S1 2021 Earnings Call

Company Participants

- Brian Gallagher, Head of Investor Relations, Research and Communications
- Hugo De Stoop, Chief Executive Officer
- Lieve Logghe, Chief Financial Officer

Other Participants

- Chris Tsung, Analyst
- Christian Wetherbee, Analyst
- Jonathan B. Chappell, Analyst
- Magnus Fyhr, Analyst
- Omar Nokta, Analyst
- Randy Giveans, Analyst

Presentation

Operator

Good morning and welcome to the Euronav's Second Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) Please note that this event is being recorded.

I would now like to turn the conference over to Brian Gallagher, Head of Investor Relations. Please go ahead.

Brian Gallagher {BIO 18733049 <GO>}

Thank you. Good morning and afternoon to everyone and thanks for joining Euronav's Q2 2021 earnings call.

Before I start, I would like to say a few words. The information discussed on this call is based on information as of today, Thursday, the 12th of August 2021 and may contain forward-looking statements that involve risks and uncertainties. Forward-looking statements reflect current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events, performance, underlying assumptions and other statements which are not statements of historical facts. All forward-looking statements attributable to the company or to persons acting on its behalf are expressly qualified in their entirety by reference to the risks, uncertainties and other factors (Technical Difficulty) with the SEC, which are available free of charge on the SEC's website at www.sec.gov and our own company's website at www.euronav.com. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement and the company undertakes no obligation to publicly update or revise any forward-looking statements. Actual results may differ materially from those forward-looking statements. Please take a moment to read our Safe Harbor statements on Page 2 of the slide presentation.

I will now pass over to Chief Executive, Hugo De Stoop, to start with the agenda slide on Slide 3. Hugo?

Hugo De Stoop {BIO 4298483 <GO>}

Thank you, Brian. Welcome to our call today. As usual, I will firstly run through the Q2 highlights and some comments on our current capital allocation strategy. This is to (inaudible) rejuvenate our fleet and earnings potential, but also investing in the latest technology to enable Euronav to be at the forefront of decarbonization of the tanker sector. Lieve, our CFO, will then run through a snapshot of our financing before Brian, our Head of Investor Relations will then look at the current themes in the tanker market before I return again to discuss in more detail our investment strategy and outlook for the tanker sector.

So turning to Slide 4 and the highlight page. We said in early May that the first quarter was toughest freight markets we have had in recent years. I'm afraid to admit that factually Q2 has proven equally, if not more challenging. As anticipated recovery in freight rates did not materialize. Put simply during Q2 there was too much tonnage chasing too few available cargoes. The members of OPEC plus have increased crude production to meet the growing crude demand recovery. However, this has not been enough to gain traction in terms of reducing the over-supply of tonnage in the VLCC but also in the Suezmax spot market. The result has seen a Q2 delivering freight rates to levels not seen in the last decades. Euronav well nevertheless distributed $0.03 dividend per share to reward patient shareholders. Despite these current headwinds, there are some positive signals, both onshore inventory and offshore levels have been drawn back to pre-COVID levels. OPEC plus has signaled output rises of 2 million barrels per day between now and the end of the year.

Finally, the high scrap steel price that translate into some recycling in the last 3 months, especially in the VLCC segment where five VLCCs were demolished and recycled, but also in the Suezmax segment were three Suezmax exited the world fleet.

With that, I will pass over to our CFO, Lieve Logghe to walk through the financial highlights. Lieve, over to you.

Lieve Logghe {BIO 21321594 <GO>}

Thank you Hugo. It has been a challenging quarter as your comments highlighted. Euronav focus is to maintain our capital strength, which we illustrate on Slide 5. Looking back over the previous cycle on Slide 5, our leverage has remained below our stated objective of 50% with our liquidity building during stronger freight markets in 2020. Our investment in new technology, which Hugo will cover later has increased leverage and reduced liquidity, but well within our self-imposed limits. Liquidity is now just over $900 million with our dry-docking program 60% complete at the halfway point of the year.

I will now pass on to Brian, our Head of Investor Relation to run through some market slides.

Brian Gallagher {BIO 18733049 <GO>}

Thank you, Lieve. We spent some time in the last call, going through the impacts of the illicit trade that we identified in particular from Iran. Exports as you can see from Slide 6 look to have continued to rise throughout Q2. These are cargoes remember, which are not available to the global commercial fleet, which continues to be a drag on the wider recovery in the tanker market in our view.

Moving on to Slide 7, we look more detailed look at recycling. What is pleasing to report that the VLCC recycling has actually begun to start in earnest and we've seen 12 VLCCs exiting fleet over the 12 months to the end of July, but only 4 Suezmax have also exited over the same period. This is behind where your analyst forecast were expecting this number to be, and this is surprising given the very high steel prices we've had throughout 2020-21. What is very clear, in all the tonnage which is been re-sold into the second-hand market, rather than being recycled.

