Star Bulk Carriers Corporation
Second Quarter 2023 Financial Results
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<u>Presenters</u>
Petros Pappas, CEO
Hamish Norton, President
Simos Spyrou, Co-CFO
Christos Begleris, Co-CFO
Nicos Rescos, COO
Charis Plakantonaki, CSO

<u>Q&A Participants</u>
Christopher Robertson - Deutsche Bank
Omar Nokta - Jefferies
Nathan Ho - Bank of America

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk Carriers Conference Call on the Second 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 Ms. 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 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.

We will now pass the floor over to one of your speakers, Mr. Begleris. Thank you. Please go ahead.

Christos Begleris
Thank you, operator. I am 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 second quarter of 2023. Before we begin, I kindly ask you to take a moment to read the safe harbor statement on slide #2 of our presentation.

In today's presentation, we will go through our second quarter results, cash evolution during the quarter, an overview of our balance sheet, an update on fleet and operations, the latest on the ESG front and our views on industry fundamentals before opening up for questions.

Let us now turn to slide #3 of the presentation for a summary of our second quarter 2023 highlights. Net income for the second quarter amounted to $44 million, and adjusted net income amounted to $49 million or $0.47 per share adjusted earnings. Adjusted EBITDA was $96 million for the quarter.

For the second quarter, as per our existing dividend policy, we declared a dividend per share of $0.40 payable on or about September 7, 2023. During this quarter, we bought back 307,439,000 shares at a cost of $6.1 million. Since 2021, dividend distributions and share buybacks exceed $1 billion or $10.50 per share.

On the top right of the page, you will see our daily figures per vessel for the quarter. Our time charter equivalent rate was $15,835 per vessel per day. Our combined daily OpEx and net cash G&A expenses per vessel per day amounted to $5,824. Therefore, our TCE less OpEx and G&A is approximately $10,000 per vessel day.

Looking towards fleet renewal, we have agreed the sale of five Supramax vessels built in 2012 in China. Our opportunistic sale of these vessels, inclusive of trading profits produced during the period, realized excellent returns for our shareholders with a cash multiple of 4.6x on the equity invested and an IRR of approximately 42%.

The accounting gain from sale of the vessels is approximately $20 million in total. Looking at the first half of 2023, we have sold seven vessels and received insurance proceeds from one vessel for total net equity proceeds of $153.1 million. Out of these, we have already used $13.1 million for share buyback, for total remaining net sale proceeds of $140 million. This additional $140 million will be added to our existing cash buffer and can be used for general corporate purposes, including fleet renewal, debt repayments, and share buybacks.

Slide four graphically illustrates the changes in the company's cash balance during the second quarter. We started the quarter with $254.6 million in cash and generated positive cash flow from operating activities of $96.9 million. After including debt proceeds and repayments, CapEx payments for energy saving devices and ballast water treatment system installments, the first quarter dividend payment, and share repurchases, we arrived at a cash and cash equivalent balance of $310 million at the end of the quarter, which implies a dividend payment of $0.40 per share to the shareholders of record of August 22, 2023. The ex-dividend date is expected to be August 21, 2023.

Please turn to slide five where we highlight the strength of our balance sheet. Our total cash today stands at $457 million pro forma for the delivery of our two remaining Supramax vessels. Meanwhile, our total debt stands at approximately $1.19 billion. The scrap value of our fleet is more than $800 million based on scrap price of $400 per light dead weight ton.

Taking into account the share repurchases and the debt repayments in connection with the changes in our fleet made in 2023, the cash threshold above which we will receive a dividend is set at $409 million. We have a positive trade working capital of $64 million and mark-to-market of derivatives of $18 million as of June 30, 2023. Following the completion of the refinancings performed during 2022 and 2023 and the sale of the five Supramax vessels, we will have nine unlevered vessels. Our next 12 months amortization is $177 million.

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

Nicos Rescos
Thank you, Christos. Please turn to slide six, where we provide an operational update. Operating expenses, excluding nonrecurring expenses, were $4,772 for Q3 2022. Net cash G&A expense were $1,051 per vessel per day for the same period. In addition, we continue to rate at the top amongst our listed peers in terms of Rightship safety score.

