Star Bulk Carriers Corp.
First Quarter 2024 Financial Results
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Presenters
Petros Pappas, CEO
Hamish Norton, President
Simos Spyrou, Co-CFO
Christos Begleris, Co-CFO
Nicos Rescos, COO
Charis Plakantonaki, CSO

Q&A Participants
Omar Nokta - Jefferies
Ben Nolan - Stifel

Operator
Thank you for standing by, ladies and gentlemen. Welcome to the Star Bulk Carriers Conference Call on the First Quarter 2024 Financial Results.

We have with us Mr. Petros Pappas, Chief Executive Officer; Mr. Hamish Norton, President; Mr. Simos Spyrou and Mr. Christos Begleris, Co-Chief Financial Officers; Mr. Nicos Rescos, Chief Operating Officer; and Mrs. Charis Plakantonaki, Chief Strategy Officer of the company.

At this time, all participants are in a listen only more. There will be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. I must advise you that this conference is being recorded today.

We now pass the floor to one of the speakers today, Mr. Christos Begleris. Please go ahead, sir.

Christos Begleris
Thank you operator. I'm Christos Begleris, Co-CFO of Star Bulk Carriers and I would like to welcome you to our conference call regarding our financial results for the first quarter of 2024. Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number two of our presentation.

In today's presentation, we will go through our Q1 results, cash evolution during the quarter, actions taken to create value for our shareholders, and update on the Eagle Bulk integration, vessel operations, fleet update, the latest on the ESG front and our views on industry fundamentals before opening up for questions.

Let us now turn to slide three of the presentation for a summary of our first quarter 2024 highlights. For the first quarter, the company reported the following, net income amounted to $75 million with adjusted net income of $73 million or $0.87 adjusted earnings per share. Adjusted EBITDA was $123 million for the quarter. For the first quarter, as per our existing dividend policy, we declared a dividend per share of $0.75 payable on or about June 6, 2023. Since 2021, dividend distributions and share buybacks are over $1.2 billion and $0.4 billion respectively. Our total liquidity today stands strong at $472 million. Meanwhile, our total debt stands at $1.45 billion.

On the top right of the page you will see our daily figures per vessel for the quarter. Our TCE rate was 19,627 per vessel per day, our combined daily OpEx and net cash G&A expenses per vessel per day amounted to 6,185. Therefore, our TCE less OpEx and cash G&A is around $13,442 per vessel per day.

Following Eagle shareholders' approval on April 9th, the Eagle Bulk transaction was completed and each Eagle Bulk shareholder received 2.6211 Star Bulk shares per share of Eagle. Eagle Bulk's convertible notes will be exchangeable at the conversion rate equal to 83.67 shares of Star Bulk common stock when it matures on August 1, 2024.

Cash received following the Eagle merger amounted to $104.3 million. Currently, we have 161 vessels on a fully delivered basis, including the five newbuilding Kamsarmax vessels we have announced.

During 2024, we have sold eight vessels for total gross proceeds of $150 million. Four of these vessels, namely Star Audrey, Star Pyxis, Stellar Eagle, and Crowned Eagle, are expected to be delivered during Q2 to their new owners.

Slide four graphically illustrates the change in the company's cash balance during the first quarter. We started the quarter with $262 million in cash and generated positive cash flow for operating activities of $114 million. Including debt proceeds and repayments, CapEx payments for energy saving devices and Ballast Water Treatment System installments and the Q4 dividend payment, we arrived at a cash balance of $269 million at the end of the quarter.

Slide five provides an overview of the company's capital allocation policy over the last three years and the various levers we have used to create shareholder value. On the top left, we show our net debt evolution. Since 2021, we have reduced leverage in the company by 43%. Over the same period, we have declared consecutive quarterly dividends totaling $1.2 billion. We have taken advantage of historically elevated S&P values to sell some of our older and less efficient vessels using the equity proceeds to buy back our shares at attractive values.

Since 2022, we have bought back $423 million worth of Star Bulk stock. 20 million shares, valued at $380 million, were bought in the fourth quarter of 2023 form Oaktree. Given that our shares at the time were trading at a significant discount to net asset value and we used proceeds from vessel sales at net asset value, we have taken advantage of the arbitrage to create shareholder value.

Combining all of the above, you see that we are focused on returning capital to shareholders while at the same time deleveraging the balance sheet and buying back shares when there are opportunities to do so accretively. In total, since 2021, we have taken actions of $2.1 billion to create value for our shareholders.

