

# **Euronav NV (EURN) Q1 2024 Earnings Call Transcript**

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**Body**

Euronav NV [EURN]

Q1 2024 Earnings Conference Call

May 8, 2024, 8:00 a.m. ET

Company Participants

Alexander Saverys - CEO

Ludovic Saverys - CFO

Conference Call Participants

Luuk van Beek - Degroof Petercam

Kristof Samoy - KBC Securities

Quirijn Mulder - ING

Presentation

Alexander Saverys

Welcome to the earnings call of Euronav and CMB.TECH. My name is Alexander Saverys. I'm the CEO of Euronav and CMB.TECH, and I'm joined by our CFO, Ludovic Saverys. We have a couple of topics we would like to touch upon with you today. We will start with our first quarter financials and highlights. We'll then zoom in on the marine division and a market update per segment, our time charter performance and the market outlook, and then we'll close with a conclusion and have time for questions-and-answers.

I'd like to hand over to Ludovic.

Ludovic Saverys

Yes. Good afternoon, everybody, and thanks for joining this earnings call. We're happy to share with you a strong result for Q1 within Euronav CMB.TECH. We did a net profit on the quarter of $495.2 million. There has been a significant uplift in profit, thanks to the capital gains on some sale of vessels, more notably the second half of the deal with Frontline, which was widely discussed previously. If we take the capital gains out, we have a nice underlying profit of $88 million for the quarter. At the same time, we were able to end the quarter with a very strong liquidity of over $1.2 billion. This is obviously even after the conclusion of the purchase of CMB.TECH, which was a highlight we will mention later on. In our rewarding the shareholder strategy, there was already a distribution announced of $4.57. The board has concluded, based on the strong results of Q1, to propose to another special general meeting, in additional $1.15 distribution per share, which is again, going to be a mix of dividends and distribution out of issue premium as mentioned in the press release. At the same time, the company has also started a share buyback program within the latest months where we have concluded about 8 million shares purchased at around $15.50, which is another reward for our shareholders. On the business side, we have continued to optimize our fleet. We've added 10 - we've contracted 10 more new buildings and sold another three older tankers, as well as launching the inauguration of our first hydrogen production and refueling station in Africa, and an announcement of our first hydrogen-powered vessel in Africa.

Next slide, please. Zooming in on the various marine divisions, as a repeat, we have Euronav and the tankers, Bocimar dry bulk, Delphis with the container vessels, Bochem on the chemical tankers, and Windcat, which is our offshore wind division. The company has about 47 oceangoing vessels on the water, with another 45 new buildings on orders, as shown on the slide on the various divisions. On top of that, we have about 53 CTVs, which are small passenger craft bringing the engineers to the windmills, and 12 CTVs or CSOVs on order. On the bottom side of the slide, you can see the P&L breakeven of the various divisions as a mix. You can see that the Q1 time charter equivalent, we are well above all the P&L breakevens in all the divisions, which obviously is an explanation for the very profitable quarter we had in Q1. In terms of guidance of Q2, we've also highlighted there that on the tanker side, we're still around $46,000 on a roughly booked days in the tanker sides. $37,000 on the Nukes. I think this is one we like to highlight. We have a big order book on Newcastlemax super-eco vessels coming onstream that Alex will touch upon, but we are happy to say that we have already booked $37,000 on this fixed days in that quarter. We have a current backlog on contracts accumulated throughout the divisions of about $2 billion, which is testimony, I think, to the diversification and decarbonization strategy we're trying to implement.

Next slide. This is a highlight again for everybody to see what the strength of the platform is in terms of available days and open days for 2024, 2025, 2026, where we respectively have roughly 19,000 total days in 2024, 24,000 in 2025, and up to 30,000 total days in 2026. The blue bars obviously show what the contract backlog is. This is the way to show that our platform is rightly positioned to enjoy, especially on the tankers, all the vessels and the dry bulk Newcastlemaxes to enjoy the spot markets, whilst on the chemical tankers and containers and more new buildings that we try to expand our contract backlog.

That concludes the highlights of Q1. As we mentioned in the press release, it's been a very, very busy quarter and even up to now where after the very big profit we were happy to announce, we also want to repeat that we - the acquisition of CMB.TECH, which was a transformatory step for Euronav CMB.TECH. The mandatory bid has also closed. So, our reference shareholder, CMB, has opened and closed it's monetary bids. We're happy to say that Euronav and Anglo-Eastern have joined forces on the ship management. We continue to optimize our fleet, as mentioned before, sale of some older vessels, investment in new buildings. We had the inauguration of our production and refueling station in Africa, which is a pilot project, which is obviously the beginning of a longer story that we want to execute there in securing and producing low carbon molecules. And I think we have proposed a strong reward to shareholders, with two dividends proposed in the last months and a share buyback initiated.

