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DNORD.CO - Q1 2016 Dampskibsselskabet Norden A/S Earnings Call

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## CORPORATE PARTICIPANTS

**Martin Badsted** *Dampskibsselskabet NORDEN - Executive Vice President & CFO*

**Jan Rindbo** *Dampskibsselskabet NORDEN - CEO*

## CONFERENCE CALL PARTICIPANTS

**Dan Togo** *Handelsbanken - Analyst*

## PRESENTATION

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**

All right, thank you very much and welcome to the presentation of Norden's Result for the First Quarter of 2016 and thank you for calling in.

My name is Jan Rindbo and I am the CEO of Norden and today I will be presenting together here with our CFO, Martin Badsted.

I trust you've all found time to download the accompanying presentation from our website. We will refer to the specific slides as we go along.

Please note that this presentation and the following Q&A session will be recorded and made available on our website.

Slide 2 please.

So the agenda for today will be as follows: I will start off by outlining the highlights of the first quarter and the key financial figures for the past quarter; Martin will then give you our view on the - on our liquidity and the market conditions; and finally I will conclude with our guidance for the year, and we will open up for the usual Q&A session.

Slide 3 please.

So on this slide I will cover the highlights for the first quarter,

The adjusted results for the period, was a loss of \$5 million which as was the case in 2015, is driven by a healthy Tanker market and a very poor Dry Cargo market.

Actually in the very poor Dry Cargo market we again set new record lows during February, while the Tanker market developed as we expected.

Overall these market developments have been pretty much in line with our expectations at the start of the year and we maintain the guidance for 2016.

Next slide please.

When we look underneath these figures and look in to two segments that we operate in, then we can see that the adjusted results for the period in dry cargo was a minus \$20 million in the first quarter, while the result in tankers was \$15 million.

In the dry cargo the result was driven also by the fact that we actually managed to outperform this poor market by 37%.

On the tankers, Norden's performance was in line with the benchmark which now consist of the average value of the one year TCE contract during the last 12 months.

And I will now turn you over to Martin for a look at our liquidity position and the markets.

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**Martin Badsted - Dampskibsselskabet NORDEN - Executive Vice President & CFO**



Thank you Jan.

Overall I'm pleased to say that the cash from operations this quarter was positive by \$7 million.

We have continued to optimize our portfolio and have further reduced our net commitments, this time by \$15 million during Q1.

We overall believe that we maintained a balanced capital structure as you can see in the two graphs.

First on the left, we have ample cash and credit facilities available to us to both pay for our newbuilding installments and also to have flexibility to do further attractive contracts going forward.

And overall when you add up our total commitments including bank debt, cash position, Time-Charter and newbuilding commitment, then you will see from the pie chart that we have financed ourselves basically around 40% equity and 60% net debt at the moment. So overall as we would like to be in this state of market.

Slide Number 6 please.

Asset values declined in both segments during the first quarter, a small decline on the tanker side with 6% and a more dramatic decline in dry cargo following also a very tough market in Q4 of 2015.

So dry values were down 15% during the quarter but actually towards the end of the quarter and through April we've seen a slight tick-up based on a small upturn on the spot market levels.

Slide Number 7 please.

And looking at dry cargo, it was as Jan said at the beginning, a historical weak market during Q1. As you can see from the chart especially the Supramax chart at the middle here, almost exactly at the same time we've seen for the past two years, the market - the spot market at least turned around during February and actually strengthened during March and April, probably based mainly on the grain season out of South America which is the usual seasonal pattern that we've seen for some time.

Looking at other factors on Page 8, we will see that the - we actually also had some fundamental improvements on the Chinese import side with exports to China up by some 23 million tons in Q1 versus the same period of last year.

As you will see from the graph most of this was actually due to an okay iron or performance where we saw increases of 6.4% year-on-year.

And overall even though coal imports were still down for the full quarter, we actually saw some improvements towards the end of the period with fairly decent numbers for March.

Looking at India which was a fairly strong coal import story, we actually continued to see disappointing figures as we also saw in the second half of 2015.

On Page 9, our view on the market outlook has not really changed. We do see a slightly firming of the demand outlook based on an improvement in activity indicators from the Chinese property markets and also growth in new infrastructure projects being initiated and completed in China.

We have seen also as you can see from the graph that the steel prices have shot up quite dramatically, which of course incentivizes the steel mills to both produce steel and import iron ore.

So on the demand-side, I would say they are probably more positive now than three months ago but we still see this fundamentally oversupplied market and fleet growth remains in the 1% to 3% range for the full-year and we still need scrapping to continue basically to really have a firm turnaround in the spot market figures.

So we think there may be some improvements over the Q1 numbers but it will be still a fragile market, very dependent on the supply outlook.



Then we turn to tankers on Page 10, where overall the Tanker market developed as expected. We saw a fairly small market for MR's during the period. It was weaker than last year but still much higher than the five-year average but when you look at the Handy market which is shown in the graph on the right-hand side here, it was a disappointing winter season.

