Euronav

Q1 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Brian Gallagher – *Head of Investor Relations and Research*

Hugo De Stoop – *Chief Executive Officer*

Lieve Logghe – *Chief Financial Officer*

PRESENTATION

Operator
Hello, and welcome to the Euronav Q1 2023 Earnings Conference Call. All participants will be in 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 and then two. Please note, today's event is being recorded.

I would now like to turn the conference over to your host today, Brian Gallagher. Mr. Gallagher, please go ahead.

Brian Gallagher
Thank you. Good morning and afternoon to everyone and thanks for joining Euronav's Q1 2023 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 11th of May 2023, 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 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 a 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 this slide presentation.

I will now pass it over to 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'll run through the Q1 highlights before passing on to Lieve Logghe, our CFO, to give you the key financial figures. Brian Gallagher, our Head of IR and Research, will then run you through three key factors within the current tanker market trends before I return to summarize the outlook.

Moving on to the next slide. It was a very good quarter for Euronav and one where the freight market was especially strong. What was unusual is that the market got stronger as the quarter developed, which is counter seasonal drive compared to what we are used to seeing in the first quarter where typically the market starts to abate as the spring is approaching.

Indeed, the month of March brought the highest Suezmax and second-highest rates for VLCCs since 1990. This combined to drive Suezmax's rates higher than VLCC rates underpinned by strong demand from China and better ton miles across the tanker spectrum. This situation has resolved somewhat in

Q2, with rate softening now and VLCC rates compared to those in Suezmax, but average rates in Q2 are highly elevated in both absolute terms and for the time of the year, when we would have expected seasonality to pull rates downwards much earlier.

With a new supervisory board shortly in place and looking at both the strong company balance sheet and visibility on positive medium term fundamentals, a higher return to shareholders per year has been proposed, which will see Euronav investors benefiting from the final dividend for the full year 2022 of $1.1 and a Q1 dividend of $0.70, both payables in Q2, which means that a total of $1.8 per share will be distributed to our shareholders in the coming weeks.

I will now pass over to Lieve to run you through the financials. Lieve, over to you.

Lieve Logghe
Thanks, Hugo. Taking Hugo's point further, the Euronav's capital base is very strong, with over $900 million in cash liquidity, leverage falling again in Q1 to just below 43%, and robust cash generation coming from our fleet and benefiting from the repositioning we have executed in the past two years. We have, again, taken advantage of higher values for all the tonnage and the retain capacity for more should we decide to do so.

With that, I will now pass it back to you, Brian, to give some thoughts on the current market cycle.

Brian Gallagher
Thank you, Lieve. The order book has gained ample attention amongst investors in recent months. One of the key visible points of reference the tanker sector has is a very, very low level historically the order book currently sits at. This is shown on the left-hand side of slide 9. This is below even a replacement level of 5%, assuming uniform build and a tanker life of 20 years. However, there has been some signs of life and some overdue contracting of new crew tankers, mainly in the smaller segments, but including Suezmax in recent months. This was to be expected given the strong fundamentals and the fact that practically no vessels have been ordered since Q3 2021. The right-hand chart on slide 9 might look dramatic, but remember, we are looking at around 10 unconfirmed orders of Suezmax on a base of over 1,500 Suezmax and VLCC units globally.

There was also further context that is required and we give this in slide 10 with two further points to make. On slide 10, you can see that, firstly, Suezmax price inflation has not been as rapid as that we've seen in the VLCC sector. Hence, on a relative basis there's still a detraction from the Suezmax space. With regulatory changes coming in, but adoption of new fuels slower than expected, owners are likely looking at vessels that have a longer useful life.

Secondly, let's also remember who is ordering these ships. There are no speculative orders in the order book, the mix is a sensible one of public owners like Euronav, respected longer term private and scale owners, largely in the Greek arena, and also national owners who are investing on a strategic basis. It was unusual to see such a dearth of orders from Q3 2021. But even with this recent uptick, if it is fulfilled, these vessels will not hit the water until another 24 months to 36 months.

So now turning to the demand side of the equation on slide 11. On slide 11 you can see that China has reopened, and Euronav has seen barrels purchased for economic recovery and for stockpiling over the last six months. It remains volatile, with a record month for March followed by a more fallow April. However, the trajectory of recovery looks well established and also some of this growth is being fed by Atlantic barrels. It is interesting to see the number of VLCC cargoes leaving the US Gulf Coast has continued to grow even after the strategic petroleum reserve barrels were all moved earlier in 2022. With that, we retain our very, very positive medium-term view on the sector.