I will now pass the floor to our COO, Nicos Rescos, for an update on the Eagle Bulk transaction integration and our operational performance.

Nicos Rescos
Thank you, Christos. Slide six illustrates a summary of the Eagle Bulk transaction integration. The merger with Eagle Bulk will allow us to leverage our strong global presence of the combined entity with offices in Singapore, the US, Greece, Denmark, and Cyprus. The respective Singapore offices are to merge into one and continue as a commercial and technical management hub covering the Asia Pacific.

The Stamford office is to continue both on commercial and technical management, covering the Atlantic and the US markets. Together with the Athens headquarters in Europe, we will maintain presence in Copenhagen for chartering operations covering the Atlantic, Continent, and the Med area.

We are creating a new integrated commercial team, managing the second largest Ultramax/Supramax fleet globally to combine capabilities and aim for improved time-charter performance. We also aim to rebalance employment strategy and include voyage business.

We have already refinanced the ex-Eagle debt facility, resulting in interest cost savings of $3.2 million per year. We have executed new insurance agreements for the ex-Eagle vessel saving $1.9 million per annum in insurance premium costs.

Crewing will be gradually taken in-house, with an expected cost reduction of about $600 per vessel per day during the next 18 months. Significant synergies are expected from the centralization of procurement of all stores, spare parts, and lubricants. Drydocks of ex-Eagle Bulk vessels will benefit from Star Bulk competitive pricing agreements with service providers and shipyards globally.

Marine Safety Quality and Technical maintenance standards, processes, policies, and systems are to be applied across the combined fleet, aiming to align with the Star Bulk Rightship Safety Score and Port State Control performance. Lastly, systems integrations are under way to enable efficiencies among offices and departments and create further synergies.

Turning to slide seven. We provide an operational update. Operating expenses was at $4,962 for Q1 2024. Net cash G&A expenses were at $1,223 per vessel per day for the same period. In addition, we continue to rate at the top amongst our listed peers in terms of Rightship Safety Score.

Slide eight provides a fleet update and some guidance around the future dry dock and the relevant total off-hire days. On the top right of the page, we provide a CapEx schedule illustrating our new building CapEx and vessel energy efficiency upgrade with a 100% of our fleet by now being ballast water system fitted.

Our expected drydock expense for the remainder of 2024 is estimated at $42.4 million for the drydocking of 51 vessels, including 12 ex-Eagle Bulk vessels. In total, we expect to have approximately 1,250 off-hire days for the same period.

Based on our latest construction schedule, our newbuilding vessels are expected to be delivered during Q4 of 2025, Q2 and Q3 of 2026.

In line with EEXI and CII regulations, we'll continue investing in upgrading our fleet with the latest operation technologies available aimed and in improving our fuel consumption and reducing our environmental footprint and further enhancing commercial attractiveness of the Star Bulk fleet.

Regarding our energy saving devices, programmed during the quarter, we have completed and tested retrofits on four vessels with 19 more vessels planned for retrofit by the end of 2024. The above numbers are based on current estimates around dry dock, retrofit planning, vessel employment, and yard capacity.

Turning to slide nine for an update on our fleet sales, on the vessel sales front, we'll continue disposing of vessels opportunistically at historically attractive levels, having agreed during Q1 to sell seven vessels for a total gross process of $134 million, reducing our average fleet age and improving overall fleet efficiency. During the second quarter, we have further agreed to sell one more vessel, the Crowned Eagle.

We took delivery of three out of the six long-term chartering eco vessels that will be delivered to us throughout 2024 and specifically two Tsuneishi Zhoushan Kamsarmaxs and a Tsuneishi Cebu Ultramax. The Eagle Bulk existing chartering contracts have been rolled over to Star Bulk following the merger.

We have five firm shipbuilding contracts with Qingdao Shipyard for the construction of 82,000 deadweight Kamsarmax newbuilding vessels. Considering the aforementioned changes in our fleet mix, we operate one of the largest dry bulk fleet amongst US and European listed peers, with 161 vessels on a fully delivered basis and an average age of 11.3 years.

I will now pass the floor to our Chief Strategy Officer, Charis Plakantonaki, for an ESG update.

Charis Plakantonaki
Thank you, Nicos. Please turn to slide 10, where we highlight our continued leadership on the ESP front. The Star Bulk Sustainalytics' ESG Risk Smart Score has further improved from 21.3, medium risk, to 19, low risk, maintaining Star Bulk's number 1 ranking among US-listed peers and positioning the company as one of the best-performing companies globally in the category transportation-shipping.