With some encouraging data points in our market then, why has the freight pricing background remained so challenging. And we tried to give some more insight on this in Slide 8 selects three key markets to the VLCC and Suezmax sector. Firstly, the core five OPEC nations based in the Middle East. Secondly, the US shale sector and lastly, Russia. We look at these individually, we can see the production on the left hand side of the slide, you see on Slide 8 had looked pretty good. And we've seen sustained rises in production since February. However, if we look to the right hand side of Slide 8, the picture is far more mixed. Exports as a percentage of production have continued to fall with exports in a range of between 18 million and 19 million barrels per day. Traction in freight rates can only really gain once we see exports follow the same trajectory as production growth. This helps explain the short-term picture, there are robust grounds for optimism beyond that in that we would expect the export pattern to eventually follow that of the production increases that we've seen.

On this encouraging thing, we look further in more detail on Slide 9. After some additional wrangling, OPEC plus in early July, outline plans to steadily increase production by 2 million barrels per day overall between August of this year and the end of 2021. As the previous slide indicated, production rises do not always translate into barrel for barrel increases in exports. But with global onshore inventory levels back at below 5-year level averages, then this production should start to translate into higher levels of cargoes available. Indeed, the ratio of available VLCC to available cargoes peaked in early June, according to Bloomberg data and has fallen since.

Looking further out beyond the end of this year and into the medium term, 6 million barrels per day of additional barrels, we do believe will be required from the four key production areas to get back to pre-COVID levels of outputs. Remember, 1 million barrels per day roughly translates on an annualized basis to demand for 30 VLCCs. Overall, this medium-term picture provides plenty of scope for improvement and support for the tanker market over the coming quarters.

Looking beyond that on Slide 10, we look at ton-mile growth, which is forecast by Clarksons and most agencies to rebound further in 2021 and then again in 2022 as emerging market nations take up the baton of demand, and consumption recovery that Slide 10 shows. Tanker market has already adjusted itself by reducing capacity by slowing the speeds the vessels are transporting cargoes at, partly as bunker costs have also risen, but also due to the lack of cargoes. Should this discipline be maintained, and ton-mile growth materialize along these pattern, in Slide 10, then perhaps consumption growth of 100 million barrels per day that we last saw in Q4 for 2019 will not be required to return the tanker market to equilibrium. Tanker speeds and freight rates have a very strong correlation of 62% since 2016. So if we were to see the fleet speed up and increase capacity, that will be in response to a higher level of cargoes.

With that, I will now pass it back to Chief Executive, Hugo De Stoop to highlight our recent investments for the future and a look -- for the outlook for the coming few quarters. Hugo, back over to you.

Hugo De Stoop {BIO 4298483 <GO>}

Thanks, Brian. Tanker shipping markets are volatile, cyclical and normally seasonal. 2020 was an extraordinary year from many different angles and 2021 has so far and unfortunately met our expectations in terms of poor rate environment. The Euronav platform has been designed to cope with all kinds of markets and our capital allocation approach is dynamic and moves in tune with the cyclicality of our markets. We believe that we need to have a strong balance sheet and a decent amount of liquidity that provide both strength, but also and maybe more importantly optionality during the difficult times of the cycle. Such balance sheet is often build during the good times, but looking back over the past 18 months we've been active in all facets of our capital allocation as Slide 9 illustrates.

Cash dividends has been strong during the upper part of the cycle with nearly $350 million returned to our shareholders and nearly $120 million returned via share buybacks. This is the most progressive return amongst our peer group on a comparable per capita basis. Yet over the same period despite the balance sheet has retained its strength with leverage below target thresholds and a third of our funding was sustainability linked. The past two quarters we've been active in securing future investments to ensure the age of our fee is reduced with more modern less consuming assets, which will therefore improve the earning potential. In addition, those assets, provide a degree of flexibility when it comes to future propulsion and fuel technologies. But you may wonder why now and why ammonia and/or LNG.

So let's move to Slide 12. We are first and foremost a service provider and we will always look at what our clients want. Without any addition, those ships are already the most economical tankers produced or ever produced. But they are also ready to be converted into either LNG or soon into ammonia fueled vessels. LNG reduces already a lot of CO2 emissions and is a technology that is available now, but it's still expensive. So we need customer support to justify this investment. Ammonia is not ready, but yards, engine manufacturers, classification societies are working hard to develop this technology, which should be ready by 2025 for both new buildings and retrofits.

Slide 11 shows that ammonia from tank to propeller will reduce emissions between 93% and 100% compared to today's tanker fuel. And therefore this is technology, we believe, will be one of the winning fuels in the future. Being involved in the development of those technologies, which is unusual for a shipowner should provide Euronav with a competitive, technical, but also a strategic advantage. And we're not putting all of our eggs into one fuel basket. We don't believe there will be one outright winner, but we will remain flexible going forward and these ships allows us to remain flexible.