And I'll now pass over to Chief Executive, Hugo De Stoop, to give some more medium-term thoughts on the cycle and the current traffic light outlook. Hugo, over to you.

Hugo De Stoop
Thanks, Brian. Very good topics. Summing up then, the fundamentals are supportive, but short term some headwinds are emerging. New build costs and incoming regulations are capping supply despite recent contracting. The global fleet age gives some encouragement that either vessels will exit the mainstream fleet via recycling or exit via the shadow or dark fleet.

After five consecutive quarters, upgrading the sector on our five key drivers, we today downgrade our supply on the back of the OPEC cuts announced recently. Whilst we do not believe that all of these cuts will be enacted or even delivered, it provides a headwind at a seasonal point of the year when we would expect refinery maintenance programs and move into summer months to reduce demand in any case. That has happened and impacted freight rates in the very short term, but the fundamentals continue to remain supportive and freight rates remain profitable.

Our business is in very solid shape, supported by strong finance, organic growth from our own order book of vessels due to be delivered and a strong shareholder focus to return the cash generated from our platform as quickly as possible.

With that, I will hand it back to the operator.

QUESTIONS AND ANSWERS

Operator
Yes, thank you. At this time, we will begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble our roster.

And the first question comes from Jon Chappell with Evercore ISI.

Jon Chappell
Thank you. Good afternoon. Hugo, if I could start with something that's not fundamental, just maybe a clarification. The AGM next week, I think there's some confusion from some of my conversations that there's still a question around the board construct. Just to be clear, the board is all set per the meeting in March, correct? And then the second part of that is the agenda for the AGM, which you laid out in the press release, regarding the strategic direction, what do you anticipate to come the strategic direction of the company outside of the capital allocation?

Hugo De Stoop
Hi, Jon. Thank you very much for your question. Yes, it's a little bit confusing, maybe a little bit technical. So the meeting that we had in March was a special general meeting of shareholders, so that's something that can be called for specific reasons, and we all know where it came from, and you saw some change to the board. The first change was that the two main shareholders appointed two each non-independent directors. And so the board went from five to seven because at the same time two of the then current independent directors were dismissed.

Next week, we have our Annual General Meeting, of which the date is set in our Article of Association. So every year, it's around the same date. And that is usually when directors are appointed, reappointed, newly appointed, et cetera. And there is no proposal to dismiss anyone obviously.

So when you look a little bit more in detail, there is a proposal to appoint two new additional independents, against which two of the current independent are not asking to renew their mandate. So the board composition will continue to be seven members, of which you have four representing the two—well, non-independent, therefore, representing two core shareholders and three independent, which is the minimum that the company needs to have as per the Article of Association, but also as per Belgian corporate governance rule, et cetera, et cetera.

And after that, I think that there's going to be a lot of stability, but also clarity. I think we need to go through this meeting before being able to answer the second part of your question. But you can already see that the company is doing very well. I think the performance is very good. I think that the return to shareholders, which is very important for all the shareholders and the analysts that are on this call, is unquestionable in the sense that we will continue to be very, very generous when the cash generation is such as it was in the first quarter, and likely to be in the second quarter. And as you know, we believe that it's going to be a multiyear cycle, up cycle. So from that point of view, I think everybody can be satisfied that that part, which is a very important part, follow its course, and it's a continuation of what we have done in the past.

Jon Chappell
Super helpful. I appreciate that, Hugo. Just a quick follow-up I think to Brian, probably. Hugo, you mentioned the downgrade and the traffic lights on the OPEC production, which makes complete sense. But in your press release you noted that most of the growth is coming from Asia, and therefore, the substitution barrels from the Atlantic Basin, the ton mile impact of that may offset. Any quantitative views on what the ton mile impact from that substitution would have vis-à-vis the one million barrels or so of cut on total ton mile demand?

