Euronav NV (EURN) CEO Paddy Rodgers on Q4 2018 Results - Earnings Call Transcript

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Euronav NV (NYSE:EURN) Q4 2018 Earnings Conference Call January 24, 2019 8:00 AM ET

Company Participants

Paddy Rodgers - Chief Executive Officer

Hugo De Stoop - Chief Financial Officer

Conference Call Participants

Jon Chappell - Evercore

Chris Wetherbee - Citigroup

Randy Giveans - Jefferies

Mike Webber - Wells Fargo

Greg Lewis - BTIG

Ben Nolan - Stifel

Magnus Fyhr - Seaport Global

Noah Parquette - JPMorgan

Amit Mehrotra - Deutsche Bank

Fotis Giannakoulis - Morgan Stanley

Operator

Welcome to the Euronav Q4 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I'd now like to turn the conference over to Paddy Rodgers. Please go ahead.

Paddy Rodgers

Thank you. Good morning and afternoon to everyone and thanks for joining Euronav's Q4 2018 earnings call.

Before I start, I would like to say a few words. The information discussed on this call is based on information as of today, Thursday, the 24th of January, 2018, 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 expressly qualified in their entirety by reference to the risks, uncertainties and other factors discussed in the company's filings with the SEC, which are available free of charge on the SEC's website at www.sec.gov and on our own company's website at www.euronav.com.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement and the company undertakes no obligation to publicly update or revise any forward-looking statements. Actual results may differ materially from these forward-looking statements. Please take a moment to read our Safe Harbor statement on page two of the slide presentation.

I will now pass you over to Euronav's CFO, Hugo De Stoop, to run through the first part of the presentation.

Hugo De Stoop

Thank you, Paddy. Good morning or afternoon to wherever you are today and thanks for joining our earnings call. As always, I would like to start with the agenda slide on slide three. I will run through Q4 highlights and provide a full financial review of the income statement and balance sheet before handing back to Paddy, to run through the current market themes in the tanker market and Euronav's outlook before we take questions.

Let's now turn on slide four. The graph on slide four shows clearly the market improvement seen in the fourth quarter of 2018 when compared to the fourth quarter of 2017, reflecting the better rate background, especially in November and December. The freight rates we saw were the highest in two years and this has continued into strong start of 2019.

On the S&P side, we constantly monitor the market and some of the better opportunities we can see on asset disposal. This was definitely the case for our 10-year-old Suezmax Felicity that was sold just before the year-end and delivered to our new owner for conversion in January.

Capital markets took a major hit in December and shipping stocks, including our own, were particularly mistreated and fell to a point where the company enacted a share buyback as part of our approach of consistently looking to create longer-term value for our shareholders. So far, we have declared having bought around 1.4 million shares since late December. We may continue to look at this mechanism and others in order to return capital and create long-term value for our shareholders.

Moving on to slide five in the income statement. We had a number of one-off extraordinary items affecting our P&L during the quarter. All are non-cash and I will run through each of them now.

Firstly, there was $5.3 million charge for the relapse to 2025 for the Gener8 New York office. This charge was taken as an adjustment to the bargain purchase on the Gener8 merger

Secondly, there was a $6 million adjustment again in the bargain purchase line related to the Gener8 merger, as we reassessed the value of the two LR1s we purchased from Gener8. These were or are non-core assets, one of which was sold in Q4 taking a small additional capital loss of about $200,000.

Thirdly, despite achieving a remarkable price for the Suezmax Felicity, we had to take capital loss of $3 million in relation to that sale. Finally, we had a $0.5 million negative marked-to-market value of an interest rate swap instrument. This is due to a significant downward movement of yield curve in December. These non-cash exceptional items totaled $15 million for the quarter.

Moving on to slide six and the Euronav balance sheet. The available liquidity was reasonably stable to $674 million but leverage remains amongst lowest in the sector at 48% when marked-to-market values. Euronav has no outstanding CapEx obligation related to newbuilding going forward.

That concludes my remarks for this section of the earnings call and I will now pass it back to Paddy. Paddy, over to you.

Paddy Rodgers

Thank you, Hugo. Now turning to slide seven and focusing on the age profile of the VLCC fleet. As this slide shows since 2011, the average age of vessels leading the VLCC fleet has been just over 20 years of age, that dovetails with all of you the depreciation vessels over 20 years is the correct means of accounting for the appreciation in the time for business, which is a real cost in a the capital-intensive industry such as ours.

More critically, however it is possible to see how the average age has risen by nearly 25% to its current level of 9.5 years The replacing of a single haul tankers by double haul tankers a decade ago reduced the average age of the fleet considerably and we are now only just seeing the fleet returned to more normalized levels of maturity.

This means, in each year going forward, there will be 10, 15 or 20 natural candidates in their late teens or approaching 20 years of age that will exit the fleet. This means that each newbuilding will not automatically result in one newbuilding of fleet supply growth.

Staying with the assets, I would now like to look at asset pricing on slide eight. Newbuild prices have continued to rise steadily over the past 12 months, in fact since Euronav announced our merger with Gener8, newbuilding prices have risen by 13.5% fully vindicating our countercyclical investment.

Last price rises have been less significant in other age groups; upward pressure on NAVs for stocks has been a consistent feature over the last year. However, equity valuations have not kept pace indicating the disconnect between asset and equity values.

We believe asset prices are giving capital markets a strong indicator.

Finally slide nine and the key issue for investors. The order book and OPEC production counts. A very heavy delivery schedule for 2019 of 79 VLCC equivalents is clearly a concern for investors and ship owners.