Now, I'll pass on the word to Alex to talk about the various markets.

Alexander Saverys

Thank you, Ludovic. I would like to take you now through our various divisions and the various markets in which we operate, starting by our most important markets still today, which is crude oil and tankers and Euronav. As you can see on the slide, we've highlighted a couple of things that have already been mentioned by Ludovic, but I'd like to take some points a bit more in detail. As a recap, after the sale of our three VLCCs, we're left with a trading fleet of 14 VLCCs and 22 Suezmaxes on the water. Our order book is a total of five VLCCs ammonia-powered, and four eco Suezmaxes. We still have our two FSOs, which have a long-term contract, which is contributing nicely to our bottom line, and we have time charter contracts on our Suezmaxes as well, including two time charter contracts on our VLCCs. When we look at our breakevens and the spot markets, you can see it split up here for VLCCS and Suezmaxes. VLCC breakeven around $26,500. What we achieved in Q1 is $41,700, and on the Suezmaxes we're around $20,800, with an achieved rate of $58,000. On the time charters, you can also see the numbers at the bottom of the slide. In general, on this market, we are still looking at a relatively low order book, even though ordering has picked up. But definitely for 2024 and 2025, we are still seeing very, very few vessels in the order book. Obviously, we are very much influenced by geopolitical tensions and all the wars. And so far, this is actually contributing positively to ton-mile demand and to our results.

On this slide, we are basically monitoring the order book. As you can see, the order book has definitely picked up. There's been some good Suezmax ordering activity and some VLCC ordering activity. Historically, it is still quite low. I think for us, what the most important years are is 2024 and 2025, i.e., the near term, we will see very few vessels delivering. More in general, the fleet is aging and that is true for many shipping segments. We are reaching historical highs and by 2026, 20 5% of the fleet will be older than 20 years, which should normally contribute to positive markets going forward, because vessels should leave the fleet. Supply-demand outlook and the earnings, that's two different graphs, just to highlight the same elements that I just mentioned in the previous slide. But just if you look at the historical numbers on the VLCCs and Suezes, we are definitely not at the top, top of the market right now, but the numbers are definitely very, very healthy. Like to continue on our dry bulk division, which will definitely become the second biggest division in the Euronav CMB.TECH Group. So far, we have four vessels on the water. Very soon, we will take delivery of a fifth vessel, and at the end of the year, there will be 10 ships in total on the water. This is our largest series of vessels on order. It's all being built in Qingdao Beihai in China, and the deliveries are spread between 2023 and 2027.

We see in general in the markets, growth. The growth numbers are not huge, but if you combine it with the relatively low order book, the supply-demand balance looks very nice. Specifically for our company, we also look at the specifics of our Newcastlemax design. And as you can see on the table to the right, we try to highlight a little bit what a normal 10-year-old Newcastlemax is earning today, and what the kind of premium is we are achieving with our super-eco vessels which have slightly larger cargo intake but also a lower fuel consumption. And you can see that this is contributing very nicely. On the asset side, the new building side, we definitely are in the money on our whole order book. We are hearing rumors now of orders in China for 2028 delivery for Newcastlemax around the $80 million mark. So that's, again, positive for the value of our company. Order book to fleet, as I said, is low, is historically low. Again, zooming in on 2024 and 2025, very little ships coming onstream in general on the dry bulk side, but definitely on the Capesizes and Newcastlemaxes, which is a segment that is of interest to us. And the same thing as with tankers. We see that the average age of the fleet is going up. In five to six years from now, one third of the fleet will be 20 years and older, again, should be supportive for our results and the market going forward.

