Euronav

Third Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Brian Gallagher – *Investor Relations*

Hugo De Stoop – *Chief Executive Officer*

PRESENTATION

Operator
Good day, and welcome to the Euronav Third Quarter 2022 Earnings Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there'll be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I'd now like to turn the conference over to Brian Gallagher. Please go ahead.

Brian Gallagher
Thank you. Good morning and afternoon to everyone and thanks for joining our Q3 2022 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 3rd of November 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 or 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 discussed in the company's filings with 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 note to read our Safe Harbor statement on page two of the slide presentation.

With that I'll now pass over to Chief Executive Hugo De Stoop to start with the content slide on slide 3. Hugo.

Hugo De Stoop
Thank you, Brian, and good morning or afternoon to wherever you are and welcome to our call. I will run through the Q3 highlights before passing back on to Brian Gallagher, our head of IR, who will then highlight some key and current trends in the winter market before I return to summarize our strategy, where we are in the current cycle and our outlook.

Turning to slide 5 and the Q3 highlights. In capital markets today everyone is looking for a pilot, while in tanker markets, especially in the larger VLCC segment, we finally got ours in freight route, and this was the catalyst to drive us back to profitability.

Since July, the substitution trade of VLCC ships supplying the last seaborne barrels from Russia to the EU has really gained traction. The [indiscernible] sector has experienced more impactful dislocation since April and has continued to see rates rise. And now VLCC has largely caught up over the third quarter.

As experienced watchers of shipping will know, the impact in our numbers is lagged as we are operating six to eight weeks ahead of the current calendar. Hence, you can see from slide 5, the quarter to date numbers for Q4 reflect better the trends we have seen since the summer.

We at Euronav have also been busy. We have sold three older vessels this quarter and recycled the capsule into two new eco Suezmax contracts, which will be delivered either of the winter in two years from today. We now have eight vessels under construction that will be delivered across what we believe is the starting quarter of a multiyear upcycle. So it's a very pleasing operational quarter for us as we believe the cycle has turned and should last for the foreseeable future.

Looking now at the financials on slide 7. It was a relatively quiet quarter on the financials during Q3 with no exceptional items. Our leverage and our liquidity remains very robust and in line with previous guidance. We continue to work hard on adding additional sustainable financing, which we expect to complete very soon.

The two FSOs that we operate now fully are totally consolidated for an entire quarter and this for the first time since we acquired 50% of our partner on June 7, 2022. Slide 7 also focuses on how much progress we have made year to date in fleet renewal with interest remaining high in second hand tonnage.

With that, I will now pass it back over to Brian Gallagher to give some thoughts on the current market cycle.

Brian Gallagher
Thank you, Hugo. A key driver of the oil marketplace over the last six months is about to hit its last but very impactful phase, in our view. This is the dislocation from the Russian crude flows. The European Union has already diverted about 1 million barrels per day of seaborne imports from Russia. and replaced those largely from Atlantic and the Middle East locations. We expect another million barrels per day of EU bound exports from Russia to follow a similar pattern over the next quarter, ahead of the fifth of December deadline set by the EU to ban oil, all oil shipped from the Russia to Europe.

This will mean that the same volume of oil will travel approximately three to four times the distance it previously did. We will continue to see the benefit of substitution trades from Atlantic to Middle East oil being taken on a seaborne route to the EU. This latter substitution trade will in particular benefit the larger vessel sizes such as the VLCC's. This trend has been very pronounced since July onwards.

The chart on slide 9, illustrates both the distances involved and also the detail of the dislocation of these crude barrels. This brings us to the additional crude demand that we anticipate to see from further fuel switching on slide 10.

Slide 10 is a slide we've used before, but which continues to have a very strong message with the current crude transportation market. Whilst volatility and energy prices has waned a little recently, we continue to see the relative price of oil being cheap in comparison to other poor energy sources. All of the fuel prices illustrated on slide 10 are represented on a per oil barrel equivalent, and therefore are completely like-for-like. Oil is, therefore, relatively cheap in terms of a source of fuel at the moment and consequently, we believe that we will see not only fuel switching during this winter, but continue to see this trend well into next year.