Firstly demand growth, we believe will remain on track and the recent reaffirmation by the IEA or its forecast of 1.4 million barrels per day of demand growth would require 43 VLCCs in 2019. We believe further 14 uranium VLCCs will exit the global fleet in 2019, needing to be replaced by vessels from the commercial fleet.

Last there has been a reduction in OPEC or of the new OPEC USSR Saudi relationship of 1.2 million barrels, we believe that this will be replaced primarily by U.S. crude export growth of at least 500,000 barrels per day, but would require another 20 VLCCs assuming most of these was destined for the far east, so we already have 77 VLCCs of demand – of supply, sorry, absorbed by these basic demand forecasts.

Disruption from IMO 2020 is we believe going to be underestimated by market commentators and that the 70 VLCC and 50 Suezmax's we expect to exit the fleet for retrofitting scrubbers will have a big impact on the availability of supply particularly due to increased congestion and delays in preparation for IMO 2020. And taken together they should account for absorption of another 20 VLCCs.

Finally, we forecast 22 VLCC equivalents to exit the fleet for recycling in 2019 based on the age profile of the fleet and often coming special surveys. Last scrapping is affected by the level of freight rates and steel price it is ultimately determined by age. And as we showed earlier, the large tanker fleet is matured in recent years, leaving steady supply of older tonnage under pressure.

It would be remiss of me not to focus briefly on developments ahead of IMO 2020 on slide 10. This week we've seen one of the key ports in the crude tanker market, Fujairah, ban open-loop scrubbers following on from Singapore before Christmas.

The map on slide 10 shows the current status of what open-loop scrubbers can be operated and where not. Our view remains the same on scrubbers. We remain skeptical and would like to see the technology more thoroughly tested in the tanker environment as we outlined in our last quarterly call in October. We will, however, remain vigilant during this dynamic period with regard to developments and update shareholders accordingly.

So, to conclude on slide 11. Slide 11, our traffic lights remained in the same position as last quarter. Demand opportunities from IMO 2020 and our financing view remain strong green lights.

Supply of oil is a battle between Saudi and U.S. productions, which will become clearer later in the earnings release. And finally vessel supply remains mix of red and amber as we've demonstrated absorption of the exceptionally high forecast number of VLCC equivalents is possible given the number of exceptional features such as Iran and IMO 2020. It will be challenging for all large tanker owners, but nevertheless we believe that there should be a market with a robust outlook for 2019.

With that I conclude our prepared remarks and pass back to the operator Thank you.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And this morning's first question comes from Jon Chappell with Evercore.

Jon Chappell

Good afternoon, guys.

Paddy Rodgers

Hi, John.

Hugo De Stoop

Hi, John.

Jon Chappell

Paddy. Hi. Good afternoon. Paddy, first question is on the preparation for IMO 2020. So from the press release you said you're working on alternative mechanisms to capture volatility. So I don't want to press you so much as to what exactly you're working on, because I'd assume there is some proprietary nature and that you said you'd update us on it.

But as I tried to think about capital commitments and off-hire time, Hugo mentioned liquidity; you have no dry docks this year. When do you expect to kind of choose the path forward on preparation? And as we think about what that would mean to fleet utilization and your balance sheet going forward? How could we think about the potential spend on that and any off-hire days associated with it?

Paddy Rodgers

Yes. John, I think, there are a number of different aspects as we know to IMO 2020. And you mentioned balance sheet use. I think that we'd be very reluctant to go down the roots of capital expenditure that is reflected in long-term changes to our ships, such as installing scrubbers, simply because that's capital that’s gone and then eventually you hope to catch it back if you are able to bunker at the right time at the right port on the right spread. And we think there's a lot of volatility risk and therefore that looks like it has a lot of risk in there, actually having a profitable investment in those modifications.

As we've explained to a lot of investors when we meet them, our view is slightly different. We believe that as the purpose of a scrubber is to catch the fuel oil spread in the volatility, it's more interesting actually to use some of our purchasing power which we have anyway for the acquisition of a bunkers, it's simply time, the moment that we entered the market in a way that's optimal. And unlike other sectors, like containers or dry cargo, the great thing about tankers is we have great storage capacity.

So I think that we can balance our position during the course of 2019, which will enable us to optimize the moment at which we enter the market in order to establish positions that ultimately will be forward buying positions, or they might be opportunistic as we go into 2020, depending upon any risk around the fuel oil price collapse. So we'll be trying to work a system around that. I don't think there's much need to tell you more, simply that we are putting in position everything that’s necessary as components of that during the course of this first three months of the year.

Jon Chappell

Okay. That's very interesting. And then, my follow-up for Hugo, as it relates to part of Paddy's answer. You mentioned $664 million of liquidity. You've obviously been pretty proactive on the buyback front. As you think about kind of free cash for 2019 that gives you the ability to either continue to buy back stock in addition to your fixed dividend, or buy assets. Out of that $674 million, what should we think is a real kind of deployable number this year without kind of pressing too far on the leverage button?

Hugo De Stoop

Yes. Thank you, John, for the question. Well, obviously given where we are in the market, the cash flow are positive and therefore you may expect that position to increase and I think that Euronav has always said that, as far as capital deployment is concerned, we will always look at the time of distributing or returning that capital to shareholders, what is the best course of action. So we will look at the share price and then potentially decide whether it's more appropriate to distribute additional dividend beyond and above the fixed one, continued buyback or potentially reduce further debt in order to load a bigger revolver and be prepared for any opportunity that we see in the market.

So it's a little bit difficult to tell you at the beginning of the year what we're going to do, because first of all we don't know what sort of cash flow we can have throughout the year. I can tell you that at the moment, we are probably printing more cash than what we're spending on the buyback. And therefore as we said in the press release, we may very well continue to do that because at the moment the share price looks like it is severely discounted compared to NAV, but that as you know can be directed in no time and then we will take other decisions when we analyze all the components.