And here we try to map the supply-demand outlook, specifically for Newcastlemaxes. And on the right, the current Capesize and Newcastlemax earnings historically for the last couple of years. So, the average between 1990 and 2019, and then the last couple of years, you can see we are above trend. We had a very strong first quarter of the year, thanks to very good data, very good cargo flows coming out. Q1 is usually a weak quarter in the dry bulk markets. This year, it was totally the opposite. So, had some very, very good earnings against all expectations in Q1. Going to our chemical tankers, chemical tanker fleet profile is, we have three ships on the water today. We're going to take delivery of another three during the next couple of months, and then we have two vessels delivering at the end of 2025. We have part of our ships that are trading in a chemical tanker pool. You can see that the earnings that we achieved in Q1 were very healthy, $25,500. The rest of our ships are fixed out long-term around the $19,000 market, as you can see on this slide. We see healthy growth numbers. The chemical tanker fleet is very much influenced by the swing factor of MR tankers entering the market or not. MR tankers have very good earnings right now, and so don't see a need to come in and cannibalize the chemical tanker market, which again means chemical tanker rates are much better. So very good supply-demand dynamics on the chemical tanker markets and earnings likewise are very favorable.

Moving to the containers, they're on the market. I think we can say that we are not positive. There is the disruption of the Red Sea right now, which is supporting rates somehow. But as soon as that situation would resolve, we believe that rates will go down. Again, there are too many vessels. You can see in the middle of the slides, the supply and trade numbers for 2024. There's a big disconnect with the amount of ships that are being delivered and demand growth that we see. It is countered a little bit by, of course, the larger ton miles for ships that are avoiding the Red Sea. But we are afraid that once that is resolved, we will see that the market will go down again. It doesn't really affect Euronav and CMB.TECH because all our container vessels that we own are on long-term charters at very good rates. You can see that we have two ships on the water today. There's another two coming in the summer. And our 1,400 TEU dual-fuel ammonia ship is delivering middle of 2026. All these ships are on 10-year charters, and the last one on 15-year charters. But on the markets, I'm afraid that we are not very, very positive for ships that would be spot.

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Ending with our offshore wind division, Windcat. So, what does Windcat do? It brings engineers, electricians, maintenance people, to and from the offshore wind parks that are being constructed, or are already in operation. We have two asset types, our crew transfer vessels, which are small boats. And you can see also the earnings are in relation to the size of the ship, earning good rates actually compared to our breakevens. And then we have a second asset type, which is our CSOV, our commissioning service operating vessels, first vessel delivering next year. Then we have a series that runs into 2026. Nothing has been fixed on the CSOVs yet, but we did indicate what our breakeven is on our CSOVs and what the current spot market is expected to be and to generate on the ship. So, the market definitely today is very supportive for our CSOVs. There were a couple of milestones in Windcats. We took delivery of a few ships. So, we have 53 CTVs on the water now. We had a long-term charter to (Inico) that was concluded. We delivered the first hydrogen-powered dual-fuel ship in Germany to our JV partners, FRS. And we are seeing in general that the market is still relatively strong. We have good work for all our ships.

That brings me to the conclusion. There's basically three things we wanted to touch upon. One, highlighting our return to shareholders, as was already discussed by Ludovic after the $4.57 per share of dividends that we will approve next week at the AGM. The board has proposed an additional dividend of $1.15, which will be put to a vote of a special general meeting in July. So, return to shareholders is definitely a big topic for the first half of this year, based also on the very good results that we have achieved. Our portfolio, when you look at our delivery schedule, we're probably taking delivery of one ship per month, which is a very big program, keeps our technical teams very busy. But so for 2024, 2025, 2026, and even in the first half of 2027, we will take delivery of many new buildings. And as we highlighted, some of them have already been fixed on good long-term time charters. On the decarbonization, all our ships that are on order today, bar a few exceptions, are ready to be operated by dual-fuel engines or fitted with dual-fuel engines. So, that remains a very key topic in our strategy to decarbonization. And very important for us as well in our portfolio approach, is to increase our contract backlog. We have $2 billion of contract backlog today. We would like by the end of the year to bring that to $3 billion. It's important for us that we show this cashflow and that we have cashflow visibility going forward.

Our outlook for 2024 and beyond, if you listen to what I just said about the markets, it's difficult to be negative apart on the containers. I think all the segments we are operating in are in good markets. There's always potential headwinds that nobody can see coming. But I would say that supply-demand-wise in all the major markets we are operating in, it looks very, very strong, and not only for 2024, but also for 2025. We repeat, and this might be a question that some of you will ask us later on, that we want to remain listed on Euronext and NYC, and keep these two listings in the short to medium-term.

That ends our presentation, and we will now open the floor for questions. Just raise your hand or flag if you have a question.

Question-and-Answer Session

Operator

Yes. Luuk van Beek, you can now ask your question. Press also unmute.