The impact of all of this on slide 11 shows the impact on shipping itself. The dislocation and increased demand for oil is clearly illustrated on slide 11. This shows the amount of oil and water being transported in the dark blue line. The one-year time charter rates of VLCC's are given in a light blue line. Oil in seaborne transit is back to levels we have not seen since the very short spike we saw in March 2020, just ahead of the COVID pandemic kicking in.

With ton miles continuing to be a key feature of the dislocation, we anticipate that we will continue to see growth in oil in transit on seaborne routes, on similar patterns. So in summary of our market views, we continue to remain very positive on the current trends, and expect to see a sustained and strong winter period.

I'll now pass back to our Chief Executive, Hugo De Stoop, to give some more medium term thoughts about where we are in the cycle and our current outlook from the traffic light perspective. Hugo, over to you.

Hugo De Stoop
Thank you, Brian. I'd like to sum up before we go to Q&A with two very general thoughts. Firstly, slide 13 gives an indication of the [indiscernible], but also the differences we see between this current cycle setup and previous sustained multi quarter upcycles in the tanker market. First, devaluation of the tanker sector in capital markets terms is cheaper than what we've seen in previous upcycles in 2004, 2014, and 2019. Second, the average age of the global fleet is much higher than what we've seen in previous cycles. Finally, we are in a very different era in terms of the order book expressed in absolute numbers, or as a percentage of the fleet in the largest tanker space. Those different aspects give a very supportive and constructive medium term outlook.

So moving on to the final slide, which is slide 14, that allows me to focus on the traffic lights [ph] we give at the end of every quarter earnings call. Once again, we felt the market background deserves another upgrade and this time we are upgrading ton lives [ph]. The last phase of the Russian dislocation means that we expect to see further increases in to miles, which bodes well for the tanker market this winter and for the coming medium term.

You will have noticed on slide 14 that our traffic lights are majority green. We still believe there is an upside as all of the recent upcycle has been delivered without any benefit coming from Chinese consumption or Chinese on demand growth. So we still believe there is further to go and further potential for upgrades to our traffic lights.

Thank you for your time and attention. With that I will pass it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using the speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. In the interest of time please limit yourself to one question and one follow up. At this time, we'll pause momentarily to assemble our roster

Our first question comes from John Chappell from Evercore ISI. Please go ahead.

John Chappell
Thank you. Good afternoon. So first question, Hugo, on liquidity, just curious, number one, is that pro forma for all the vessel sales that have been done plus the down payments on the new builds? And second of all, this additional finance under discussion, can you give us any sense to the magnitude of that, and the terms that you laid out? It was possibly going down the path of green financing.

Hugo De Stoop
Yes, absolutely. Very good question. So, indeed, 355 seems to be a little bit on the low side for Euronav. That is before we get cash from the vessels that we're selling at the moment. All those vessels are debt free. In Q4, we expect to get approximately $160 million, $159 million, so that will be added to the liquidity.

And then the new facility, which is $377 million, that we have a term sheet for currently in the documentation, we expect that $330'ish of that will also be added to the liquidity and that's because it's replacing a facility that has already expired. And so that explains why $355 seems a little bit on the low side. So overall, we go back to $800 million of liquidity, and that is before operating cash flow comes in and we expect those to be significant and generous in Q4.

John Chappell
Okay, great. That's exactly why I asked it. Thanks for that.

The second question also has to do with capital, just keep it to Euronav specific. Clearly, most of the other publicly traded entities have kind of returned to the dividend model. I know the Vs have lagged and really not going to see the true impact of the V recovery until the fourth quarter. I'm just wondering how you're considering capital allocation? And kind of a twist on a question I've asked in prior calls, are you somewhat restricted on what you can do with capital, especially vis-à-vis dividend until there's some finality to the potential Frontline merger?

Hugo De Stoop
Yes, absolutely. I mean, when you do a merger and you calculate the economics, namely the ratio, you're normally freezing the dividends or otherwise the economics are changing. So what we have in the agreement is obviously we can continue to pay a minimum dividend, the $0.03 that we pay every quarter, that's in the books, but we are now moving to a market that should allow us to return more capital to the shareholders and we will do so but only after we have the tender offer closed. That's obviously the same for Frontline, and they've paid a dividend in Q2. That was also agreed and calculated in the ratio. But then we should hold on paying dividends until the tender offer is closed, and that we expect as you've seen to be on in Q1. So there might be a little lag of a quarter and even not a full quarter. I mean, probably one or two months if you look at your calendar and when we pay dividends related to every quarter.

