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DNORD.CO - Q2 2015 Dampskibsselskabet NORDEN A/S  
Earnings Call

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Frans Hoyer** *Jyske Bank - Analyst*

## PRESENTATION

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### Operator

Good day, ladies and gentlemen. And welcome to the NORDEN A/S Q2 report 2015 conference call.

For your information, today's call is being recorded.

At this time, I would like to turn the call over to your host today, Mr. Jan Rindbo. Please go ahead, sir.

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

Thank you very much. And good afternoon. Welcome to the presentation of NORDEN's results for the second 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 trust you have all found time to download the accompanying presentation from our website. We will refer to the specific slides as we go along.

Please note that this presentation and the following Q&A session will be recorded and made available on our website.

Slide two, please.

The agenda for today will be as follows. I will start by outlining the highlights of second quarter 2015 and the key financial figures for the past quarter. Martin will then give you our view on the liquidity and market condition. Finally, I will conclude with our guidance for the year. And we will open up for the usual Q&A session.

Slide three, please.

The results for NORDEN improved in the second quarter of 2015 with an EBIT result of \$36 million. The result is very much driven by the tanker segment where the second quarter EBIT was the best in NORDEN's history.

Markets have continued at high levels, and we have benefited from having high spot exposure throughout the quarter.

NORDEN's dry cargo department also managed to secure a positive EBIT for the second quarter, in spite of very challenging market conditions.

Primarily due to continued strong tanker market, we adjusted full year guidance for 2015 upwards. The new EBIT guidance for 2015 is therefore \$70 million to \$100 million compared to the previously communicated \$50 million to \$90 million.

As announced earlier this week, we have chosen to streamline the Company; and, consequently, the executive management team is reduced from five to three members. And Martin Badsted has been appointed new CFO.



As a consequence of the changes, CFO Michael Tonnes Jorgensen and Executive Vice President Lars Bagge Christensen resigned.

Slide four, please.

As mentioned, NORDEN generated group EBIT of \$36 million distributed with \$6 million in the dry cargo segment and \$33 million in the tanker segment. The EBIT for dry cargo was an improvement over the same period last year where the EBIT was minus \$18 million. The improvement is partly driven by strong chartering performance and the benefit of attractive coverage. But also the lower capacity cost on [T/C] in vessels as a result of the provision made in 2014.

In terms of market performance within dry cargo, NORDEN outperformed the one-year T/C rates by 45% and the average spot rates were outperformed by 84%.

The tanker department continued to follow a strong trajectory and delivered positive results for the third consecutive quarter. The tanker department managed to outperform the one-year T/C by 32%.

Slide five, please.

Towards the end of the second quarter, second-hand values for dry cargo vessels seems to have bottomed out; and they have started to increase in the beginning of the third quarter.

Based on valuations from three independent brokers, the market value of NORDEN's vessels, including new building orders, was estimated at \$1.27 billion at the end of Q2. This is \$166 million below carrying amounts and costs. However, NORDEN's assessment of future earnings supports the book values of owned vessels and the cost levels of charter contracts.

There is, therefore, currently no need for further write-down or revisions for onerous contracts.

The market value of our tanker vessels represented at the end of Q2 around 44% of NORDEN's total fleet value. This is in spite of market values of tanker vessels have so far not reacted strongly to the improved rate market.

And now, over to Martin for a closer look at the financial position and markets.

Next slide, please.

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

Thank you, Jan. Turning to cash flows and liquidity, we have improved the overall financial position of NORDEN during the second quarter as cash flow from operations was positive by \$65 million.

The strong tanker earnings are naturally the key driver of the positive cash flow in the second quarter; but a significant part also comes from improvements in working capital.

At the end of the quarter, the Company had cash and securities of \$340 million. To this can be added undrawn credit facilities of \$402 million, bringing NORDEN's overall liquidity reserves to about \$740 million.

In comparison, we have outstanding net payments on the new building program of \$273 million after inclusion of proceeds to be received for the sale of two [supervised] new buildings.

Next slide, please.

The dry cargo market continues to remain very diverse in all segments in the second quarter, despite an increase towards the end of the period. The poor market conditions was mainly driven by declining Chinese coal imports and the lack of Chinese activity in the iron ore market due to higher usage of inventory and weaker fuel production.