Brian Gallagher
Hi, Jon, it's Brian here. Yes, it's always difficult because as we've been writing this, obviously, there's been quite a dynamic background in terms of the OPEC announcements. And obviously, those are starting to sort of feed through month to date. It's hard to really pin a proper number down, but we think the impact of that one million barrels will be 50% because the ton miles will offset. The difficulty we have in giving sort of precise guidance on that is that a lot of the Middle East barrels are still being very, very difficult to ascertain exactly where they're moving from and where they're moving to. We've been surprised that, for instance, the Middle East has not been more aggressive or assertive in exporting to Europe to replace the Russian barrels. And the Russian barrels themselves continue to be not seeing any production cuts or export cuts.

So yes, I would say, to put a number on the number you posed to us, sort of 50% of that will be absorbed by ton miles. But as you know, it's a very dynamic background and the next three months or four months will give us a lot more clarity.

Jon Chappell
Yes, absolutely. I appreciate that. Thank you, Brian. Thanks, Hugo.

Operator
Thank you. And the next question comes from Chris Wetherbee with Citi Group.

Chris Wetherbee
Thanks. Good morning, guys. I maybe was hoping to kind of see if, Hugo, you could elaborate a little bit on the fleet plans. As we start to see some of the board discussions sort of ease, and we can maybe more focus strategically going forward, I guess any thoughts as you think about the fleet in terms of whether there's the opportunity for M&A, large-scale S&P activity or if it's just going to continue to be

sort of your typical pattern through the cycle of buying strategically and selling when you need to?

Hugo De Stoop
It's a good question. I think that clarity will probably come a little bit later, as I said, probably after the AGM, once the board is finally composed and is stable for the next couple of years. Having said that, if it was business as usual, I would say that we have done what we were supposed to do, i.e., waiting for the values to go up to sell the older part of the fleet. And remember, last year we sold nine vessels, in the first quarter we're selling another one, in the second quarter, we are selling the VLCC that will replace the FSOs. So we're certainly not standing still.

I think on the new building opportunities we have been very active in the last 18 months. I guess that at this point in time we feel that VLCC values, new building, are too high. The evolution has gone higher than on the Suezmax. On the Suezmax, we may still find some opportunities. It's obviously a category of vessel that is built in many more yards than the VLCC, and hence, you may find from time some opportunities. We certainly scrutinize the market and looking at every single deal possible. It's also the part of the fleet that is a little bit older, and that's why we have been more active, and we are probably likely to be more active for those two reasons, opportunities and also the fact that the average age is a little bit older than on VLCC side. But as you know, this is a cyclical market. The values are cyclical, and we are slowly but surely reaching values where we don't believe that it will be value creative.

As far as M&A are concerned, I think it's fair to say that at the moment we're not looking at any site specifically. I mean, we were obviously very busy last year, but unfortunately we were not able to conclude. And going forward, I think that you need to be a little bit more patient. And I'm sure that we will be able to clarify the longer-term strategy of the company in the coming weeks or months.

Chris Wetherbee
Okay. That's a helpful answer. I appreciate that. And then I guess if I could go to the red light, green light chart and just think about the demand for oil specifically as you think about the macro dynamics playing out here, no change there, which I think is understandable. Just wanted to get your sense of what you think the potential incremental changes that you might see. It seems like China maybe is sort of emerging a little bit from what has been a weaker period, but we do see some potential consumer-led headwinds in a couple of the more developed end markets like the US and Europe. Just kind of curious as you think about the demand dynamics that plays out for 2023.

Brian Gallagher
Hi, Chris, it's Brian again. I think you've answered the question better than I can. I think what you've said there is very fair. I think it's the crucial swing factor as a lot of the banks and, in particular, the agencies like the IEA and the EIA focused on, it is really all about China. I think we feel a little bit more comfortable and confident in the China story, in that we believe that they started to buy and we've seen them buying for strategic reserve criteria. And if the oil price remains becalmed and low, as we've seen very actively in the last four or five years, the Chinese are the most aggressive and most assertive buyers on lower prices. So we feel that that's reasonably well underpinned, that it's both strategic and consumer recovery reasons that will underpin the Chinese side of things.

What is uncertain is that a lot of the economic data is indicating that the Western world in particular is slowing in the consumption. Some of the recent data points in the US diesel and refinery production are also quite concerning. That's where the focus is. I think we feel China is more robust than I think a lot of the other parts of the market are. So it will depend on the developed world I think rather than the developing.

Chris Wetherbee
Okay, that's helpful. I appreciate the time. Thank you.

Hugo De Stoop
Thank you.

