Y 2021 Earnings Call

Company Participants

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

Other Participants

- Chris Tsung, Analyst
- Chris Wetherbee, Analyst
- Gregory Lewis, Analyst
- Jonathan Chappell, Analyst
- Magnus Fyhr, Analyst
- Randy Giveans, Analyst

Presentation

Operator

Good day and welcome to the Euronav Fourth Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) Please note 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 Q4 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, 3rd of February 2022 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 historical statements or 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 discussed in the company's filings with the SEC, which are available free of charge on the SEC website at www.sec.gov and on 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 these forward-looking statements. Please take a moment to read our Safe Harbor statement 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. Over to you Hugo. Thank you.

Hugo De Stoop {BIO 4298483 <GO>}

Thank you, Brian. Welcome to our call today, wherever you are. In terms of the agenda, I will firstly run through the Q4 highlights and some comments on what was in the end, another challenging quarter after an encouraging start. I will then turn over to Brian Gallagher, our Head of IR, to run through some market slides before Lieve Logghe, our CFO, highlight some important accounting changes we are announcing today. I will then return to outline how to Euronav platform is positioned for the coming cycle not only on a standalone basis, but how we compare with our peers, before finishing off with our traffic lights and a Q&A session. So turning on to the next slides, the highlight slide.

We stressed in our Q3 call that we felt we had reached the trough in this cycle during the late summer month of 2021. We stand by that view. The recovery we saw from late August into when we reported in early November was tangible and reflected in better freight rates. However, with the rapid spread of the Omicron variant from late November, the associated rapid restrictions in economic activity and the lack of confidence in the business cycle, we saw this recovery to stall in what seasonally is the most important period of the year. This was very frustrating and overall tanker activity has yet to really recover. However, freight rates while under pressure have not revisited the low levels of late summer and we remain with the conviction that the recovery has only been deferred. Unlike the situation 12 months ago, we face the coming year with strong oil supply growth forecasted by the leading agencies.

A further rebound in demand and a pressing requirement to address low crude inventories level at some point in the future. Our low cash break evens coupled with our strong balance sheet enables us to manage through the current market and we are positioning for the next structural phase of the cycle, as we recently took delivery of two new Super Eco Suezmax (inaudible) at the same time as redelivering four non-eco older VLCCs. Don't get me wrong, we along with all of our stakeholders remain extremely frustrated with dispose the tanker market has taken on our recovery journey, but we continue to expect the freight market to improve to healthy levels, even though this is no more likely focus on the second half of 2022.

I will return to this later and now pass it on to Brian. Thank you.

Brian Gallagher {BIO 18733049 <GO>}

Thank you, Hugo. The demand background remains very important for our markets. And the setup for 2022 looks far more encouraging than it did last year with different and more numerous factors at play and largely in our favor. Firstly, it does appear that demand is finally expected to revisit or even exceed 2019 levels this year. DIA for instance is forecasting a further demand snapback at 3.3 million barrels per day in 2022 implying over 100 million barrels per day of consumption for the first time since 2019 at the top left on slide 7 shows. Top right, we show the growth which is leverage for all tanker companies and ourselves in particular as every 1 million barrels, but they've annualized expansion of demand historically as required between 30 and 40 VLCCs and we believe this correlation will hold going forward.

The bottom left chart looks at demand, which may also be further increased with the requirement to restock. If we remember that the story in 2021, which is showing bottom right was that demand rebounded very, very strongly. But most of this demand was satisfied with inventory and drawdown from local supplies. So therefore, there was no need for shipping. The picture for 2022 looks very different. Inventories are currently at levels globally that we have not seen since 2011. So at some point and commentators such as the EIA advocate strongly that we'll see a big snapback inventory rebuilds will move from destocking phase to a restocking phase sometime this year. This should be a further boost to tankers over and above the underlying demand snapback than we anticipate.

We now turn to slide 8. We look at vessel supply. Vessel supply remains an issue and we will clearly provide some headwinds, especially in the first half of this year. The top right slide illustrates how suppliers largely state wants to be ahead of the recovering demand ever since we went into COVID-related restrictions early in 2020. The fleet has grown by around 50 VLCCs in that time, and there are another 40 expected to hit the waters this year. Most of this will happen before September. Recovering demand will absorb some of this tonnage increase, but clearly not all. However, there are two factors that could redress this balance during the rest of this year. Slide 9 top left shows that 2022 is a big year for initial surveys. Nearly 10% of the sector will go into the yard this year age between 17.5 years and 22.5 years of age. Now, clearly not all of these ships will exit the market, but it illustrates the soft underbelly of the tanker market with 25% of the fleet already aged over 15 years of age and an average fleet age at 20-year highs.

