04 - 25 - 2024

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First Quarter 2024 Analyst and Investor Call

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CORPORATE SPEAKERS:

Stig Frederiksen
Norden; Head of Investor Relations
Jan Rindbo
Norden; Chief Executive Officer
Martin Badsted
Norden; Chief Financial Officer

PARTICIPANTS:

Ulrik Bak
SEB; Analyst

PRESENTATION:

Operator^ Hello. And welcome to today's NORDEN Q1 2024 Analyst and Investor Call. (Operator Instructions)

I'd now like to pass the conference over to Stig Frederiksen, Head of Investor Relations.

Sir, please go ahead when you're ready.

Stig Frederiksen^ Thank you very much. And welcome to this Q1 conference call.

Before I hand over the word to Jan, just forward-looking statements. Please look at those for ‘24 and onwards.

And then I hand over the word to Jan.

Jan Rindbo^ Thank you very much, Stig. And let me just briefly share some of the business highlights here for the first quarter.

First of all, we saw a stronger-than-expected world economy and cargo demand, which was further compounded by disruptions in the Panama Canal and Red Sea. And this led to strong markets across both Dry Cargo and Tankers. This impact in our business in different ways.

On one hand, it led to an increase in the underlying values of NORDEN with the NAV increasing to NOK 372 per share during the quarter.

We've also seen strong contribution from our tanker activities.

But on the other hand, we also had some short-term headwinds in our FSG dry cargo operations due to higher costs on charging in ships to cover cargo positions.

We are now structurally positioned in both tankers and dry cargo towards an expected positive market development, we have across Tankers and Dry Cargo 10,000 open days for the balance of 2024 and longer out in time, we have a fleet of new buildings that will join our fleet of 31 vessels in the coming years.

Finally, we also had some organizational leadership changes in our Freight Services and trading business unit that will further strengthen the commercial focus across our business and delegating more responsibility to a new leadership team.

Let me pass you on to our CFO, Martin, to share some financial highlights.

Martin Badsted^   Thank you, Jan.

So in the quarter, we made a net profit of $62 million, which was overall in line with our expectations and does correspond to a ROIC over the last 12 months of 26%.

We did make a loss in our dry cargo activities in FS&T of $27 million.

As Jan said, mainly because we have taken on too much cargo commitment and it was quite expensive in the strong market to service those commitments.

On the tanker side, we continue to perform well and benefit from the strong market there.

In Assets & Logistics, we made a net profit of $89 million, driven both by high coverage of earnings and $55 million in gains on sale of vessels that have been reported earlier.

Our values improved quite a lot, and our NAV and assets and logistics was up to INR 372 crore per share, which compared to the NAV at the beginning of the year and adjusted for the dividend that we have paid out in the meanwhile, that was an increase of more than 8%, of course driven by the positive asset value in the market and our investments into especially the Capesize segment.

As usual, we stick to our pay out policy and pay out about $30 million in a combination of dividends per share of INR two crore and a share buyback program of $21 million.

Finally, we reiterate our full year guidance for 2024 with a net profit in the range of $150 million to $250 million as we expect margins in SF&T to gradually improve throughout the year.

Please turn to the next slide.

We continue to build our deferred position in dry cargo since we actually believe in the structural positive outlook on that market, and we have continued to build our Capesize position because we feel that this particular vessel segment offers the best risk reward in dry.

Our positive outlook is based on a low order book and an aging fleet and also an improving global economic recovery.

Also in tankers, we believe that the market near term will stay elevated and most of the disruptions around the red sea and the Panama Canal is adding to both volatility but also to the level of rates, and we see that continuing for the foreseeable future. And as Jan said, we have more than 10,000 open days distributed between tankers and dry cargo. And just as a reminder, from mid-April, our Q2 position is neutral in dry core.

And now I hand you back to Jan.

Jan Rindbo^   Thank you, Martin.

So let's look at our long-term targets where we continue to see a positive performance across our various strategic objectives. Martin already mentioned the return on invested capital, which is very good at 26% over the last 12 months and 23% over the last five years.

We also continue to grow our business, and we've seen a growth of 5% over the last five years per year, and that means that we are growing faster than the market, so gaining market share in our business.

We do have, from a long-term perspective, good margins in our freight services and trading business, which despite the headwinds we've seen over this quarter, we're still just under $1,200 per day net margin over the last five years.

And here, I think it's important to highlight that we should expect some volatility in the earnings from quarter-to-quarter over the past five years or 20 quarters, we've had four quarters including Q1 24 with negative margins.

So it is still underlying volatility that in the market that also spills into the earnings.