Operator
Thank you. And the next question comes from Omar Nokta with Jefferies.

Omar Nokta
Thank you. Hi, guys. Good afternoon. I just wanted to ask about the market. You obviously referenced the near-term risks, and we've seen the VLCCs coming off here in the past couple of weeks fairly aggressively although Suezmaxes are moving in the opposite direction and getting stronger. I know it's short-term volatility but just wanted to see, from your perspective what's been driving that divergence here recently? And also, do you think that divergence can continue like we've seen for the past year plus as opposed to what we've seen in prior cycles?

Hugo De Stoop
I think there are two elements in your question. I would definitely agree that the fairly aggressive trend that we are seeing in the VLCC is part of the volatility of the market. I mean, we always try to look at the past and whenever we are on our way up in an up cycle, what we call multiyear up cycle, you do have this kind of volatility. And it's certainly not with the experience that we have in the house that we are panicking and suddenly calling the market off. I think that we look at the fundamentals, we look at the general trend. And what we have seen so far this year leads us to believe that we continue to be correct in our assessment of the next couple of years. So nothing strange. I mean, from time to time you do have a concentration of the Chinese coming into the market and then the market will aggressively go up, or exactly the opposite suddenly they disappear. And I think that they are trying, and very often successfully, being very clever about it.

As far as the difference between Suezmax and VLCC is concerned, well, obviously, the Russia-Ukraine conflict had an impact on those trades and continues to have an impact on the smaller size like we have rarely seen before. There has been a rebalance, because remember, we were in a place where Suezmax were running a lot more, and to a certain extent, LR2 or Aframax, were running a lot more than their bigger brother in sisters. So, there is a rebalancing, but no doubt it's not a straight line either. So, you do have a little bit of volatility. And I think that if you look at averages over a longer period of time, we believe that VLCC will earn more than the Suezmax, but the differential between the two segments that we have observed in the past may be narrowing because of this specific situation created by Russia-Ukraine conflict.

Omar Nokta
Okay. And I guess, presumably, does that play a part then in, as you mentioned earlier, the interest that you're seeing or that you're having in Suezmaxes? Or is it more purely just the age factor you were referencing?

Hugo De Stoop
No, it's more the age factor. I mean, you buy a vessel for 20 years, and we don't believe that the current situation will last 20 years, we certainly hope that it will not. So no, the major reason why we are more looking into the Suezmax is two-fold. First, because we believe that the price we're seeing at the yard is still sort of affordable. I mean it's getting very expensive, but it's not quite there yet. And secondly, as far as Euronav is concerned, our average age on the Suezmax fleet is a little bit older than the VLCC. So it makes sense to continue to renew that part of the fleet rather than the VLCC. And by the way, we

continue to believe that these are the two segments where we want to be active.

Omar Nokta
Okay. Thanks, Hugo. And just one tiny follow-up because I wanted to ask about the Suezmax interest. And I was going to ask if that was more focused on modern second-hand ships or new building? It sounds like you're looking at new building. What kind of delivery window are we looking at if you were to place something today?

Hugo De Stoop
So, we saw one opportunity for delivery still in '25, but everything else that we are seeing at the moment is a delivery in '26. For one or another reason, we decided to pass on the opportunity in '25, not because of the delivery date but more because of the specification of the ships and other factors. The shipyards that we are interested in have announced that they are fully booked until '26. And the only reason why you would potentially find one or two slots here and there in '25 is because an owner doesn't list an option probably in another segment, probably in another segment. And suddenly you have an opportunity that comes your way.

And I think that companies like Euronav, and we're certainly not the only one there, but we have the ability to move very, very fast. So we can be shown a deal and take a decision in 48 hours, 72 hours, whereas maybe another type of company, smaller shops or where the governance is a little bit more difficult, they're not able to pick up those opportunities because the decision process is too slow. But I think that this is something that we absolutely want to retain. I'm 100% sure that we will continue to retain with our two strong shareholders. They are entrepreneur at heart and they are able, and have demonstrated, that they can take decisions extremely quickly. So I'm very happy that this is the case because this is the best way to grab the opportunities that will arise out there.

Omar Nokta
Great. Sounds promising. Thanks, Hugo. I'll turn it over.

Hugo De Stoop
Thank you.

Operator
Thank you. And the next question comes from Frode Morkedal with Clarksons Securities.

