OMX Events EMEA (EC Plus)
NORDEN First Quarter of 2014 results - teleconference

Moderator: Carsten Mortensen
May 13, 2014
15:00 CET

Carsten Mortensen: Good afternoon and welcome to the presentation on NORDEN's first quarter results. My name is Carsten Mortensen, I'm the CEO of the company. I'll be presenting together with CFO Michael Tønnes Jørgensen and Executive Vice President Martin Badsted, who is, amongst others, responsible for our investor relations.

I trust you have all found time to download the accompanying power point 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 number 2 please.

The agenda of today is as follows; I will start out by outlining the highlights of the first quarter 2014, subsequently Michael will go over the key financial figures, Martin will present the market conditions and finally I will conclude with our guidance for 2014 and then we will open up for the Q&A session. Slide number 3 please.

As expected the first quarter of 2014 was indeed a challenging quarter EBITDA for the quarter ended up at minus $8 million and the net result was minus $27 million, both were as expected. In tankers we saw lower than expected rates for the MR segment driven by adverse weather conditions. This was however balanced out by a very strong market for transporting fuel oil on our handy vessels.

Dry cargo rates followed their usual seasonal pattern and declined from the levels of the fourth quarter of 2013. While market rates were insufficient to deliver a positive result they did improve over the very poor levels that we saw in the first quarter of 2013. While Dry cargo rates were expected to decline from the first quarter of 2013 level it was unexpected that they continued to decline into the second quarter.

The Atlantic market was more or less collapsed since March and the lower spot rates have dragged down the forward curve as well. This adverse market development means that we lower the full year guidance for 2014 to minus $40 million to plus $60 million.

On a more positive note asset values continued its upward trend from 2013 into the first quarter of 2014. The gains were most notable for dry cargo vessels, values of the taker vessels have leveled off for now.

Finally we have decided to initiate a share buyback program for $10 million. This program will run until August of this year. And now over to Michael for a closer look at the financials and slide number 4 please.

Michael Tønnes Jørgensen: Thank you, Carsten. As mentioned NORDEN generated a group EBITDA of minus $8 million distributed with minus $15 million in the dry cargo department and positive $10 million in the tanker department. Both results were in line with expectations.

The dry cargo EBITDA is lower then the same period last year mainly because Q1 last year included non-recurring income of $9 million and because good coverage which still support earnings last year has now run out.

The result in the tanker department was impacted by both positive and negative surprises. The market for transport of clean products disappointed while the market for dirty products clearly exceeded expectations.

Cash flow from operations was positive with $3 million resulting in a net cash flow of minus $30 million in the period. NORDEN continues to have a solid cash position with cash and securities of $448 million at the end of first quarter and unused credit facilities of $220 million. Next slide please.

Asset values continue to increase during the first quarter. Values of dry cargo vessels increased the most whereas the value of the tanker vessels have leveled off. Based on assessments from three independent brokers the market value of NORDEN's own vessels and new building orders, including joint ventures, was estimated at $1.8 billion at the end of first quarter which is $175 million above the caring amount and costs.

This is an improvement of $296 million since the beginning of 2013 and $83 million during Q1 2014. NORDEN has increased the estimate of the vessels useful life from 20 to 25 years which is in accordance with market practice. This has affected EBIT positively by $5 million in the first quarter and the full year impact is expected to be around $20 million.

And now over to Martin for an update on the markets.

Martin Badsted: Thank you, Michael. The dry cargo rates improved significantly in the first quarter of '14 compared to the very poor markets at the start of last year, even though rates followed the usual seasonal pattern and declined from the high levels seen in Q4. The improvement in rates were mainly driven by an exceptionally good January with record high Chinese imports and a temporary spike in Capesize rates in March.

While the seasonal decline in dry cargo rates were expected it was unexpected that they have continued to decline into the second quarter. The market is now back to the very poor levels from last year. The Baltic Dry Index is a weighted average of the global market so it can actually hide sizable regional differences as can be seen if you turn to slide 7 please.

There can at times be significant difference between the rates in the Atlantic and the Pacific. In 2014 we saw the usual effects of the Atlantic losing strength through the first quarter but the weakening of the Atlantic turnout much more sever and continued longer than usual.

