Euronav

Q2 2022 Earnings

August 4, 2022, at 8:00 a.m. Eastern

CORPORATE PARTICIPANTS

Brian Gallagher – *Head of Investor Relations*

Hugo De Stoop – *Chief Executive Officer*

Lieve Logghe – *Chief Financial Officer*

PRESENTATION

Operator
Good day, and welcome to the Euronav Q2 2022 Earnings conference call. All participants will be in a 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 will 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 would now like to turn the conference over to Brian Gallagher, Head of Investor Relations at Euronav. Please, go ahead.

Brian Gallagher
Thank you. Good morning and afternoon to everyone, and thanks for joining our Euronav's Q2 2022 Earnings call. Before I start, I would like to say a few words.

The information discussed on this call is based on the information as of today, Thursday, the 4th of August 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 statements of historical facts.

All forward-looking statements attributable to the company or to persons acting on its behalf are especially qualified in their entirety by reference to the risks, uncertainties, and other factors discussed on the company's website, with the SEC, and which are available free of charge on SEC's website at www.sec.gov, and on our own company website at Euronav, on 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.

It's now my pleasure to pass on to our Chief Executive, Hugo De Stoop, to start with the content slide on Slide 3.

Hugo, over to you.

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 Q2 highlights before passing on to Lieve Logghe, our CFO, to give more details on the financial, with specific focus on the FSO. Brian Gallagher, the Head of IR, will then highlight some key and current trends in the wider tanker market before I return to summarize our strategy and outlook.

So, turning to Slide 5 and the Q2 highlights. Once again, we've had a very busy quarter across our businesses. Fleet rejuvenation was, again, front and center, with nine vessels transacted. We sold our three elder Suezmax. We also sold four older VLCCs that were non-eco, and bought two almost new ones. These actions have substantially reduced the age of our fleet, and more importantly, the average consumption and emission profile.

So, we are fully ready to what we believe will be a sustainable freight rate market recovery. Also, remember, we still have six vessels to be delivered to us over the next 18 months. So, the Euronav platform will continue to grow and get younger into this freight recovery.

We also bought out our joint venture partner in the FSO segment. This move gives us more visibility on income, in an asset that we believe we know very well, because we have operated those two units since 2010.

Strategically, just after the quarter and we formally announced the combination agreement with Frontline, and I will touch upon the next steps later regarding this combination. That is not all, as we printed an important milestones that perhaps has been overlooked with all our corporate activity.

We, indeed, we organized our first sustainability presentation in early May. This has clearly set out our path to net zero, and we look forward to providing updates on this and other sustainability initiatives going forward.

These moves were all made with the tanker markets showing sequential rate improvement, and even stronger signals, in a normally weaker Q3. However, freight rates are still not at the levels where we can be satisfied, as Slide 5 illustrates, thus indicating a lot more progress is required to return us to sustained profitability.

That brings me to Slide 6, and further focus on some of the short-term catalysts. Ton miles are rising across the tanker market spectrum, as the dislocation from Russia continues to impact. Asset prices continue to rise, with secondhand tonnage again rising over the past three months, and new build prices are at the multiple year highs. This has led to virtually no new ordering of ships. Also, we have seen increased volume of exports, and therefore, cargoes in recent months. And this is, in turn, has led to Q2 performing better than Q1, which, given the seasonality history of our sector is unusual.

Turning now with Euronav specifically on Slide 7, and how we have positioned ourselves to this improving cycle. I wanted to point to the scale of our fleet rejuvenation during Q2. This has driven material reduction in our fleet age, where we have taken advantage of the highest secondhand prices to recycle into younger tonnage. And yet, the platform is still ready for growth, with our core fleet ready to expand with 6 new vessels, adding around 11% to our capacity over the next 18 months when those vessels will be delivered to us.

With that, I will now pass over to Lieve to provide more detail on the financial.

Lieve, over to you.

Lieve Logghe
Thank you, Hugo. All tanker shipping companies require a strong balance sheet to manage the highly cyclical and seasonal elements of our business sector. Euronav is no different, and retaining a two-year liquidity runway remains at our core.

The fleet rejuvenation that Hugo spoke about earlier has all been done with book profits being recorded on sales, and the intention, as always, is to recycle this capital into younger, more efficient ships.

Perhaps the key transaction for the finance team during Q2 was the buying out of our joint venture partner on the FSOs, which we cover in Slide 10. On the financials for the FSOs, there are technically two contracts, one for each vessel, which switched to the new ten-year contracts running from Q3 2020 to Q3 2032. EBITDA will be around 40 million on a yearly basis going forward. The FSO operation has been a very strong performer in terms of operations, with zero unscheduled downtown.

Slide 10 shows what we wanted to remind investors of, that these are not plain vanilla storage platforms, but possess various treatments to improve the great quality of the crude on board. So, owning 100% of the FSOs provides us with a strong, visible, and long-term income stream.

I will now pass on to Brian Gallagher to run through current thoughts on the tanker markets.

Brian Gallagher
Thank you, Lieve. On Slide 12, I wanted to point to two key points on the current tanker market. Firstly, crude tanker markets continue, and we believe will, going forward, remain highly seasonal. This is a fact we've overlooked over the last two years, given the very exceptional trading in storage patterns that we've had to endure within the sector.

The left-hand chart shows the seasonality on a daily basis, in terms of freight rates, according to the Baltic Dry Index going back to 1999. It's very clear from this pattern that we have a market bottoming out in very extreme fashion, usually in August and September. What is also clear is we then get an extreme rebound of seasonality that kicks in towards the end of September, and then continues through much of Q4, often with another uplift during in around Thanksgiving.