Luuk van Beek

Yes, good afternoon. A couple of questions. First, on your dividend policy in combination with your leverage. So, I understand that that's discretionary, but do you have some general indications of what are your main considerations, whether to pay a dividend for a future quarter or not? My second question is on your CapEx. You gave a very useful breakdown of the CapEx for the next couple of years, which is around $900 million, $950 million per year. Is that a run rate which you intend to maintain for the coming - for the near future view, or do you all see this strategy is already puts on your organization? Or do you intend to accelerate further and add to further construction plans to your planning?

Ludovic Saverys

Yes. Great. Luuk, thanks. It's Ludovic here. So, on the first question, it is tough to give definitive answer on percentage of profit or other. I think we have a fully discretionary policy because we have a big CapEx program, and we have to tailor the dividend policy towards the strength of our balance sheets. Now, markets are good today, so we can, and continue to invest and continue to pay dividends. I think this is the point we have right now. Should markets obviously shift or turn, then we'll have to adapt that policy. But as for now, we're very happy to reward our shareholders in the way we do. Towards your second question on the CapEx, so obviously we have about $2.9 billion of outstanding CapEx, which is a run rate of $900 million per year. We don't have a policy of keeping that run rate. We need to have good projects. As Alex mentioned, on the tanker new building, speculatively ordering, we think the market has topped out in terms of timing of deliveries, but also price, which is becoming quite expensive. On the dry bulk side, prices are still interesting, but the slots available are quite difficult to justify a large expansion on the new buildings. And so, per segment, we'll look at that. So no, it is not that we have a fixed target for a CapEx program, but yes, we will jump on opportunities should we see attractive ordering at attractive prices or contracts being written before we're going to do new building orders. That obviously is something. After that decision, obviously, we will tailor the balance sheets towards it. I think the policy of financing 65% of new building prices remains. Should we see attractive opportunities and go further, obviously we still can start selling some of the older assets, what we call the optimization part of the strategy.

Luuk van Beek

Okay. That's clear. That's all for now. Thank you.

Operator

Kristof Samoy would like to ask a question. So, you can now unmute and ask your question, please.

Kristof Samoy

Okay. Yes, I was still on mute. Good afternoon. First question on the MEPC meeting last March. Did anything happen there that you evaluated the likelihoods or the magnitude for a global greenhouse gas levy? Has it changed there? Has your view changed? This is the first question. Then on Namibia, could you inform us on the final investment decisions on the bunker facility and the production infrastructure plans you have there? And then as a follow-up, the Port of Antwerp has also announced an investment in Namibia, the Port of Namibia. Will you be co-investing with them in Namibia? And then finally, could you shed some light on potential long-term contracts for your dry bulk new builds program that you are taking on? Thank you.

Alexander Saverys

Yes, thanks, Kristof. So, on MEPC as always, with the IMO, it goes very, very slowly. We regard the outcome of the last MEPC meeting as positive, but not dramatically changing anything in the very short term. It's more about the deadlines that are being put forward. There's at least a plan to come to a conclusion, to come to this famous carbon levy, and then also decide on what they're going to do with the money. We, as you know, are very vocal about the fact that we want things to go faster. We think shipping should be regulated on a global level. All these regional initiatives like in Europe are making our business a bit more complicated, even though we are happy with what has happened in Europe so far. So, MEPC, positive, but not really a gamechanger yet. So, let's watch the next meetings that are coming. On Namibia and the bunkering facility, so just to recap what our plans are in Namibia, we have taken an FID and actually have nearly finished the construction on our first production and refueling plant, which is about €30 million investment, of which we have €10 million invested, and then the rest is our partner, and we get some support from the federal government of Germany. The next phase would be the ammonia bunkering facility. We are in the midst of the feeds, and we are going to take FID towards the end of this year. That's probably a topic we want to touch upon in next calls. So, FID definitely has not been taken yet. We're still in the feed phase. Looking at your question on the Port of Antwerp and what they have announced, so let us be clear. What the Port of Antwerp has announced, it's a phased approach to develop a new port to the north of Walvis Bay. So, we are already active in the port. What they will do first is do a study. Once the study is finished, they will then decide whether they take the investments to the next level. And then of course, we will have discussions with them. I mean, logically, they are our neighbors and partners here in Antwerp. We will discuss whether it would make sense for our bunkering facility and/or different projects to co-invest in certain parts of the new ports that they will build. And then on the coverage on the bulker vessels, everything is spot right now. We see a lot of interest from our end users and customers to charter our ships, but we have not concluded anything yet.

Kristof Samoy

Okay. That's all for me. Thank you.