Frode Morkedal
Hi, guys. I'd like to talk about the risk appetite. There's been some large swings in oil prices recently. I see tanker equities jump up and down in much the same fashion, I guess. So maybe you could give us an idea, from your perspective of course, how people in the physical shipping market like the charters and the owners, how are they behaving right now in terms of sentiment? Are they feeling just as jumpy as equity investors currently do? Or how would you characterize the sentiment among the guys who actually buy charter ships?

Hugo De Stoop
It's a good question, but it's a relatively complex question. Fundamentally, I don't think that the mentality has changed because you do have people who have to buy the oil. They have their programs, they're depending on oil major refinery, what have you, and they know what they can sell. And therefore, they need to get the feedstock in place. And so that will not change their attitude or their appetite.

Obviously, as I've just described how some part of this market is behaving, they can be opportunistic and concentrate the requirement for transportation of their feedstock in one and another fashion in order to take advantage of a volatile market, and that's very smart. I think that the only part of the market, which may be a little bit more sentimental or opportunistically driven by those high volatility that we are seeing at the moment, and I agree that it's more volatile than it used to be, are the traders. And I think that the traders are acting as traders. I mean, they must be opportunistic, they must spot the arbitrage, and they are doing that very well. And some of them are also active in trading ships for longer term.

I think we have put in our press release that that market was more active than before. And I guess from the conversation that we are having that most of those opportunities are coming indeed from the trading house, spotting an opportunity for longer TC at a big discount to the spot market, probably the spot market of yesterday, maybe not today, because they see the same fundamentals as the one we are seeing—I'm sorry to repeat that for the third time this call—a multiyear cycle where the order book is extremely thin. And that's a little bit the north star for us, the ship owners.

And therefore, if you are there for the long run and you want to make money but do not want ownership for 20 years like us, then it is natural that you're going to try to get something with two, three years and then optional years, which is also always a very great way to play volatilities, to have as many options as you can. And that's very much what we are seeing.

Frode Morkedal
Yes. I guess the owners look more on the supply side, the order book and a lot of investors are maybe overly focused on the demand side, influenced by temporary factors perhaps.

Hugo De Stoop
Yes, that—sorry, go ahead.

Frode Morkedal
Yes, go ahead.

Hugo De Stoop
No, it's always a little bit surprising, I would say, that the investors are so focused on the demand because after all the supply can be dynamic. I mean, we have enough old ships and as we said, either they get recycled, they go into the dark fleet, knowing that the dark feet or whatever qualification you want to put there, has limited capacity. So if the rates come off and the period over which they come off is sufficiently long, then obviously you do have a reaction and you do see all the ships going to either the recycling yards or the dark fleet, which is a trend that has emerged in the last two years or something.

But that's also the reason why we're not particularly worried about the demand because you do have this sort of knock-on effect and this possibility. It's not like if we had a very modern fleet—remember, the last time we had a little bit of the same sentiment about a multiyear cycle was 2003-2004. But when we came towards the end of that cycle in 2008, because of the financial crisis, obviously, a black swan, unpredictable, the order book was more than 50% what was on the water. Today, we are at the start of the cycle. We're seeing that there is a number of reasons why owners are not rushing themselves to the shipyards to order more. It takes time, it's very expensive, there is uncertainty about the technology.

So I think that the order book where it is, the ability for the order book to grow massively and the prospect that we have on oil demand means that, yes, it is looking good. But obviously, it is shipping. It's going to be volatile, and there will be events that are totally unpredictable and that we are not thinking about right now. But even if they occur, there are remedies.

Frode Morkedal
Thank you.

Hugo De Stoop
You're welcome.

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

Ben Nolan
Thanks, Hi, guys. I wanted to come back to, Hugo, you talked about sort of looking at some Suezmax new buildings and deciding to pass on it. But the idea of ordering, and you just were sort of talking about the risks behind it, and there are many, but I'm curious how you think about the residual value risk. I mean if you look at, let's say, a Suezmax today, it costs about 50% more than it ordinarily would and you don't get delivery of it until 2026 and there's technological issues and all of these other things. How do you get comfortable, because obviously, you're looking, right, at a possible order, how do you get comfortable that you can pay a price that is well in excess of where it normally would be and not taking undue risk with respect to the residual value of the asset?

