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DNORD.CO - Q3 2015 Dampskibsselskabet Norden A/S Earnings Call

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Martin Badsted *Dampskibsselskabet NORDEN A/S - CFO*

CONFERENCE CALL PARTICIPANTS

Jacob Pedersen *Sydbank - Analyst*

PRESENTATION

Operator

Good day and welcome to the Q3 report 2015 conference call of Norden A/S. Today's call is being recorded.

At this time, I would like to turn the conference over to Jan Rindbo. Please go ahead, sir.

Jan Rindbo - *Dampskibsselskabet NORDEN A/S - CEO*

Thank you very much. And welcome to the presentation of NORDEN's results here for the third quarter of 2015. Thank you for calling in.

My name is Jan Rindbo, and I am the CEO of NORDEN. Today, I will be presenting together with our CFO, Martin Badsted.

I hope you have all found time to download the presentation from our Web site. Please note that this presentation and the following Q&A session will be recorded and made available on our Web site. We will today not run through the full presentation during the call and instead focus on the key highlights

Here Martin will start off by outlining the highlights of the third quarter 2015 and the key financial figures for the past quarter. Then I will present the key points from our new strategy, and then open up for questions and comments.

Over to you, Martin.

Martin Badsted - *Dampskibsselskabet NORDEN A/S - CFO*

Thank you very much.

EBIT for the third quarter of 2015 came in at \$21 million. This was comprised of minus \$9 million from our dry cargo segment and plus \$37 million for our tanker business, and this means actually that the improving trend that we have seen over the last few quarters in tankers has been continued, once again generating the best quarterly operating result in the history of the NORDEN's tanker business.

This is of course a reflection of the very strong spot market that we saw in the third quarter, but of course also a reflection of our positioning towards that spot market with a lot of open capacity being available to generate earnings in that market. It also is a reflection that as we have done over some quarters now, outperformed the market averages, generating time charter equivalents more than 28% above the market averages. And this was actually also the case in dry cargo, where the minus \$9 million dollars is of course a reflection of the very weak market rates there, but also here we outperformed with plus 22% in time charter equivalents compared to the 1-year T/C market.

Asset values have overall stabilized, down a notch in dry cargo and up a notch in tankers, which means that our added values are a little bit better compared to the end of the second quarter.



Internally we have been focusing quite actively on improving our cost base and our new building order book. So the cost drive that we have announced back in early January continues to progress as planned, and the new building restructuring that we also announced in the second quarter report we have continued, with an additional new building sale at the beginning of Q4 and a subsequent contracting for delivery in 2019, which basically means that we postponed this asset by about three years and also lowered the average cost of our new building order book.

Despite this vessel sale which generates minus \$4 million of vessel gains and the weak start to Q4 actually in both segments, we maintain our estimate for the full year. We do narrow guidance a little bit since we have quite few open days left for the remainder of the year, and we now expect EBIT of \$70 million to \$90 million dollars for the full year.

Looking ahead to 2016, we have communicated a cautious stance towards dry cargo. We have a fairly open book for 2016, but that is also a reflection of very low forward rates, meaning we do not find it attractive currently to lock in cargo at these rates. For tankers, however, we have a balance on the market and we think that 2016 is going to be fine. The forward rate has come up there, and we have only 9% cover for next year. So we are looking at exploiting the higher period rates to actually assume some longer ranging coverage.

And with that, I again hand over to Jan for a greater look at our new strategy. Jan, please.

Jan Rindbo - Dampskibsselskabet NORDEN A/S - CEO

Thank you, Martin. Our new strategy, Focus & Simplicity is centered on our existing strength in dry cargo and products in the segments, and we will intensify our focus on the business areas where we are strongest today with a goal of becoming industry leader in our chosen business sights in the future. That means that within dry cargo we will intensify our focus on Supramax and Panamax and grow our business here as operator and owner in order to offer our customers even better flexibility and reliability within these two business sides.