The right-hand graph on this slide shows the same signal [ph] in light blue, with the current run rate for seasonality in 2022 in dark blue. The disinflation from the conflict that we've seen between the Russian and Ukraine war is very clear from late February, and drove wider tanker market volatility.

What is interesting is that, since late May, the index has risen by 30%, in a much more measured trajectory. This reflects another chart between the tanker segments, and a general reduction in oversupply of tankers, yet an increase in terms of supply of crude. So, the general background in terms of timing is encouraging, and we have some real data points to support it.

We now move on to Slide 13. We can look at other data points which provide further support. Slide 13 looks at two key components of the tanker markets: firstly, oil supply and ton miles. Over the past couple of years, growth in both of these segments has been pretty much absent. While US exports are expected to continue their recovery following a reduction in June and July, US exports, according to the EIA, could add another further 1.5 million barrels per day over the next 12 months.

Some miles were also set to recover during this calendar year, and again into 2023, primarily as new trading routes, driven by the dislocation from the Russia-Ukraine conflict that we highlighted in our Q1 call, continue to kick in. This process is not finished yet. We still got some legs to go. Put simply, crude is likely to travel further in most tanker segments as new trading weeks are established.

We now turn to other data points on Slide 14. We can see sequential improvement in both vessel supply and the time charter market. Regular listeners to this call have known our focus on the Bloomberg Index that measures oversupply of VLCCs in the Middle East. Whilst a little volatile, this trend has come down markedly, as you can see on the left-hand side of this slide in recent months.

On the right-hand side, we look at the longer-term picture. This shows longer term, which we define as more than 12 months, time charters that have been agreed in the VLCC space. We've seen a steady improvement in right [ph] in the frequency of a number of those contracts agreed since Q2 of last year. So, not only has there been an increase in activity and contracts, we're also seeing, associated with that, an increase in rates.

We've seen recent evidence that a three-year time charter with VLCC at $38,000 a day has been agreed.

This is very encouraging. Albeit it's being driven by new tonnage, this data point gives us a very, very strong signal that charterers and our customer base are looking to secure capacity, and are increasingly prepared to offer better terms, both in duration and in rate to secure that capacity. So, a lot of encouraging data points for us to focus on both short-term and longer-term.

And I will now pass on to our Chief Executive, Hugo De Stoop, to give some concluding remarks to this conference call.

Hugo, over to you.

Hugo De Stoop
Thank you, Brian. Both Lieve and Brian gave indications of how you would have us continue to position ourselves for what we believe will be a sustained recovery in tanker markets. I would like to add very important milestones that we announced after the quarter end with the combination agreement with Frontline.

Slide 16 illustrates what the next steps will be. Frontline is currently relocating its corporate headquarters back to within the European Union, into Cyprus specifically. And once that process is complete, they will launch an exchange offer on a set ratio of 1.45 times Frontline share for every 1 Euronav share. When the exchange offer is closed, we can then proceed with the next stage of the combination.

If the exchange offer yields between 50% and 75% acceptance, that effectively gives Frontline control over Euronav. And the governance of the combined entity will change, and Frontline and Euronav will act as one group. This will allow the new company to deliver the vast majority of the synergies and other benefits that we spoke about on the combination agreement announcement of July 11.

If we were able to get the exchange offer at the level higher than 75% acceptance, then we can proceed with a full merger. We firmly believe that the combination and the attributes of the combined entity that are listed on this slide, which can come into force as long as we have more than 50%, will be very interesting, especially in the development of the tanker cycles as we see for the coming years, and as we see already for the coming winter.

Turning now to our traffic light slide and current market outlook on Slide 17. It is clear from the continued movement to green that we anticipate further progress in the tanker market recovery. For Q2, we have another upgrade, this time regarding the ton miles driven largely from what Brian covered earlier in the dislocation from Russia, driving structural change and longer-term lives across all tanker segments.

Elsewhere, demand and supply continue to remain encouraging, albeit the demand is still not back to levels that we saw in 2019. It is, however, encouraging that the order book has continued to have virtually no order flow in the past 12 months. The organic growth we have with new vessels arriving in the next 18 months, alongside the construction of the largest ever tanker platform via the Frontline combination, means that Euronav will continue to grow its exposure to this improving market background.

Thank you for your time and attention. And with that, I will pass back to the operator for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you’re using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and

one follow-up. At this time, we will pause momentarily to assemble our roster.

Our first question will come from Greg Lewis with BTIG. You may now go ahead.

Greg Lewis
Yes, yes. Thank you and good afternoon, everybody. Hugo, I was hoping you could provide a little bit more color around, I guess, everything’s in levels of magnitude, but at least over the last couple of weeks, we've seen a modest, but yet a pickup in VLCC rates. Could you talk a little bit about what you're seeing in the market that has kind of reversed the benchmark headline rate from negative to positive? And, yes, just, I guess, start there.

Hugo De Stoop
Yes. Hi, Greg. Thank you for the question. I must say we are a little bit in new territories here, first of all, because I don't know what you call the benchmark VLCC rate, but, obviously, today, there are almost four benchmark VLCC rates, the non-eco non-covered ship, you have the non-eco covered [ph] ship, the eco, the super eco with or without scrubber. It's, obviously, this has an implication.