Turning to Slide 13. So, why invest now at this stage of the cycle? Historically Euronav investors on a counter-cyclical basis most obviously in 2014, 2017 when we undertook transactions to expand our platform by 50% in terms of vessel count. Both times when freight rates were at loss making levels and consensus outlook was very challenging for the upcoming quarters. Over the past year or so we have taken delivery of four new Eco VLCCs and taken over contracts of field abandoned slots or even older a further three Eco VLCCs and five Suezmax due to deliver -- due to delivery, sorry now over the next 2.5 years. So, with the latest technology and the capability to add either LNG dual fuel or ammonia provided all piece of the ammonia puzzle fall into the right place. This is why we have signed a joint development program. This GDP, as we call it, has been signed with our technical partners in Hyundai for the next 3 years and this should assist the development of the technology itself, ammonia dual-fuel vessels and all should be achieved within the capacity of our balance sheet. Leverage remaining below our threshold target of 50% and supported by the actual all forward sale of over 10 older ships in the past 18 months recycling $150 million capital back into the latest technology.

Why now? Firstly, the slide on screen attempts to show the crowded landscape we see it as operators. Yard capacity to construct large tankers such as VLCCs or Suezmax is now largely constrained until around late 2024, beginning 2025, given the surge in container and dry bulk orders over the past 6 months, but also LNG carriers. Secondly, operational regulation will start to buy from 2023 with the EXI and carbon intensity regulations making all the tonnage obsolete or far less preferred as they will hit the bottom 20% of emission league tables. Also the recent EU carbon trading scheme will add further pressure to reduce emissions and reward those with lower emitting fleet.

Lastly, commercial pressure we believe are already starting to grow as banks, investors and other stakeholders are increasingly vocal and determined to see de-carbonization and emission reduction strategy reflected in affirmative action being taken by shipowners. Euronav is comfortably in position we have taken so far and I'm sure there will be additional questions in the Q&A shortly.

So let's now move on to Slide 14, which is the final slide. This is the usual traffic light system we've had for a number of years. As we said in our press release today, Q2 has been static quarter following a depressed Q1. The immediate part of the cycle remains challenging and likely to stay so until we either see a crude oil demand recovery or sharper reduction of the fleet, which would require a decent amount of ships to be recycled. Nevertheless, the demand for oil should improve seasonally. On average demand increased by 1.7 million barrels between the summer and the winter of the Northern Hemisphere. So, as Brian said, the seasonal raise of demand coupled with reduced speed of the world could already move the rates up by the end of the year or beginning of next. On the supply side, you will have noticed that we have downgrade the vessel supply column, as recycling has simply not accrued on the level we would have expected given other supporting factors. The other factors remain unchanged.

That concludes our remarks. Thank you for your attention. And I'm now pleased to pass it back to the operator for Q&A session. Thank you.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question is from Jon Chappell of Evercore. Please go ahead.

Q - Jonathan B. Chappell {BIO 3518567 <GO>}

Thank you. Good afternoon.

A - Hugo De Stoop {BIO 4298483 <GO>}

Hi, Jon.

Q - Jonathan B. Chappell {BIO 3518567 <GO>}

Hugo, first question for you. I think the timing of the next evolution that you laid out makes a ton of sense. And as it relates to a source of funds, it feels like there has been a disconnect between second-hand asset values, the leases are quoted, maybe there's just not a lot of activity and underlying rates and share prices. I know you've recycled, sold, disposed off a fair amount of your older fleet, but you still have a handful that are over 10 years old. Are there any more plans to use this kind of recycling, so to speak of selling older ships into a strong underlying S&P market to fund some more of your next stage of evolution fleet growth?

A - Hugo De Stoop {BIO 4298483 <GO>}

Well, let me first say that we don't need to do that. So it's not an obligation, but you are absolutely right that when we see the evolution of the values compared to the freight market or compared to our share price, there is clearly a disconnect, and one should definitely take the opportunity if those opportunities exist because the market is very thin. So the volume of vessels that are being exchanged, certainly in the categories that you mentioned, which is 10 years old, is very thin. There has been a lot of exchange vessels in the very old categories ie 18, 19, 20 years and fortunately we know why and where those vessels have gone and mostly those were the illicit trade, which is at the heart of the problem that we have. And then on the newbuilding or resale of contract front, there has been also a fair amount of exchange. But in the sort of middle age 10 years, the volume is rather thin. Nevertheless, we are looking at every opportunity that we can find in the market and on the Suezmax side, we do have some ladies that are hitting the sweet spot where there could be interest being developed by the other ship owner.

