Star Bulk Carriers Corp.
First Quarter 2023 Financial Results
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Presenters
Petros Pappas, CEO
Hamish Norton, President
Simos Spyrou, Co-CFO
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Nicos Rescos, COO
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Q&A Participants
Chris Robertson - Deutsche Bank
Omar Nokta - Jefferies
Ben Nolan - Stifel

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the First Quarter 2023 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 for 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 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 for today, Mr. 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 2023. 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 first quarter results, cost evolution during the quarter, an update of our balance sheet, an overview of interest rate risk management, then bunker benefit and vessel operations, the latest on the ESG front, and our views on the industry fundamentals, before opening up for questions.

Let us now turn to slide number three of the presentation for a summary of our first quarter 2023 highlights. For the first quarter of 2023, the company reported the following. Net income amounted to $46 million with adjusted net income of $37 million or $0.36 per share adjusted earnings. Adjusted EBITDA was at $85 million for the quarter. For the first quarter, as per our existing dividend policy, we declared the dividend per share of $0.35, payable on or about June 27, 2023.

During this quarter, we have bought back 531,223 shares at a cost of $11.26 million. Since 2021, dividend distributions and share buybacks are over $1 billion. On May 16, 2023, our Board of Directors canceled the previous share repurchase program under which $8.5 million was still outstanding and authorized the new share repurchase plan of up to an aggregate of $50 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 at $14,199 per day per vessel. Our combined daily OpEx and net cash G&A expenses per vessel per day amounted to $5,755. Therefore, our TCE less OpEx and G&A is around $8,444 per day per vessel.

Looking towards fleet renewal, we have agreed to charter-in seven high-specification, latest generation, scrubber fitted eco vessels. We have added the table at the bottom of the page with an overview.

We have entered into the long-term charter-in agreements for four Kamsarmax newbuildings and two Ultramax newbuildings, which are expected to be delivered during 2024 with a minimum duration of seven years. In addition, in November 2021, we took delivery of the Capesize vessels Star Shibumi, under a long-term charter contract for a period up to November 2028.

Slide four graphically illustrates the changes in the company's cash balance during the first quarter. We started the quarter with $330.5 million in cash adjusted for the refinancings and generated positive cash flow from operating activities of $83.2 million. After including debt proceeds repayments, CapEx payments for energy saving devices and ballast water treatment systems, the Q4 dividend payment, and share repurchases, we arrived at a cash balance of $305.9 million at the end of the first quarter, which implies a dividend payment of $0.35 per share to the shareholders of record of June 7, 2023.

Please turn now to slide five, where we highlight the strength of our balance sheet. Our pro forma total liquidity today stands at $375 million. Meanwhile, our total debt stands at $1.23 billion. Net sale proceeds from the three vessels stands at $75.5 million after debt repayment and will be excluded from the cash that can be distributed as dividends and will be kept for general corporate purposes.

Note that the $11.2 million that have been spent on the buyback during the previous couple of months will be deducted from these $75.5 million proceeds. We had a positive trade working capital of $79.5 million and the mark-to-market of the derivatives of $21.9 million as of March 31, 2023.

Given current market conditions, we expect that the trade working capital will grow further in the course of the second quarter of the year. Our next 12 months amortization is at $177 million.

In slide number six, we present an overview of our risk management on the debt side. Given the increasing interest rate environment we are in, we have focused on reducing leverage and managing interest expense in order to ensure the lowest possible finance costs compared to peers. Since 2022, we have completed refinancings totaling $525 million that reduced our interest costs by approximately $7 million per annum as a result of achieving significantly lower margins.

In 2020, we proactively had the base rate for a significant part of our senior debt at an average rate of 45 basis points. The current outstanding notional is approximately $637 million for an average remaining maturity of one year. Total realized gain from these activities are $11.6 million as of March 31, 2023 and as of the same date, the mark-to-market of the remaining position of the swaps was at $26 million.

The cumulative effect of this decision is depicted in the graphs at the bottom of the page, where one can see that Star Bulk has reduced its average interest rate and currently has a lower average interest cost among its listed peers.

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

Nicos Rescos
Thank you, Simos. In slide seven, we illustrate how Star Bulk continues to benefit from the fuel spread between HSFO and VLSFO. Our 118 scrubber fitted vessels have surpassed 137,000 operating days with an average system availability of 99.5%. With the current Hi5 spread, our scrubbers meaningfully contributed to our profitability.