Jon Chappell

Thanks very much Hugo. Thanks, Paddy.

Operator

Thank you. And the next question comes from Chris Wetherbee with Citigroup.

Chris Wetherbee

Hey, thanks and good afternoon, guys. I want to come back to IMO for a minute and Paddy maybe just get your sense of how you think the sort of back half begins to play out. Should we expect to see some disruptions in trade lanes as early as sort of call it early 3Q or putting kind of coming to the crystal ball there, how do you think about timing and how this kind of starts to play out as we see refiners as well as shippers start to make meaningful adjustments to later parts in the market?

Paddy Rodgers

Thanks, Chris. Certainly those changes have to be made. So they aren't coming. So it's only a question of when we think the timing is. If you're going to have to resegregate the whole industry to cope with the sulfur as a critical element in the characteristics of your crude oil and its products, all its products then obviously you're going to have to change the way that you operate and segregate and the way you buy and the way that you sell.

So this is coming. It's not a question of whether it will come and then question is, which quarter will impact in. I know that we spoke and so it's not just a personal opinion of sitting in the bath and having a sort of stab at it, but rather take interview, as I said, sitting in the bath because that's where some of the best thinking goes on.

It's to say, we have spoken to a few people. And I think that we refiners and the storers, a logistics company that said to it has to happen in Q3, because you just need to the time. It could be because a lot of it already starts end of Q1 because that's the refinery turnaround and so people may well say, you know what, I'll take the refinery down for longer reorganize myself now. But I think as you correct Q3 is almost certain has to happen then.

Chris Wetherbee

Okay, okay. That's very helpful. And I guess, you've been pretty clear about your views on scrubbers in sort of how you think about it. Is there something -- could there be incremental development that might make you rethink the way that you approach installation on scrubbers. Just kind of get a sense of what you think are the most important factors to be looking at when you are making that capital decisions with your fleet?

Paddy Rodgers

Yes, no, I think, we did a full -- you have seen that in the presentations that we have on our website and I certainly invite you to have a look at them. I think that fundamentally we have adjourned this approach towards the idea of additional CapEx in the hope of that being profitable repaid and profitable on later earnings developments, because that's sickness of the shipping industry isn't it? We have to dump all of our cash upfront and then we're always threatened with time versus depreciation where we hold out for the rates we need to earn our money back with the right rates of return, and of course, that's been the story behind what people will plan to do with scrubbers.

So will that be -- how much will it cost to invest in one and then the question is, how long will you get to get it paid back and how wide will the spread be. And without going exhaustively through the arguments I would just say, we thought that there were risks till the time that you'd be able to operate and there would be risks to the spread.

And the risks to the time might be environmental because organizations might step in and say not in my backyard, and I think we're seeing the pendulum swinging on that at the moment, so that what looked like an open field a year ago is beginning rapidly to close down.

Now that's really important to the investment case, because it's reducing the number of days that you can take advantage of the fuel oil spread in order to pay back the cash flow that you've invested, the capital that you've invested to get back to the cash flow benefits of cheaper fuel, so it's already having an impact.

There’s an operational impact both in the installation where it may take longer with your ship out of the market to install it. And on the flipside, you might find there are more operational problems in maintaining the equipment and able to keep it running, so that you can burn the cheaper fuel.

When you look at the fuel spread itself nobody is quite sure how hard and far HFO will fall, but nearly everybody say it will bounce back and you’ll see that in things like the BP statistical review where they saw a huge bounce back in demand for HFO on the basis of the price would drop so far and so fast that there would be an immediate update in additional tranche of scrubbers, which would takeaway any discounts on HFO.

Then, of course, we see these refiners becoming ready to make complaints fuel. And if they take enough volume then, of course, there will be no premium to it and we've already seeing trades downward and in thing between $40 and $100, which would mean the payback time at $100 of about four years on a scrubber and significantly if it’s only $40 this premium over HFO, it could be 14 to 15 years to get your money back, let alone make the profit.

And then on the general mood music around it, when we talked to all majors, they always said to us the scrubbers is a story that will affect the market 2020, 2021, 2022, by 2023 it will be all over.

And on further probing it's all of these different reasons that we've described and then last but by no means least, we've seen management group in other public company put in place a reward scheme for management, based around a differential outperformance of investing capital against higher returns but the target dates for that are only 2020 and 2021, which again tends to indicate that the view is that there is going to be a very narrow window.

Now if the spread is under questioned, the window in which the availability of the scrubber uses under pressure and the time spread and it’s on the geographical spread they're operational difficulties and political risks then you're balancing out quite a lot of issues you need to take into account. I hope that answers your question.

Chris Wetherbee

That’s a very thorough answer. Appreciate the time guys. Thank you.

Operator

Thank you. And the next question comes from Randy Giveans with Jefferies.

Randy Giveans

Hey, good morning or afternoon, gentlemen. How are you?

Hugo De Stoop

We're great.

Paddy Rodgers

Fine.

Randy Giveans

Excellent, excellent. So, just a few quick questions. Looking at your fleet, I think you still have $42 million or so in the balance sheet for assets held-for-sale. Is that solely the Felicity or are there other assets that you're planning on selling here in the coming months?

Hugo De Stoop

That's only the Felicity.

Randy Giveans

Okay. Any plans for the LR1s or some of the older Suezmax's in terms of the asset sales?