What is also new is that, normally, it's the VLCC segment that is doing the heavy lifting for all the other segments. And what we have noticed this time around that that’s because of the distribution coming from Russia, and Russia is typically not a VLCC market, the pushing is coming from the smaller size. So, the Suezmax and the Aframax, it started with the Aframax pushing the Suezmax, Suezmax are now pushing the VLCCs, simply because when you look at the rates of Suezmax, and you compare that to VLCCs, and certainly, when there are eco-VLCCs or eco-scrub VLCCs, it's a lot cheaper to use the VLCC. And that's what we have seen in recent weeks. And that's the main reason why we believe the VLCC market has improved, after the Suezmax had already improved some weeks ago, probably already five or six weeks prior to the improvement of VLCC.

What we’re also seeing, and that’s very encouraging going forward, is the number of VLCC cargos available, be it in the Middle East, or be it in the Atlantic which is growing. And we are still at a level, as Brian said, on overall demand, which is slightly below the pre-COVID levels. We anticipate that we will go past the pre-COVID level when China reopens in full. It's a little bit difficult to say when that is going to happen precisely, but we believe that when they do, that will give a massive boost again for the VLCC.

And then, at that time, we may return to some form of normality, where the VLCC market is indeed doing the heavy lifting, and probably taking the rest of the market with it at much higher levels than what we see today.

Well, I hope I've answered your question.

Greg Lewis
Yes, no, that was great. And then just following up on that. I mean, clearly, we're seeing a pickup in spot fixture activity. I think one of the things that a lot of people in the industry, in the tanker industry are thinking about is shipping ton miles, and you kind of alluded to Russia. It looks like those buyers of that Russian crude, it’s India and China. Clearly, the VLCC route from the Middle East to India. It's harder. I think it would probably be harder to find a shorter ton mile route for VLCCs than that.

Is there any way to kind of—I don't know if it’s percentages, or how you want to think about it, that we're seeing VLCC ton miles out of the Middle East expand as some of those Russian crudes are, I guess, largely finding homes in Asia? Has there been any change in ton miles out of the Middle East, or at this point, it's still kind of tracking along the same way?

Hugo De Stoop
No, we have seen a few ships, and those were Aframax, Suezmax, and VLCC, carrying crude oil from Russia to the Far East, be it India or be it China. We believe that the trend will continue. We are seeing, and I think it's a question of how people organize themselves, because the most efficient way to transport crude oil over long miles is obviously on the VLCC. And fortunately, for the Russian, VLCC cannot go into the port in there. They're too big of vessels. So, ideally, they would do transshipment.

We've seen a few of those, largely of the coast of Africa, simply because it would be probably impossible or very dangerous from getting your ship seized by European authorities to do a transshipment anywhere near European coast. We have also seen cargo being discharged in Libya and in Egypt, for relatively short periods of time, and then being lifted again on bigger ships.

So, I think what we're seeing at the moment is part of the industry who can do that, reorganizing itself, and trying to find the most efficient way to carrying that oil to the Far East. And we have no doubt that that will be the case. And, obviously, if you look at a map, you understand that it's longer term miles, obviously, because the vast majority of that was going to Europe, which was very short distance, and that's also the reason why it was done on the much smaller ships.

So, I think we are seeing the beginning of a story that will have long tails, because I don't see any of the sanctions being lifted. Even if the war in Ukraine would end, I don't see those sanctions being lifted immediately. And so, we will need to monitor what's happening in the next few months, and see exactly how that trend develops. But it's very logical and obvious that ton miles is going to be one of the positive impacts of that.

Greg Lewis
Perfect. Super helpful. Thank you very much.

Hugo De Stoop
Thank you.

Operator
Our next question will come from Jon Chappell with Evercore ISI. You may now go ahead.

Jon Chappell
Thank you. Good afternoon. Super short-term one, but just trying to understand, there's been a lot of talk about kind of seasonality improvements in rates over the last couple of weeks. We all see it. Your quarter-to-date fixtures for the third quarter, almost half way through, is substantially below your achieved TCE rate for the second quarter, which kind of goes in the face of everything we just talked about, what's happened recently.

Can you kind of explain what's behind that perceived sequential decline, and maybe where the current rate environment is today, and how we should think about trying to get to a blended average for 3Q?

Hugo De Stoop
Yes. [Overlapping voices]. No, go ahead, Brian.

Brian Gallagher
I was going to maybe; we were expecting something on this here. It's a very good point you make, Jonathan, as always, but I think there's a number of different moving parts. As you know, there's a lot of moving parts in our industry anyway. But super short term, what you saw is, you have to remember tanker markets are operating four to six weeks ahead of where the calendar is, that's the normal duration of our

voyages.

You obviously had a big spike in bunker prices and other costs in and around that, and that is basically why you've seen that the run rate that we booked so far doesn't quite look as if it’s on a sequential improvement. But the reason is we try to say, which we haven't done in the past, if you look at our commentary carefully, after we give our quarterly update numbers for Q3, we have gone out of our way to sort of say that the last two weeks trading is materially ahead of that run rate. And part of that is the cost dropping out, and also, as Hugo’s alluded to in the first answer, better trading going anyway.

So, it's a factor of a number of additional costs and a slowing in the market very short-term, which is being captured by that quarter-to-date number in Q3, but it's definitely easing itself out in the numbers that we're seeing in the short-term, and we anticipate that carrying on. And, therefore, that will have a much bigger impact, and we'll reuse [ph] out the numbers over the quarter, if that makes sense.

Hugo De Stoop
Yes, and I would add to that that we are also slightly more optimistic that the number will improve dramatically because of what Brian said, but also because, when we analyze the voyages that we have done so far, I wouldn't say all of them, but slightly majority of them were what we call backhaul, so repositioning voyages on our rate, but then the ships will be positioned in the market that should be much better for them to take the next cargo. So, I wouldn't be surprised if we would have a material improvement also coming from that angle.