Hugo De Stoop
Thanks for your question. I'm not sure I agree with the fact that it's 50% higher. I think that a cheap Suezmax is probably $67 million, $68 million, $70 million. Today, if we order, we are probably $81 million, $82 million or something like that. So I don't think we are that far, and this is absolutely on the same situation in VLCC space where we're probably at $130 million, whereas a good price would be sort of $79 million, $80 million. That would be the bottom that we've seen, last probably ten years, something like that. So there is that discrepancy that I've described earlier.

Secondly, residual value, it's a great question. The answer, that is when you have a platform like Euronav with many, many ships, you don't put all your eggs in the same basket. And today, what we are trying and gradually doing, and we have started that with all the new buildings, I would say, in the last close to 36 months, is to have a degree of preparation for a potential retrofit. And you've seen different trends. I mean, there was the dual fuel LNG trend, that's probably more complicated to prepare because it is more costly to use LNG, and the retrofit will certainly be far more expensive than if you build it as a dual fuel.

But then the next two trends that have emerged is ammonia, and it was a little bit high, but it didn't exist. And so people were very excited that it was going to come probably a little bit faster than it does or than it did. We believe that in our segment, it's not going to be available before '26, potentially even '27. And then we have moved on to the next trend, which was methanol. I think that that trend was very much launched by Maersk, and now they have invested massively into the production of the fuel, because let's not forget that there is the technology, the engine, but there is also the supply of the fuel and has to be the green fuel if you want to meet and be serious about the requirement of the future and the reduction of carbon emissions.

So at Euronav, that's very much the stance that we are taking. So we are not suddenly ordering 20 ships of a dual fuel certain technology and then be left a little bit in the dark. We are ordering ships one by one, two by two, and every time we are trying to prepare them as much as possible for a potential retrofit. And therefore, we are cautious about the potential residual value risk that you described.

Ben Nolan
Okay. So more of a just dipping your toe in kind of approach. I understand that. Well, two hopefully

pretty quick questions. One, just with respect to expenses, and obviously, it's been a whole lot going on over the last, I don't know, nine months, but how should we think about things like G&A going forward? Was it a little bit elevated given everything that was going on and it should ease down? Or is this just sort of the impact of inflation?

Then also, and then I'll be done, could you talk a little bit about the FSO in Yemen. And first of all, I really do appreciate what you guys are doing as a citizen of the world, but what needs to happen there? And just maybe outline that situation a little bit more.

Hugo De Stoop
So first part of the question, yes, definitely a very special year. And obviously, when you're busy with not only a big transaction, but also a very complex one, and we are the first one to admit that it was more complex than just a pure acquisition like we've done in the past, you're going to run legal fees and investment bank fees, which are normal for this kind of transaction, but obviously exceptional. Hence, the disappointment that we cannot go to the finish line, because then it's a little bit wasted money, even though we have learned a great deal out of it.

The G&A should go back to where it was before, except that you are absolutely right, there has been some inflation, certainly in the salaries for the personnel, and that is true for on floor personnel, but also onboard vessels, which, by the way, doesn't appear in G&A. I mean that's in opex, obviously. I think if you take a figure like $16 million, $16.5 million per quarter, you should be right with any exceptional expense that I just described. But for this year, we're not foreseeing much of that. So that's the guidance that I can give you today. So hopefully, I answered that part of the question.

Then on the FSO Safer, or better said the replacement of the FSO Safer, the UN has organized funding, and their ambition is to acquire a vessel that we have been able to provide. We have also accepted to retrofit the vessel so that it is an FSO and not just a regular tanker. We went to dry dock, we did that. We are selling the vessel at market value, and we are adding the cost of the retrofit to it. So we have been paid for that. I don't think there is any loss for the shareholders. And quite frankly, today's values are quite attractive.

What we are doing in addition to that is operating the vessel. So obviously, we do have experience in tankers, we do have experience in FSO, we do have experience in transshipment. We are not the only one there because Smith is there for the delicate operation which will take place after we have transferred all the oil onto the vessel. We will continue to operate and train people in the month after that has been transferred and local people, the local oil company. And after that, the ship will be theirs because the UN will give it to them, if I understand the structure well, and they will be operated by the local company, and Euronav will have finished its work.