As a result of the Chinese coal import slow-down, India has overtaken the top spot as the market leader in seaborne coal imports. India's coal import growth has been driven by the higher domestic power usage and also by restocking before monsoon season to prevent power blackouts as seen last year.

The grain season has been reasonably strong out of South Africa. And in recent months, the exports out of Brazil have actually reached record levels.

Next slide, please.

The depressed dry cargo market continues to lead to very low fleet growth. While the pace of scrapping has slowed down, the annualized scrapping rate is still around 5%. If the current fleet development continues for the remainder of 2015, the annualized growth rate would end up at around 2 to 3%.

Although market conditions have improved towards the end of the second quarter and the beginning of the third quarter, the market is expected to be challenging in the second half. However, the potential Chinese restocking of iron ore inventories could result in rates in the second half of the year being higher than what has been experienced in the first half.

Next slide, please.

As expected, the tanker market continued to be strong in the second quarter of 2015. And we have seen continuous high rates for both product and crude tankers into the summer season.

The freight rates for crude have been supported by refiners worldwide, maximizing their utilization to meet their current high gasoline demand, especially in the U.S. where gasoline demand has increased by a staggering 4.2% compared to 2014.

The high refinery utilization furthermore spawned a greater demand for seaborne product transportation, not only for gasoline, but also for the gasoline production byproducts such as diesel and fuel oil. This helped (product) tanker (rates) stretch to levels not seen since 2008.

While rates might ease as a result of lower refinery margins and a higher level of refinery maintenance, the tanker market is still expected to continue at attractive levels for the rest of the year.

Next slide, please.

The low crude price has also caused lower product prices for the consumers, hence elevating on the market. IEA has revised their 2015 outlook to a year-on-year growth of 1.5%, about twice the growth rate expected in early 2015. And the latest 2016 growth estimate also looks decent with 1.3% yearly growth expected.

In terms of fleet growth, we continue to see high deliveries and only a little scrapping in the product tanker segment. And full year fleet growth will likely be higher than we previously expected by 6%.

However, the fleet growth for crude tankers is limited which very much mitigates the high level of product tanker deliveries.

And now, back to Jan for the updated full year guidance.

Next slide, please.

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

Thank you, Martin. As mentioned at the start of the presentation, we now adjust upwards our guidance for the full year 2015. And we now expect an EBIT between \$70 million and \$100 million for 2015.

The upward adjustment is driven by the continued strong tanker markets. And full year expectations for tankers are raised to an EBIT between \$90 million and \$120 million.

The guidance for dry cargo is maintained at minus \$25 million to \$0 million.



While we have had a solid start to the year, the coverage in place for the second half of 2015 is that lower levels than what we had going into the first half of 2015.

based on current loan investments, net CapEx is expected to be between \$0 million and \$20 million for the year, which is unchanged from previously communicated expectations.

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And please remember that there are uncertainties related to any forward-looking statements.

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This concludes our presentation. Now we open up our Q&A session. Please await the conference host instructions.

### QUESTION AND ANSWER

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#### Operator

Thank you. (Operator Instructions)

We will pause for just a moment to let everyone to signal.

Our first question comes from Frans Hoyer with Jyske Bank. Please go ahead.

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#### Frans Hoyer - Jyske Bank - Analyst

Thank you. Good afternoon. I wanted to ask about the scope or plans to divest further tanker vessels at profitable prices. To what extent do you see that as a likely path forward? And to what extent that you include that through your guidance?

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

Thank you for the question. The tanker values are still lagging behind the strong spot market so we have yet to really see any major increases in values. So at the moment, we have no plans of divesting any ships. Of course, we are always open if something special pops up. But we're not planning to divest any of the tanker ships for the time being.

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#### Frans Hoyer - Jyske Bank - Analyst

Okay. So you haven't included any further gains into the EBIT line in your guidance?

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

No, we have not.

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#### Frans Hoyer - Jyske Bank - Analyst

Okay. Thanks.

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#### Operator



(Operator Instructions)

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

If there are no further questions, then, we will conclude the call. Thank you for joining us on this conference call. And have a good day. Thank you, and goodbye.

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**Operator**

That concludes today conference call. Thank you for your participation. You may now disconnect.

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