The catalyst of taking the decision whether to exit or not is twofold; steel price, which is the driver of scrap metals and the cost of the survey, which at that age is considerable somewhere between $3 million and $4 million for each survey. In other words, owners are faced with a choice of either spending a lot of dollars to remain in the market today to keep an old ship which will only survey and have low utilization following 30 months or receive a hefty capital injection in terms of exchange for recycling that ship. This decision was skewed last year because a lot of these older ships to be sold to perform the so-called illicit trade, a murky business allowing those involved in it to pay a premium over recycling values. We don't believe this will play a very big role going forward as this illicit trade has stabilized in size as shown by the slide on the bottom left, which will make it difficult for new entrants to enter this illegal trade.

This illicit trade, it must be stated, remains a wild card for the tanker markets, but there is a pressing need for the IMO and others to apply the sanctions that are in place as this trade represents a huge risk for human life and also the environment because the way this trade is operated and the age of the vessels that are engaged in this trade.

The bottom right chart illustrates how dynamic tanker markets can be. If one assumes the 20-year-old and 22.5-year-old vessels of the survey this year would exit the trading fleet, then the fleet would actually shrink in terms of overall size. Whilst very unlikely, it does illustrate the age profile of the VLCC at the current state and how dynamic this would be if recycling which will maintain the trend that was started in Q3 2021.

With that, I'll now pass over to our CFO, Lieve Logghe, for some important changes in our accounting approach. Lieve, over to you.

Lieve Logghe {BIO 21321594 <GO>}

Thank you, Brian. Today, we are announcing a number of important changes in our accounting policies and the way we report our figures in our P&L. We are reviewing on a regular basis our judgment and assessments made with the objective to continue to present a fair, exhaustive and thorough view, next to the fact that it's equally important for Euronav to be directly comparable to its peers. The key change is the adjustments we are making to our residual value accounting. After a thorough internal review and with our auditors, we believe now is an appropriate time to update our assessments and to transparently share this with our stakeholders. Historically, our approach has been very simple, 20 years straight-line depreciation to zero. However, there have been significant changes in shipping and steel markets in the past five years, which we believe necessitate a change in policy. Steel is one of the most recoverable commodities in recycling and into sustainable circular economy, hence the recycling of ships will become more important.

With this in mind, we have decided to move to the following approach. We keep our depreciation policy over 20 years, but to residual value basis as opposed to what we had until now, which was zero residual value. The residual value we will adopt will be an average of the key recycling market prices, which presently is around $500 per ton. So going forward as a slide 12 shows, this will reduce our depreciation charge annually by around $100 million from the current run rate of around $380 million and places ourselves more in line with our quoted peer group. On this slide, you can also look at how recycled steel prices have performed in the past decades. And the reasoning behind choosing $390 per ton, which is equivalent to the four years' moving average. Other important changes in our P&L are some reclassifications we are making between the revenues and cost lines in order to make us more market conform.

TI pool administration fee has been reclassified out of G&A to revenues, whereas flat compensation is now directly integrated in our costs as an offset. Ship management overhead is now part of OpEx, as we recognize that the majority of market takes the ship management fees, especially when this is outsourced directly into the OpEx. Whilst those changes have no impact on EBITDA or the bottom line, it clearly shows that our system platform enables us to deliver top quality service at very reasonable cost, which can only be achieved with scale. We illustrate this point by showing how we compared to one of the most (inaudible) benchmarks produced by BCG and the tanker shipping industry.

Another important feature growth was mentioning is that Euronav's portion of debt hedged against interest rate hikes is now 60%. In an inflationary environment, we cannot just do nothing about it. I will now pass back to Hugo for the rest of the presentation and its conclusions.

Hugo De Stoop {BIO 4298483 <GO>}

Thank you, Lieve. I would like to finish up on a few slides outlining exactly where Euronav is positioned. Slide 15 illustrates the comprehensive platform we offer investors. Firstly, our operational performance is at the leading edge in our market. Our OpEx performance compared with the best in class and is backed by a strong balance sheet where we have the highest liquidity both in absolute and relative terms, accompanied by one of the lower leverage ratio amongst the peer group. Finally, in terms of tanker markets, investors looking to gain exposure to the tanker market at this stage would focus on two elements; the robustness of the company they invest in, as well as the operational leverage they acquire for when the cycle will turn. It should be clear to investors that Euronav offers the lowest entry point; and therefore, the highest upside.

In summary on slide 14, we have a clear focus and strong platform as Euronav, our operational structure is extremely competitive in cost terms and is fully integrated. Our large fleet is appropriately age and we have a balance sheet that retains two years' liquidity runway. All of this supported by increasing sustainability credentials and proven record in terms of return to shareholders. Do we wish the freight market was more encouraging and in better health? Yes, of course, but as no one can accurately predict the markets, we are always prepared for challenging market, even when we expect the cycle to improve, which is clearly the case for 2022.