Slide seven provides a fleet update and some guidance around our future dry dock and vessel efficiency upgrade expenses and a relevant total of five days. Our expected dry dock expense for the next 12 months is estimated at $33.6 million for the dry docking of 37 vessels, with another $96 million (ph) towards our vessel upgrade CapEx. In total, we expect to have approximately 960 off-hire days for the same period.

In line with EEXI and CII regulations, we will continue investing in upgrading our fleet further with energy-saving devices and latest operational technologies deployed across the fleet aimed in improving our fuel consumption and reducing our environmental footprint, further enhancing the commercial attractiveness of the Star Bulk fleet.

Regarding our ESP retrofit program, we have completed 21 vessels until today, and 12 more vessels are planned to be fitted by the end of the year. The above numbers are based on current estimates around dry dock and retrofit planning, vessel employment, and yard capacity.

During the second quarter, we have successfully completed onboard testing of carbon capture technology with the capabilities to retain up to 30% in net CO_2 emissions. We will continue working on carbon capture technology with our industrial partners aiming developing a cost-effective solution, which can be selectively retrofitted in the future on select vessels of our fleet and within the scope of our carbon credit scheme.

Finally, we're actively working on demand, supply, and bunkering of carbon-neutral fuels to deal with the safety considerations and vessel design development with a particular focus on clean ammonia and in line with developing work taking place under the Iron Ore Consortium and the green corridors initiative.

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

Charis Plakantonaki
Thank you, Nicos. Please turn to slide eight, where we highlight our continued leadership on the ESG front. Star Bulk remains committed to transparent reporting. For the first time, we have completed the measurement of the company's Scope 3 emissions, which will be reported publicly in our upcoming ESG report.

We have also submitted Star Bulk's questionnaire for the company's participation in the 2023 carbon disclosure project for a third year in a row. Following the increased decarbonization ambitions agreed for the industry during MEPC80 and reviewed the inclusion of shipping into the (inaudible), we are enhancing our strategic planning to comply with greenhouse gas emission reduction regulations, both at an international and European level.

On the societal front, we have created the first company blood bank through blood donations of our employees, and we have committed to supporting people with disability as well as contributions related to education and health in Greece.

During Q2 2023, all our company employees attended mandatory trainings of cyber security to help create awareness on cyber risks and on the company's relevant policies and procedures. Star Bulk is also piloting new cyber technologies on its vessels to help monitor onboard systems and manage cyber risks for the fleet.

As we are increasing the company's ESG commitments, the Star Bulk code of business conduct and its relevant policies, including whistleblowing (inaudible), in compliance with the UN Global Corporate Principles and the New Global Reporting Initiative standards.

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

Petros Pappas
Thank you, Charis. Please turn to slide nine for a brief update of supply. During the first half of 2023, a total of 18.6 million deadweight was delivered and 2.6 million deadweight was sent to demolition for a net fleet growth of 16 million deadweight or 1.6% year-to-date and 2.9% year-over-year.

The supply outlook continues to be the best we have seen in the recent history of the dry bulk shipping. Uncertainty on future propulsion, high ship building costs, and limited shipyard capacity until late 2025 have helped keep new orders under control. The order book stands close to record low levels of 7.4% of the fleet with 14.4 million deadweight reported as firm orders between January and June.

Furthermore, vessels above 20 years of age stands at 8.1% of the fleet, while scrap prices have stabilized at 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 has corrected to a new record low level of 10.95 knots over the last month as a result of higher bunker costs, lower freight rates, and new environmental regulations.

We expect that the EEXI, CII regulations will increasingly incentivize slow steaming and help moderate supply over the next years. Over the last five quarters, global port congestion experienced a strong reduction from record highs that has gradually increased supply by approximately 5% and has put downward pressures on earnings over the first half.