Jon Chappell
So, you would say that you're already substantially higher than that number, or there’s just a lot of—

Hugo De Stoop
Yes. In the last two weeks, as Brian said, in last two weeks, substantially, it's more than double that, and we believe that it's sustainable. I mean, the way we look at the market is, when you have enough ships that have booked at a certain rate, and then the market take a pause, but doesn't drop, then it's a very good sign that it will either stay there or further improve in the next couple of weeks. And then, obviously, let's all remember that we are in Q3. I mean, Q3 is, generally speaking, the weakest market even in a good market. We wouldn't be surprised if we were at breakeven or slightly below breakeven levels. So, we are very encouraged by that fact as well.

Jon Chappell
Okay. And then for my follow-up, Hugo, maybe you can just help me understand, because it is a pretty rare situation. On the merger next steps on Slide 16, the light blue shaded on the left side, if you do end up in this 50% plus one share to 75% range, you say you're acting as one group, how does an investor think about that? I mean, does Euronav still have a separate listing, and Frontline has a separate listing, but you're acting as one? Is Euronav delisted? I'm just trying to understand the processes in a public market perspective on how getting [overlapping voices] works.

Hugo De Stoop
Those are great questions because it's true that this is a little bit peculiar. I think the main difference between Euronav which is incorporated in Belgium, and other companies which are traditionally incorporated in other jurisdictions, and maybe more [indiscernible], is that, in order to effect the full merger, you would need only 50%. And in Belgium, we need 75% to sort of squeeze out the remaining 25% and to force the merger through.

Obviously, we are all aware that we have a major shareholder, who's, at the moment, opposing the merger, and they have something like 21% or 22%. And so, if not all the shares are presented at the time of the exchange, at the time of the tender, then one may suspect that we won't reach 75%. That's why we illustrate, okay, we need 50% of one share, that's a minimum to act as one group—and I will come back to a minute—and unless we have, or until we reach 75%, then we can do the full merger.

What do we mean by acting as one group? Well, yes, Euronav would remain listed, but, obviously, the more shares are being swapped into this tender offer, the pour [ph] of the liquidity will be in Euronav and its listings.

And so, I think, when we talk to shareholders, or the ones that are the institutionals, or even part of retail, they would prefer to be on the Frontline side because, obviously, we exchange share for shares, so there would be more shares, there will be even more volume that there is today, and certainly much more liquidity than what we see in Euronav.

Acting as one group would simply mean that, when you are thinking about the operation of the shipping company, there will be only one management responsible for the group, one board responsible for the group. And obviously, you have some manager remaining at the Euronav level, but this is shifting. So, you are managing your fleet as one fleet. You're managing your opex as one opex. You benefit from your synergies. You do your purchase, your procurement, taking into account the volume discount that you could have even if you were fully merged.

So, from that perspective, we don't believe that there is any difference from a synergy perspective. Maybe the only difference would be on financing, but given that our financing is usually done by subgroup of fleets, or we couple 10 or 15 ships together, it doesn't really matter whether we are fully consolidated or not. So, that's what we mean by acting as one group. And then, obviously, we've said what would happen the moment 50% and one share of Euronav are in the hands of Frontline then there is a change of covenants that we have explained in the press release, which is a change of the board, and obviously, change at the management level.

Jon Chappell
Okay. And sorry for the quick follow-up to the follow-up, but I just want to understand this. Once you get to 50% plus one, then you can enact the governance change, and you can start acting as one group, but is the tender still open so that you can have others continue to tender their shares in the weeks and months following, kind of [overlapping voices] 75%?

Hugo De Stoop
No, and that's a very important question, and we will probably have another call specifically on that when we are getting closer to the tender process. We can decide to reopen it, but it's not automatic, and certainly not an open-end tender, because that would decrease the incentivisation of people to tender in the first tender, and we want as many people to tender as possible, simply because we want to get to the 50% and one share as early as possible, and potentially to 75% as early as possible as well. So, it's not an open-end tender. It's reopen, and only when we decide to reopen it, if we decide to reopen it.

Jon Chappell
Okay. That's very helpful. Thank you, Hugo. Thanks, Brian.

Hugo De Stoop
Thank you.

Operator
Our next question will come from Chris Wetherbee with Citigroup. You may now go ahead.

Eli Winski
Hi, thanks. Good morning, guys. This is Eli Winski on for Chris. So, Hugo, I know you just touched on it here, but to the extent you can give us any help, how should we be thinking about the synergies or economies of scale in more dollar terms as we approach the merger here? Anything you can give us that would help us quantify what this could look like?

Hugo De Stoop
And you would like a number, or you would like precisely what we're going to do in the various section of P&L?

Eli Winski
Yes. Maybe just what you can do on the various section of the P&L. I understand you probably can't assign numbers at this time, but, I mean, if you could, that would be helpful. Maybe just start with more broadly on the P&L.

Hugo De Stoop
Yes. So, obviously, you're talking about revenue first, and the revenues is to operate the fleet and its combined fleet of VLCCs and Suezmax, to a certain extent the LR2 are a little bit separate. Frontline would join the pool, and the 20 ships that are in the hands of other people in the pool would remain in the pool. So, we would have a pool that would be 85, potentially a little bit higher than 85 VLCCs.

The desk [ph] of the Suezmax will continue to be next desk of VLCC, and we benefit from the information that they gather in the market, which is very important. We are also mapping now the different clients, and believe it or not, Frontline and Euronav are highly compatible, in the sense that there's not a lot of overlap in terms of clients. Certainly, on the Chinese accounts, we're very complementary to each other. So, that's a good thing.