During Q1 2024, we began, along with our partners, the scoping of work and initial projects with the Maritime Emissions Reduction Centre to develop and adopt new and existing solutions for reducing Greenhouse Gas emissions from the global fleet. The Centre was granted the Motivation Award at the ESG Shipping Awards International 2024.

On the regulatory front, MEPC 81 has progressed discussions related to IMO's mid-term market-based measures, which are set to come into force in 2027. We are continuously assessing the impact of upcoming environmental regulations and considering action plan options for compliance.

As part of Star Bulk's program to enhance diversity and inclusion, our first female cadets have embarked on board one of our Newcastlemax vessels. We continue the deployment of Starlink along with the installation of firewalls on board our vessels and have embarked on a project to equip our vessels with the Cyber Owl technology to digitalize and advance the monitoring of onboard systems' performance and security.

On the governance front and as part of our enhanced code of business conduct and ethics, we have launched a new online whistleblowing platform on the company's website to encourage open reporting by employees, crews, and third parties, safeguard confidentiality and anonymity, and improve the handling and monitoring process of any whistleblowing reports.

I will now pass the floor to our CEO, Petros Pappas, for a market update and his closing remarks.

Petros Pappas
Thank you, Charis. Please turn to slide 11 for a brief update of supply. During the first four months of 2024, a total of 12.1 million dead weight was delivered and 1.6 million dead weight was sent to demolition for a net fleet growth of 10.5 million dead weight or 2.9% year-on-year.

Uncertainty on future green propulsion, high shipbuilding costs, and limited shipyard capacity until late 2026 have helped keep new orders under relative control. The order book presently stands at a low level of 9.3% of the fleet.

Furthermore, vessels above 20 and 15 years of age stand at 8.8% and 21.2% of the fleet while scrap prices stabilized at elevated levels as to make demolition of overage and energy inefficient tonnage an attractive option during seasonal downturns over the next years.

The average steaming speed of the dry bulk fleet decreased to a new record low level in January due to downward pressures from inflated bunker costs and new environmental regulations. Having said that, over the last two months, speeds have rebounded to 11.2 knots following the higher freight rate environment and a stabilization of oil prices. We expect emissions regulations including EEXI and CII to increasingly incentivize slow steaming retrofits and to help moderate supply over the next several years.

Global port congestion followed the strong downward trend over the last two years that gradually inflated available supply by approximately 5%. During the first quarter of 2024, congestion appears to have fully normalized on all sizes and going forward, we expect it to follow seasonal trends.

Moreover, Panama Canal constraints since mid-2023 and rising tension in the Red Sea continue to cause strong inefficiencies portrayed with a positive effect on the supply and demand balance of 2024.

As a result of the above trends, nominal fleet growth is unlikely to exceed 2.5% per annum over the next couple of years.

Let us now turn to slide 12 for a brief update of demand. According to Clarksons, total dry bulk freight during 2024 is projected to expand by 1.6% in tons and 2.4% in ton miles. During the first quarter 2024, total dry bulk volumes increased by approximately 5.5% year-on-year supported by iron ore, coal, and record minor bulk exports while ton-miles increased at a faster pace, due to favorable conditions in Brazil and canal inefficiencies.

The IMF is projecting global GDP growth at 3.2% for 2024 and 2025, the same pace as in 2023 with China projected to slow down to 4.6% and 4.1% respectively. Nevertheless, Chinese GDP increased by 5.3% in Q1, faster than initially expected, while dry bulk imports were up by 8.2% compared to last year. The country's full economic recovery from COVID-19 has yet to unfold due to the struggling property market, but has received support by strength in infrastructure, manufacturing, and exports.

Dry bulk demand from the rest of the world is experiencing a strong recovery over the last quarters that is expected to continue as it receives support from lower commodity prices and expectations of easing monetary policy. During the first quarter, imports were up by 2.9% year-on-year, with increase coming mainly from India and Far East countries, while imports from western economies are also moving higher, following two years of contraction.

Iron ore trade is projected to remain flat in tons and to expand by 1% in ton miles during 2024. China's steel production declined by 3.1% year-on-year during the first quarter. Weak domestic consumption is forcing steel makers to export excess output and some western economies are raising tariffs as a response.

At the same time, domestic iron ore production and imports increased by 15.7% and 7% respectively, and have helped push stockpiles higher. On the other hand, steel production from the rest of the world has been on a strong upward trend since September and increased by 7.2% during the first quarter.