John Chappell
Okay. All right, well, great title on slide 13, and thanks for [indiscernible].

Hugo De Stoop
Thank you very much.

Operator
Next question comes from Amit Mehrotra from Deutsche Bank. Please go ahead.

Chris Robertson
Hey, gentlemen, good morning. This is Chris Robertson on for Amit. How are you?

Hugo De Stoop
Fine, and you?

Chris Robertson
Good, good. I wanted to ask about the expansion of the TI pool. Do you expect that will allow greater rate outperformance or how will that change things operationally?

Hugo De Stoop
Operationally, I'm not sure that will change much. What we're trying to achieve there in the pool is to have a central point of contact for clients to go. I mean, at the moment the market is very fragmented. So if you're a broker representing a client, what you do is you look at the different database that exists out there and some are more comprehensive than others, and then you try to spot the vessels that can

perform the cargo you are in charge of finding transportation for.

So when you have a place, which represents 65, and tomorrow, hopefully 85, potentially 90 and maybe one day even 100 ships, it makes the life of many people easier. And as far as the participants, the pool our concern, what we're looking at is trying to optimize the voyage among the different vessels and also trying to find the appropriate vessels for the appropriate trade that we're doing, because nowadays, you have non-eco ship, eco ships, you have non-eco ships with crabber, without crabber, eco ship with scrubber, without scrubber. Every single voyage will have its particular properties, and so it's important to have a big pool of different vessels that can take those different voyages. So, it's mutual benefit, I would say, for the operator as much as for the clients in the way that I explained.

And then if we played a game of triangulation, then normally, indeed, and that's one of the goals, your net result should improve, but not at the detriment of your client, which is a very big benefit, again, for both parties. You pay the same, and we get the benefit of size.

Chris Robertson
Got it. Yes. Thanks for that. Follow up question. On slide 9, you talked about the Russian dislocation. I just wanted to ask, on the Baltic loading ports, how many of those can accommodate VLCC's? And are there going to be ship to ship transfers associated with the dislocation of Russian crude?

Hugo De Stoop
Very few can accommodate V's. And the ones that can usually you cannot load a V to the top. So yes, there is normally, when all is moving far away, or further away than it used to be, I mean, Europe was a closed destination and as we have explained in the introductory remarks, we're talking about three, four, potentially five times the distance that we used to perform. And on that kind of distance it make sense to lighter into a VLCC.

So far, we've seen a few operation doing that. We expect that this will pick up dramatically in the winter. And why do we expect that to pick up dramatically is because in the winter, and I'm not only talking about the Baltics, I'm much more talking about the northern parts of Russia, you need ice car vessels. And when you look at what exists in the world, and here I'm talking a few Suezmax, and then many Aframax, [audio disruption] means that they can break the ice, they can load the oil, and then they can go to the destination.

But if you use those ships to do the long voyage, over Africa and going to India, China and whoever is interested in taking that oil, then they won't be available to go for that distance, which is icy. So we expect those ships to lighter into VLCC in non-ice waters, and then to go back directly to the port where they are needed. That's why we're very optimistic about VLCC's in general.

Chris Robertson
Yes, that makes sense. So in other words, there'll be traveling longer distances, and it will take longer to load them because of the lightering.

Hugo De Stoop
Correct.

Chris Robertson
Alright. Thanks, guys. Appreciate the time.

Hugo De Stoop
Thank you.

Operator
The next question comes from Omar Nokta from Jefferies. Please go ahead.

Omar Nokta
Thank you. Good afternoon, Hugo and Brian. I just wanted to ask about the latest new buildings that you have for the two Suezmax's you ordered recently. You got a nice delivery slot for the third quarter of '24. Those seem to be a bit earlier than what we thought maybe it was available. Were those options slots that you had? Or maybe can you just give some context as to how you got those slots? And then also, what does the picture look like from here if you were to place a fresh order today?