Hugo De Stoop

Yeah, I think we are very clear to say that this is -- the other LR1s given that we have sold the first one in December, is a non-core asset and we will deal with that in due course. It seems that on the valuation front the market is improving and so it might be wise to wait a little bit more before selling it. But we didn't classify it as an asset held-for-sale as we usually do that, only when we have a firm idea of when we're going to sell it and probably to who we're going to sell it.

Randy Giveans

Got it. Okay. And then, just looking at market rates. Obviously, they peaked in early December, had fallen pretty constantly here over the last six weeks. VLCC is down almost 35, Suezmax is maybe 20. So can you discuss maybe two or three of the biggest drivers for that? And do you expect this weakness to continue through the remainder of 1Q, 2Q? Like, when does it turn?

Paddy Rodgers

Yes. So I think, when we could meet the investors we've been guiding on the outlook for this year pretty consistently, saying that we think it would be a disrupted year with a lot of volatility, but with a great opportunity on the shipment side to press the good freight and to get a good average earnings for the year.

Now back in December when the market was peaking, late November, early December and we were earning $60,000 a day. We flagged up when we thought the test period was – on the first test period we thought it would be the start of the New Year.

And the reason for that is simply because as the New Year came in there is a lots of VLCCs were being bid in to the position list from the yard, even though they weren't really ready to load cargo and so it weighs heavily on the psychology of the ship owners. And I think that's why we saw the rates given up so quickly in the first few weeks and days of the year.

On reflection, it seems that this was an oversell market and the ship owners were a little bit too nervous of the incoming ships from the newbuilding yard, simply because a lot of those ships got fixed into gas oil product cargoes as they were clean and tied up there.

So we see some stability. We haven't seen the market completely collapse. We've seen it steadily come off and show some support around 30k a day. We have a reasonable amount of demand, so we're not seeing cargoes drop off and we expect to see that continue through to Chinese New Year and early February.

The market will be tested during Chinese New Year, because there will be an absence of buying power for a week or two. So it's dependent on owner psychology. The market gets tested again around refinery turnarounds, March, April. And Q2, we believe, should be the weakest quarter of a year. But as we said earlier, we think some of the real wins in terms of pressure from IMO will come in the second half of the year and we expect to see the rates return quite strongly in the second half.

Randy Giveans

All right. And then, just to summarize all your comments around IMO and scrubbers, do you expect to have any scrubbers installed by January 2020?

Paddy Rodgers

I don't think there's some, but you could have had a clearer exposition on the company's position.

Randy Giveans

Okay. I just wanted to give you that opportunity. Thank you so much.

Operator

Thank you. And the next question comes from Mike Webber with Wells Fargo.

Mike Webber

Hey, good morning, guys. How are you?

Paddy Rodgers

We're great Mike. And you?

Mike Webber

Good. First of all, the term jaundiced approach to new capital spend is pretty fantastic. So there will be leveraging in our own writing. Paddy, just I wanted to start on the dynamics between asset values and equities which you guys spent some time going over in your deck and in your commentary. Obviously, we don't get these kind of dividends very often. You guys have clearly been buyers of your stock here.

I'm just curious, when you look at the levels for new tonnage, going back to the jaundiced approach to new capital spend. Theoretically, are you a still buyer of tonnage at these levels? And when -- I guess, maybe post the move we saw in second hand pricing in December, have you noticed the bid ask or volume around tankers thin out a bit when it comes to asset sales, kind of, post into the recent move?

Paddy Rodgers

So first of all, most of our asset sales that have been done so well by our commercial team in the last five years or so have been into the offshore industry. So they'd be pretty much tailored -- they have been pretty much tailored to the quality of Euronav's fleet and the services provided alongside it rather than just iron sales.

I think that we’re not seeing a great thinning out the market is naturally quite thin. I think there’s a lot just because that's the way the market is. There isn't huge liquidity at all points in the cycle.

We think there's a lot of uncertainty in the market now, of course, because we're really into the gravy strokes in the last 12 months before IMO 2020. So I think most people, we feel seem to have placed their bets.

I think people are attracted by shipyard pricing, which still remains a good even though it's crept up. I don’t think that that's Euronav's style though unless we have specific use order or desire, we would tend not to speculatively invest and certainly right now by far the best buy is our share. I mean, absolutely by far the best buy whatever your outlook is.

And the great thing about the competitor buying any steel is that you can buy it and you can sell it within the same day if you want to. So there is no time lag or confusion.

So I mean we're great believers in the outlook. I think that the general stock market sell-off is a huge problem and one of the things that we would really exhaust all of the people who consider themselves sophisticated investors and analysts is to say, look, there's a huge amount of noise. This is where you meant to earn your stripes by listening through the noise, through the signals. We're not like other equities; we didn't get a five-year run-up on cheap money to make us hugely overpriced for our earnings. We're actually really good value.

So in this slope of earnings and the poor earnings and the poor outlook and potential risk of recession, you're actually looking at an investment that could be resistant and proved to all of them and deliver good value. So I hope somewhere in the advisement, I’m not responding to your question.

Mike Webber

No, I think that was in there somewhere. I appreciate it. Just to pivot, I guess, on the back of maybe John's question, around maybe alternative ways to look at IMO and I assume we’re talking about some degree of synthetically hedging or more dynamic approach to fuel exposure.

I'm just curious is that something that would happen at the Euronav level or at TI? And even if that’s not something that even if I'm misreading that and that's not something that you guys are looking at, how does your exposure and your relationship with TI, kind of, structurally and mechanically, how is that impacted by IMO 2020 and in terms of pass-through and pull points and maybe just a little bit of an overview there would be helpful?

Paddy Rodgers

Yeah, I think that’s -- first of all it's a very sophisticated question. So -- because it breaks up the different points, which you're going back to think about your cost of business and your pricing of sales.