Coal trade is projected to contract by 0.3% in tons and by 2.5% in ton miles during 2024. Global focus on energy security has inflated coal trade, while Atlantic exporters have redistributed the regional quantities east with positive effect for ton miles.

Chinese imports surged 61% during 2023 and remained strong during the first quarter of 2024, supported by 4.1% year-on-year decline in domestic coal production and a 7.4% year-on-year increase in thermal electricity generation. Furthermore, India is emerging as a leading buyer of coal during the last quarters as consumption has outpaced domestic production and has led to a strong increase in imports.

Grains trade is projected to expand by 2.1% in tons and by 5.2% in ton miles during 2024. Exports from Latin America increased by approximately 14% during the first quarter, following strong Brazilian soybean exports and a recovery of Argentinian volumes. However, Ukraine increased exports to the highest level since the start of the war, while lower grain prices, improving crop forecasts and increased focus on food security is projected to support grain trade in the medium term.

Minor bulk trade is projected to expand by 3.7% in tons and by 4.7% in ton miles during 2024. Minor bulk trade has the highest correlation to global GDP growth, and the recent strength in the container market provides a positive indicator for short-term prospects of smaller sites. The positive price arbitrage continues to incentivize Chinese steel exports and backhaul trades, while bauxite exports out of West Africa continue to expand at a high pace and generate strong ton miles for Capesize vessels.

As a final comment, the long-term prospects of the dry bulk market remain positive due to favorable supply dynamics, increased inefficiencies in trade, and a recovery of demand supported by large global infrastructure investment needs for the world's green transition. Star Bulk expects to take advantage of the recent strength in the dry bulk market having mostly maintained its diverse scrubber fitted fleet in the spot market, and thus continue to create value for its shareholders.

Without taking any more of your time, I will now pass the floor over to the operator to answer any questions you may have.

Operator
Thank you. Again, at this time, we'll be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Omar Nokta with Jefferies. Please proceed with your question.

Omar Nokta
Thank you. Hey guys, good afternoon. Just a couple questions from me, and you've been asked this before. I recall you were asked shortly after the Eagle announcement. Just in general, how you view the Star Bulk fleet from here. Petros, you just talked about the diversified -- just towards the end of the comments you mentioned the diversified fleet. You've been more dynamic recently. Obviously with the merger, you've sold some ships. Post-merger now you are a bit bottom heavy on the super ultra side, obviously giving you more exposure to the minor bulk trade.

I guess in general, as we think of you being more dynamic with the fleet, are Capes a place – Capesize vessels, is that a place you'd like to see a higher ratio of Star's fleet going forward, or do you prefer to build or increase the sub-cape ratio of the fleet? Sorry for the long-winded question.

Petros Pappas
Thank you, Omar. Well, it happened that this is a Supramax, Ultramax fleet. Next merger may be a Cape fleet, who knows. For the time being, you are right. We are smaller vessel heavy, but that also gives us an opportunity in the sense that during high markets like this is, one can sell older vessels of the fleet and that way keep the average age at a better level. So I think that going forward, you may see us sell some of our less efficient and older vessels, and that may kind of rectify the count until we make our next move.

Omar Nokta
Makes sense. Thanks Petros, and maybe just to follow-up. In terms of just the debt load at the moment with the company, you have $1.4 billion of debt and you've got 470 or so of cash. How are you thinking about that amount of debt in general? Are you comfortable keeping it at that level? You have on slide five, the 43% reductions in that debt since '21. Do you feel the need to keep that trend going and lowering that figure or are you okay with the current balance?

Hamish Norton
For the moment, Omar, we're continuing to deliver at basically the same absolute rate as we've been delivering for a while. We're paying down $250 million in debt a year and for the foreseeable future, we're going to keep doing that. Obviously, at some point, we get to net debt zero and we'll figure out something to do then. But we want to set the company up to be able to get into the era of decarbonization and we think you need a strong company with a strong balance sheet to do that well.

Omar Nokta
Yeah. No, I agree. And then I guess just on that, potentially getting to net debt zero, is that in any way a shift or a change to the different policy approach or the minimum cash requirements you are looking to keep?

Hamish Norton
We have no current plans to change any of our capital allocation policies. If the world changes, the policy may change, but for the moment, the policy is our policy.

Omar Nokta
Okay, very good. Thanks Hamish and thanks Petros. I'll turn it over.

Petros Pappas
Thank you, Omar.

Operator
Thank you. Our next question comes from the line Ben Nolan with Stifel. Please proceed with your question.