We believe that, because of the market presence, we'll be able to deliver a much better service, and would be the first choice of our customers when we have this platform enacted. On top of that, we would like to continue to grow the pool. I think once you have a platform that has this collection of ships, and again, I'm talking here not only VLCC, but also Suezmax, I think it will attract other owners to join, and the bigger the better for a number of reasons, but those are relatively obvious.

Then if you move on the cost side, well, it seems to be very obvious that you can do a lot of saving of overhead, because you don't need two full management team, two boat, etc. But it's also a question of offices location. We have offices in similar jurisdiction. We can obviously put that together. Other than that, and as we have explained in the first press release, the initial one where we indicated the intention of doing this, we said that, again, it will be very complementary, because one system is very lean and mean, the other one is more vertically integrated, i.e. the Euronav 1. So, we don't expect to have a lot of redundancies. So, it's more on the systems, the offices, and the platforms that we would do the savings.

We also expect to have a lot of savings on the technical side, namely the opex. I think it goes without saying it, we've demonstrated that, in the past, when we first merged with Maersk and merged with Gener8, that the volume discount that we can achieve once we have a bigger presence is quite significant, and we're talking about 2%, 3%, 4%, but on relatively big numbers.

Dry docks is another area where we see a lot of potential for saving a lot of money when we use the dry dock. And you can imagine that with a fleet of 150 vessels, there's a number of dry docks that you need to achieve on a yearly basis.

And then, finally, on the financing side, we also believe that we can save a few points, and probably a few dozen points. And that's certainly what we've seen with other groups when they were achieving the size that we are achieving.

So, again, we continue to do this analysis in the press release. We've indicated that, at a minimum, we would expect to save, or to gain, I mean, depending on if you talk about revenue or cost, around 60 million per year. And I think that we are all relatively optimistic that this figure can be improved substantially over the next couple of years. That's very much as of the first year, first 18 months after the consummation of the merger.

Eli Winski
Thank you. That's really helpful. One follow-up just on the market. I know we've talked a lot about it. But we have these demand pushes and supply pushes, and as you're talking about a countercyclical market and then going forward, I guess I'm just trying to understand like, where does the scale lean?

So, on the demand side, we obviously have Russia and others. On supply side, we have elevated ton miles and new build prices that are high. So, that impacts the capacity. But, as we move into the next couple of quarters, where should we think about that scale shifting? Is it move over to the demand side in terms of the pressure or the supply side in terms of the pressure? How do we think about the future here?

Hugo De Stoop
Well, as you know, we don't control a lot of things in this market. And so, indeed, you have the supply side, and the supply side is where the fundamentals are very, very positive. Why they’re very positive is the fleet, the average fleet age profile is getting old. And so, we expect, and we are a little bit impatient, like all of us on this call I suppose we expect to see a number of fleets being scrapped. I mean, at some point, it's not like you can keep them forever, and year-on-year, they're getting older.

On the new build side, we haven't seen any order in almost a year, and we are taking the bulk of the order book in the first six months of this year. So, what is left for this year, but also for the years to come, is very, very thin.

And, obviously, compared to that, then you have to look at the demand picture. And the demand picture, as we said, in ton miles, because of the Russian oil dislocation, but also continued recovery from the trough that we've seen due to COVID, and particularly the Chinese consumption that we expect to recover with much more strength going forward once they stop doing those opening and re-lockdowns around COVID. And we don't know when that's going to be, but we don't believe that that's sustainable for many years. So, we are in a seasonally weak part of the year.

We're seeing a lot of signals showing us that the market is getting from strength to strength, and there is considerable improving numbers quarter-on-quarter. That gives us a lot of optimism for the winter. The winter anyways is always a lot more demand than the summer.

And so, we expect, and we have been saying that for a long period of time, we expect the next winter to be strong. If you were to add a few elements like scrapping a few ships, or some sort of disruption, then obviously we would be on for a multiyear cycle that would be very interesting to be exposed to.

Eli Winski
A lot of sense. Thank you, all.

Hugo De Stoop
Thank you.

Operator
Our next question will come from Omar Nokta with Jefferies. You may now go ahead.

Omar Nokta
Hi. Thank you. I just wanted to touch just a bit further on the market, and just kind of impact on the Russia-Ukraine sort of situation in Europe. And if you could handicap it, Hugo, or maybe Brian, if you think about it, what amount of Russian crude barrels do you think are still making their way into the European market today? And presumably, those will need to be diverted and replaced here in the next couple of quarters, but do you have a gauge of how much is still flowing into Europe?

Brian Gallagher
Omar, if I can jump in on that. I mean, it's very hard, as you know, Omar, to get data, although, I've noticed that Bloomberg are actually trying to monitor this on a weekly basis, and their flows would suggest that the flows are actually higher than they were in February.

So, our best guess would be that we're maybe 0.75 million to 1 million barrels down, in terms of that flow into Europe. As [indiscernible] widely reported, but the EU have slightly diluted some of the firmness of the sanctions as well until December 5th, which means, again, they're looking to keep that oil flowing.

So, I would say that fully net [ph], there's only been maybe a million barrels of Russian oil into Europe that's been diverted out. And then, they've obviously pushed the rest of that difference into the Indian and Far East markets.

But again, it's a very inexact science, and part of it's difficult, and I'm [indiscernible] earlier is that because there's ship-to-ship transfers. This isn't just a question of following one ship and going, well, that's going from A to B and we can monitor that. Ships are going from A to B, and then the ship is going, and then another ship is taking that oil from B to C and D and E. And that's what makes it very difficult. But yet, the impact has not been as profound, I think, as we would anticipate.