Hugo De Stoop
Well, very good question. And, in fact, we hesitated in making those remarks in the press release, because it's very important people understand what the current picture is about shipyards in general, and that one in particular. So we're very much attached to the quality that Korea can deliver and we monitor the Korean yards very much. The three big ones, which are Hyundai, Samsung, and Daewoo, they are completely full in until '25. And when I speak about '25, Q2 for maybe one or two ships, but it's mostly Q3, Q4. And they continue to receive orders from other segments, in particular LNG is quite keen to continue to order, for obvious reasons that the container side is slowing down on their pace of order.

But to come back to the tanker space, that's what the picture is. We also check what's going on in China and it's very similar, and I'm not even talking about Japan because there is much worse, we're talking end '26. [indiscernible] which is not part of the top three, but it used to belong to Daewoo, so the quality is very good, we have had the opportunity to develop a very good relationship with them. You'll remember that earlier this year we took two Suezmax that was resale of contracts that we did last year. And in fact, that's very much what built our relationship with them, because we could act very, very swiftly. I think in between the time they were in trouble with their existing clients, and at the time we took that contract in our own hands. There was maybe two weeks or something like that. And we were relatively generous on payment terms, which was appreciated by the yard.

So what happened on this occasion is that there were two options, if I'm not mistaken, for product tankers, that the ship owner for one or another reason couldn't list and they became available. And the first party they came to, to offer those slots was Euronav, because of what I just explained, and we grabbed them, because indeed, we thought that the very interesting part was the time delivery. We haven't announced the price, but I can tell you that that was also a very attractive price compared to what we could see being offered by other yards, for what we believe the same quality. So all in all, we believe it's a very good deal.

Whether we're going to see more of those is a little bit difficult to say. I know that people are trying to study options on the container side and see whether or not they can be transformed to tankers. I think that most of those studies are showing that it's difficult, it's difficult because another type of ship, product to crew that's relatively easy, but container to tanker or driver to tanker, it requires a lot of changes, so it's not easy. So we don't expect to see many of those opportunities arising for us or for other people. And therefore, we believe that the first opportunity that we will see is 25 for Suezmax and for VLCC.

Omar Nokta
Thanks, Hugo. Very helpful. And then just wanted to follow up then, like the structural notation of these two Suezmax's, you mentioned they're being designed to be LNG capable down the line after delivery. You're also evaluating making them ammonia and methanol ready. Is it conceivable that you'd be able to pick, first off, you go back to the yard after delivery and say, Okay, let's put on the LNG components, and then maybe a few years later, you bolt on ammonia or methanol as that becomes more prevalent? Is it conceivable that you'd be able to have like a trifold type of vessel, with new Suezmax's where it could

do bunker fuel, it could do LNG, and then maybe down the line, you could bolt on, say, a methanol or ammonia. Is that realistic or is that just too far-fetched?

Hugo De Stoop
From a technical point of view, everything can be done especially on a tanker because we have a lot of space on our deck. So if you look at the ship, the deck is relatively empty. I mean, there's obviously the three different lines to unload the cargo that we have; different from dry boat because they've hatches that need to open so the space is more restricted; completely different from container vessels, because every single space is used for loading the containers.

So from a technical perspective, yes, you could imagine doing that, but then from a cost perspective, that is completely suboptimal simply because we're talking about different types of fuel. I mean, methanol will continue to be liquid at ambient temperature, LNG is definitely not liquid and ambient temperature, same for ammonia. On top of that, some of those products are more corrosive than others, which means that the piping that you need to put in place is more or less sophisticated. By that I mean will be specific type of metals to the piping. And then the way you will seal the engine is also very important because ammonia, for instance, is more toxic than any other type of fuel that we are considering at the moment. So you really need to make sure that everything is completely watertight because you cannot afford to have any leak no matter how small that is.

So from a capex perspective, I don't think that you're going to see different types of fuel or try fuel as you name it. Dual fuel, that’s the obvious conventional that we use today, plus one of the new [indiscernible]. And transforming the ships, i.e., in the first place, you receive a conventional, then potentially you transform it into, let's say, methanol because that's the closest to what we're using today. And then at a later stage you'd say 10 years down the road, methanol is no longer the flavor of the day and you move to LNG or ammonia, that is also possible, but it will cost money. And so you got to make sure that at that point in time and when you take the decision it makes sense to transform those vessels a second time in their lifetime, as far as the fuel they consume is concerned.