Nevertheless, changes in trading patterns and inefficiencies related to the war have normalized congestion slightly above pre-COVID levels and the market may find further support over the next quarters from seasonal strength in trade volumes. As a result of the above trends, net supply growth is unlikely to exceed 2% per annum during '24 and '25.

Let's now turn to slide 10 for a brief update of demand. According to Clarksons, total dry bulk trade during 2023 and 2024 is projected to expand by 2.7% and 1.9% in tons and by 3.3% and 2.4% in ton miles, respectively. During the first half of 2023, total dry bulk volumes increased by approximately 3% year-on-year on the back of the reopening of the Chinese economy, record high coal and minor bulk exports, and the recovery of iron ore exports from Australia and Brazil.

China GDP increased by 6.3% in Q2, but the recovery is losing steam as the company's property market continues to struggle. Despite the overall uncertainty for the outlook of its economy, the demand for dry bulk commodities is very strong as import volumes increased by 15% year-on-year during the first half of 2023.

On the other hand, the rest of the world imports declined by 3.6%, as commodities demand was affected by the war in Ukraine, high energy costs, and a tightening monetary policy in Western economies during their ongoing fight with inflation. The IMF is projecting global GDP growth to slow down from 3.5% in 2022 to 3% in 2023 and 2024.

Iron ore trade is expected to expand by 2.5% in tons as well as in ton miles during 2023. China steel production increased by 2.2% year-on-year during the first half of 2023 following the total lift of the strict COVID policy. At the same time, domestic iron ore output contracted by 11%, while stockpiles have decreased to a two-year low, providing a positive indicator for imports. Steel production from the rest of the world declined by 6.2% over this period, affected by high energy costs and weak steel margins. But during June, output in Greece on a year-on-year basis for the first time since January '22.

More infrastructure stimulus from China is expected to keep steel production at least at par with last year's levels and the gradual recovery from the rest of the world could further inflate iron ore demands. Coal trade is expected to expand by 5.7% in tons and 6.4% in ton-miles during 2023. Global focus on energy securities has upgraded the outlook of coal trade for the next few years, while the reshuffling of European and Russian trade is benefiting ton miles.

During the first half, Chinese imports almost doubled compared to last year, as hydropower is underperforming, and there are limitations in the expansion of domestic coal production. Moreover, the unofficial ban by China on Australian coal that started during the fourth quarter of 2020 has been lifted and is already providing some Capesize (audio gap) vessels.

Grain trade is expected to expand by 2.5% in tons and 3.7% in ton miles during 2023. During the first half, corn and wheat rate was affected from poor crop conditions in Argentina and high U.S. prices. On the other hand, Brazil experienced a record soybean export season and had a strong corn crop that is expected to more than mitigate the loss of Ukrainian cargoes following the closure of the Black Sea grain corridor last month.

Moreover, strong Chinese demand and increased focus on food security are expected to inflate grain trade over the next years and the recent correction of grain prices provides a positive indicator for grain volumes during the second half.

Minor bulk trade is expected to expand by 1.3% in tons and 2.3% in ton miles during 2023. Minor bulk trade has the highest correlation to global GDP growth and was affected by the global slowdown. The war in Ukraine disrupted the EU, fertilizing and steel production, and created Atlantic shortages that inflated backhaul trades during the first half. Moreover, expanding West African bauxite exports continued to generate strong ton miles for Capesize vessels with year-to-date exports up to half by 30%.

Finally, the long-term prospects of the dry bulk market remain positive, given the record low order book, new environmental regulations, and large infrastructure investment needs for the world's green transition. Star Bulk is well positioned due to scrubber fitted and diverse fleet to take advantage of a recovery in freight rates and remains focused on actively managing its fleet and continuing to create value for its shareholders.

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. The floor is now open for questions. If you would like to ask a question, please press star one on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star two if you would 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. Again, that is star one to register a question at this time.

Today's first question is coming from Amit Mehrotra of Deutsche Bank. Please go ahead.