Let's move on to our traffic lights and another upgrade. We have upgraded our old supply outlook driven by three factors. OPEC, continues to deliver on its monthly production increase as confirmed yesterday. Non-OPEC is beginning to show signs of life with pockets of exports increasing from areas like (inaudible) Brazil or even the US which are long-term buyers. And finally inventory at our level where people will look more into replenishment than further drawdown. Elsewhere, the key traffic lights remain the same. So in conclusion, Euronav remains constructive on the prospect for our market into recovery. The setback that we saw in the second half of Q4 is just that a setback. It will take time, but we remain confident for the recovery.

That concludes our remark. Thank you for your attention and I now pass back to the operator and look forward to your questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question is from Randy Giveans of Jefferies. Please go ahead.

Q - Randy Giveans {BIO 18937349 <GO>}

Howdy team Euronav, how's it going?

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

Hi, Randy. How are you?

Q - Randy Giveans {BIO 18937349 <GO>}

Doing well. Doing well. I guess first on the accounting changes knowing you're going now to a scrap value residual value depreciation makes sense, any impact to the potential payout ratio if and when we get back to some pretty meaningful profitability here.

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

At the moment, we keep our policy, it is very clearly set out on the website, very similar to what we had in the past. You know that we are very shareholder-focused and we tend to be very generous towards be it in dividend or in buyback. We continue to be frustrated with the share price. It continues to trade below NAV and so clearly, we will need to make a choice between dividend and buyback when we get to positive territory and we have something to return to shareholders.

Q - Randy Giveans {BIO 18937349 <GO>}

Got it, okay. And then in terms of your comments on inventories, I think, Brian, going back to 2011 levels. Clearly (inaudible), I don't know $88 today, this could continue to be some downward pressure on inventories. Do you see any kind of inflection point in the near term for that restocking that you mentioned or is it all just kind of supply driven?

A - Brian Gallagher {BIO 18733049 <GO>}

It's a good question, Randy. I think how we would say it is would be the business cycle getting confidence. We were beginning to see that confidence return before Omicron began to bite in November, and we're just not getting sort of any longevity in these recovery periods over the last two years. So I think it's a question of one that the business cycle getting back to some form of normalization; and therefore, having the confidence to order, but also the price structure of oil itself.

Clearly, it's been a very deep backwardation at the moment, which moves against that inventory rebuild. But look, I think it's just a question of time getting through, and as we get through better improved confidence, then we would expect that rebuild to start. But we are talking about very low levels and that's the way we wanted to highlight and if we take the EIA, they're forecasting rebuild will start as soon as this quarter.

So let's wait and see but I think it's more question of the business confidence in circle returning to some form of normalization, and then we will expect restocking to happen then.

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

I just would like to add, maybe one color on this, which is world stability. We all know why those inventories exist and it's because there is always a risk that the supply of oil is being disrupted by an event another which is clearly the case at the moment.

So it's very good to be able to draw on your inventories, but there is a limit to what you can do and that limit is reached when your confidence that your supply chain is going to be interrupted.

Q - Randy Giveans {BIO 18937349 <GO>}

Yeah, that's fair. And then if you don't mind, I'm going to sneak in one last question here. Obviously, you're frustrated with spot rates. I think those sentiments are shared pretty widely. In terms of time charter rates, those have held in decently relative, so any appetite for just locking in some cash flows there while we continue to wait for the uplift in spot rates.

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

So as we are concerned, we haven't seen anything short term that was really attractive. I mean, yes, you can lock in sort of the low 20s for a year. Whenever you are crossing sort of the 30s, then you're talking about three years and usually one or two years option on the back of that at maybe a $1,000 more. So we have seen structure like 33,000 for three years and 34 for the fourth one as an option, 35 of the fifth one. And when you read our thesis, which is obviously shared by a lot of people, we believe that when the markets return to positive territory, it's going to be probably a longer cycle than what we have seen recently, it's probably going to be like 2004 to 2008 type of cycle, relatively high rates and relatively prolonged. So I think that we should be prudent when we are looking at those rate which today looks attractive, but quite frankly, at the back end of those five years, you may be a little bit regretful to have done it.

Q - Randy Giveans {BIO 18937349 <GO>}

Yeah, that makes sense. And with your balance sheet liquidity, yeah you have the ability to wait. So all good. Thank you again.

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

Thank you Randy.

A - Brian Gallagher {BIO 18733049 <GO>}

Thanks Randy.

Operator

The next question is from Jon Chappell of Evercore. Please go ahead.

Q - Jonathan Chappell {BIO 3518567 <GO>}

Thank you. Good afternoon, everybody. Brian, If I could start with you. I found that there has been a pretty strong concern from the public companies and most of the analysts looking for a recovery just any day now, but some of the brokers, maybe don't have any skin in the public gamer are quite more bearish and feels like a lot of their negativity is focused on the supply side. So if I can go to page 8 and look at that upper right-hand graph, what you state implies 60 to 80 excess VLCCs based on '19 demand. What gives us confidence that at 60 to 80 spread closes, I know there is some hope for scrapping but scrapping is always a bit of a wildcard. Is that a demand driven reversion? Anything you can point to that would maybe debunk that bearish thesis.