Omar Nokta
Got it. Thanks, Hugo.

Operator
The next question comes from Chris Wetherbee from Citigroup. Please go ahead.

Chris Wetherbee
Hey, thanks. So good afternoon, guys. Maybe apologize for what could be an obvious question. First, just want to clarify on the opportunity for the long haul from Russia from an ice perspective, is that a potential seasonal situation? Or do you see that being persistent beyond say first quarter as we think about 2023?

Hugo De Stoop
Part of it should be permanent, part of it should be seasonal, but the season is forcing it to happen. If you see what I mean. You have no choice. You need to use to the max those ice breakers, I mean, to the extent that the weather, the temperature are going to put that low. And so there will be forced if they want to export what they're producing today to do the lightering.

On the long term, it continues to make sense from an economies of scale perspective. And that's why VLCC’s are usually used for long distance, Suezmax for shorter distance, and FRX for much shorter distance. That's the name of the game to a certain extent. So definitely in the winter, with a lot of legs for the long term.

Chris Wetherbee
Okay, that's helpful. I appreciate the clarification there. And then maybe thinking about sensitivity of demand. So going to your red light, green light chart that you put in here, and obviously the only one that sort of maybe not quite as constructive is demand for oil and wanted to get your perspective, if you think that this sort of economic dynamic is maybe as impactful to the overall market as it has been historically, just given all of the other potential constraints to both capacity and also there's the ton mile sort of multiplier here, just want to get a sense, we are concerned about the macro, clearly, but we're wondering if we think it's going to be quite as impactful as it historically is?

Hugo De Stoop
Well, that's a great question. And to a certain extent, I'd love some of your colleagues to give me the answer. So it's almost like a gut feeling, but we are a very simple people and we're trying to look at very simple facts.

The biggest fact, and we also mentioned in our introductory remarks, sorry, is the demand that is coming from China, and that is not yet back to pre COVID level. And that's the minimum that we should see coming back when we speak about China. And then we believe that once these restrictions are being lifted in China, China will continue to grow. And you've seen it from GDP point of view, obviously, that that country has slowed down. It's certainly not near to the GDP with the complete slowdown compared to the growth numbers we used to see. So that's already, in itself, I can't tell you when it's going to happen, should give a big boost to oil demand.

You also know that they will start sort of restricting the usage of fossil fuel only by 2030. Until then, they have declared that they want to max out the usage of fossil fuels. So I don't think that there is any concern coming from that region for this decade.

And then for the remaining part of the world, I mean, clearly, you're talking about recession, we were talking about it in the last quarterly call. And yes, that usually has an impact on the energy that is being used by the world in general. But they're where we are, I would say, maybe more positive than other sectors is the relative pricing of a kilowatt hour. Because you can translate in oil barrels, or in kilowatt hour, or whatever unit you may choose, but it's true that the price of oil relative to the others, especially relative to gas, is very cheap, which means that anyone who has an opportunity to switch from gas to oil will do it.

The same could be said about coal, but I think that people are more and more reluctant to switch to coal, because of the emissions and because of other type of pollution, not only CO2, but many types of pollution. So I think at the moment, oil is probably more protected than many other sources of energy, even if we enter into a recession. But as you can see, I'm using very simple analysis.

Chris Wetherbee
Well, that's usually the right way to do it, so I appreciate the time, Hugo. Thanks so much.

Hugo De Stoop
Thank you.

Operator
The next question comes from Frode Morkedal from Clarkson Securities. Please go ahead.

Frode Morkedal
Thank you. Hi, guys. Just a question on the final leg, as you called it, the Russian oil embargo. Perhaps

you can discuss the oil price cap and the potential of a shadow trade. And I guess the third alternative is that exports go down. Curious to know how you see this shaping up.