The spread secured during the first quarter stands at $185 per ton and currently hovers at around $122 per ton, based Singapore spot prices where we cater for approximately 60% of our annual fuel demand. Indicatively, our average Hi5 spread since inception stands at $170 per ton.

For administrative purposes, on the top right of the slide, we present a sensitivity table that shows the impact the bunker benefit can have on our bottom line based on consumption of approximately 685,000 tons of HSFO per annum for our scrubber fitted vessels.

Please turn to slide eight, where we provide an operational update. Operating expenses, excluding nonrecurring expenses, were at $4,696 for Q1 2023. Net cash G&A expenses were $1,059 per vessel per day for the same period. In addition, we continue to rate at the top amongst our listed peers in terms of the Rightship safety store.

Slide nine provides a fleet update and some guidance around the future dry dock and vessel efficiency upgrade expenses and the relevant total off hire days. In the first quarter, we took advantage of the increase in vessel values and agreed to opportunistically sell two 2011 built Capesize vessels, the Star Borealis and Star Polaris. We have further reached agreement on constructive total loss of the Star Pavlina with the war risk insurers, given its prolonged detainment in Ukraine following the war.

As part of our strategy towards fleet renewal and improving the overall fleet fuel efficiency, we have secured seven long-term charter-in latest generation eco vessels, built at first class Japanese shipyards, six of which have delivery during 2024.

We have by now completed our ballast water installation program across the fleet and in line with the EEXI and CII regulations, we will continue investing and upgrading our fleet further with energy-saving devices, telemetry, and other technologies, all aimed in improving our fuel consumption and reducing our environmental footprint, together with enhancing the commercial attractiveness of the Star Bulk fleet.

Our expected dry dock expense for the nine months remaining 2023 is estimated at $23.7 million for the dry docking of 28 vessels, with another $9 million towards our vessel upgrade CapEx. In total, we expect to have approximately 770 off hire days for the same period.

The above numbers are based on current estimates around dry dock and retrofit planning, vessel employment, and yard capacity.

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

Charis Plakantonaki
Thank you, Nicos. Along with our ongoing efforts to continuously improve the energy efficiency of our fleet, we have now completed the first feasibility study with the Iron Ore Consortium on Green Corridors. The study has set the potential for the demand-supply in bunkering (ph) of clean ammonia with the iron ore trade between West Australia and Eat Asia, and concluded that

developments in vessel and fuel supply could allow bulk carriers packing (ph) ammonia to be deployed on this trade route by 2028 and reach 5% adoption by 2030.

Key prerequisites for the corridor remain the acceptance of ammonia as a safe marine fuel, the development of suitable engines, policy support, and continued collaboration through the value chain.

Parallel to this Green Corridor project, we continue our research and development efforts on different green fuels and technologies, including on board carbon capture storage. And we actively participate in the industry's dialogue to help accelerate decarbonization of the sector.

We remain focused on the well-being of our people, having completed a comprehensive employee survey to assess our company's strengths and weaknesses as an employer and make improvements wherever necessary.

On the governance front, we are enhancing the company's code of conduct and its relevant policies to comply with the new Global Reporting Initiative standards and with our broader ESG commitments.

I will now turn 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 2023, a total of 12.7 million deadweight was delivered and 1.9 million deadweight was sent to demolition for a net fleet growth of 10.8 million deadweight or 2.9% year-on-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 shipbuilding costs, and limited shipyard capacity until late 2025 have helped keep new orders under control. The order book has decreased to a record low of 6.9% of the fleet with just 6.3 million deadweight reported as firm orders between January and April.

Furthermore, vessels above 20 years of age stand at 8.1% of the fleet, while scrap prices have stabilized the elevated levels and should make demolition of overage and fuel inefficient tonnage an attractive option during seasonal downturns over the next years.

The average steaming speed of the dry bulk fleet decreased to record low levels of 11.05 knots during Q1 and over the last month has rebounded to 11.3 knots as spot freight rates improved and bunker prices moved lower. Nevertheless, steaming speeds still stand below last year's levels, and we expect that the EEXI, CII regulations will continue to incentivize slow steaming.

During the last 12 months, global port congestion experienced a strong correction from record highs that has gradually inflated active supply and has put downward pressures on earnings. Having said that, changes in trading patterns and inefficiencies related to the war have normalized congestion slightly above pre-COVID levels. As a result of the above trends, net fleet growth is unlikely to exceed 2% per annum over the next three years.