A - Brian Gallagher {BIO 18733049 <GO>}

It's a very fair point, Jon and I think what we tried to do, maybe with the first slide before that is to trying to show that there are multiple elements to this. I think if I may be give three sort of pushbacks on that. One would be on the supply side.

Yes, supply has been patchy. We have to recognize that. We haven't seen the supply growth that we have anticipated, but if we take again the forecast, which independent commentators are giving, Platts for instance, are talking about 1.5 million barrels per day increase in the US, although that is second-half weighted. We're also looking at 0.7 million barrels per day from Brazil, Canada in the North Sea. Again, second-half weighted but also, I think we have things like the standstill agreements that will come into place with the OPEC-Plus nations, which could see -- which potentially will see Russia, Saudi, the UAE and Kuwait have 1.5 million barrels per day between them, so they can increase their production.

Now that's important because obviously those nations have been the key drivers of the production going to be seeing mix in other, in particular, West Africa nations struggle to even grow their production. So I think there's some really good grounds albeit second-half weighted for the supply side. The second answer would be, as you can said in these perpetual remarks, the demand, we do believe is going to gain -- continue to gain traction.

There is some seasonality to that so we shouldn't be surprised, but again that's going to be more second quarter onwards based. And then lastly would just be the fact that we have started to see some of that recycling. I think it was 11 VLCCs in the second half of last year and I think a similar number of Suezmax and we've got a very big survey cycle year. I'd love to give you a magic bullet Jon and everyone else because again as you guys said in this call that we're not happy with where we are, but we do believe we've seen the worst in the rearview mirror, but we do or we can point to is some of these factors that we see in front of us.

We wish they were gaining traction more quickly than they are. We can have to be patient and I think that's the message we tried to give in the commentary in the press release, but we do see it's not just one factor that we're sort of hoping that will come through, we see multiple factors, which will be supported. And we believe those will combine to get traction as this year progresses, but it's certainly probably going to be more in the Q2, Q3, where we start to see that getting traction moving into the key winter period.

Well, look, we're comfortable -- we're confident that that will come through, but I can't give you, I can't sugarcoat it to any degree that we've got some sort of hidden numbers that we're seeing. The pushback on that would be, well, the worse you get sort of, the more it continues to be a very, very challenging. Then you want to be exposed with those folks who got the best balance sheet and the best cash flows that can withstand that marketplace and the tougher it gets then we think the more we'll start to see recycling come into play. So, we do believe we're getting into the end of this particular sort of phase, but I don't know if Hugo has got anything to add to that.

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

No, I think you sum it up, I mean there are so many moving parts. And obviously, Jon, I know that on the recycling side, it's very difficult to predict, but I think what we've tried to put in the presentation is the opportunity that is there, I mean if no one had to do a special survey, especially at 17.5 or 20 or 22.5 years then I think that the hope to see a lot of scrapping would be gone, but this year is particularly interesting from that point of view. And if you're faced with $3 million, $4 million bill and when you return to the market, it doesn't give you anything because for this age profile, the return is literally zero at the moment then I wonder what people are going to do. And last year, they were selling their vessels to the illicit trade but that part of the market seems to be well covered and we haven't seen any ships going into this horrible business recently. So we don't see any reason why it will continue. I think they have -- there is an existing fleet and its service this part of the market.

Q - Jonathan Chappell {BIO 3518567 <GO>}

I think Brian's point about, just making sure you're aligned with the best balance sheets and liquidity is a very important one. If we can look at just a bit past the short term and I know we have a tendency to focus on the here and now, if we get past 22, the order book drops precipitously. And I know the ship owners have a long history of saying, "Oh, you can't get a ship for three years" and then magically you find 30 slots in 18 months, but it does seem that given the strength of the containership ordering of the LNG ordering even the LPG, that there is less availability in kind of the '23, '24 timeline. Can you just speak to in a very realistic manner and the commercial scale, when would you realistically get like 10+4 order of VLCCs or so as Suezmaxes?

Could you -- do you have a great relationship with the Korean yard where you can sneak one in first half of '24 or even the best place ship owners you're looking at late '24, maybe into '25 and beyond.

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

If you are talking about one slot or two, I think that you can reasonably expect to squeeze maybe one or two slots, as I said at the back end of '24, but it's certainly not a six, eight of 10 sort of ship slots and that's ship slots and that's in Korea. In China, it's a little bit more opaque and so one never know, but quite frankly if you look at what has been ordered in the past, it's very much for Chinese owners.