The Atlantic has been hit very hard since mid-March and the expected strengthening driven by the South American grain season has not yet materialized. There has been an oversupply of tonnage and this is only slowly clearing.

So what happened? We think the sudden disappearance of minor bulk export out of Indonesia coupled with relatively weak coal trades are the two prime reasons. The Indonesian export ban on unrefined commodities almost overnight freed up 200 to 300 vessels and expectations of record high grain export out of South America caused many to ballast from the Pacific into the Atlantic.

At the same time the Atlantic coal trade was hit by both legal and logistical challenges in Columbia and lower trade from the U.S. to Europe. The extremely cold winter in the U.S. increased the domestic use of coal and the warmer winter in Europe impacted European coal import demand negatively. Slide 8 please.

The highly disappointing spot rates in Q2 have also had a negative impact on forward rates. FFA rates have lost more than $2,000 per day on average when weighted with NORDEN’s open days per segment for 2014. In spite of the current disappointing market we continue to believe in a strong second half.

This positive sentiment is also still reflected in the FFA rates even after the recent declines. However, even though FFA rates are in contango during the rest of the year it is not enough to save the full year.

China is still expected to have a solid economic growth in 2014 with GDP growth rates of seven to 7.5 percent. Furthermore the global iron ore suppliers are all on track to expand their production capacity and there is wide consensus that China will be able to continue to absorb that additional supply.

Moreover, sooner or later China will have to source bauxite and nickel from more distant suppliers as a replacement for Indonesia which will increase tonne-miles going forward. Furthermore, fleet growth in 2014 is still expected to be low creating the basis for an improved market balance.

Looking further ahead the increased ordering seen in Q4 continued into the first quarter and the ordering is on pace to hit 11 percent annualized which is excessive. For 2014, however, net fleet growth remains in the four to six percent growth range. Slide 9 please.

We've had a mixed start to the year in the tanker market. The dirty markets enjoyed an extraordinary spike in the first months of the year but in clean markets the usual seasonal upturn did not materialize.

The disappointing start to the year for MR was driven by the unusually cold winter in the U.S. coupled with warmer than normal winter in Europe. This impacted the trade of diesel where U.S. exports were lower than expected at the same time we saw a decline in the transport of vegetable oils.

The vegetable oil trade has grown substantially during recent years and has been gaining importance in the MR markets. However, in Q1 in the important palm oil trade dropped 13 percent compared to Q1 of last year. The decline in rates has continued into the second quarter and the important Atlantic market is considerably lower than expected at this time of year. Slide 10 please.

When looking at the rest of the year we do expect the MR market to benefit from the U.S. refineries returning from maintenance in Q2 and U.S. product exports should reassume it's growth trend from recent years. At the same time the important Jubail refinery in Saudi Arabia should be running at full capacity at some point in the second half.

On the supply side, deliveries this year have so far been lower than expected and full year supply growth could end below the anticipated four to five percent. Overall we expect the market in the second half of 2014 to improve from current levels.

Looking further ahead it is positive that the pace of ordering has declined considerably and current monthly ordering levels are less than half of the excessive 2013 activity. And now back to Carsten for the updated full year guidance and slide 11 please.

Carsten Mortensen: Thank you very much, Martin. The full year guidance for 2014 is revised downwards to minus $40 million to $60 million. This is an adjustment of $60 million from the previous range of $20 million to $120 million.

The revision of guidance is mainly driven by the collapse in the market rates in the second quarter and accompanying decline in forward rates in dry cargo. The guidance for dry cargo is now minus $50 million to zero. Along with the lower guidance in dry cargo the expectations for the full year result in tankers has also been lowered by $10 million.

The downward revision is caused by a disappointing start to MRs in 2014. We went into 2014 with substantially more open days then previous years which increased the exposure to the market developments. While rates currently are unexpectedly low we still believe the higher exposure in 2014 will prove advantageous as the year progress.

We still have 12,600 open days in dry cargo and 8,200 days in tankers for the rest of 2014 and therefore there is continued uncertainty around the full year results. An average change of rates of $1,000 per day will impact EBITDA of $20.8 million for the full year.

Based on current unknown investment CAPEX is expected to be between $100 million and a $120 million for the year. Next slide please.

And please remember that there are uncertainties related to any forward looking statements so please read this slide carefully. And move to the next slide.