Q - Jonathan B. Chappell {BIO 3518567 <GO>}

Okay. Great, thank you. And Brian my follow-up for you. Page 8 is really interesting and I'm just wondering, those three regions you've highlighted here, the U.S. inventories are not going up. I'm assuming that a lot of the Middle Eastern countries, Saudi especially, are using some of their increased output for direct cooling generation during their summer months. And I guess Russia is probably not maybe as transparent as some of the other Western countries, do you feel like as this output continues to rise, either there's going to be a seasonal component of the Middle East exits the summer or something related to U.S. exports where three is going to be this (inaudible) where the production automatically turns into export and tanker demand and even with a potential catch up after lagging a little bit to the last few months.

A - Brian Gallagher {BIO 18733049 <GO>}

Yes, I think that's a very good point, Jonathan, and I certainly would echo those commentary. I think that's what we're seeing with the Middle East and we deliberately picked those first five Middle East exporters as the core drivers, and they've definitely been using that increased production for their own as you say domestic uses. But I think there is definitely some if you like pent-up or snap within the system we would anticipate coming through at some point. Obviously with the sort of data today from the IEA suggesting that July has sort of moved backwards in terms of demand that is (inaudible) put a little bit further out.

But, yes, that's definitely the thing we wanted to get across, because I think there has been a disconnect from investors engagement we've had, that we've all seen the production numbers, but it's not been translated into increased cargoes. And I think you're absolutely right that there is, there will be a snap back at some point, of course, when that will happen, we would -- we'd like to think it will be second half of this year into -- maybe into Q4. But yeah, you've explained it better than I can with the charts just to illustrate that background what we think will change at some point. And of course, it is encouraging to have OPEC plus at least committing to have regular up increases in those production numbers between now and the year-end.

Q - Jonathan B. Chappell {BIO 3518567 <GO>}

Okay. Thank you, Brian. Thanks Hugo.

A - Hugo De Stoop {BIO 4298483 <GO>}

Thanks Jon.

Operator

The next question is from Chris Wetherbee of Citigroup. Please go ahead.

Q - Christian Wetherbee {BIO 15241632 <GO>}

Yeah, hey thanks, and thanks for taking the question. I guess I wanted to talk about sort of the new emissions and propulsion system and fuels, as you think forward here. Where do yard stand in terms of profits, say half one and if you could talk a little bit about what you think the return profile of these vessels might look like relative to traditional offshore vessels?

A - Hugo De Stoop {BIO 4298483 <GO>}

That's a very good question, it's probably too early to tell. I mean, the vessels that we have booked right now have the capability of being converted into vessels that can burn LNG and ammonia. Until we sort of decide that they should be converted, and that could be before their specific deliveries, they will be deemed as conventional vessels. And so, the return should be fairly the same. The amount of money that you have to invest in order to have that flexibility is relatively conservative. We're talking about $1 million, $1.5 million, which anyway compared to what we did call Euronav specs [ph], I mean, part of it would have been spend anyway.

What do we do exactly there? First and foremost, we're talking about reinforcement of the deck where the potential tankers that will hold either the LNG or the ammonia and it's different weight for those specific tanks will be located. The second part that we're looking at is the piping system, so that whenever we would decide to put those tanks on the deck, the piping system would already be there, so that we don't have to open the ship like a can, leading to the engine room. And then of course in parallel, there is quite a lot of development on the engine themselves. And you may have noticed on my introductory remarks that in fact the yards, but more specifically the engine manufacturers be it MAN or be it (inaudible) are looking at development of new engines as well as retrofits. And both technologies should be ready at approximately the same time.

So if you have an engine today, and it has the sort of minimum features to be converted, the conversion will be possible at a later stage. The amount of capital that you will need to spend in order to do those conversion is still unknown. Of course, we know what it cost to do that on an LNG vessel and there are a lot of similarities. So it should be between $10 million and $15 million at the beginning. And I think that we would only do that if we had a contract. And the reason why we believe that being an early adopter will provide a competitive advantage is because we have a feeling that there will be a raise at some point, but certainly as of 2023 to reduce the emissions for our clients. So as I mentioned earlier in the call, we are customer-driven, so whatever the customer wants, we should be able to produce. And that's exactly what we anticipate will happen on those vessel or the next generation.

Q - Christian Wetherbee {BIO 15241632 <GO>}

Okay, that's very helpful. I appreciate that color. And then just as a follow-up I wanted to come back to scrapping for a moment that other sort of slide, that's the downgrade on the red light, green light, yellow light slide that you have here. So I guess, I'm curious, what's embedded in your expectations for the back half of the year in terms of scrapping? And then do you think that -- what do you need to see potentially change to either hit those numbers or maybe to see acceleration in scrapping, looking to get people off the bench and do it.