And then Japan seems to be completely out of picture for VLCCs at the moment. And quite frankly if and when they return, it's also probably going to be for Japanese owners who are not typically spot operators and that's probably what we are looking at when we see new orders. So, quite frankly, I think that a lot of the characters to give the market that we see now are very much the same as what we were seeing 2003, 2004 and it simply because every bit of shipping and well, this time around, not us, but everybody of shipping is doing very, very well and has placed an enormous amount of orders, and I think people don't realize that those ships are being built in the same docks, I mean literally in the same dock. So if the dock is busy building a container ship or a gas carrier or any other time that has been ordered, the slot is busy and yes you can gain some efficiencies, but the Koreans they are pretty efficient people. So already efficient what you can gain is maybe 5% and maybe 10%.

And then of course in the other segments, certainly the container, we don't expect reading the analyst comment that this sector will abate and the cycle will turn anytime soon. So you continue to see orders, which means that even if there was a willingness of some owners -- some tanker owners to place orders in those yard, they would be competing with those ships. And given that those yard are earning, well, better margin on the container and certainly on the gas carrier, we don't believe that the price they would be offering us would be attractive for owners to place a large quantity of order. Today, you can probably get a VLCC for 106 and that would be a very basic one.

So not even one that could potentially be retrofitted later into one of the two or three technologies or fuel that we will use in the future. So I'm very positive in fact on that part of the market. And quite frankly it's the most important part of market because the only reason why our markets are cyclical is simply because of the supply side.

Q - Jonathan Chappell {BIO 3518567 <GO>}

I appreciate the thoughts. Thanks Hugo. Thanks Brian.

A - Brian Gallagher {BIO 18733049 <GO>}

Thanks Jon.

Operator

The next question is from Greg Lewis of BTIG. Please go ahead.

Q - Gregory Lewis {BIO 7351123 <GO>}

Yeah, hi. Thank you and good afternoon everybody.

A - Brian Gallagher {BIO 18733049 <GO>}

Hi Greg.

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

Hi Greg.

Q - Gregory Lewis {BIO 7351123 <GO>}

Hugo or Brian, I was hoping to get a little bit more color. A typical question that we get a lot as people look at kind of headline rates, are those negative or there is like a negative

TD3 and clearly, clearly your company has been able to generate profits over -- generate positive cash -- generate turnover operating cash costs.

Really what I think people are trying to understand is there's been a lot of vessels that have had scrubbers installed and so we have a scrubber fleet and a non-scrubber fleet. As you look at the market and track what you're seeing, do you get a sense that the utilization, it's almost a two-tiered market where the utilization of the scrubber fleet is significantly higher than the non-scrubber fleet?

And if that and this is obviously beyond the eye, but maybe broadly speaking, and if that's the case, how much utilization bump do we need in the non-scrubber fleet to kind of get utilization to a point where maybe those are the vessels that are setting the prices and we can actually see upward momentum in rates?

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

Well, it's a very good question. It is certainly the one that we are asking ourselves all the time. Do you have a little bit of visibility because TI operates both scrubber ships, non-scrubber ship, old non-scrubber ship, old scrubber ship, that eco scrubber, so you have four categories of two in fact, what tends to happen in the market that you would put the most economical vessel on the longest trade. We choose, you want the ships that are non-eco, non-scrubber to do short voyages and then spend a lot of time in the terminals because there they are not consuming a lot of energy, a lot of fuel for obvious reasons. So that's a little bit how the market is developing at the moment.

Very clearly, when you have an old vessel which is non-current, I'm talking here about something, which is 11, 12 years old and older. Even with a scrubber, the economics look horrible because you will consume 77, 78, 79 tons per day compared to 40, 42, 45 for eco vessels. So that's already one element. So this current will help but will not compensate in full for the excess consumption and then of course I just touched on that, but I'm going to repeat what I said there is a completely different utilization for the guys were doing the illicit trade and we're talking about 55, potentially 60 vessels. So it's quite a lot of vessels, where nobody talks about utilization, because what they need to do is constantly change registration, flag. They do transshipment two or three times before the delivery of the oil, I mean that it's a game of hide and seek, which seems to work for them obviously, but which means that the utilization is not really the element that you're looking at and 55 to 60 vessels on a market that is 830 vessels in operation, i.e., trading, it's not insignificant.

So it's very difficult to give you a straight answer to that. I think that the market always tries to adapt to what it's given. Every operator looks at a ship, its capabilities, efficiency and then decide to do one trade or the other. When Brian is talking, when we all, but Brian specifically in this slide is talking about the excess number of ships, I think we are very much talking about the all the part of the fleet. And if we would see that disappearing one way are not of being scrapped or being used convert in FPSO or whatever, I think the market would quickly rebalance and that's the issue also that we have today is because the market is so patchy, i.e., with four sub-segment as I said.