Christopher Robertson
Hey, good morning and good afternoon. This is Chris Robertson on for Amit. Thanks for taking our questions. I just wanted to start on the updated drydocking schedule. It looks like it picked up since the last earnings call by a few hundred days. So I just wanted to drill into that a bit. Is that pulling forward some 2024 dry docking that was scheduled? Or is that due to just maybe longer time periods for installation of equipment? So I'm just trying to get an idea of why it's gone up?

Nicos Rescos
Thank you, Chris, this is Nicos. We're basically accelerating some of the vessels into this quarter, and we're basically installing energy devices a bit earlier due to the lower market instead of keeping it for 2024. So it's basically more ships run and more days on specific dry docks.

Christopher Robertson
Okay. Yes, got it. That's good. This is related to the use of proceeds from the vessel sales. So I wanted to ask about you guys looking at the net share count from the beginning of the year to the end of the quarter. It looks like net-net of repurchases, but also offsetting that, the issuance of shares under the compensation program, it looks like the net share count is up around 326,000 year-to-date. So as we think about coming quarters, do you expect this net share count, will that increase further, do you think? Or will there be some opportunities here to use some of the proceeds from the vessel sales to more aggressively repurchase shares to offset any issuances remaining under the comp program?

Hamish Norton
Well, I don't think we intend to issue more shares under the comp program this year.

Simos Spyrou
We haven't issued yet the second batch of the shares, which is going to be issued in November.

Hamish Norton
It will be issued. Okay. So there will be some shares issued in November. Roughly how much?

Simos Spyrou
So it should be to the tune of an additional 200,000 shares.

Hamish Norton
Okay. So that's it on the order of 200,000 shares under the comp program, less any buybacks that we might do.

Christopher Robertson
Okay.

Petros Pappas
The shares outstanding today is 103,183,510 and fully diluted with the additional shares remaining it's going to be 103,398,510. So it's approximately 210,000 remaining.

Christopher Robertson
Okay. Thanks. Last question for me is more market oriented. You extensively went into what's happening with China. I guess just looking at the rest of the world, what would be, in your mind, the most low-hanging fruit in terms of an immediate demand response other than kind of global GDP improving from here, what region or what sector do you think will have more of an immediate impact in terms of recovery?

Petros Pappas
Well, Chris, first of all, the reason behind the market falling to the levels that we're seeing today, I think, is that congestion plus -- the reduction of congestion plus the increase in deadweight did not -- was not covered by the reduction in the speed in the additional ton miles of -- that were produced during the first half of the year.

So that actually ended up in being slightly negative. And I think this is one of the reasons we saw a slow market. Also, let's not forget that usually during the first half of the year, we see less trade in the second half of the year, and I think that our statistical analysis over the years shows that 46% of the first half of trade is done during the first half and 54% during the second half.

So I think this is the reason why we didn't see a stronger market up to now. Going forward, I think that we've seen most of the negatives. We don't believe that congestion will fall much further than what we've seen. We think that the world economy is stabilizing and may turn around positively. Vessel supply is not going to be very strong in the next 18 months, especially 2024 is going to be a year where rather few vessels will be delivered.

And particularly grain trade, we believe, is going to turn around and be much stronger during the second half. And because during the first half, we saw a reduction of about 4% of the grain trade. We think that at the end of the year, it's going to turn positive. So these things are going to turn around. And we think that China is going to exert a stronger effort on the infrastructure side. And we think that coal will remain strong. We think speeds will probably remain where they are, especially as oil prices are relatively high.

We think that the weaker dollar is going to help trade because commodities are cheaper, and freight is cheaper. So that induces more trade. We think that the ton mile inefficiencies will remain because even if the war stops, I don't think that Russia will start trading with Europe right away or with the West in general. We see a low iron ore inventory in China. And generally, as we don't see more negatives coming up, but we see more positives. So we have faith in the market for the remainder of the year and for 2024.

Christopher Robertson
Yes. Definitely a lot of small things that add up for some, hopefully, incremental improvement from here. Thank you for taking my questions. I'll turn it over.

Operator
Thank you. The next question is coming from Omar Nokta of Jefferies. Please go ahead.