And I think that is fair to say that we are working with TI on how that looks and we may well enough supplying in bunkers to them. We’re not quite sure quite sure how we’re going to structure that price point. And no doubt when we have a clearer message on it, we will expose it to you.

But I think it won't be top secret. It will be something that will be in the marketplace and people will need to understand that. I think that as far as bunker supply goes and this was a point that we were discussing at a conference yesterday was just simply, the whole -- people have to understand the whole world of bunkering is changing. If people are going to be buying a product now, which is desulfurized product, they're going to need a quality assurance and they're going to need provenance of origin.

The bunkering market was a residual fuel oil market, abandoned by the oil majors and refiners and handed it over to bunker suppliers. And so there's going to hanky-panky around the quality of volumes and pricing of bunker fuel, which we saw last year with a number of contamination cases and would be huge spreads that you can see globally geographically, depending on where you buy and on what time.

I think this market, where people position themselves not on the quality of the product but on the credit terms that can get to shipowners is going to get time called on it in IMO 2020 and shipowners are going to have to warrant to their customer that they have fuel supply on provenance that is a reliable, timely and meets the need to keep the fleet reliable and of good quality service.

And at the same time you can be buying the customers fuel is new product fuel, I think you're going to be putting yourself in the front seat but it's going to be very exciting and interesting time, a lot of developments, probably I think the ultimate thing must be consolidation.

Mike Webber

Okay. That’s helpful. I appreciate that. Thanks for the time guys.

Operator

Thank you. And the next question comes from Greg Lewis with BTIG.

Greg Lewis

Yes. Hi, thank you and good afternoon.

Paddy Rodgers

Hi, Greg.

Greg Lewis

Paddy, just if we could go back in some of your prepared remarks that you were talking about the outlook for the balancing of the market and you kind of mentioned the retirement of the VLCCs in sort of a consistent and you kind of throughout 10 to 15 per year.

When we think about that, typically demolitions are lumpy, right and in years when rates are good, there aren't a lot of demolitions and when rates are lousy, we see a pickup in demolitions, So as -- with regarding that comment, has something -- have things structurally been changing that are going to kind of flatten out or steady the rate of demolitions we should expect to see over the next few years?

Paddy Rodgers

Yes. I think it's really important Greg, because I think the view that I was expressing is something that would not surprised anybody in 2004 but it surprised somebody in 2019, because of what happened in the years following 2004.

So we would have always said, whenever we look to the new order building book, we always had a look at an age fleet profile, because if you – you would expect to have -- if the V fleet was, whatever the size of the V fleet, you would have expected that you needed 5% of that fleet to be on order at the shipyard for every year of the order book delivery window in order to have a steady state uniform size of the fleet.

So that sounds cool, that's for anybody who was around before double to single haul but we have such a cleanout of ships in the double to single haul, which helped to fuel that boom 2004 through 2008, but we ended up at the end of it with a very young fleet and then we went through this desert, it's absolutely desert that we went through from 2008 when the market collapsed all the way through to 2015 based on the fact that every single ship that was ordered was incremental to the growth of the fleet.

Now what's amazed us of course is the fleet managed to absorb a lot of that between 2015 and now on the basis of the expansion of ton miles and the absorbency rate will be inefficiency of the use of the VLCC these days compared to 20 years ago. So we're getting back to sunny outlands where now, the 1998 was the first big year of double haul deliveries. So now in 2018 we get negative fleet growth. And the reason we got that is because so many of those ships topped out at 20 years of age and were really unworkable.

So certainly for the large area of the market they were not addressable and so they were left with a very, very small area to work and possibly they could work in the AG or India. But a lot of that old business Iran to India, et cetera is very constrained.

So what we're going to see as we go forward is that, there will be natural 20-year-old scrappers, year-on-year. That means every newbuilding doesn't add to fleet growth. You have to see what's going to go out the door. And yes, it is impacted by price sensitivity, but it's impacted a lot more by the service requirement of the customer.

Because it's all very well, having a market of $60,000 a day, but if you are earning $8,000 today on an old tanker because you only get fixed by one small client every year, you can't get four or five fixtures a year, then your earnings are what matter and not general market earnings. And then the scrap price can be very inviting.

Greg Lewis

Okay, great. Thank you for that. And then just the other question. So I mean the OPEC costs have, I guess, been at this point – the pullback in volumes has been kind of worked through the market. I guess, where you are seeing those – I guess, we'll call them lost barrels being replaced from, all right, any kind of color around that would be pretty helpful?

Paddy Rodgers

No, for us, we just – I think that, we predominantly say, as we are predominantly focused on. The U.S. Gulf and Atlantic. So we're really seeing – the area where we've seen the pickup in cargoes is through the U.S. Gulf, the Caribbean and down to Brazil. And that seems to be where incremental replacement is coming from. We maybe a bit jaundiced, simply because we're largely working for certain Chinese clients who look in that area for the oil they want to buy.

Greg Lewis

Okay. So just if we can dive a little bit into that. If I think about this and I think the OPEC volumes have been removed, they've been replaced by Caribbean volumes, the bulk of those Caribbean volumes are heading to Asia, shouldn't that be more supportive to the market?

Paddy Rodgers

Yes.

Greg Lewis

Or is there some delay or lag between the Atlantic-based volumes replacing those Middle Eastern volume?

Paddy Rodgers

I don't think there's a lag. I think, as I said you earlier on, I believe that we're set up structurally for that. If we were only looking at the oil supply side, we would be talking about a really good news for the market. I mean, let's not forget AG to China is about 11,000 miles. And China to the U.S. Gulf and the back is nearly three times the distance. So it's absolutely impactful.