The list of ships that can potentially do the cargo is very long, whereas we along with other big operators can really make the difference of, okay, but is that ship really the right one to do this cargo or not. A lot of the owners with very small exposure because they only operate two, three, four, five vessels, they don't have that kind of information and they are completely being blurred by that least and they say, "Oh, my God, I'm facing six, seven, eight ships that will compete with me, so I need to drop by pant and I need to set a rate that is very low." And then they have set the rate very low. They don't get the business but guess what, the guys who was probably the only one or amongst the two ships who could do the business has to much that rate.

So that's really what's happening in the market on top of a lot of private cargoes, not being shown to the market and only being revealed once they have been done to the regrets of many people saying, "Oh, I thought there was far fewer cargos," but in fact on the cargo side, we're not very far from 2019. So there is a lot of things that needs to be correct, but it's no different than other cycle. Sorry for the long explanation but the question was complicated -- complex.

Q - Gregory Lewis {BIO 7351123 <GO>}

Yeah, no, absolutely thank you for that. That was super helpful. And then just as we think about as we think about Iran, clearly in the US, we hear what's in the newspapers. It seems like the US is really going to drive, maybe not the decision, but the event path of how Iran plays out. In the event that the shadow trade kind of drifts away over time, how should we think about that kind of impacting the market?

And is this something that just, it could be a 2022 event and it's part of the reason that Euronav is optimistic or is it something that is probably the way it plays out, it's more of a nice bump in the 2023, which is why I think you mentioned earlier that you're pretty bullish, maybe not on today's rates, but in the next few years.

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

We don't have a crystal ball, and we've been there near an agreement and then it disappears, I think the last time was just before the withdrawal of Afghanistan. And I guess the US administration could not afford that kind of news right after that. So no clue when it's going to happen. We are reading the same sort of headlines.

So it's a wildcard. And that's not part of the thesis, but when we are looking at it, if it happens, we believe that the story is then very, very simple. You have 1.3 million barrels that are being traded in those illicit trade, the capacity of Iran is probably around 2 million barrels. So even more than what is being traded today on illicit and all of that would return to the regulated legal market.

And the ships that are currently doing it would immediately become commercially obsolete because nobody would touch them. So you would have a double impact, which is more cargoes available for us to transport, for us and the rest of the regulated market and at the same time, all those ships which by then would have -- would be very worn and torn because they are 20, 21, 23 years, they are not being properly maintained. They don't have certificate and the scrap prices are pretty high. So they will take the scrap yards in no time in our opinion. So it's a double whammy, but again it's a wildcard and certainly not part of thesis that we have shown to you today.

Q - Gregory Lewis {BIO 7351123 <GO>}

Okay, perfect. Super helpful. Thank you everybody. Have a great day.

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

Thank you. You too.

Operator

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

Q - Chris Wetherbee {BIO 15241632 <GO>}

Yeah, thanks for taking the question. Hugo, just wanted to follow up going back a couple of callers ago to your comment about a cycle like '04 to '08 in tankers, I just want to get a sense of what do you think sort of the key of driving that degree and duration of strength. Is it really the sort of supply side that you talked about earlier. I just want to make sure I understand. It feels like demand has the potential to be a significant wildcard relative to what you know '04 or '08 was, so I guess I just want make sure I understand how you guys are thinking about that?

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

Primarily because of the supply side, very low order book, very low space in the slots in the yard but also age profile of the fleet, 25% being already in the sort of age profile where potentially people are thinking about scrapping. High -- very high scrap price and yeah that's I would say 70% or 75% of the reason why we believe it could be a prolonged cycle like '04, '08.

Now, don't get me wrong, '04, '08 was not only long but it was always between $70,000 and $100,000 a day that's not really what we are saying. What we're saying that it's going to be very good rate and it should be very good rates for three or four, potentially five years. But let's not be too excited or too carried away, I mean when you get $100,000 a day, you indeed need both elements which is super strong demand growth and very limited capacity on the supply side.

Q - Chris Wetherbee {BIO 15241632 <GO>}

Okay, okay, that's helpful. I appreciate that clarification. I just wanted to ask a sort of detailed question about the accounting changes if I could. I know we're going now to a residual value versus a zero residual value. I guess maybe two questions here. Are you moving from 20 years to 24 years to match peers, number one?

And then number two, when you're thinking about the residual value, are you taking the four-year average? Is that what you're suggesting to us? Or are you just taking a mix of multiple destination residual values at the current point. I guess, I just want to make sure I understand a couple of moving parts there.

A - Lieve Logghe {BIO 21321594 <GO>}

Yes, Chris, thank you for raising or asking the question. So indeed to answer your first question. So we keep our 20 years depreciation rates or 20 years. So we are not moving that to 25 years. So we keep the duration and indeed we changed from nil to residual value at $390 per ton and how did we define it's $390 per ton? So we use there what we call the four-year moving average. So each year we will update with the new rates and there we are using a basket of scrap countries, I think Bangladesh. There are three countries, India and Pakistan. So there are three countries in there, which we take as due reference. And so based on this, this is how we will update on a yearly basis our assessment.