We both had a mild winter with few ice premiums and we also had a significant slowdown in Russian fuel oil exports, so overall as you can see the Handy earnings in the markets were actually below the five-year average and much weaker than what we saw last year.

On Page 11, our outlook for the short-term is unchanged. We still think it's going to be fairly healthy, the fundamental drivers that have been supporting the market has been driven by the strong gasoline demand over the last 12 to 18 months and while the diesel stocks continue to grow, and you can see that the crack spreads for diesel have declined quite substantially compared to the same period of last year, we see actually that the crack spreads for gasoline remained unchanged, probably even firming a little bit, so we think that the fundamental story about strong gasoline demand is still very much there and still that the seasonal US upturn going into the summer will also provide support for these spot markets within the next few months.

Slide 12 please.

Where if we look out a little bit further, our expectations here are unchanged, the fundamental oil- demand growth estimates remain at just over 1% which is quite healthy, so we think the demand-side is still there but we - as we have said before, we think that the supply risks that are ahead of us in the - especially Q4 this year and also during 2017 will start to add downward pressure on rates going into 2017.

Now, over to Jan and a look at the guidance.

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**

Thank you. And please turn to Slide 13.

So despite the volatility in our markets, the market developments are actually overall as we expected. We still expect the poor Dry Cargo market conditions to persist throughout the year.

And on the Tanker side we still expect a good market, not quite as strong as we saw last year but still an overall good market when we look at it in a historical perspective.

And therefore our expectations for the market going forward are unchanged and we are therefore maintaining our guidance for the year at minus \$60 to \$30 million in the adjusted results for the year.

Please go to Slide 14.

And here is just a reminder that there are of course uncertainties related to any of the forward-looking statements.

Next slide please.

And this concludes our presentation, we will now open up for the Q&A session.

Please await the conference host instructions.

Thank you.

#### QUESTION AND ANSWER

**Marcus Bellander - Carnegie**

Thank you, just one question from me.



Your adjusted net result in Q1 was minus 5 million and I think it's fair to say that at least dry bulk rates were very weak in the quarter and they have improved substantially since, yet you are reiterating your guidance to minus 60 to plus 30 million you, isn't that a bit conservative?

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**

Thank you for the question, Marcus. Well actually the market development in the first quarter was pretty much as we expected and you could say the very low levels we saw in February, were sort of countered by better levels in March but we are still at very low levels overall.

So even though if you look at the percentage increase it looks quite big, we are actually just getting back to levels we saw towards the end of last year.

So overall I would say the first quarter results and the first quarter earnings are as we expected even with the uptick in the market in March.

**Marcus Bellander**

Okay, understood. Thank you.

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**Dan Togo - Handelsbanken - Analyst**

Yes, hello. A follow-up question from my side as well on newbuilding prices, on tankers, how do you view that, I mean in light of that nobody is really building dry bulk containers or offshore for that matter, tankers seem to be the only segment really supporting building new vessels.

Even though activity has been very low I must admit but how are yards positioning themselves at the moment, are they discounting prices? How - and how are you approaching in this respective?

Thank you.

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**

Well we're seeing, certainly we're seeing not much interest across all the shipping sectors in newbuildings.

There was a little bit of a rush last year before there were some new regulations coming into place that will increase the cost of building new ships, so we saw a little bit of a pickup in the new building activity there.

I think it's fair to say that here in the first quarter there has been very little ordering, probably more spectacularly, when we look at the dry cargo side, there have been orders for these new Valemaxes.

But I think it's fair to say that, looking ahead we don't see any price pressure upwardly on the pricing of ships but I think it's also fair to say that there is not any margin left in the current prices and therefore how much further downside there are on these prices is probably - is probably limited from the - from the current levels.

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**Dan Togo - Handelsbanken - Analyst**

Okay, understood. Then you referred to a weaker market but I suppose at the end of the year, primarily due to new capacity coming on stream but as I understand it, is that - is that primarily relating to the crude capacity coming on stream and the - is it because of the pressure on crude rates that will, you know, have impact on product tanker rates, that you're -- you are referring to, towards the end of the year.

Is that how we should view it or is it primarily relating to product capacity coming on stream later on in the year?

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**



No. We look at the total tanker segment and it's primarily on the crude side that the supply is building in terms of the newbuildings that are coming.

Actually for product tankers in isolation, there is a declining trend. You know, we've had high deliveries last year and that trend is now declining, so it's not in the product tanker segment as such that we are concerned, it's for the total tanker segment and therefore it's more on the crude side that this is relevant.

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**Dan Togo - Handelsbanken - Analyst**

Okay, understood. Thank you.

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**Jan Rindbo - Dampskibsselskabet NORDEN - CEO**

All right, well thank you very much for your interest in NORDEN.

Thank you for listening in, and have a nice day.

Thank you very much.

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