Omar Nokta
Thank you. Hey, guys. Good afternoon. Just wanted to follow up on the share buyback. I think you mentioned in the opening remarks that you've already spent about $13 million since receiving the proceeds of the sales. And I just wanted to ask kind of given where things are at the moment, given your outlook, and where the stock price is, that 140, if I recall, that remains. What's your thought about -- how much of that are you kind of thinking you'd like to utilize towards the buyback versus, say, debt repayment?

Hamish Norton
Well, there are more possibilities than that, right? There's buybacks, there's debt repayment, and then they're the potential of renewal of the fleet. And all three of those are under active consideration.

Omar Nokta
Okay. And is there any -- I guess, there isn't really a preference at the moment, although I could -- since perhaps you did spend $13 million, so maybe there is a good amount of interest to buy the stock?

Hamish Norton
Well, as I say, I mean, we're considering all three uses, but there are some very interesting possibilities that may arise in terms of renewing the fleet as well. So that's not out of the question.

Omar Nokta
Okay. Okay. And you would be willing to do that with the cash proceeds you've received irrespective of where the valuation is on the stock?

Hamish Norton
Well, we'll take that into account. I mean, we're always looking out to do the best thing for the shareholders.

Omar Nokta
Okay. And then, Hamish, you didn’t mention another option, obviously, not with the proceeds, but you have sold the six ships recently. What are you thinking about further disposals from here? Anything on the horizon there?

Hamish Norton
Well, we think we got an excellent price for the ships we sold. And if we can continue to get similarly good prices on ship that we are happy to sell, I think we'll keep doing that.

Omar Nokta
Got it. Okay. Thank you. I'll pass it on.

Operator
Once again, ladies and gentlemen, if you do have a question, you may press star one on your telephone keypad at this time.

The next question is coming from Nathan Ho of Bank of America. Please go ahead.

Nathan Ho
Hi. Thanks for taking my question. I guess I just -- I want to start off with maybe one on just the outlook. I think earlier the team alluded to expectations on grain trade turning positive. May I ask if that's more coming from lane dislocation or just the general expectation of macro recovery? And has the team seen any lanes being dislocated following the Black Sea corridor closure? And any noticeable call outs there? Thanks.

Petros Pappas
I think it's a general positive feeling in the sense that the negatives have probably reached their low points, and the positives are still around. It's a macro -- a combination of macro and micro, I would say.

Nathan Ho
I see. So a combination of like a broader GDP view as well as just ton mile description?

Petros Pappas
Yes.

Nathan Ho
Okay. And as my follow-up, I hate to be hitting the point again, but on the $140 million proceeds in terms of your capital view, I think there were mentions of -- Hamish brought up fleet renewal as a potential reduce of proceeds. Just wondering if maybe the team could clarify a little bit about how that would be likely expressed. Would this be true for the new builds? Or has there been any updates in terms of opportunity availability in the secondhand market? Just maybe expand a little bit on that.

Hamish Norton
Well, I think this is something we're looking into. And when we find an excellent opportunity, whether new building or secondhand, we'll consider that along with considering debt repayment and stock buyback. We really haven't made a decision on the use of that $140 million at the moment. But at some point in the not-too-distant future, we will probably decide what to do with it.

Christos Begleris
Yes, it's Christos. Yes. And just to add to that, this is Christos. We are always open to also buy vessels using our shares, issue that net asset value as we have done in the past. Now that's not the use of cash, but it's definitely a use of our share capital in order to buy vessels and renew our fleet through self-acquisitions like the 58 vessels that we have done since 2018.

Nathan Ho
I see. And just to clarify, on the framework as to how you look at this, would it be safe to assume it's kind of based on an IRR mentality in terms of what return looks more attractive, like in terms of how you would aim to deploy the cash?

Hamish Norton
Yes. I mean basically, we look at the rate of return on capital and whether that is in excess of our cost of capital and cost of equity is appropriate.

Nathan Ho
Okay. That’s clear. Thank you so much.

Operator
Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Petros Pappas

No further comments, operator. Have a nice August vacation everybody and thank you very much.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines at this time and enjoy the rest of your day.