Let's now turn to slide 12 for a brief update of demand. According to Clarksons, total dry bulk trade during 2023 is projected to expand by 1.8% in tons and 2.5% in ton miles. During the first quarter of 2023, total dry bulk volumes increased by approximately 4% year-on-year on the back of the reopening of the Chinese economy and strong coal exports from Indonesia.

Commodities demand from the rest of the world has been affected by the ongoing effects of the war in Ukraine, surge in energy costs hitting industrial profitability, and aggressive monetary tightening from central banks to fight inflation. The IMF is projecting global GDP growth to slow down to 2.8% in 2023 and to recover to 3% in 2024.

Dry bulk trade is projected to expand at healthy levels over the next quarters as China is at an early stage of the reopening from COVID-19 and its economy is expected to accelerate from 3% in 2022 to 5.6% in 2023, with support from infrastructure stimulus and a gradual recovery of the housing market. Concurrently, the considerable correction of energy prices over the last 12 months is easing inflationary pressures generated by energy costs, a condition that should inflate demand of raw materials amid increased manufacturing activity.

Iron ore trade is expected to expand by 1.8% in tons and 2.2% in ton miles during 2023. China steel production increased by 7.4% year-over-year during the first quarter following the total lift of the strict COVID policy in December. At the same time, domestic iron ore output contracted by 5.5%, while stockpiles have decreased to a two-year low, providing a positive indicator for imports going forward.

Steel production from the rest of the world declined by 11.3% during Q1, affected by weak profit margins, leading to strong demand for Chinese steel exports. Vale’s sales underperformed during Q1, but the company expects to offset the effect that Q1 had on its annual guidance with inflated volumes over the next quarters.

Coal trade is expected to expand by 2.9% in tons and 4.4% in ton-miles during 2023. Global focus on energy security has upgraded the coal trade outlook for the next few years, while the reshuffling of European and Russian coal trade is benefiting ton miles. During the first quarter, China and India imported record high volumes, despite recording strong increases in domestic coal production, while the unofficial ban by China on Australian coal that started during the fourth quarter of 2020 has been lifted and is expected to benefit Capesize business.

Grains trade is expected to expand by 3.2% in tons and 4% ton-miles during 2023. The market is still adjusting to the new trade landscape after the loss of considerable quantities from Ukraine, and during Q1 volumes were down year-over-year despite strong soybean export from Brazil. Nevertheless, the supply outlook for grain is positive due to good crop conditions, which have put downward pressures on prices and indicated stronger trade for the rest of the year.

Minor bulk trade is expected to expand by 0.8% in tons and 1.4% in ton-miles during 2023. As such sector has the highest correlation to global GDP growth and has been affected by the global slowdown that took place during the second half of 2022.

The war in Ukraine disrupted European Union fertilizer and steel production and has created Atlantic shortages that are inflating backhaul trades. Moreover, West Africa bauxite exports continue to expand at a high pace and generate strong ton-mile for Capesize vessels.

Finally, the long-term prospects of the dry bulk market remain positive given the record low order book, environmental regulations, and large infrastructure investment needs for the world's green transition. Star Bulk is well positioned due to its scrubber fitted and diverse fleet to take advantage of a 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'd 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 keys. One moment please while we pull for questions.

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

Chris Robertson
Hey. Good morning, everybody. This is Chris on for Amit. Thanks for taking our questions.

Nicos Rescos
Hi, Chris.

Chris Robertson
This might be a question for Nicos. This is related to the slow steaming of the fleet. So, I know the fleet has slowed down, and you guys mentioned in the prepared remarks, there's a little bit of an uptick here. But given the EEXI regulations, or the CII in particular, where do you think the upper

limit is in terms of the fleet kind of speeding back up here versus is there any additional downside you see this year, or would it -- should we just be thinking about it in terms of the fleet not slowing -- or speeding up as much as it could?

Nicos Rescos
Thank you, Chris. Well, at the moment, the fleet is speeding at around 11.5 knots. We feel that as the regulation tightens towards 2026 with an annual increase of about 2%, we don't see the speed increasing substantially. To the contrary, there will be some impact from the CII rating on every vessel. So, we believe that over the next few years, we should see a slowing down of the fleet. If you add on top of that the fact that there is a lot of idling taking place on a big portion of the fleet, which is the smaller ships, that's going to be a heavier impact on CII, so we cannot see much flexibility on speed for the fleet increasing.