That concludes our presentation. We are now open for the Q&A session. Please await the conference host's instructions. Thank you.

Operator: Thank you sir. Ladies and gentlemen, if you'd like to ask a question at this point, please press star, one on your telephone. And to cancel your request, you can press the hash or pound key. Once again, a star, one to register your question, and the hash or pound key to cancel your request.

There'll be a short silence for participants to register their questions.

The first question comes from the line of Herman Hildan, please go ahead announcing your company.

Herman Hildan Good afternoon guys, this is Herman from RS Platou Markets.

My first question relates to the MR spot market. First of all, I would -- could you inform us what you achieved in spot rates during Q1? Also, you mentioned recovery of the -- the spot market, and you've seen refinery (inaudible) in part three of the U.S. Gulf, ramping up during April, but still we haven't kind of seen any significant increase in the rates, even though activity have picked up. So, when do you expect to see spot rates recover?

Martin Badsted: Yeah, Hi Herman, it's Martin here. I'm afraid the MR spot realized rate for Q1, I'll have to get back to you on that, it's not something that I have just with me right now. And with regards to the second question about when M.R. spot rates should actually pick up. Well, I think, yes -- we had expected a stronger pick up from the return to high utilization out of the U.S. Gulf, but it seems there is a little bit of too much pressure from the supply side there.

So, usually the summer is not really where we expect the strong part of the season, so probably we should -- we shouldn't be too optimistic until we get to the -- to the later part of this hour.

Herman Hildan OK. And also you mentioned (inaudible) on second half in the dry market. You -- the numbers I think came out, export numbers out of Argentina showed no exports to -- to China. And I guess the big question is, do you expect to see a delayed South American grain season and potentially that could clash with the North American export season? And how do you think about this in the second half?

Martin Badsted: Well, I actually think when you look at the -- for instance, the Brazilian export numbers, I think so far they're actually looking quite strong. And I think the -- the numbers for April were also much higher than most people had anticipated. So I think the grain season is actually very much ongoing. Maybe as you say, there is a little weakness on the Argentinean side, but it's not something that I think will be postponed all the way into the U.S. grain season in the second half.

I think forecasts for the second half are still very early. But I think they are looking fairly OK. But -- but I think if we are looking for, you can say, what should improve in the second half, I think mainly the acceleration of iron ore exports out of Brazil, which has been OK so far this year, but it has been the usual seasonal weak period, so I think that will be very important in the second half.

And then, Q1 is always a big supply growth quarter, and I think as that tapers off into the second half, that should also have a positive impact on the -- on the net balance. Perhaps then, thirdly, we've seen coke and coal imports into China being very week these first few months, but it also looks as if they have depleted stocks there. So, with a little bit of luck, maybe they also need to start importing again there, and that would be an important trigger as well.

Herman Hildan Yes. And then finally, has there been a discussion in terms of implementing a more meaningful share buyback program, or do you expect to stay (inaudible)?

Martin Badsted: Well, I think it's very meaningful what we -- what we have announced. Maybe you are alluding to the fact that it might be -- become a bigger program. I think the $10 million is -- is fine for now, but it's also important to say that if we continue to see a share price which doesn't adequately reflect where we think asset values are, we will still consider using that as a tool.

Herman Hildan OK. Thank you very much.

Operator: Once again ladies and gentlemen, star one to register a question, and the hash key to cancel your request.

Next question comes from the line of Jacob Peterson. Please go ahead and announce your company.

Jacob Pedersen: Yeah, hi guys, this is Jacob from Sydbank. I just have three questions.

First of all, what makes you so confident in an upturn in the market in the third and fourth quarter? That's my first question.

And my second question is, I'd like to get some comments on the situation in China. What the impact -- the slowdown or the alleged slowdown in China will have to the growth and the -- the overall dry bulk market, and then also if you'll comment on the risk of excessive ordering of the new ships from (inaudible) your competitors and yourself.

Martin Badsted: Yeah, hi Jacob.

I think actually, as we talked about earlier, the volumes that we are seeing, especially from the iron ore trade are looking very strong, and it looks as if that story is very much in place still, and you will remember that is more based actually on the import substitution, the growing use of iron ore imports in China, as opposed to own production. And we think the volumes are there. And as I said, if we see the Brazilian volumes also really ramping up, that would be an important addition to overall tonne-miles and we think that's good reason to believe that that will happen in the second half.