A - Hugo De Stoop {BIO 4298483 <GO>}

I wish I had a crystal ball or I wish someone would listen to my prayers. I think that we are all surprised that more than 50 ships basically which should have been scrapped are still trading. And we have explained in last calls, I'm not going to repeat what we've said in the last call that pretty much all of them have been identified in those illicit trade. The way they circumvent the rules is quite astonishing, but it is what it is and I don't think at Euronav we can do anything about it.

The way we look at the second half is the following. We believe that there is a certain capacity that can do these trades. And we are probably at the limit. So we don't see another 50 ships of that same age profile going into those trade because they are not -- they won't be necessary to transport Iranian or Venezuelan crude oil. So we think that we are almost at the end of that capacity and therefore any ship that is facing a dry-dock, any ship that is not earning simply because at the back of the queue, and the owner decides or well, should decide what to do with their ship. It's likely to go to the scrap yards, so that the second half will be a mix of sort of a natural scrap profile that we had predicted. And should have happened already, but we're not talking about the same shipyard, talking about new ships arriving to the same age profile. And then of course if there is a change in the Iranian sanctions imposed by the U.S. that should open the floodgate for ships to be recycled. And there we would be surprised if we wouldn't see a number of the ships that are today trading, not rushing into those recycling yards because the capacity there is constrained. And so we believe that owners would be very, very quick to snap the opportunity at the current scrap price, which are the highest that we have seen in more than 15 years.

Q - Christian Wetherbee {BIO 15241632 <GO>}

Okay. That's great color. I appreciate it. Thanks for the time.

A - Hugo De Stoop {BIO 4298483 <GO>}

Thank you.

Operator

The next question is from Magnus Fyhr of HC Wainwright. Please go ahead.

Q - Magnus Fyhr {BIO 1551359 <GO>}

Yeah, good afternoon. Just had a question on the fleet and how you feel about the fleet going forward as far as being fuel compliant. You mentioned that you need support to develop fuel compliant vessels. You have taken steps now to invest in the new generation vessels, how do you balance being too early and holding on to some of these older vessels that likely to be big cash generators, if we get an up-cycle here in the next 2, 3 years, but I think we probably likely to have another downcycle before 2030. So just curious how do you balance that investment in the new ships to meet these goals. And also not giving up the cash generation capability of the older ships.

A - Hugo De Stoop {BIO 4298483 <GO>}

When you look at what we have sold, I think that this was not a surprise to the market. I mean, we are talking about forward sale in the form of sale and leaseback with no purchase obligation on some vessels. And they will be re-delivered to their owners when they reach 15 years of age. And when you look at the way Euronav positioned itself as a quality operator, the ships that are more than 15 years of age, regardless of their emissions have always been trading in a different segment with different clients. And so, that's not where we're positioning ourselves.

So generally speaking between 15 and 17.5, which is between 2 service, we are looking at selling the vessels. And as I said at the beginning, from time to time, we forward sale vessels, because we believe there is a good opportunity to do that. As far as the newbuildings are concerned, it was a mixed bag of opportunistic acquisition. You know that we have taken contracts that were abandoned by some owners who couldn't fulfill their obligations. The same for some slots. And then as we were busy contemplating the landscape, we thought that the fact that there are very, very few slots available until end of '24, beginning of '25 and that we are more likely to see continuous demand from containers, LNG, dry bulkers, meant that it was a little bit more opportunistic. And then we add this layer of flexibility on the new technologies, so that we could convert them. So I guess what you have to look at is, regardless of the emissions, what we have done should not be a surprise to many people, maybe with the exception that Euronav is not -- did not build a reputation for being busy at the yard. But we also need to be realistic and flexible in that approach. And then when you look only of purely at the emissions, we are recycling older tonnage against newer tonnage, which is anyway outperforming from an emissions, and therefore consumption perspective. So earning potential on a normal market or on a market that is influenced by emission is secured with the capability of doing even more on the emission front.

Q - Magnus Fyhr {BIO 1551359 <GO>}

Okay. Thank you. And just -- yeah.

A - Hugo De Stoop {BIO 4298483 <GO>}

We will continue to do that. And when you speak about another dip before 2030, yes, the market is cyclical. And I guess that we have always had to balance what do we get rid when the values are very high versus what we retain. And so, I don't think that this philosophy should change and it will be the same going forward.

Q - Magnus Fyhr {BIO 1551359 <GO>}

Thank you. And my follow-up is, so you've invested quite a bit here in the last two years in new vessels. Do you feel like over the next 2, 3 years, you need more support from the charterers or the oil companies to build new vessels that comply with the new regulations or would you continue to do opportunistic purchases?

A - Hugo De Stoop {BIO 4298483 <GO>}

I think that everything we do need to be either strategic or opportunistic. I think we have done what I would say is strategic in the sense that it's fleet rejuvenation for the reason I just explained. I mean, just makes a lot of sense, especially from a value perspective, but also as we said, I mean, a modern vessel would consume 30% or 35% less than a 11, 12 years old vessel. If we do have support from our customers, we will always be there to render the service. And we have mentioned that in previous calls, we are not at all against LNG. We just believe that it's a technology that might be a little bit more risky given the amount of money that you have to invest upfront without having a contract.