By first gaining our Supramax and Panamax activities and increasing our customer engagement, we are able to generate even better cargo access and trading opportunities while enhancing our market diligence and decision making platform. Also operating a larger fleet of Supramax and Panamax tonnage will improve our scheduling and trading patterns, leading to reduced ballast time.

In the product tankers our analysis has reconfirmed our focus on the Handysize and MR ship types as owners and operators going forward. And this means continued focus extending our strong position here through our operation in Norient Product Pool which NORDEN owns 50% of. We have a great platform and a great team, and we will continue to build on this with a view to strengthen our position within Handysize and MR.

So this means that NORDEN will concentrate on ownership of tonnage on four ship types in the future. Supramax and Panamax in dry cargo, and handy and MR in product tank.

So coming to the end of the presentation, just a reminder that are uncertainties to any of our forward looking statements, so just bear that in mind.

So that concludes the presentation, and we will hand back to our conference host for the Q&A session. Thank you.

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Operator

Thank you, sir. (Operator Instructions)

Thank you. We can take our first question. It comes from Jacob Pedersen of Sydbank. Go ahead, sir.

Jacob Pedersen - Sydbank - Analyst

Thanks a lot. Hi, guys. I have a couple of questions regarding your refined strategy. What does it mean for ships that you own now? You own a couple of Capesize ships and also some Post-Panamaxes. Are you expecting to sell these ships and then invest in the tonnage in the Panamax/Supramax segment instead?



Jan Rindbo - Dampskibsselskabet NORDEN A/S - CEO

All right, thank you Jacob for that question. So the strategy that we just talked about will intensify our focus going forward in Supramax and Panamax, and I think you should see that as phasing out of the other ship types, Capesize, post Panamax and Handysize over time.

Of course if we see opportunities where we can sell any of these ship types and then convert that into a Supramax or Panamax investment, then we will do that. But we aren't looking to outright sell any of our dry cargo ships at this point in the market, but of course if we can convert some of these ships into our new focus areas within Supramax and Panamax, then that could of course be interesting.

Jacob Pedersen - Sydbank - Analyst

Okay. You still have a very solid financial position. Has the time come now to become more aggressive in utilizing lower prices? I mean new building prices. For example, on the dry bulks side to expand the fleet or how do you view the market?

Jan Rindbo - Dampskibsselskabet NORDEN A/S - CEO

You will probably have noticed that we've done a bit of a reshuffling on our new building book already. While we have sold ships with early delivery and essentially replaced them with ships that deliver in 2018 and 2019. So then effectually we are taking advantage of ships priced attractively with later delivery and the exercise here has been to try and reduce the nearby exposure to the dry cargo market.

We have not yet launched into new investments in the dry cargo space. We still deem it a little too premature to do that, but of course as we get further into this down cycle in dry cargo and as values perhaps slide further, then that is obviously something that we will be looking at.

Jacob Pedersen - Sydbank - Analyst

Okay. And then how is your view on the other hand in the product tanker market? If you will investments in new buildings or maybe yes, what is your view on the situation there?

Jan Rindbo - Dampskibsselskabet Norden A/S - CEO

From an investment perspective, what we've seen in the product tanker types that we operate, handysize and MR, is that the increases in the values have been fairly limited, and therefore we have been as we said before, on the lookout for opportunities to buy secondhand tonnage, and indeed in the third quarter we bought one handysize product tanker and that is a reflection of values have not yet caught up with the stronger market.

Jacob Pedersen - Sydbank - Analyst

Okay good. That was my questions. Thanks for the answers.

Jan Rindbo - Dampskibsselskabet Norden A/S - CEO

All right. Thank you very much.

Operator

Thank you. (Operator Instructions)



Thank you.

As we have no further questions, I would like to hand the call back to the speaker for any additional or concluding remarks. Thank you.

Jan Rindbo - Dampskibsselskabet Norden A/S - CEO

All right, thank you very much for joining the call here today. Have a good day. Thank you. Bye.

Operator

That will conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.

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