I'll refer you earlier, and to the second part of your question is what we talked about earlier, and I noticed Teekay Tankers have done some interesting work on this this morning on their presentation later on today, which I think dovetails with ours, in that, we would expect the net effect to be something around about 2 million to 2.5 million barrels, and that being replaced by oil from the Middle East and from the Atlantic, and that's what we've started to see already.

And this is the one thing we've been trying to make is a consistent message, both in this quarterly call and the last one, is that this isn't some event that happens over a few weeks. There's further months and quarters of this whole process to continue to happen and develop.

And then, we would anticipate we'd see more and more Middle East barrels coming into Europe well into next year, and we'd expect to see further Atlantic barrels continuing to trend into Europe to replace those lost Russian barrels into next year as well.

So, that's the underlying message here, that there's a longevity to the structural change that Hugo talked about earlier. But I can't give you any more—whilst we're very close to the action, we're monitoring a lot of the same data points as you in terms of the numbers.

Hugo De Stoop
Yes. Let's not forget that you have a part of that [indiscernible] which is carried by pipeline, and from what we know, that continues to flow very normally. And then, obviously, there are not a lot of sanctions. There

are a lot of self-sanctions.

I mean, banks are very reluctant that you would carry [indiscernible] same, but today it's not illegal. But obviously, people who are doing it are not advertising doing that. So, that makes the data very, very difficult to gather and to follow.

Omar Nokta
Yes. Thanks, Hugo, for that. And, Brian, also appreciate the comments. That's good context. And I guess, maybe just a follow-up, just at least in regard to the increased oil flow that we're expecting here in the Atlantic Basin, obviously led by the US Gulf, and have Brazil, Canada, and Guyana, as you mentioned. That 1.6 million barrels that you quantify through the end of next year, do you get concerned about maybe the permanence of maybe the Suezmaxes and Aframaxes carrying more of those barrels, or maybe, Hugo, you kind of touched on this earlier, I think, to Greg's question, or do you see the VLCC starting to come back and taking a lot more market share?

Hugo De Stoop
It's a very difficult question to answer, but at the same time, I'm not too worried about it, because when you look at the Suezmax flows in general, and VLCC flows, there is a lot of markets where two Suezmax, or two cargoes of Suezmax can go into one VLCC. So, you do have this push-pull impact.

So, the Suezmax market is doing very well, and, to a certain extent, is showing or seeing many more cargoes, then naturally that would have knock-on effect on the VLCC market. Those two markets are really, really well-interconnected. And when we speak to chartering desks of our clients, it's usually the same people, and they do monitor the pricing of one versus the other. So, as I said, in the last two, three weeks, what we have seen is a lot of cargoes that were shown towards Suezmax desk, and then they were disappearing, and they were popping up in the pool, and they knew that those two cargoes were being combined in order to be carried by VLCC.

So, I cannot imagine a world where Suezmax, and to certain extent, Aframax are doing very well and the VLCCs are doing poorly. I mean, that would be highly surprising.

Omar Nokta
Understood. Thanks, Hugo. I appreciate that. I'll turn it over.

Hugo De Stoop
Thank you.

Operator
Our next question will come from Frode Morkedal with Clarksons Securities. You may now go ahead.

Frode Morkedal
Thank you. Hi, guys. Another market question. You clearly believe in a freight market recovery. Can give you more color on how bullish you are? Maybe if you can compare the outlook to historical episodes, are we heading into a 2015 scenario or 2008?

Hugo De Stoop
Well, we are seasoned enough not to make the mistake of predicting the market. But if you want a gut feeling kind of comment, I think that we are closer to 2004, 2003, for that matter, than any other market that we've seen. And that is based on the order book, the price of the new buildings, and the almost incapacity to overbuild the fleet for the next three years, because there is no more room in the yard.

So, a little push from the demand side will give this market a go, a go at certain levels, and then it should gradually improve, because part of fleet will be too old to be operated and there will be nothing to replace it. And that smells very much like 2003, ahead of the sort of four to five-year cycle that we saw 2004 to 2008, so 2004, 2005, 2006, 2007, and 2008, five years. That very much looks, at least from the fundamentals perspective it looks like that.

Frode Morkedal
That's great. 2004, 2003 was good years. As a follow-up, I mean, I would guess a generalist would be cautious and worried about the recession. How would you respond to that? Would you maybe touch upon the inventory cycle and the impact of [indiscernible]?

Hugo De Stoop
Yes. That's a very difficult one, because God knows that we knew very little about macro economy, and our market is sort of polluted or impacted by so many different kind of events. Many of them are positive for marketing, and very often we feel sorry to say that, and that's very much the case here with the Russian oil dislocation.

I think that a recession is not good. And, obviously, normally, you have demand that is, obviously, being reduced on the other side. But, at the same time, we have an energy crisis, and the energy crisis is not entirely due to what's happening in Russia. It’s much broader. We're talking about an energy transition.

What happens in energy transition is that people tend to mislead their investment. This time, the investment, you are too early, you are too late. All of those dislocations, usually the shipping part benefits from it. But, nevertheless, it's very difficult how it's going to play out. But given where we are, given the profile, given where the order book is, I think that many scenarios are manageable, but obviously, manageable through more or less scrapping.

Frode Morkedal
Great. Thank you.

Operator
Our next question will come from Chris Tsung with Webber Research. You may now go ahead.

Chris Tsung
Hi, good afternoon, everyone. I wanted to just understand if Euronav is under any restrictions from now until the tender offer in Q4, with regards to the combination of frontline? Are you able to continue buying and selling ships, or taking on [audio muffled]?