We participate to various tenders organized by Shell and Total, we felt that the return were not big enough for us to cover this premium that we had to pay for the technology. There was also a lot of technical details that maybe you guys are not aware of, but the vessels ordered by Total compared to the ones ordered by Shell, it's different LNG technology, it's low pressure versus high pressure, and has its pros and cons. So now the market has stabilized. The price of the newbuilding is going up, the price of the premium technology is going down. So let's see what the customers need. But from what I read in the press or even (inaudible), it seems that a lot of the oil majors, a lot of our customers are busy scratching their head on how to meet those lower emission requirements, so they can always come to us or come to the market and we will always be there to analyze whether it's worth building a specific ship for what they want or whether we prefer to pass and continue being independent.

Q - Magnus Fyhr {BIO 1551359 <GO>}

Great. Thank you, Hugo.

A - Hugo De Stoop {BIO 4298483 <GO>}

Thank you, Magnus.

Operator

The next question is from Randy Giveans of Jefferies. Please go ahead.

Q - Randy Giveans {BIO 18937349 <GO>}

Hi there everyone. How is it going?

A - Hugo De Stoop {BIO 4298483 <GO>}

Hey Randy. How are you?

Q - Randy Giveans {BIO 18937349 <GO>}

Good. So I guess, looking at your fleet in chartering strategy you have a handful of vessels on relatively medium to long-term charters. But pretty small amount, right, relative to the size of your fleet. So what are your thoughts or plans for chartering out tonnage. And if the rates are still too low, any appetite to charter-in tonnage today?

A - Hugo De Stoop {BIO 4298483 <GO>}

Yeah, so it's a question that we must ask ourselves on a daily basis. But let me start with the -- I would say with the beginning. So when you are in a high rate environment like we were in 2020, you have the choice of enjoying say $100,000 a day versus chartering out at $60,000 a day. So you must made the decision of do I forgo earnings today in order to protect and you will remember that you can only protect 6 months or maximum 1 year going forward or do I indeed remain on spot market. And you know that it's going to be cyclical, and you know that it's going to be super-rich at the high point and quite painful in the low point.

And I guess that we have looked at many opportunities. We have taken a handful of charter, you're absolutely correct. Most of them have been redelivered, they were between 6 months and 9 months contract. And so, today we are left with only one VLCC TC out and then 5 or 6 Suezmax TC out. Right now, the rate for TC are just too low. So they just guarantee you to make a loss, and most of the time the charterers will ask for 1 or 2 years options. So you're at the level that is not -- that is better than the spot rate, that's not difficult. But it's still not profitable and on top of that, you're giving away a lot of optionality. So we don't feel, it is the right time now to do more on the TC front. As far start time charter in is concerned, we have taken two Suezmax. I believe it was what, 4, 5 months ago. We are looking at into the market, but it's true that, what people ask is different than what we want. And for some reason we're not like the big traders who can insist on optionality thing that when an owner TC out his vessels to another owner, the conditions that he can accept are very different than when he charters out to a real client or to a real end user. And that's maybe because there is a relationship behind or may be because there are multiple TC in the portfolio that they are negotiating.

So at the moment, quite frankly, there is not many opportunities on one side or the other ie TC or TC out. But we continue to watch the market very carefully.

Q - Randy Giveans {BIO 18937349 <GO>}

Got it. All right, fair. And then I guess the last question from me, is it fair to assume the dividend will remain at around $0.03 a share, even with negative earnings for sure in 3Q and possibly 4Q or where the primary return of capital be share repurchases eventually?

A - Hugo De Stoop {BIO 4298483 <GO>}

We have dedicated slide on that and obviously we have done dividends, we've done buyback, we've done well, further capital investments and that's capital allocation I think that it's, it's part of the strategy and I explained that in the preliminary remark that every part of the cycle, but also every source that management has on the future will have an influence on what we do. We have a track-record of what we've been listed in 2005, so 17 years, as far as Euronext is concerned, 6 years as far as New York is concerned. And I think people can see for themselves what we have done with the capital.

I prefer to, for instance, buy back my shares $118 million worth of shares last year, than just doing that right now. Why? Because once you have bought back the share, then there is more dividends for the remaining shares. So I think that the order in which we did it was good. If you ask me, if you ask us, maybe we should have done a little bit more share buyback last year and a little bit less dividends, because then it would have been even better for the current shareholders. But I guess that whole of capital allocation is what it is. And I think that you have to entrust management to the best they can with the capital.