But of course there are other elements in it. So the reason we're not getting the rate reflection in it, is because of the ship supply side. And it's just overhanging the market. I mean that's the balancing point for us. Oil side looks good, ship side still a little bit negative and particularly in terms of the psychology.

Greg Lewis

Okay, guys. Hey, thank you very much for the time.

Operator

Thank you. And the next question comes from Ben Nolan with Stifel.

Ben Nolan

Yes. Thanks. So I have a couple of quick ones. First, just in terms of the strength that we've seen lately and obviously the spot rates have been a little bit higher. Just curious if you'd taken the opportunity to pull any vessels out of spot market or out of the TI pool and put the mine contracts dollar or that’s just not something that you've done?

Paddy Rodgers

The only determinative for us is that there are only two things, the classic statement in chartering and shipping, which is the only two things matter on the time charter, the term and the rate.

So that's the only thing that we really look at. And if somebody comes to us with the right term that means number of years and the right rate, daily rate then we are very interested. And I think we certainly have had constant contact with everybody who is in the market to say, we're open for business, let us know.

But most of them have been extraordinarily opportunistic and lot of them have used the requirement to scrubbers as a beard for disguising the fact that they want to enter the market as a multi-year low point for time charters.

So even the people are getting paid a premium for having a scrubber onboard their ship, they were getting paid a premium on the lowest point in the market you could have fixed, which would have meant that it was a bad business decision.

So I think that talking to the charters their view at that moment is they would happily fix at lower rates. There's been a little bit of illiquidity because nobody is moving up to match the freight rates they're not worried about the TC’s at the moment compared to the freight the TC opportunity, so the differential between time charter and spot, because they also aren't sure what they want to do in terms of their exposure to fuel because the time charter then becomes exposed to fuel.

So if they sign a time charter today on a period basis and it goes over the end of the year, they have to think about what their exposure is to the change of fuel from HFO to complaint feel, so there is a natural buffer coming out to it, so there were a couple of constraints to that and whether or not people think there is a risk that more ships might get deliver from shipyards, which made time charter little bit softer at the moment in terms of the rates being offered.

Ben Nolan

Okay. That's helpful. Sorry, go ahead.

Paddy Rodgers

No, no…

Ben Nolan

Okay. So -- and then I wanted to circle back to maybe Greg's question on just how you're thinking to supply, and specifically on chart number nine where you walked through your cable to get from where you are to where you expect to be and you look at demand growth.

But then also there's a line in there for U.S. exports of 500,000 barrels a day. I was curious, it would seem to me that that 500,000 barrels a day would be within the 1.4 million barrels of demand growth. So, is that incremental 20, is that just a ton mile affect or is that…?

Paddy Rodgers

Yeah.

Ben Nolan

Okay. So that's -- an extra dosage that's what I thought.

Paddy Rodgers

Yeah. So you go, I mean, as I said it's a three times multiple. So it's really powerful

Ben Nolan

Yeah. Got you. And then lastly for me just thinking through the share repurchase program, and then capital allocations, and how you think about it, obviously, the share price has been at discounted now for a while and is even more so now.

Do you think that it is -- maybe putting on your shower cap back in the bath, do you think that it is maybe possible that investors are little bit hesitant to be willing to bid up the equity value even if asset values are rising just as a function of, kind of, perhaps a reputation by the industry is bad actor when capital becomes loose, and so there is hesitancy to chase the market a bit?

Paddy Rodgers

Yeah, I mean look I can completely understand that argument. And we got within the public company sector there are number of people who are serial issuers of equity and debt instruments in a manner which dilutes to anybody who just bought, so that time and time again if not the -- people want to take -- people -- I believe people understand the market argument and want to take market risk.

But unfortunately, management or controlling managers have time and time again completely disinvested them from their market thesis by adding additional shares or additional volumes into a different mechanisms where they don't have to get the value that they bought in for.

But you know, this is very different at Euronav. This is one of the things where we have nailed ourselves to the wall on our capital allocation because we wanted to make it clear for people what we've done. And you've seen us manage a series of acquisitions but including two major transactions where each time we made people wait whilst we pestered and worried ourselves about ensuring that whoever is an existing shareholder of Euronav is given preference in value, in returns and opportunity compared to anybody who is coming in as a result of the transactional or whatever transact for.

So I think that we've demonstrated it. There is an element of show me, well I think we've shown the market, but on top of that this is a good time to buy and there is something to compensate you for the carry because you do have a fixed dividend of $0.12 and you have seen the company walk the walk as well as talk the talk.

We are also co-investors now, because we believe the market is quite frankly misreading the value of the share. So I think that there are a lot of good signs that should make people prethinking and maybe just think you know what, this is a sector for bad actors but I am going to look for the signal, choose the right one and not going to be affected by the noise.

Ben Nolan

Yes. Now that makes a lot of sense. And I certainly concur on the tactic that you guys have employed over the years. That’s it for me. Thanks.

Operator

Thank you. And next question comes from Magnus Fyhr with Seaport Global.

Magnus Fyhr

Thank you. Good afternoon. Just a follow-up question on the IMO 2020. With more ports banning the open loop scrubber, have your calculation changed. I mean, the utilization for VLCCs maybe calling ports four to five times a year, what is it realistic usage of a scrubber with more ports batting the use of open loop scrubbers?

Paddy Rodgers

What I mean so -- sorry you just – I was momentarily distracted. You were just saying that the -- what's the effective usage of scrubber?