On emissions, we are on track and are 10% lower compared to our 2022 baseline. And on total shareholder returns despite some headwinds in the share price over the past 12 months, we have still over the last five years, on average, delivered a 39% return on average. Let's turn to guidance and our final remarks.

So based on a first quarter that overall was in line with our expectations and also based on the current market outlook, we repeat our full year guidance of a net profit in the range of $150 million to $250 million.

And this full year guidance for the year includes sales gains on vessels that have already been sold and agreed with a positive contribution of $59 million.

In freight services and trading expectations are currently that margins will gradually improve throughout the year.

But as we have already guided, margins per day this year will be materially lower compared to the margins we saw last year.

In assets and logistics, we expect that earnings will continue at a high stable level due to our high coverage and continue to benefit from the already announced gains from the sale of vessels and subleases that are related to our charter out deals.

So as final remarks, it was the first quarter that was in line with our expectations.

Clearly, with diverging performance in our two business units, but overall, in line with what we expected.

We are expanding our market exposure in Dry Cargo for the balance of the year and also into the future because of both a forward positive sentiment and positive expectations to the market.

For Tankers, we are near term positive on the market.

But again remind you that here, we are very much reliant also on political events that dictates that market.

We continue to focus on our strategic focus areas that we went through before.

And we look forward to continuing to accelerate our commercial synergies across the business and now also with a new leadership setup in freight services and trading.

We are continuing to distribute cash to our shareholders, and we have a connection with our first quarterly results announced an interim dividend and a share buyback program of $30 million in total. And finally, we maintain our full year guidance for 2024 in the range of $150 million to $250 million.

Now that concludes the presentation of the quarterly results.

So now we open up for the Q&A session.

QUESTION & ANSWER:

Operator^ (Operator instructions) And that comes from the line of Ulrik Bak from SEB.

Ulrik Bak^ Just a couple of questions from my side.

Firstly, on the freight service and trading.

Can you perhaps just elaborate a bit more on the Q1 loss? How much of this loss was driven by long positioning, which was not as you expected, I guess? And how much was from taking on more capacity in the current market, which should then over time, yield a return --

Thank you.

Jan Rindbo^ Yes. Thank you, Ulrik Bak, for that question.

So the first quarter loss is mainly driven by having this short position in a rising market. And even though we have, as you can see in the position that we have turned that position so that we are neutral for the second quarter and long in the second half of the year, then clearly, we could not avoid the losses that we have seen.

So mainly driven by the wrong position.

There is also, of course some costs in building up the longer position and especially there are ships where we charter the ships in the Pacific region, and then we put them on a backhaul voyage into the

Atlantic at a loss in expectation of a future front haul profit.

So there will be some of that as well.

But I would say it's mainly driven by the position.

Ulrik Bak^ Okay. Understood. And I hear that you expect this margin in freight services and trading to gradually improve across the year.

What makes you so certain that it will indeed improve. And can you guide anywhere the phasing or the level what you're targeting for the year.

I acknowledge that in your guidance it's going to be materially below last year, but it's quite a big range between the reported Q1 level and last year's level.

So if you can help guide us, please.

Martin Badsted^ Yes.

I can put a few words perhaps on some of the sort of our expectations.

I mean clearly, the short position that we had in the first quarter has now been cleared and the majority of that loss will be in the first quarter. And that is why we are looking to gradually improving margins.

But of course there are still uncertainties because clearly, with a long position now that we have built for the second half of the year, we are dependent on continuation of the strong markets that we have seen here at the beginning of the year.

But you should expect just a slow gradual improvement in margins. And sometimes, I would also portion against putting too much emphasis on just one quarter because there can be underlying trends, both in terms of front haul and backhaul ruling, as I mentioned earlier, and therefore, it can be a little bit of a coincidence in which quarter some of that income may come.

So again it's important on FSG that we stay in the helicopter and look at this business over a longer period.

But clearly, 2024 is based on what I really know today and what we see today is going to be a challenging year for FSG, which we already guided on earlier this year before this quarter results.

So you can say that the business is developing as we had expected.

And this will be a more challenging year for FSG. And this is also why coming back to our scorecard for FSG, it is important to stay in the helicopter. This is a business that has performed extremely well in the long run. And even with loss-making quarters, we have made more than $1,000 a day on average, and we scorecard, we are leaning out and indicating that we believe that we will at least make $500 per day margin going forward.

So we have, obviously the confidence in that business.

But there will be quarters where we are not perfectly positioned, and we have seen that in the past also.

Ulrik Bak^   Understood.