Petros Pappas
Chris, this is Petros. Actually, I think it's actually below even 11.5. I think it's 11.3 or so. And if I remember well over the last years, we have not seen speeds go much above 11.5 anyway. So, I would say that the risk is on the downside. I think that in the future, we will see vessels actually slowing down.

Chris Robertson
Okay. Yes, got it. That's pretty succinct, Petros. Thank you for that. Just turning to China for a moment. We saw some increased steel production in the first quarter, there's been some inventory drawdowns since that time. But with the proposed production curbs there for the year, do you think there's further room for additional inventory drawdowns like we saw at the very low levels in 2020, or do you think that the drawdowns are kind of stabilizing, and we'll see a restocking cycle in the next few quarters?

Petros Pappas
Well, we are seeing iron ore stocks down to 126 million tons, if I'm not wrong, which is the law for the last at least two years. And we, therefore, expect that we will see more imports in the second half of the year, and more so from Brazil, which has not yet performed up to its expectations as far as exports are concerned, which will actually increase ton miles. So we are positive about iron ore trade during the second half.

And then, I think that China will increase its efforts on the infrastructure level. And I've also seen that new floor space has gone down a lot. So, I would expect that as China, as the effort to strengthen its economy continues, I think that we will see support both from the private and the public sector over there.

Chris Robertson
Okay. Got you. Last question for me. You guys gave quarter-to-date rate guidance on the bookings, but just any color around the second half of the current quarter, since we're already more than halfway through. We've seen some -- a little bit of slowing or deceleration of the economic recovery in China into the second quarter here. Any thoughts around how rates might perform for the rest of 2Q?

Petros Pappas
Well, as I said before, I think that China will actually increase its effort to support this economy. And I think that as oil prices, energy prices are going down, I think the world in general will also improve as far as GDPs are concerned. So, I think it's not going to just be China. I think we will see a better economic situation going forward. And especially, of course, as interest rates are -- will stop at their rise and may start even falling later on in the year.

Chris Robertson
All right. Yeah. Thank you very much for the time, guys. I'll turn it over.

Petros Pappas
Thank you, Chris.

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

Omar Nokta
Thank you. Hey, guys. Good afternoon. I just wanted to --

Petros Pappas
Hi, Omar.

Omar Nokta
Hi, there. Just obviously, the charter-ins are definitely new development and pretty significant. And I just wanted to ask about that and how they work. And maybe first off, are these -- are they bareboat leases, or are they just regular in charters? And then also, just in terms of them being against newbuildings, are these new orders that have been placed or were these ships already under construction and have been chartered accordingly?

Petros Pappas

Omar, hi, it's Petros. These vessels actually were ordered already or were being ordered. And we're doing these deals for four reasons. First of all, we think the rates we have fixed them are good. So, we expect to make profits. Secondly, it is a way to modernize our fleet. Third, as nobody knows when the new generation vessels will be in and when there's going to be the right infrastructure and ample fuels to fuel those vessels, this we consider to be a bridge between now and that time. And of course, let's not forget that these vessels come at no capital costs. Also, those vessels have scrubbers and they offer us optionality. So we have them for seven years plus options. So, I think only good things come out of these vessels. And I think that there is more to come as well.

Omar Nokta

Okay. More potential charter-ins is what you've reported?

Petros Pappas

Yeah.

Omar Nokta

Okay, great. And then, I guess, you mentioned the four reasons. And I guess, I wanted to ask, also we've seen in terms of asset value, just a continuous move higher throughout the year despite the fact that the market has been off to a softer start, at least relative to '21 and '22, and so ship values are moving higher. We've seen it for Capes especially. But I just wanted to ask, maybe from your perspective, what's been driving the S&P market climbing so significantly this year? And also, yes, one, what's maybe behind that? And is there a lot of deals being transacted and is there more to come?

Petros Pappas

Well, first of all, we ship owners, we're bullish people. There is not a lot of space in shipyards and the prices of newbuildings are going up. So there is this idea that prices of newbuildings will not fall. So I think this is one of the reasons why ship owners are ordering. Also, the new vessels are much more eco than the vessels in the water, and that will allow them potentially to survive for longer periods until the zero emission vessels come in. So I think basically, these are the reasons why people are ordering and why prices are going up.