Q - Randy Giveans {BIO 18937349 <GO>}

Got it. Understood. The $0.03 dividend, just -- is that a new minimum or how you think about that, is that a quarterly -- go quarter by quarter?

A - Hugo De Stoop {BIO 4298483 <GO>}

Yeah, it's not a new minimum. So we had 6 -- sorry, we always have what always, for 6 or 7 years, we've had $0.12 per year, we were able to distribute dividends and now we are able to distribute full dividends. With the same policy going forward, we believe that it's very small amount of money and we will try to maintain for as long as we can.

Q - Randy Giveans {BIO 18937349 <GO>}

Got it. Yeah, $0.06 semi-annual for a while there, and then you went quarterly. All right. Well, thanks so much.

A - Hugo De Stoop {BIO 4298483 <GO>}

You're welcome.

Operator

The next question is from Omar Nokta of Clarksons. Please go ahead.

Q - Omar Nokta {BIO 7528692 <GO>}

Thank you. Hi Hugo. Just wanted to follow up on Randy's. Yeah, hi, just a follow-up on Randy's question about the capital returns and whatnot. Obviously, there have been real signs of a recovery. But as you mentioned in the near term terms a bit iffy and cloudy, I know last year you were a bit more aggressive with the share buybacks taking advantage of discounted stock price relative to NAV. And now here you've actually got NAV, that's probably a little bit more solidified based off of market activity. So just want to think, as we think about this market here over the next, say, 3 months to 6 months, do you see yourself being more active, more aggressive on the buybacks or maybe just taking a step back and focusing on either liquidity bringing those dry-docks forward or thinking about the future? Any updated thoughts there.

A - Hugo De Stoop {BIO 4298483 <GO>}

I want to say, I don't really have further comments, that I think we are opportunistic obviously. As I just mentioned, I mean, I prefer to do buyback last year versus this year, simply because everybody benefits already last year, but also this year on that and in the future. We don't really look at discount to NAV even though we are -- we continue to be frustrated about where the share price is trading because I don't believe that buyback is a good way to close the gap. It closes the gap when you are busy doing it, but in the long-term, it usually doesn't close the gap and we've seen that, I mean, even spending $120 million. Yes, we had a much lower discount to NAV when we were doing the program and the minute we stopped it, we found ourselves getting a same discount or even bigger discount.

So I think that you know buying back your shares for the long term, not for a discount to an NAV, which is fluctuating, according to the values of the vessels et cetera. And the long-term means that there are more dividends, more earning per share for shareholders that continue to be shareholders of the company.

Going forward, I cannot tell you anything else than what I just mentioned. We will continue to watch what we can do with the capital we are generating. It's true that we've been very busy. We've been very busy distributing dividends, buying back, now investing in quite a decent amount of money. I mean, it's we're almost talking about a $1 billion. Of course, a lot of that will be leveled, but nevertheless almost a $1 billion investment for the next 2.5 years. So it's not insignificant. And we are happy about the 3 ways we have spend the capital for shareholders as we believe they will create a lot of shareholder value at the time of doing that or in the future.

Q - Omar Nokta {BIO 7528692 <GO>}

Thanks Hugo, that's clear. I just wanted to, yeah, I guess maybe just a little bit more emphasis on that. And maybe just as a follow-up, either for you Hugo or for Brian, as you mentioned the spot market has kind of really settled into a bit of a malaise here recently, and you mentioned the Middle East having some higher cargo counts that have since kind of eased. But just wanted to get a sense on sort of export cargos from what you're seeing on the Atlantic side whether it's from the U.S. or West Africa. Any color you can give in relation to how that VLCC market has developed here over the past like 3 months in comparison to the Middle East.

A - Hugo De Stoop {BIO 4298483 <GO>}

Brian, do you want to go ahead with that?

A - Brian Gallagher {BIO 18733049 <GO>}

No, absolutely yes, Omar, it is a good question. We're seeing a little bit more increase than we've seen in terms of U.S. imports, which is offset as Jonathan Chappell said earlier with regards to some of the volatility we've seen in some of the U.S. exports that tended to sort of net-off against each other. And I did mention in the remarks that the excess level of ships in Middle East, which is still about 40%, 45% of the marketplace of VLCCs has actually very, very slightly improved in terms of that excess capacity. But it's still very much on a fit for basis.

I think what we've seen from the IEA today is very reflective of the market over the last 3 months in that as they say, June had a nice surge in demand, an increase in the amount of available supply, and therefore cargoes. And in July it's reverse that with obviously some of the variants, the Delta variant we've we seen and the restrictions that have come through there. So I think in a nutshell, yes, we're seeing pockets of this growth. But it's not being sort of follow through and sustained. And unfortunately that's been the holding pattern we've been in now for a while, and we're going to have to I think continue to adjust to that. Like you say, it is a malaise, and it looks like it's going to probably persist for at least the rest of this quarter. But yes, pockets of growth, so I think U.S. imports is showing some encouraging signs, both in Middle East and from West Africa. But again it's been offset elsewhere. So we do need to, as we said earlier, we need a, to be sustainable and also, to be more uniform across the various trading patterns.