Hugo De Stoop
Yes. Again, one would need to have a crystal ball. Why don't we start with the last one, which is a cut in production. A lot of people were talking that potentially they would reach the maximum capacity of export to countries like India and China who were already taking Russian oil. At Euronav, we believe that if the oil is cheap, and certainly cheaper than what you can fetch in other place in the market, it will find a home. We have many precedents that demonstrate this. And an oil cap, and I will come back to that, is another way to forcing a discount, which is already happening because obviously the freight is more expensive. So when Russia sells oil to China and India, no doubt that they sell it at a bigger discount than when they used to sell it to Europe.

So from that perspective, I think that it's more physical, operational restriction that will dictate whether or not Russia will have to shut in some of their oil fields. And by that, I come back to the comment that we made earlier on ice cars vessels capable of or being enough in numbers to go to Russian ports and then do the lightering. And this is obviously a heavier operation, than when you can just pick up the oil in a port and transport it to its destination without interruption. So that's what we believe at Euronav will happen.

As far as price caps, sanctions, we don't think that that will stop the production of Russian oil. And I'm not even sure that the world really wants less oil being put on the market given where pricing is and given the influence or the impact it has on general inflation, which is really problematic, as you know, in Europe and to a certain extent in the US.

Frode Morkedal
Yes. Just as a follow up, do you have any idea how much Russian oil is being insured by Western companies? And there's also this ban on insurance coming up, so how do you think that will affect trading market and the tankers?

Hugo De Stoop
So, first part of the question, no idea whatsoever. Very difficult to know. Obviously, the restrictions or the sanctions are also coming up on the insurance world. I don't think that it will change a great deal what we're seeing today, because if I look at the P&I we are involved in, they already did what many companies and banks have done, which is sort of self-sanctioned or imposing already a great deal of restriction on what business they can or cannot do with Russians, so that's already the situation. And for the few cases that we've tried to analyze and we've heard of, this is simply being replaced by less international insurance companies, namely, insurance companies being located in Dubai, in China, in Hong Kong, especially when the destination of the oil is or are those countries.

Frode Morkedal
Yes. Thank you very much.

Hugo De Stoop
You’re welcome.

Operator
The next question comes from Chris Tsung from Webber Research. Please go ahead.

Chris Tsung
Good afternoon, Hugo and Brian. How are you?

Hugo De Stoop
Fine, and you?

Chris Tsung
Good. Thanks. I just wanted to pick back up on the Russian dislocation. And, you know, there's some talks about a growing a darkened shadow fleet and we've seen the pickup in S&P market for older tankers. Just curious on your views on how much tonnage could actually exit the market following sanctions in early December.

Hugo De Stoop
Well, another one I definitely should have brought my crystal ball here. First of all, you're absolutely correct. I mean, the pickup in the second hand in the S&P market in second hand vessels is definitely there. And when you look at the price, one cannot ignore and not imagine that some of that tonnage is not going to be dedicated to trade with Russia.

I think that I'm not sure I would call it a shadow trade, simply because, well, up until fifth of December, it's allowed. I mean, you obviously need to have an agreement with your finances and whatnot, but shipping is mostly private. That shouldn't be a problem.

After that, it's the destination which is a problem and the ownership of the vessel. But if your vessel is owned by the right entity outside Europe, outside the US, outside the UK, then you can continue to trade. So I'm not sure I would call it a shadow trade, like what we've seen happening with the oil coming out of Iran. So yes, it's very peculiar. And I don't know how much vessels would be able to do that. I think that there will be a two tier market. It's going to be very difficult to have ships, even if you're based outside Europe to a ship that do one cargo out of Russia, and then the next one out of a place that is not under restrictions. So I think that the fleet will be more dedicated, but difficult to tell you today how much tonnage, how much VCC, how much Suezmax are going to be dedicated to that one.

Chris Tsung
Okay, thanks. Thanks for the color. That's it for me. Thank you.

Operator
Again, if you have a question, please press star then one. Our next question comes from Thijs Berkelder from ABN Amro. Please go ahead.

Thijs Berkelder
Yes, good afternoon, Brian and Hugo. A question on windfall Texas, they have not made much profit in the past few years, but you're about to make big profits. Is there any country looking at potentially taxing your kind of operations?