Magnus Fyhr

Right. I mean, how many days would you be like for example, if you're calling in a U.S. ports, how many days would you have to turn off the scrubber and now with China and Singapore and the Middle East also scrubber…

Paddy Rodgers

So even just on our base case that we were looking at for our own analysis, we reckoned you out, you wouldn't be able to operate scrubber 20% of the time. And that was assuming that there's nothing to do with any kind of breakdown allowance or any issues.

And then -- since then, of course we've had added areas where people would question or beginning to question. So I think that the -- our base case sort of basic internal graph that we used to run calculations and think about it all the time recons on that 20% of non-usage.

Magnus Fyhr

But that would be about 70 days and if you call a port, let's say, four, five times a year. I mean, you're looking at maybe almost two weeks per, I guess, time you call ports, is that kind of correct?

Paddy Rodgers

Yes, that would be realistic.

Magnus Fyhr

Okay. Thank you. And then just one question on the page nine, two things. There was a lot of slippage in 2018. How come – is there anywhere you have slippage in that graph? Or is that something – I think there maybe 10, 15 ships that would be slipping to 2020 in that graph?

Paddy Rodgers

Yes. No, we've been putting slippage in, just because you just have to do a yard by yard sort of experience factor. And quite frankly, once to start – the more that you affect the data, the more it becomes a bit unreliable statistically, so we've tried not to. And we just tried to use it straight-line, there it is, no slippage. I think you can make a judgment, if you can.

Magnus Fyhr

Right, right. And then on the Iranian VLCCs taken out of the market, I think the IEA or Gibson says that about six currently using -- six Iranian VLCCs in floating storage. Do you resume that number, I guess, to get to 14 should be maybe back to the historical 18 by the end of 2022?

Paddy Rodgers

Our view was higher than that. I think we're going to get closer to 30 by the time that finished.

Magnus Fyhr

Okay. Do you have any view on how many VLCCs that used currently? Or do you agree with that kind of six…?

Paddy Rodgers

I think why don't you call IR at Euronav and go through that in detail together. Because you're using -- you're quoting brokers' numbers. And we go through all those charts as well, so we can just have somebody, if you want to, sit down and walk you through which estimates we've used and how we measured it.

Magnus Fyhr

Okay. Fair enough. I'll call Brian after the call.

Paddy Rodgers

Thank you.

Magnus Fyhr

Thank you.

Operator

Thank you. And the next question comes from Noah Parquette with JPMorgan.

Noah Parquette

Hi. Thanks. I just want to ask about supply. Obviously, last half of 2018 was really good. I think there were only three VLCC orders. The last week we had six, plus an option. What are your, kind of, thoughts on why that happened? Was it just maybe a rise in secondhand values making the orders more attractive? Is there just a one-off thing here? And how are you thinking about new order risk this year?

Paddy Rodgers

Well, I suppose that most people are positioning themselves for delivery post 2020. And I think that it's not abnormal. It's normally a good time of the year, because I think that packages get put together in order to kick off the new budget that the shipyards have. They would have been given some astronomical sales figures to achieve, so normally you'll see a little bit of a rush as they do their first two.

Noah Parquette

Okay. That's all I have. Thanks.

Operator

Thank you. And the next question comes from Amit Mehrotra with Deutsche Bank.

Amit Mehrotra

Thanks. Hi, everybody. So just on the open-loop issue, if I can just circle back. I mean, my understanding and I could be wrong, but my understanding is that scrubbers are obviously only used when exhaust is created and 90% of the time exhaust is created in open sea.

So, Paddy, I understand you highlighted where it's been in the ports, so may be inland waterways. But just – with respect to that, I guess, fact, how does open-loop, the open-loop ban at ports specifically really actually structurally change the fundamental case for exhaust gas cleaning systems?

Paddy Rodgers

Well, first of all, on arrival. So you are also going…

Amit Mehrotra

Yes. I understand all that, but most of the fuel is burned. Yes?

Paddy Rodgers

Yes. And most people's calculations haven't taken in their full-time that they will be out in – they will be out in port. But let me just get to the – there's also boiler consumption, which would be banned in port even if you had a scrubber that could operate off your boiler as well.

So, Amit this is -- as I said at the start it's about pendulum swinging, the mood music changing. And I think that we're looking at what's happening around the world, clearly people addressing it in a different way and you will know I'm sure that one of the things under consideration from the Southern European nations is to establish a ban on the whole of the Mediterranean, and I think if that falls into place there'll be a risk over the British channel approaches to our range and the Malacca Straits. So I think that the pendulum swinging, who knows we'll see what happens.

Amit Mehrotra

Yeah. I guess, the Mediterranean can also turn into a mission control area, which in case 0.5% complaint fuel wouldn't even be, more maybe I guess 0.1%. But anyways moving beyond that and this might come across as tough question, Paddy. But it's not meant to be. It's really just meant to understand your conviction around IMO 2020 in many cases is against many of the other industry participants and a lot of PhDs that follow energy markets don't really know how this is going to play out frankly.

So I guess the question I have first is, what percentage of the VLCC fleet do you think will be scrubber equipped in 2020 and what are the disadvantages if any you see from not having them?

And then this kind of goes back to the question I had last quarter in terms of what happens if you're wrong, because wasn't that long ago that you were pounding the table on sustainability of the crude tanker market, you're calling out analysts and industry observers that negative on the crude tanker market, of course, we know how that turned out.

So my question is why take such an aggressive approach given that history and I'm not saying you're wrong you might be very well or right, but no one really know how this is end up. So, I just wanted to understand the thinking behind that?

Paddy Rodgers

I think you were paraphrasing, William Butler Yeats in Second Coming, when he said, the best lack all conviction, while the worst are full of passionate intensity.