Hugo De Stoop
Yes, we are. Everything that is business as usual, we can do. And, fortunately, in shipping, business as usual is quite broad. As a matter of fact, the conditions have not materially changed since we announced the intention to do, and that was confirmed in early July.

At that time, we were also restricted, obviously. Once you set the ratio, you have set the economics, and therefore, you're not supposed to do major things. And you've seen that we have transacted on seven ships and we bought our 50% joint venture partner, and that we’re under the same restrictions that would apply today to us. So, indeed, we can do a lot of things. What we are always doing, obviously, is talking to our partner. There is an NDA between the two companies, and from that perspective, we can also do a lot of things, not wanting them in advance, definitely telling them that this falls within the close of the contracts that we signed.

Chris Tsung
Right, okay. Thanks for that, Hugo. And just a follow-up. Looking in that press release from July, can you provide some color on what the absence of material adverse changes means?

Hugo De Stoop
Oh, in that close is something that is totally standard in many contracts, and this one will not be different. In fact, we had a discussion with the liners [ph] whether we needed to spread it out, and it was so standard that there was no need, and the regulator was also happy with it. I don't know if [indiscernible], but if a major conflict, something that everybody's watching in China and Taiwan at the moment, if a major company could erupt, that’s typically that material does change.

I think that the Lehman Brothers failure in 2008 was qualified and material does change. I mean, these kind of sort of mega events that would affect pretty much everything. And still then, it doesn't mean that the deal is canceled. It means that the parties have the right to withdraw from it, if they believe that the economics has changed for one company, not for the other.

In our case, we are exactly in the same business. It's very difficult to imagine an event that would have positive consequence for one of us and negative consequence for the other, and that would, therefore, be used by one or the other party as a way to get out of the transaction. I think both parties are very excited about it, and I don't think that there could be many events that would change that.

Chris Tsung
Great. Yes, that was super helpful, as always, Hugo. Thanks. That’s it for me.

Operator
Our next question will come from Anders Redigh Karlsen with Kepler Chevreux. You may now go ahead.

Anders Redigh Karlsen
Yes. Good afternoon. Most of my questions have been asked, but I'm thinking a little bit about the supply situation. If you were to place an order today, when would you get delivery? And also, in terms of the existing order book, are there any delivery delays following the lockdowns in China and some labor conflicts in Korea? Can you elaborate a little bit on that?

Hugo De Stoop
Yes, those are very good questions, and, quite frankly, it's very encouraging. If we were to place a VLCC order today, we might get one or two in 2025, then otherwise we are already in 2026. On the Suezmax side, it's a little bit better. I mean, better, it depends which side you sit on, but you might get a few units in Korea in late 2024, and then the rest would be in 2025, and say in 2025, we're not talking about a lot of left [ph].

As far as pricing are concerned, we're talking 80s, depending on the specification. God knows that specification today can make the price move substantially more than a few millions, because is your shipment be dual fuel? Is your ship going to be ready to be a dual fuel? For some types it's going to be ammonia. It's going to be LNG. It’s going to be methanol. You have it, and the same on the VLCC, and there you start probably at 120.

But, at the moment, the yards are not quoting official prices. I don't think that there are many yards out there who are pushing for further order in the tanker. They know that the segment has not [indiscernible] yet in full. And, therefore, they're still chasing, the clients are relatively reach from operating their current fleet, and that's mostly in the container side, in the LNG side and then [indiscernible] and so on. That's where most of the orders are being done today, and continue to be done today.

In terms of disruption and delays, yes, a little bit, certainly in Korea, social disruption, probably driven by inflation. People trying to get better salaries, understandably. You've seen Daewoo going on strike, complete strike, I believe it was for ten days, and it's probably not the end of it because it's not resolved. We've seen signs of this happening in other yards, but maybe to a lower scale. And I think that in China, we are hearing that there are some delays in the other segments. But remember, there's not a lot of tankers, certainly VLCC that are being built in China unless they are for Chinese accounts, and therefore, the data that we get in terms of delivery and all delays are relatively gray, gray zone. So, it's difficult to see the impact.

But we understand from other segments that, yes, there are delays. Also, the delays can come from the fact that people place order on the relatively cheap side of the inflation, cheap side of the steel price. And we understand that there's a lot of, I mean, yards that are trying to renegotiate prices because of that. And certainly, in China if they don't manage to negotiate, they may even go bankrupt. So, watch out for the space in general. But on the tanker side, it's true that the picture is a little bit different, but, nevertheless, positive for the fundamentals.

Anders Redigh Karlsen
Okay. Thank you for that.

Operator
Our next question will come from Chris Robertson with Deutsche Bank. You may now go ahead.

Chris Robertson
Hi, thanks for fitting me in here. Hugo, you spoke about the fleet rejuvenation in the press release, and you just hit on the future fuel technologies in the last question here. So, I just wanted to follow-up on that and ask, how do you think Euronav's fleet renewal efforts will evolve, especially in the back half of this decade as we get closer to 2030? And then, do you think that the current landscape of yards that exist will be sufficient to kind of renew the fleet once these future fuel technologies are available and a little bit more mandatory?

Hugo De Stoop
It's a great question. God knows I don't have a crystal ball, but it's true that we have this joint development program that we signed, and we are the only ones on the tanker side. We signed up with the largest yard mainly in [indiscernible]. So, hopefully we know a little bit more about it than the others.

So, what's going to happen is, the first ammonia ship for VLCC that is, in fact, for what we call the 70-bore engine, and that's the largest engine that is being used in the shipping industry, is only going to be ready late 2026, probably early 2027. So, the first ammonia engine for smaller ships will be developed in the first place, and will be available as of 2024. Then they will gradually go up to our size and our segment for the 70-bore. And again, that's late 2026 early 2027.