Ben Nolan
Yeah, thanks. Actually first, Hamish, could you maybe dive into that comment that you made there about wanting to have a strong balance sheet to move into decarbonizing the world or I forget exactly how you framed it. What does that – does that mean at some point you are going to need to replace the assets for things that have much lower carbon emissions or maybe just unpack that comment if you could.

Hamish Norton

I mean, I guess the answer is, we don't actually know what's going to happen and if you don't know what's going to happen, that sounds like a really good reason to have a strong balance sheet. The more you know what's going to happen, the more you can lever up in anticipation of what's going to happen.

But yes, I mean we think that probably there will be expensive ships burning expensive fuel, getting really high charter rates, and we think it will be very good for the business and very good for us, because we think it will favor large companies that can afford R&D and compliance and all the overheads that go with having a difficult regulatory environment. But whatever it is, it's going to favor big companies with lots of resources and a strong balance sheet.

Christos Begleris
And if I may add to Hamish's point, this is Christos. Hi, Ben. We think it's prudent that during a healthy market we reduce debt as much as possible, so that in the future, effectively we have more capacity to take on, more debt when the prices are lower and when we want to further leverage on the upside.

Ben Nolan
Sure. Yeah, and I absolutely agree with that. Sticking with sort of the decarbonization theme a little bit, I know that you guys have investigated or invested in some cases in certain early stage R&D type technologies. Curious if you have any updated thoughts on what that might look like, whether it's carbon capture or any particular fuel types that you think are emerging as the best candidates? Any new color in that respect?

Nicos Rescos
Hi, Ben, this is Nicos. For the time being, we're investing on technologies that have been tested, so basically improving as much as we can the existing fleet. You will have noticed that as we are continuing installing energy efficiency devices that are proven to decrease our consumption and improve the commercial appeal of each vessel.

We are agnostic of all technologies growing in the market. We're testing the hull cleaning robots, we're testing paints. They both have an effect on performance. We have tested carbon capture on both of our vessels, but it's a matter of putting all ends to meet in order to make these a viable commercial solution. We do believe that it is an intermediate solution. Actually we have fuels that will be widely acceptable, both in terms of supply, consumption, and of course on the engines, but for the time being we're trying to improve the existing vessels as much as we can. Carbon capture, yes, we do have hope that this may materialize later into the year.

Ben Nolan
Okay, that's helpful. And then lastly for me, it seems like, and I appreciate the color that you guys gave on the integration of Eagle, and it seems like so far so good with respect to finding synergies, which I know is difficult in this industry, but the costs are down. The share price is up, and at least by my math is above NAV, so that part of the thesis has played out thus far.

I'm curious if that is opening the doors for other opportunities. And Petros, I know you talked about the next merger, what have you. Are you finding potential sellers out there that can look at that transaction and say, this is a good liquidity event for me and a way to maximize the value for my assets and at the same time you guys can utilize your shares as a currency?

Hamish Norton
Well look, everything like this helps, like closing one deal and doing a good job of it is clearly going to help our reputation in the market for other deals. But don't underestimate how hard these deals already get done. We have gotten a lot of them done, but they are always hard to close and they are always low probability. That being said, we're looking at possible transactions, and we may be able to do one or more. We certainly intend to try to keep growing.

Ben Nolan
Okay, that's -- I guess, are you maybe more optimistic about that than maybe you would have been a few months ago?

Hamish Norton
I think we are more optimistic, but I hope our optimism is actually able to influence the way the world works. We're doing our best.

Petros Pappas
Ben, I think that we are more optimistic than usual, also because of the environmental regulations. I think they will have an impact, a positive impact on the supply, and so I think this is going to happen to take place for several years going forward, so that's a good basis for our optimism I believe.

Hamish Norton
Yeah, I mean what the environmental regulations do in large part is make it no fun to operate a small shipping company. For a long time, for centuries it's been great fun to operate a small shipping company. I think that's changing and the business is becoming less fun and more sort of demanding of a large corporate organization.

Ben Nolan

Yeah, well it's always fun to have fun. So I appreciate the color and I appreciate it. Thanks.

Petros Pappas

Thank you, Ben.

Operator

Thank you. And as a reminder, if anyone has any questions, you may press star one on your telephone keypad in order to join the question and answer queue.

And it looks like we have reached the end of the question-and-answer session. I'll now turn the call back over to Mr. Petros Pappas for closing remarks.

Petros Pappas

No further comments, operator. Thank you very much.

Operator

Thank you. This concludes today's conference and you may disconnect your line. Thank you for your participation.