during 2023. China crude steel production decreased by 2% during 2022 as a strict COVID policy limited economic activity and offered no support to the property market downturn that began in 2021. Crude steel production from the rest of the world decreased by 6.5% affected by surging energy costs and weaker steel margins following the war in Ukraine. Nevertheless, China's steel productions showed signs of stabilization during the second half, while lower domestic iron ore output and stockpiles provided positive indicator for imports going forward.

Coal trade expanded by 1.8% during 2022 and is projected to expand by 4.2% during 2023. Global focus on energy security and high gas prices have upgraded the coal trade outlook for the next few years while the suffering of European and Russian coal trade is benefiting ton miles. Coal prices increased to record high levels in 2022 due to the disruptions and inefficiencies affecting export capacity. During the last month, a resumption of Chinese coal imports of Australian origin is taking place marking the end of the unofficial ban that started during the fourth quarter of 2020.

Grain trade contracted by 3.1% during 2022 and is projected to rebound by 5.3% during 2023. At the start of 2022 grain market experienced a supply shock as the war abrupted how the Ukrainian export for six months, which account for 10% of total grain trade. From August onwards, Ukrainian exports partially resumed through the Black Sea Ukraine (ph) initiative at around 4% (ph) of free world levels.

The outlook for 2023 is positive as a result (ph) of trade route is already taking place, and other exporting nations filling the gap of the lost Ukrainian supply. Furthermore, a record high Brazilian soybean crop is currently harvested while the recovery of the Chinese economy should substantially increase the demand of soybean crops (ph).

Minor bulk trade contracted by 2.1% during 2022 and is projected to expand by 1.3% during 2023. Minor bulk trade has the highest correlation to global GDP growth and the economic slowdown has affected trade volumes. Moreover, the container ship market correction is moderating support of smaller geared dry bulk vessels.

On the other hand, the war in the Ukraine disrupted European Union of fertilizer and steel production creating Atlantic shortages that should benefit bulk haul (ph) trades. Furthermore, West Africa bauxite exports continue to expand with the high base and generate strong ton miles for Capesize vessels.

Finally, despite the current seasonal spot market weakness, the long term prospects of the dry bulk market remain encouraging given the 25-year low order book, the environmental regulations, and the positive effect on dry bulk demand from the opening of the Chinese economy. Star Bulk is well-positioned due to its scrubber fitted and diverse fleet, take advantage of recovery in freight rates.

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 be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please while we pull for questions.

Thank you. Our first question is from Amit Mehrotra with Deutsche Bank. Please proceed with your question.

Chris Robertson
Hi. Good morning, everyone. This is Chris Robertson on for Amit. Sorry, he's traveling this morning. Just wanted to talk about the cash flow movement kind of expected in the coming quarter, I think, probably people are pretty hyper focused on the upcoming dividend here and then testing the bottom of seasonally weak rates. So can you talk us through about how you are thinking about kind of working capital movements? You have laid out kind of the maintenance capital and drydocking costs pretty well on slide eight, but could you also remind us kind of the regular debt amortization expected this year as well?

Christos Begleris
Hi, Chris. So, let's start with the easy which is the debt amortization. As we said, this is approximately $190 million for 2023 for the entire year. So, it's slightly down from what we had in 2022 due to better amortization schedules that we obtained during our refinancing. Now for the first quarter of 2023 in market that is essentially decreasing, we would expect the change in working capital to be slightly positive.

Chris Robertson
That is to be a source of cash?

Christos Begleris
Correct.

Chris Robertson
Right. Okay. That makes sense. Any other things that we could be aware besides kind of the ballast water system installations, dry docking, the working capital, any other cash flow movements that could impact the dividend here?

Christos Begleris
We are providing the, I believe, those figures in our investor presentations. So if you go to that, on our website, you will find -- it's actually page eight of our investor presentation. You will find all CapEx items as well as dry dock estimates that we expect for the next few quarters.

Chris Robertson
Okay, great. Just as a follow-up. You guys had some pretty good cost control here on the OpEx front. I think last Q the non-recurring OpEx was reported around $4,700 per day, now it's down around $4,200 per day. Can you talk about how you achieved this savings? And are there any cost pressures out there right now that we should be aware of that might put upward pressure back on OpEx? Or do you think you can maintain it at this new level for the coming quarters?

Nicos Rescos
Hi, Chris. This is Nicos. This is a result of our offshore (ph) actions we have taken. As we mentioned a bit earlier, it is taking in a big number of third-party managed ships and trying to streamline the cost basis. We are trying to increase our reach on getting better discounts and current inflation pressure we are getting on our spares and supplies, and that's really the source of it.

Chris Robertson
Okay. Sorry, last question --

Simos Spyrou
Chris. This is Simos. Just to add to this. I would not expect and I would not budget for 2023 the figure that you have there for Q4, 4,200, it would be a bit more conservative, and I would give a figure of around 4,500, which is in the middle between Q3 and Q4 figures for the entire 2023.