Then, Q4 is typically very strong season in dry bulk, and I don't see any changes to the view that this should be the case again this year.

Of course, a big risk here is -- underlying the whole thing, is China. And yes, there has been a lot of stories about the Chinese economic outlook, and a slowdown in China, and I do think that we see, for instance, the property markets slowing down and the floor areas start being fairly weak at this time of year. But this is not totally unexpected. Perhaps the -- the speed with which some of these indicators are declining is a little unexpected. But we still think that overall, the Chinese economy will be able to manage what you might call a -- a moderate slowdown and still having GDP growth of seven to 7.5 percent. But of course this is sort of the key risk to the dry bulk market overall. But we still think it's OK.

Ordering is then something that we should worry about into '16 and especially 2017. I think when you look at order books right now, there is still room for them to grow without that becoming a problem, but it's the trend of new ordering right now that -- that is a little bit worrying. But I also think that the orders that we have seen in Q1 are probably based on discussions that were initiated way back, maybe in Q4. And I think when you look at the ordering going forward, the next three months, probably the slowdown in the dry bulk market will also have an impact there, so I think we should expect a little bit of a slowing in ordering now.

Jacob Pedersen: OK. Thanks a lot.

Operator: Once again ladies and gentlemen, a star one to register a question, and the hash key to cancel your request.

Next question comes from the line of Frans Høyer please go ahead announcing your company.

Frans Høyer: Yeah, it's from Jyske Bank. Just -- it sounds like the north Atlantic or the Atlantic generally has -- is in a bit of a difficult spot at the moment, and I was wondering how you as a company managed to position vessels during this turbulent period of Indonesia ban and all that that you just described?

Carsten Mortensen So Frans, Carsten here. First of all, we didn't position like we did last year 45 ships into the Atlantic. But -- but we had not expected this weakness going into the second quarter, as we have seen this year. So, the situation is of course now, should we wait for the uptick in the market later on in the year, or should we -- or should we just try to damage control for the next period of time here? We do believe in the upturn over the coming months, so -- so we are managing the book very, very actively. We are not -- the difference between spot rates right now and period rates are quite significant, so you will probably not see us adding a lot of activity unless the time charter rates come down further from the -- from the current levels.

But we are actively managing what we have in the Atlantic and -- and but it's also fair to say that we have been surprised of the weakness going into the second quarter in the Atlantic here, but -- but as Martin alluded to during the presentation, all these 200, 300 ships that were released out of this bauxite nickel ore trade in Indonesia, a lot of them ballasted into the Atlantic.

So, we think that they are -- that the market is gradually normalizing, and we think the Atlantic will be on top again as the year progresses.

Frans Høyer: OK. With regard to vessel values, I was -- I mean, as you mentioned that shipyard, new build orders may respond to the -- to the weakness in rates, and I guess my question is whether these broker estimates of vessel values, the risk is that they, too, might start to show some weakness, even if they quite remarkably increased during the first quarter.

Carsten Mortensen I think you have to look at the raw material price for the steel production, so to speak, the iron ore prices. And I don't think if you're -- in spite of the devaluation of the yen to the dollar, my impression is not that the shipyards are making excessive profits at the current prices. So, and with the order books more or less full into '17 now in Japan, I don't think you'll see quality ships coming out of Japan at very discounted rates. The order books are simply too full for them to -- to lower the prices. And -- and the margins are too slim for them to lower the prices any further.

Frans Høyer: But it seems to me that the rates cannot stay where they are for long without it spilling over into secondhand values.

Carsten Mortensen We'll see. It also depends on what available cash you have in the markets, and you've seen -- you've seen not traditionally funding coming into the market, but you've certainly seen a push for -- for acquisition of secondhand in the last 12 months. So -- but obviously, if the market does not improve, if the forward rates are proven wrong, then you might of course see that reflected into the second-hand prices. But let's wait and see.

Frans Høyer: OK. Thank you.

Operator: Once again, ladies and gentleman, a star one to register a question, and the hash or pound keys to cancel your requests.

Carsten Mortensen: There are not any more questions coming in here, so thank you very much for your -- for listening in. Have a good afternoon. Bye for now.

Operator: Ladies and gentlemen, thank you for your participation today. This concludes today's conference.

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