But this target of $500 per day is that achievable on average for 24? Or should we look at something which is below that level?

Martin Badsted^   I think here, the $500 per day is a long-term target. And what we are guiding here is that 2024 will be a year that will be tracking below our long-term levels. And that is why it will be materially lower, of course.

It's difficult to guide exactly on where that margin will be because there are still uncertainties for the rest of the year.

But this will not be a fantastic earnings year for FSG, but that is already included into our guidance for the full year result.

Ulrik Bak^   And then perhaps a final question on FS&T. The market during Q1, I guess some of the strong market has also been tied to the situation in the Red Sea diversions of vessels taking out capacity.

If the situation is resolved and the vessels return to the Red Sea, I suppose there will be a downward pressure on rates.

Now with the long position that you've built in dry cargo. Do you have any -- if that were to happen, can you protect the downside?

Or can you talk about the downside here from such an event?

Martin Badsted^   Yes. You can say first of all, that the effect of the disruption in the red sea is far larger on tankers than it is on dry.

So I think definitely, if you were to see a certain sort of piece or peace agreement or ceasefire, which people actually believed in, then I think there is some real downside on the tanker spot market and period rates.

But on the driving cargo range, we don't actually see this as having a major influence on the overall level.

So here, I think we would remain fairly optimistic even though you saw a resolution in the red sea.

Ulrik Bak^   Okay. That's clear. Yes, just a final question here.

So the overhead cost in Freight Service & Trading was only EUR 17 million during Q1 compared to a level between EUR 20 million and EUR 30 million per quarter last year.

Can you just put some words on what growth this decline and then what is a good run rate for the coming quarters?

Jan Rindbo^   I think it's clear that there were very small bonus provisions set aside in Q1.

So that, I think is the main reason for the lower overhead.

So this is probably a good indicator for where the non-bonus run rate is.

Operator^   (Operator instructions)

We will just pause here if these questions registered.

We next have a follow-up question from Ulrik Bak from SEB.

Ulrik Bak^   Yes.

If no one else has any questions, then I can just continue.

So just a bookkeeping question.

Also the net financial run rate seems a bit lower in Q1 compared to previous quarters. Just what should we look at here for the coming quarters?

Anything in particular happening in Q1 that reduced it?

Jan Rindbo^   No. I don't actually think so.

But you should bear in mind that there can be both FX effects due to our Danish kroner overhead and also that the financial items are not straightforward cash and bank loans.

It's also affected by lease liabilities and the IFRS 16 adjustments.

So I don't actually, off the top of my head, have any extraordinary items in the quarter.

But that are the sort of main drivers for the variability.

Ulrik Bak^   Understood.

But then I noticed that you had a quite big increase in the working capital -- net working capital in Q1. Just shed a few words on what drove this increase? And what generally are the dynamics at lever?

Martin Badsted^   Yes.

So a lot of this is what Jan was talking about before by turning the book around and adding more period vessels. Typically, when you add a new period vessels you pay for the bunkers on board and you pay some TC hire upfront.

So that actually drains your cash through the working capital quite a lot.

So that's the main effect.

Ulrik Bak^ And should we expect that to be unwound over the coming quarters? Or how to think about that?

Martin Badsted^ Yes. You can say.

So this has been built up will unwind.

But then, of course that will then depend on will we take more ships to replace the existing ones or not.

But of course it will unwind over time --

Ulrik Bak^ Okay.

Final question, capital allocation.

So you have 48% pay-out ratio through a combination of dividends and buybacks, which is below what you had for some quarters during last year.

Is there any reason to this lower pay-out ratio? Or could we potentially see an increase in this over the coming quarters?

Martin Badsted^ I think perhaps two comments to that.

First comment is that this is first quarter and therefore, early in the year, so it gives us obviously room to increase during the year, but it also depends a bit on the investment opportunities that we see.

So during the quarter, we have invested more.

We have invested in six Capesize vessels. And therefore, it's a balance, obviously between those investments, our outlook and then how much we return through dividends and share buybacks.

But I think it's safe to say that there is at least room for us to increase later in the year if we get to a point where we are not investing more than what we have done.

Ulrik Bak^ Understood. No further questions from me.

Operator^ (Operator Instructions),. There are no additional questions waiting at this time.

So I'd like to pass it back to the management team for any closing remarks.

Stig Frederiksen^ All right.

Well thank you very much. Thank you for your interest in NORDEN. And thank you for listening.

We look forward to talk to you next time. Thank you.

And have a good day.

Operator^   This concludes today's conference call. Thank you all for your participation.

You may now disconnect your lines.