Hugo De Stoop
Not that we know of, and you should know that when you're based in Europe, which is the case of Euronav, and will be the case of Frontline very soon, we are under a European regulation that is called The Tonnage Tax. And then the different countries being a member of the European Union have their own way of applying that directive, as we call it. And we are based in Belgium, and we have already done our analysis in Cyprus. It's a very good system that everybody likes and I wouldn't be surprised if they wanted to change it. I mean, everything is possible, but at the moment, nobody's questioning that system.

And the reason why nobody is questioning that system is simply because if it weren't there in place in the European Union, I think that very, very few ships, very few shipping companies would be based in

Europe. And as you know, it's very different to own a ship than it is to own a factory. I mean, the factory, you cannot just move it out of a country overnight. That's more the case with a ship. I mean, the ship, you decide on the flag, you decide on the registry, and you can also decide where the company is incorporated.

So I understand the question because that's very much talked about in the energy sector. We are very different animals. The reason why the energy sector is making a lot of profits is because of the characteristic of the energy market, and very much what's going on because of the Russian/Ukraine crisis. As far as shipping is concerned, yes, we are going to enter an upcycle, as we call it, but our business is full of upcycles and down cycles and, therefore, very, very cyclical. And the benefit of the tonnage stacks for the states that are applied means that they get their tax even when we are loss making. It's just a different way of taxing an industry and one that has worked for more than a decade now. And from what we hear is there to stay. I mean, very few people question it.

Thijs Berkelder
Okay. Thank you for that. Follow up question, the Frontline transaction has been slightly delayed into Q1. Can you maybe indicate what could further delay the transaction from happening? Also looking at the further increase stake by the family [indiscernible].

Hugo De Stoop
So maybe two questions. The first one is on timing and initially we were very ambitious, and we said that we should be able to close the transaction in Q4. Obviously, we had plans to use the full Q4 to do that. And what happened is that we could be in a position to launch the tender offer in Q4, but that would mean that we go over the Christmas period and the holiday period, which is suboptimal.

So today, we prefer to announce to the market that the idea is to launch the tender offer as early as possible in Q1, but then have the full period where the tender offer is open, free of holidays, free of bank holidays and people not maybe paying the same attention as they would in other periods. So that’s very much the main reason. So we're not talking about a big delay, we're talking about a strategic delay, if I may use that term.

Other things that could delay, there are things that we control and there are things that we don't control. The things that we don't control is all the regulatory part. Most of the filings in the US or in Belgium, they have the regulator has a certain time to analyze the files before we make them public before we or Frontline makes them public. That's on the first review.

The second review usually has no time limit. So if there is delay there, then there is very little we can do, but most of the time we don't expect to see one, so we are optimistic that we can meet the new timeline that we have set to the market.

And then on your last question, which is our largest shareholder at the moment, which is CMB, which has indeed bought more shares, and that's talking that I suppose they believe in the business, which is always great to hear, especially at those prices, it means that, yeah, today they have a position of 21%. If we want to do a full merger with Frontline, i.e., create one big company, we need 75% of the vote. Once someone has 21 or more votes, it becomes very difficult because not everyone is voting. And that's the reason why we structured this transaction as a two-step process. The first step is a combination. So it's not a merger, we will be able to achieve, we believe, up to 90% of the synergies of a fully merged company. We will look at every single department, be it on the revenue side, the on the cost side, the overhead and really act as one group.

But indeed, in order to achieve a full merger, we will need to see what happened with CMB stake and already how many shares we can collect in the tender offer. So that's something that we will do as the second stage, and certainly after the tender offer.

I don't think that it matters a great deal to the investors simply because for those who understand shipping, they will understand that once you control a company with more than 50% of the vote, you can do already a lot, if not everything that you would have done under a merger. Maybe the only thing that you cannot do is a de-listing basically.

Thijs Berkelder
Okay, let's clear Thank you.

CONCLUSION

Operator
There are no more questions in the queue. This concludes our question and answer session. I'd like to turn the conference back over to Hugo de Stoop for any closing remarks.

Hugo De Stoop
Not much to add. I think we've covered pretty much everything that we wanted to cover, so I thank everyone for participating to this call. See you next quarter. Thank you.

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