Omar Nokta

Okay. And so maybe from your commentary, just now, it sounds like is more of the activity being done on the modern end of the curve, or is there also deals being done on the 10 plus year range as well?

Petros Pappas
What do you mean -- you mean newbuildings versus 10-year old vessels?

Omar Nokta
No, sorry. Just meaning in terms of the S&P activity we've been seeing, is the market, as you highlighted, there's not a lot of newbuilding slot capacity available and prices are not going to come down from the newbuilding front. So, it seems like you've had this repricing of tonnage, is that repricing on the modern end of the age curve, or is it also happening --

Petros Pappas
Yes. There's also a repricing of the existing vessels in the water, the ones that are actually eco, exactly because if you order today, you will probably take delivery of a vessel in 2026. And therefore, we've seen that happen before. We've seen vessels in the water actually being sold for close prices or even higher prices than newbuildings.

Omar Nokta
Yeah. Interesting. And I guess, maybe just one final one for me. You sold those two Capes at fairly good prices. Should we be thinking we'll be seeing something similar? As you mentioned earlier, you'll be adding more charter-ins, even though those are a bit outward in terms of delivery. Should we be thinking you'll be adding more newbuildings via charter-in and maybe selling some of the older ships to take advantage of the pricing dynamics today?

Petros Pappas
Yes. Well, first of all, the prices are pretty high compared to what charter levels are. So actually, this means that people expect the market go up. But we don't know what will happen. We are positive, but prices are really, really very good. The two Capes that we sold, we sold them at prices that we were very, very happy with. So I think what we will do going forward is we will sell some more vessels, trying to improve the average age of our fleet, probably getting rid of a few older vessels and charter in newbuilding tonnage. That will improve the age profile, and we'll do all the good things that I told you earlier, plus it will strengthen our war chest. In case, we will want in the future and especially if new technologies that really cut down on the consumption of vessels, perhaps we would want to also order newbuildings, not right now, but it would happen in the future.

Christos Begleris
And Omar, this is Christos, just to add, given also the large discounts to NAV and trading performance lately, selling vessels, a few vessels and especially the inefficient ones, as Petros mentioned, is supported.

Omar Nokta
Yeah. That makes sense. Thanks, Christos, very helpful. And thanks, Petros, for the overview. I'll turn it over.

Operator
As a reminder, if you'd like to ask a question, please press star one on your telephone keypad.

Our next question is from Ben Nolan with Stifel. Please proceed with your question.

Ben Nolan
Yes. Thanks for taking my questions. If I could start, I wanted to follow on with some of the charter-ins, just had a few other questions about those. First of all, do they include purchase options at the end? Secondly, how should we think about what your, let's say, annual cost, once all seven are operating, would look like? And was curious if these were related party transactions or not?

Hamish Norton
So, Ben, we can't comment, unfortunately, on the detail of those charters. You can see what we're able to comment on in our financial statements in the footnotes. And then, as far as related party transactions, Simos, they're not.

Simos Spyrou
They're not. We do not have anything.

Petros Pappas
No. But one advantage one has when he foresee has chartered vessel in is that when you control a vessel and the time comes that the vessel -- the owner wants to sell the vessel, being the charter of the vessel, you're always in a pull position as far as being able to buy, you have forward advice about it. So it's always an advantage to have a chartered in-vessel, even if you don't have a purchase option.

Ben Nolan
Okay. That's helpful. I appreciate the color you were able to give there. And then, for my second question, as I was going through the release, it seemed like there -- for the second quarter, there is going to be a whole lot more dry docking days than what had previously been the case, unless I'm mistaken. I'm curious if you guys are bringing forward dry docks or something into the second quarter?

Nicos Rescos
Hi, Ben. This is Nicos. This correct. What we're doing is we're accelerating some of the bigger ships into 2Q, taking advantage, unfortunately, of the kind of softer market of the big ships and preparing for Q3 and Q4. We're doing this also to install efficiency devices on these vessels, putting them back into trade towards the end of Q2. So that's why you see our concentrations here.

Ben Nolan
Okay. So is that -- any sense as to sort of what dry docking should look like for 2024 then?

Nicos Rescos
We have 24 ships scheduled for 2024.

Ben Nolan
Okay. All right. I appreciate you guys taking my questions.

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

Petros Pappas
Well, thank you very much for following us, and have a good day. See you next time around. No more comments.

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