Q - Gregory Lewis {BIO 7351123 <GO>}

Okay, that's very helpful. Thanks for the clarification there. And I guess last question just when we're thinking about the debt profile, you got 60% fixed at this point. Is there ability to move that higher? I mean obviously that's a nice step-up from where we were earlier in the year is their ability to move that higher, what are your expectations there?

A - Lieve Logghe {BIO 21321594 <GO>}

So for the moment, indeed we have fixed what we could fix. And indeed, we continue to look what needs to be concluded in terms of new loans and then and use our liquidity. So from that perspective, we will follow closely what needs to be fixed, but the 60% is currently the best we can do based on the loan portfolio and the loan diversification we are currently having.

Q - Gregory Lewis {BIO 7351123 <GO>}

Okay, that's helpful. Thank you very much for your time today. I appreciate it.

A - Lieve Logghe {BIO 21321594 <GO>}

Yeah. Thank you.

Operator

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

Q - Chris Tsung {BIO 3492164 <GO>}

Hi, good afternoon. How are you?

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

How are you?

Q - Chris Tsung {BIO 3492164 <GO>}

Wanted to ask about depreciation as well. Just looking at the chart that you guys have on slide 10. I understand it's a four-year moving average but I guess, is there a floor or ceiling that what you guys would determine the scrap values to be at? Because I can just see looking at this chart in 2016 for instance before you're moving average is around 400 versus the current scrap, which is like 250 or so, and I guess just in that scenario, you would be depreciating at a higher value than current market. So I just want to understand what goes into that process.

A - Lieve Logghe {BIO 21321594 <GO>}

So indeed it's a good question, Chris. It's also a question that we discussed thoroughly with our auditors and indeed when we look over at how the 20-year cycle, that $400 average is there. So we have somehow to define an average which made sense. And looking indeed to the last years of high prices of scrap steel, you see that indeed to $600 per ton, we know that this is a bit too high and then will not keep probably over the 20 years lifetime of a vessel. So hence we have to monitor and see compared to this 20-year average moving, compared to the four-year cycle and then indeed to see how we can cap this because indeed I will agree with you that we have to look to the tendency.

And this tendency is based on the last 20 years and we have to keep this as a cap moving forward. This is how we think about it. Indeed we have dare to test and to see how it works in reality, we didn't know our first step and we think we are still conservative. So hence something which we have to explore and see how it sort of works, but indeed we are tending to keep the cap over the 20 years' lifetime of the vessel as a moving average based on that principle.

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

And by the way, this is very much the same for the other tech companies.

A - Lieve Logghe {BIO 21321594 <GO>}

Yeah.

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

So in the past zero, was zero all need to look at it on a yearly basis, because that's your policy, but once you go to the scrap value then obviously you need to look at the market and as Lieve explained, we didn't want to bring more volatility into the P&L far from it or into the balance sheet.

So you need to look at it with certain number of years of average, that's what we are doing, but also taking into account the last 20 years, simply because 20 years is the lifetime of a vessel, but everybody is facing a little bit the same issue and I don't think that the market sees the little volatility when there is a small correction in the depreciation rate.

A - Lieve Logghe {BIO 21321594 <GO>}

Yeah. And it's because of the last years that the scrap price is so high, that this topic came up as and why we changed it because of this high pricing of $600. This is why we had to change and move towards our peers in that direction. So hence this change now at this moment.

Q - Chris Tsung {BIO 3492164 <GO>}

Okay, thank you for the color on that and I just want to move on to another point that you guys had in the press release. You guys were able to successfully try the B50 biofuel. And I wanted to just understand, do you think B50 allow Euronav to generally (inaudible) compliant or will you guys be looking to try like higher biofuel point?

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

I think the idea behind it is really to be helpful in the energy transition and quite frankly, we don't believe that it's a long-term solution biofuel, certainly not given the quantities that will be produced and the competition that we will face with other industries, but nevertheless it is helpful to see how it reacts in the engine.

We didn't pay a premium to get that fuel. So that's also very important. There is incentivization scheme that is present in Rotterdam, which meant that the Dutch state is indeed giving subsidies to the guy who are producing it. So the only thing that we did there is try something else and then obviously you need to pay attention, you need the chief engineer on board making sure that everything is running smoothly.

And then you deliver the data and whatever you have discovered to the people who are making that fuel. I think that whilst it's not a long-term solution, every little helps in the short term. So to answer your question, first of all, happy to lower carbon emissions whenever we can, especially when we don't increase the cost. Secondly, as far as the regulators are concerned, this fuel is producing in Europe in the Netherlands and it remains to be seen whether it's going to be acceptable or not. And while there are three regulations that are coming in place from the EU perspective. So it's a little bit too early to tell you whether it can play a role or not, but the fact that we have tried it means that if it would be accepted, then obviously we would know how to handle it. And if there is an issue, we would know how to mitigate it.