Q - Omar Nokta {BIO 7528692 <GO>}

Yeah. Thanks, Brian. Yeah, it seems fits and starts. Okay, I appreciate the color. I would like to turn it over.

Operator

The next question is from Chris Tsung of Webber Research & Advisory. Please go ahead.

Q - Chris Tsung {BIO 3492164 <GO>}

Hey, good afternoon Hugo. How are you?

A - Hugo De Stoop {BIO 4298483 <GO>}

Very well. And you?

Q - Chris Tsung {BIO 3492164 <GO>}

Good. Thanks. I am -- just wanted to ask about the optional third VLCC that you guys exercised back in July. How much is that for?

A - Hugo De Stoop {BIO 4298483 <GO>}

It was the same price as a matter of fact, Lieve?

A - Lieve Logghe {BIO 21321594 <GO>}

$93.4 million.

A - Hugo De Stoop {BIO 4298483 <GO>}

$93.4 million.

Q - Chris Tsung {BIO 3492164 <GO>}

Okay. So that coupled with the three Suezmaxes, five total, at least about the newbuilding program of almost $600 million with $900 million of current liquidity. Just wanted to get a sense of timing around cash flow like, when will you guys have to pay for the vessels on delivery, and also it sounded like earlier that they were all going to be financed by your balance sheet, but is there any consideration of taking on additional debt?

A - Lieve Logghe {BIO 21321594 <GO>}

So, indeed. First of all, your first question, Chris, on the payment shuttle [ph], indeed most of the amounts are due to be paid at delivery, 50% to 60% is due to be paid on delivery. And then in terms of financing indeed, we are looking there to finance, and find a good momentum in the market. So for the first one is now coming on the water, Q1 2022 a, this is currently work in progress. And then the next will follow in 2022 to be delivered in 2023 and 2024.

A - Hugo De Stoop {BIO 4298483 <GO>}

And usually it's the financing ratio is 60%, 65%. But when you're talking about newbuilding, it's easier to get 65%. We are also looking at ECA type of financing, which one more time are available for newbuildings and not necessarily for the secondhand purchase in market. So that's maybe not a advantage [ph].

Q - Chris Tsung {BIO 3492164 <GO>}

Great. Great. And maybe just for my follow up. Just turning back to freight, and Brian covered both of those too (inaudible) and it's in fact on ton-mile. I guess I wanted to understand presumably there is like 4 or I guess at what speeds would it make sense for the fleet (inaudible) or can it go down to like half of this or are we near that level, just trying to get a sense of how the ton-miles can (inaudible).

A - Brian Gallagher {BIO 18733049 <GO>}

Sure. Well, Chris, I mean, the speeds they've only been measured by Clarksons I think since 2010 on a monthly basis. And these are the lowest speeds that we've seen since those records were begun. So just to illustrate that we have seen more capacity response, but it's also just shining the light on the fact that we do expect ton-mile growth as most observers in Clarksons do for '21. And then we expect again all the agencies are suggested that some more growth will then have another leg up during '22, which will be, as I said before the baton being passed really with '21 and early '22 recovery being more of an OECD situation where those countries with high vaccination rates and then hopefully giving way to longer term miles as the emerging markets come through.

But just to try and get a dual picture for investors that, our crystal ball is as fuzzy as anyone else's at the moment. But I think there's a very big belief amongst investors that we need to get back to Q4 levels of consumption of Q4 2019, that is, before we can see any traction. And we just want to point out that the fact that there are a lot of multiple factors impacting our marketplace. And these are two variables which will be very important when we start to see some traction coming in freight rates.

So that's the reason for putting that there, that we do see a bit of a 2-stage recovery in terms of the ton-mile story. But also not to be too concerned if capacity is going to come back a little bit because the speed, the fleet will speed up. As I said before, since 2016 if we strip out some of the volatility of 2020, there is about a 62% correlation between fleet and (Technical Difficulty) perfect sense. If we think about it that we see the fleet speeding up in response to better freight rate. So it's just trying to paint that picture that, be aware that (Technical Difficulty) just a simple calculation that we need to get consumption up to certain level, there are multiple factors involved in the tanker market as always.

Q - Chris Tsung {BIO 3492164 <GO>}

Okay, great thanks Brian for the color. Thanks for the time. That's it for me. I'll turn it over.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Hugo De stoop for closing remarks.

A - Hugo De Stoop {BIO 4298483 <GO>}

Just to say thank you very much everybody to listen in the second quarter earnings call. And look forward to talk to you next time with hopefully a little bit more positive news. Thank you. Bye-bye.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.