And I hope that you never misunderstood my natural theatrical desire to keep an audience of wake on a detailed industrial argument for some sort of misty red eye crusade.

It's important when you're faced with the noise of people who are clearly in a sales mode that you tried to get through to your audiences to make them just check without being skeptical, faces your enemy, and doubt to your friends.

So it's very important to always check, and that's really our position on scrubbers. It's been an issue at saying, pollution is critical, because every time I bring this up at the dinner table, it's not understood by my family or my friends or anybody else that I meet, even the most drawn list of ship brokers seem to be surprised that there was a solution to a pollution problem by simply grabbing it from the air and sticking it into see.

That means if that audience is uncertain there is a political risk. Political risk is a real risk and the risk that you should take into case when you start to think about your economic position.

So when we looked at it, it's very simple. The arguments that I've heard since day one from every single analysts including self analyst, I talked about payback time. Well what happens to the old-fashioned concept of making a profit on capital investments.

Nobody seemed to talk about that. Well, if you want to ask $400 million of capital into the capital spend of Euronav and then run it back through the cash flows into the P&L and claim a victory in 2020 and 2021 and then ride-off into the sunset before everybody realizes that all we've done is circulate capital around the company and claim it's a triumph all well and good. But if this show over by 2022, this will have been a monumental error of judgment and a bad investment. And that's why we've been skeptical.

As far as what other people choose to do, of course it affects us because we do live in a prisoners dilemma of who is going to sell in the market and what are they going to sell and how are they going to price. We believe there are about 200 people who might install scrubbers, which of course will underscore the value of HFO.

But, if it doesn't and HFO collapses, we won't be going to an HFO port to load 5,000 tons and hope we hit the market at the widest divergent or spread then I would rather go and buy using Euronav's enormous liquidity and capital spread, a really significant position that could change value for Euronav during the year of 2020, that might mean 1 million barrels or 2 million barrels.

So I just want to make it clear that we are skeptical I think with good business people. I think we are always willing to take difficult questions and answer them what I hope and in passionate, sensible and doubtful skeptical approach. So, thank you.

Amit Mehrotra

Thank you. Appreciate it.

Operator

Thank you. And the next question comes from Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis

Yes. Hi, and good morning. Paddy I want to ask about slide nine and your forecast about the impact on vessel demand. I'm wondering, do you think that there are going to be inventory draws next year because I see that you show the demand increasing by 1.4 million barrels, obviously the OPEC cut is 1.2 million barrels. Are you -- what is more relevant for shipping? Is it the demand or the supply of crude in terms of where crude flows?

Paddy Rodgers

Yes, we had -- I have to say, we had this discussion before. And as you know, we don't live in the world of IEA estimates. And certainly, if I walk into the charter that's can say to them how is the market? They don't say to me how bang in line with IEA forecast from four months ago. They simply say it is in the reports that we get from them is cargo accounts per load area.

And what we say eventually is that when we look at this we see a nice correlation between cargo accounts and the expansion, so we get the absorption that we expect. So all I would say to you is that we do year-on-year and look at it, growth in cargo move is good and the distance is over which is moved is even better.

Fotis Giannakoulis

So shall we think about the demand or the supply of crude? And I'm wondering, if the crude flow going to increase next year given the OPEC cuts, because OPEC tends to be more seaborne flow, while the overall demand might be inventory draws that's my question?

Paddy Rodgers

No. I think that's an old fashion view. If you don't want me saying so, I think that we used to say OPEC was a swing factor on shipping, but let's be clear. As far as demand is concerned, we are really lucky that the crude prices adjusted downwards, which the IEA recognized with forecast for 2019. So oil looks cheaper, that's going to drive more consumption, particularly in the OECD and in the non-OECD then I think its GDP growth and structural investments.

And of course we have China, it's still a powerhouse, even that the percentage is being quoted, and particularly because a lot of the infrastructure build they're doing around the world with One Belt One Road. I don't think that the outlook's too negative. I think that's it's a combination of supply and production of demand and production and of course price critical to the factor. All right. Thank you, Fotis.

Fotis Giannakoulis

Thank you, Paddy. One more if you allow me and I won't ask about IMO 2020. In any way or other, there's going to be an additional cost to the industry, either through scrubbers or through higher fuel cost. At what point the ship owner has the bargaining power to pass through this increasing fuel cost? And under what scenario this is not going to be possible and that kind of be risk for the industry?

Paddy Rodgers

We are focused. You'd be pleased to know that I'm very glad that you've asked this question. And the reason I ask is that, it is very, very easy to pass through to the customer an increase in fuel cost if you're buying is increasingly expensive product. Because he understands that basically you are not only his service provider on the movement of oil, but you're also his customer, because you're buying his oil.

But, of course, if you're buying dirty old heavy sulfur or crude oil that you got from an independent refiner or from some slurry bucket in Singapore, then of course you might not have the same benign view to your passing on the cost of your capital expenditure, which is now depreciation in that freight rates. And that is the core of the point I was trying to make earlier on about your pass through ability once you made a capital spend.

You can pass through operating cost, particularly when the person you're passing it to is the person who benefited from the increased cost, whereas the capital spend that you made at the shipyard or to an industry marine equipment supplier and is now depreciation, you are not going to find so easy to pass through. Thanks.

Fotis Giannakoulis

Thank you very much, Paddy. That’s very helpful.

Operator

Thank you. And as there are no more questions at the present time, I would like return the floor to management for any closing comments.

Paddy Rodgers

No, we don't. Thank you

Operator

Okay. Very good, very good. Thank you so much. This concludes the teleconference. Thank you for attending today's presentation and you may now disconnect your lines.