Q - Gregory Lewis {BIO 7351123 <GO>}

Yeah, perfect. Thank you, Hugo and just one last one I want to squeeze in just on the cadence to dry-docking in '22, I know they are 16. Is this going to be kind of front-loaded or maybe something you have in lines?

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

Yes, we are trying to front load as much as we can, because we are very optimistic about the second half of the year. So obviously, you're always trying to see or to take advantage of the low rate, if I may use that expression. It very much depends on the voyages, but the ambition is to try to front load it as much as possible.

Q - Chris Tsung {BIO 3492164 <GO>}

Great, it's all from me. Thank you guys.

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

Yeah. We will update on quarterly basis where we are on that program.

Q - Chris Tsung {BIO 3492164 <GO>}

Great. Thank you, Hugo.

Operator

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

Q - Magnus Fyhr {BIO 1551359 <GO>}

Yeah, good afternoon. Just one question related with the supply of oil, you upgraded your outlook there. And I was just curious with $90 oil OPEC has sold incented to increase production but January production was only 50,000 barrels, compared to the 400,000 barrels announced. And I would be somewhat concerned that OPEC is struggling to increase production and the IEA is looking at 3 million barrels plus in 2022 but what gives you confidence now on your upgrade there that the supply of oil is going to increase?

A - Brian Gallagher {BIO 18733049 <GO>}

Maybe if I can jump in.

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

Yeah, yeah, go ahead.

A - Brian Gallagher {BIO 18733049 <GO>}

(inaudible) similar sort of answers and before. You're absolutely right. We are obviously disappointed as well. It's been a very patchy level of production growth as you say, and in particular the numbers for January look to be -- December seemed to be a little bit lower than we would have expected, in particular in areas of West Africa, but again as I mentioned before, there are areas where we have seen sort of decent growth in Saudi, in Kuwait, in UAE. And that agreement changes under the OPEC-Plus terms in May that's a potential 1.5 million barrels a day with Russia as well. We'd love to see the situation where not only the production growth coming through, but also it's coming through a spread around the world. So that the oil has to move even further. But the reason we upgraded is because we see this pressure in particular in the second half rising as you said because of the rise of the higher oil price.

And then secondly, obviously, we've got the return of we believe along with people at the EIA and Platts suggesting that we'll see more growth coming through from the US. So Platts seems to be talking about 1.5 million barrels per day coming from the US, again second-half weighted. So I think it's more a question of what we see in terms of some of the particular production growth areas, albeit a little bit specific that we see that growth continuing.

We are absolutely right to highlight that again it's been, if you like, the stop-start nature of this recovery has been reflected in the fact that the production growth has been so sporadic and so stop-start, but we certainly get a sense, not only from the official commentary, but also from some of the conversations we're having with the client base so that supply growth will begin to transit into more sustainable levels of increase going forward.

Q - Magnus Fyhr {BIO 1551359 <GO>}

All right, thank you. I mean we've been talking about Omicron virus having an impact on the market here, but don't you think it's more related to that OPEC has been unsuccessful in increasing production, I mean, if we could see another 500,000 barrels to a million barrels, I mean I think the tanker market look a lot different.

A - Brian Gallagher {BIO 18733049 <GO>}

I think personally, yeah, that's very fair comment. But at the same time, I think the two are go hand in hand little bit and that we're not really seeing the refinery participation in terms of order flows of cargoes that we would anticipate and that goes back because of that stop-start nature and Omicron reducing that demand in that business cycle if you like duration and confidence.

So I think you're right, I think it's a combination of the two, as you said right at the start that you can see on the preparatory remarks. Don't get us well, we're not happy with where we are and it's frustrating that all of these different factors in the moving parts that we see in our market that we're not getting may be the full value from all of them.

But we do anticipate that that will come through and we're certainly hopeful as we now seem to be in a better phase with regards to COVID, in particular in Europe as we come out of restrictions that that should start to sort of get some traction. So the oil price is clearly going up because of a lack of equalization between the supply and the demand but we do anticipate that we're going to start to see some of the benefits coming through from that, but we have to be patient.

Q - Magnus Fyhr {BIO 1551359 <GO>}

All right, thank you, Brian. Just one more question on the depreciation policy, will that be effective as of second quarter, or when we will start seeing those changes?

A - Lieve Logghe {BIO 21321594 <GO>}

(Multiple speakers) First quarter, yeah.

Q - Magnus Fyhr {BIO 1551359 <GO>}

All right, very good. Thank you.

A - Brian Gallagher {BIO 18733049 <GO>}

Thanks, Magnus.

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

Thank you.

A - Lieve Logghe {BIO 21321594 <GO>}

Your Welcome.

Operator

This concludes our question-and-answer session. And today's conference, thank you for attending today's presentation. You may now disconnect.