If you look at our ESG presentation that we did in May, we had a timeline, and I think it was also repeated here. You can see the milestones that we would like to reach in order to reach the bigger milestones 2030, 2040, 2050, 2050 net zero, obviously, 2030 minus 40% compared to 2008. And we also said that we would like to operate at least one ship that has the potential of net zero emissions. And that could be two technologies. It could be ammonia, because it doesn't emit CO_2, but it could also be LNG or methanol, as long as that product is green. And, therefore, whatever CO_2 that they emit is being captured.

Even though that's preferable, but we need to see what gets developed for the shipping industry, and we know it's going to be a multi-fuel industry, but definitely, per segment, it's going to be important to see what gets developed.

So, the second part of your question was, will there be enough capacity. I think we are seasoned people. I mean, we've been in this industry for 20 years, and we have heard that concern many times before. I think if there is great demand for this new technology, the space will be created, and if people are willing to pay for it, then it will be developed and will be available.

We have seen that time and time again. So, I do not have a major doubt that this is the case. Nevertheless, I think that you may well see a dislocation between the clients' demand for that and the suppliers, i.e. the ship-owners, where the people who have, while the early adopters of the technology knowing that that technology is mostly developed. I'm not talking about R&D, of course, but mostly developed by shipyards and engine manufacturer, but the early adopters should benefit from a high demand, because the trend that's going to be driven by Scope 3. So, when you have to reveal what your supply chain is, in fact, emitting, we believe that our clients will be in high demand compared to the number of vessels that will be able to meet those requirements.

And I'm not even talking about when there will be a carbon tax, and we all believe that there will be a carbon tax before 2030. Obviously, starting in Europe, and that's already defined, but probably much broader than Europe. And so, that will also drive demand for ships that are, from an ecological environmental point of view, lower emitters or zero emitters, as the case may be.

Chris Robertson
Thank you, Hugo. Really comprehensive. I appreciate the color on that. I will turn it over.

Operator
Again, if you have a question, please press star then one. Our next question will come from Quirijn Mulder with ING. You may now go ahead.

Quirijn Mulder
Yes. Good afternoon. Thank you that you pick up my questions. I have, in fact, two questions. First, about, let me say, the situation with regard to the scrapping because we have discussed that earlier, that last year was somewhat disappointing that scrapping was picking up very, very slowly. So, what is the current situation? What is the expectation of that? Is that picking up? Is that accelerating? Because that can be the big boost.

And what's the situation with regard to Iran? I heard that the negotiation will restart after somewhat delays, I think. So, is that something which you are closely following what's happening there? So, those were my two questions for now.

Hugo De Stoop
Yes. Thank you very much for that, Quirijn. Maybe, Brian, you can take the first one, because you have the latest number on the number of Suezmax and VLCC that has been scrapped this year.

Brian Gallagher
Absolutely, yes. I mean, you're right, it has been a bit slower than we anticipated, where we count five VLCCs scrapped year-to-date, and eight Suezmax. It has been a bit lumpy. Last year was really disappointing where our original expectations were, but it ended up being reasonably good to certainly the highest year we had since I think 2017.

So, yes, it's not the way we were thinking, but again, we think there's a pretty logical explanation for that, in that we've had this illicit [ph] fleet buildup. That's been largely doing some of the [indiscernible], to some extent, Venezuelan trade as well, and that's been very VLCC focused.

But, at the same time, we're still seeing very high asset prices, as Hugo said earlier, and that's a very, very encouraging background. And we still remain of the view that we'll see owners start to move to the recycling yard at some point, but it's just a question of when, rather than if.

On the Iranian side, we're in the same camp as you. We read the same newspapers. We've obviously alluded to and given an indication of how impactful this would be on the tanker market, will be more impactful on the tanker market than it would be on the crude oil market. But I'm afraid we're just going to wait and see, and see if there's any opportunity for negotiations to develop.

I don't know if Hugo has anything to add to that, but we continue to remain in a wait-and-see, as you are, on the Iranian situation.

Quirijn Mulder
And with regard to the Suezmax, for example, benefiting from the Russian situation, isn't there a risk that you will also see there somewhat illicit trading in 2023, when there's a serious boycott?

Hugo De Stoop
You may see that, I mean, there's no doubt about it, but it's much more difficult to organize compared to the Iran-China trade. And if you look at the map, you understand directly what we mean by that, because your illicit Suezmax will probably take the oil out of Russia. But then if you want to have something that is the best economics, I mean, the economies of scale, largest cargo transport over a long distance, then you need to discharge them into VLCCs.

And those VLCCs, those Suezmax and VLCCs, can only do that outside territorial waters or economic borders of the EU, and that is off the coast of Africa, and not in any place, obviously, because you need to find the right area which is time [ph] enough to do that.

So, it's very, very different from what we've seen in Iran develop for many years now. But having said that, obviously, people will try to benefit from it. And let's not forget, again, that it is very important for the energy, in general, that this oil flows somewhere.

As far as we are concerned, we are looking at the ton miles. We say, okay, this oil was going over a very short distance between Russia and Europe, and now it has to go and find clients on the other side of the world. And, obviously, these clients, which were getting their oil much closer to their territories, they will let that oil go, and that oil will come to Europe. So, from a shipping perspective, it's an advantage.

From a trading perspective, you may rearrange a certain type of fleet, with certain nationalities, with certain flag, may need to do certain trade, but, overall, it's relatively positive, and it's a very different situation than what you see in Iran.

Quirijn Mulder
Thank you.

CONCLUSION

Operator
This concludes our question and answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.