Chris Robertson
Got it. No, that's really helpful. Just really quick last question for me. I mean, I think capital discipline is very much a feature of Star Bulk. You guys have done an incredible job over the years doing accretive acquisitions, in the past using your shares as currency. So I guess that said, you might not be looking at any deals on the table at the moment. But kind of looking forward, do you think there's interesting opportunities out there, generally speaking for either en bloc acquisition or kind of anything that's come to you that you found compelling?

Hamish Norton
Well, Chris, we are looking at things now and we're hopeful that the environment may be a little easier to close deals in than it has been in the last year or so. So, we're optimistic actually that we may be able to get things done.

Chris Robertson
Okay. Interesting. All right. I'll turn it over. Thank you very much for the time.

Operator
Thank you. Our next question is from Omar Nokta with Jefferies. Please proceed with your question.

Omar Nokta
Thank you. I was going to ask but before I get to what I was planning on asking, maybe Hamish, could I ask, I know it's probably a bit sensitive, but in terms of getting deals done, would that be kind of along the Star Bulk way in the past of using shares in those deals?

Hamish Norton
Everything we're looking at, you know, would involve shares.

Omar Nokta
Okay. All right. Thank you. SI did want to ask maybe just a bit broadly about the earnings power of the company. It looks like based off of on slide 13 that the bookings you've got so far in the first quarter that even if rates remain as soft as they are, you'll remain profitable in the first quarter.

And my question is, I guess one, do you agree that you could remain in positive territory here in the first quarter? And then also, if we assume no changes in the market from here, and holding all else equal in terms of say, fuel spreads or eco spreads or maybe the size premium you're able to capture with your bigger vessels, would you be profitable the second quarter also? And I guess what I'm getting at is really just trying to get a sense for how much of you being profitable in this down market as a result of fixing shifts earlier before the pullback and spot rates, and then really how much of it due to the quality premiums you were able to capture across the different shifts you have?

Petros Pappas
Hi, Omar. It's Petros. Yes, I think we'll be profitable during Q1. I believe our breakeven is around $12,000, and you see that we're just above 15,000 right now. The bulk of our open positions has to do with Newcastlemaxes, and we think that we'll be able to maintain the level depending of course how market goes.

One thing you have to understand is the following. You look at the spot rate being like $2,500 on the capes, but that is according to a speed of I think 13 knots. What we usually do in situations like that, we slow steam the vessels and a trip that would calculate the 2,500 actually ends up calculating at 8,000 because we burn much less fuel oil.

If to that you add the scrubber benefit, which for capes Newcastlemax is higher than other vessels, and the carrying capacity of the bigger vessels, you can reach levels which should be very close to what the average is, even if the market during March stays where it is. Although the market during March is a little bit the FFA market at least is a bit better than what it is right now.

Now regarding Q2, if you look at the FFA average is around $12,500. Now, if you add to that, the scrubber benefits and the fact that we slow steam vessels during not very good markets, I think we will be profitable again in Q2 and probably, hopefully better than the Q1, and we're very positive for the rest of the year.

Omar Nokta
Thanks for that, Petros. Again, that's very helpful to, I guess to see that the 2,500 that we see published is really almost, I guess it's relevant, but not really indicative of the earnings power when you take into account the speeds simply excluding the whole scrubber and whatnot.

Petros Papas
If you run a cape at 13 knots and you burn 50 tons, then if you go at 11 tons, which is like 15 -- sorry, 11 knots, which is about 15% less speed, you probably burn 25 tons or 28 tons, which is almost 50% below the 13 knots consumption, and therefore, that's where you gained from.

Omar Nokta
Yeah, thanks for that additional color. And maybe just one final follow-up and maybe related to Chris' first question about the dividend. Obviously, you've had this long-term policy paying out cash in excess of that 268 million threshold. What does the dividend look like if ending cash is below that amount? Does it just simply -- do you stick with the actual policy and the dividend is zero or a few pennies or is there a certain floor that you have on the payout?

Hamish Norton
Well, our policy is pretty clear and we don't frankly anticipate any market in the foreseeable future leaving us with less cash than the minimum amount that would call for a dividend. But if basically our cash balance declines over the quarter and declines below the minimum threshold, then as in 2020 -- parts of 2020, there might not be a dividend, but we don't anticipate that actually happening.

Omar Nokta
Okay, great. Well, thanks, Hamish, for that. And thanks, Petros, I'll turn it over.

Operator
As a reminder, if you would like to ask a question, please press star one on your telephone keypad. The confirmation tone will indicate your line is in the question queue.

Thank you. There are no further questions at this time. I'd like to hand the floor back over to management for any closing comments.

Petros Pappas
No further comments, operator. Thank you very much.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for participation.