Operator

If anyone else would still like to ask a question, please raise your hands. Kristof, did you have another question, because you raised your hand again?

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Kristof Samoy

Yes. If nobody else is raising questions, then I might squeeze in a few more, if I may. Just in terms of future vessel disposals of older vessels, can we expect a certain segment to be more likely to witness disposals? For instance, would there be a reason to assume that disposal would be rather in VLCC than Suezmaxes? And secondly, could you shed some light on the CII metrics of your VLCC fleet and Suezmax fleet, please?

Alexander Saverys

Okay. So, on the disposals, we have been very clear that if we see good prices for older tonnage, we will probably look at selling them and then recycling the cash and invest in more modern ships. What we just did with the three VLCCs, what we call our end types that we recently disposed of, that is clearly recycling of money. I mean, this is something we can reinvest in further new buildings. Is there a specific asset class where we will focus on? No, but you just take the age profile of the current Euronav CMB.TECH fleet, the obvious candidates are more in the Euronav tanker division than in other divisions. But whether it's going to be a VLCC or a Suezmax, will depend on the price, the buyer, and the opportunity that presents itself. On CII, Kristof, I would suggest that you ask me this question on an email that I can refer to my technical people on the profile of our fleet. I'm sure we have that data, but I don't have it at hand right now. So, apologies, I can't give you an answer in this call.

Kristof Samoy

Okay, thank you. And then maybe another question if I may. I mean, we read a lot from different sources that oil majors are loosening age constraints for vessels, they charter. Can you confirm this from practice and from your chartering desk?

Alexander Saverys

Well, I cannot speak for specific all majors, but in general, I would say you are right. That is correct. This is typical of strong markets. When markets are very high, our customers loosen their self-imposed regulations on age because they just don't want the prices to go too high for modern vessels.

Kristof Samoy

Okay. Thank you. That's all for me.

Operator

Quirijn Mulder, you can now unmute and ask your question, please. Quirijn, you're still on mute.

Quirijn Mulder

Can you hear me?

Alexander Saverys

Yes, we can hear you perfect.

Quirijn Mulder

Okay. Sorry about that. I wanted to start by asking about the FSOs. How do those feed in your overall portfolio approach? They're still contracted for a few years, but given their nature, do you build the mass non-core?

Alexander Saverys

It's a very good question. Well, first and foremost, these are assets that we've had in our portfolio for a very, very long time, and we are very satisfied with the quality of the assets and the contract coverage. Going forward, we don't know what will happen to these assets. We have not made up our mind, but we are definitely not against these assets per se. We will just see what happens when the contracts comes to expiry and what we can find as a new business. So, to answer your question simply, it is not that we are gung-ho at selling them per se or holding onto them per se. We will just look at the opportunities that present themselves. It's true, of course, the assets are slightly older, but as you know, they have been totally reconverted. So, reconversion can happen and then extend the life of these assets.

Quirijn Mulder

That's helpful. Thank you. I also wanted to ask about the CSOVs. You mentioned they are still open, and I was wondering what kind of term contracts are available, I mean, in the current market conditions?

Alexander Saverys

That's a very good question. There's two types of contracts that you can find for CSOVs, either very short term contracts during the construction phase of offshore wind parks. So, say three months, six months, maybe nine months, or much longer-term contracts, five, even to 10 years, for either very large construction works that last much longer, or for the maintenance of the parks. We are looking at both. Our inclination so far is that the long-term contracts are very low margin. It's usually with big majors that do these tenders. So, our preference would be right now to more go for some shorter-term contracts, unless we see a very good rate that gives us a good return.

Quirijn Mulder

Thank you. That's very helpful. That's all from me.

Operator

Luuk, you may unmute, please.

Luuk van Beek

Yes. two follow-ups. On your disclosure, would it be possible to give a breakdown in the future of the revenues and EBIT by second because there's such different markets? And also to give a bit more disclosure about the order backlog that you talked about of $2 billion. So, in which segments, what's the duration and so on.

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Alexander Saverys

Look, I suggest - I'll give you the answer that we give to other people that are asking this from the analyst community. Reach out to Joris Daman and my brother, Ludovic, and they will be able to answer that question.

Luuk van Beek

Okay. Thank you.

Alexander Saverys

Okay. Unless anybody else has a question, Quirijn, you still have a question or? No? Okay. Then I would like to thank you for taking the time and joining us in this earnings call. Thank you for your questions and looking forward to seeing you and speaking to you in the very short future. Thank you very much. Bye-bye.

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