And so it's obviously a good operation from both sides. I mean, first of all, I think that financially it's a good deal. But where we were surprised is that we were the only operator willing to do it. And I think from that perspective, obviously, you need to have the experience, the knowledge, but you also need further willingness. You can choose from different opportunities, and we thought that this one deserves to be picked up by a company like Euronav because we do believe that doing something for the company is great, doing something for the company and at the same time for society at large, if I can use that term, is even better. And we have received a huge degree of enthusiasm from the people working at Euronav. And the volunteers that want to do the operation, we were very surprised, because a lot of people wanted to contribute and wanted to be there to do it. So from that perspective, we're very, very happy.

Ben Nolan
Thank you.

Operator
And the next question comes from Chris Tsung with Webber Research.

Chris Tsung
Good afternoon, Hugo. How are you?

Hugo De Stoop
Yes, very well. And you?

Chris Tsung
Good, good. Thank you. I just wanted to talk about your dividend for a second. I believe your policy is 80% of net income, but just thinking about this, at least one of your competitors have committed to paying out a higher ratio of their net income. Is this something that you guys are thinking of or perhaps willing to entertain?

Hugo De Stoop
To be frank with you, we don't very often look at what the competition is doing. I think that at Euronav we look at our own, and we are trying to do what is best, or what we believe is best for the company and its stakeholders in general. Shareholder, obviously, primary concern when we think about returning cash to the shareholders.

I think that our policy is very well written, if you go to our website, 80% is a little bit the guidance. That's what we've tried to apply all the time. The last short upcycle that we had in 2020, we split that between dividends and share buyback. Today, we are at the start of the cycle. We focus on dividends. Every quarter will have its own sort of decision process. I think we came out with a very strong outlook from 2022. So that's why we are adding a very generous layer of dividend, the $1.1 as the final dividend. And I know that we are a little bit of a specific animal because, in fact, at Euronav, we have five opportunities to distribute dividends, whereas other companies is on a quarterly basis, so they have four opportunities. But okay, it is what it is. And quite frankly, I suppose that the shareholders are happy about that.

And then, indeed, when you look at the first quarter result, it corresponds to 80%. It could be more, it could be less. It depends what we have in the capex. It depends where the leverage is. The leverage is in a very, very good position. So we have no problem paying those two dividends. It's a couple of elements, and the 80% is only there to sort of guide people. But we can deviate from it, and more often than not have we deviated on the upside rather than the downside.

If you ask me whether we would go to a policy of paying out 100%, I don't think that's reasonable, in the sense that you need to check facts and circumstances at the time of deciding what it is. And that's the role of the Supervisory Board and the management, to see where you apply your capital, where you allocate your capital and what we believe creates the most value for shareholders.

Chris Tsung
That all makes sense. Thanks for that color. And maybe just a follow-up to just the dividend, and perhaps it’s a question for Lieve, just trying to make sense of this Coupon 32, I think it was $1.10 and Coupon 34 is $0.70. So I'm just curious, what was Coupon 33?

Lieve Logghe
So, indeed, to answer your question, a split has been made on the $1.10 to optimize the distribution to the shareholders. And one part is a kind of closing dividend and then we have a part linked to what we call out of issuance premium, which is a good tax-friendly system for our shareholders. And this is the distribution split we can make based on our balance sheet. It has a bit this two different parts, which is mainly important for the Belgian shareholders.

Hugo De Stoop
Or the retail in general, because in Belgium the withholding tax is 30%. You pay it when you distribute a dividend, you don't pay it when it's a distribution out of your share premium, which is very much the same as a capital decrease. So that maybe you're more familiar with that technique.

As far as the shareholders is concerned, they don't need to take any additional action. They receive the money on the one system, they receive gross for gross, and on the other system, i.e., the dividend, they receive gross for net. For the institutional shareholders, it doesn't change much because they don't have to pay withholding tax. They have different tax systems. So, it's very much to take care of the retail, but the retail is not insignificant at Euronav. So, whenever we can use those mechanism, we will.

Chris Tsung
Okay, that’s helpful. And perhaps, if I can squeeze one final one in. Just hate to do this, but got to ask about the arbitration, the pending one, I think, was lingering during your last call. Any notable dates on the horizon that we should be on the lookout for?

Hugo De Stoop
Yes. It's a slow process. I mean, personally, I was a bit disappointed that sort of the private justice doesn't go faster than the regular justice. But indeed, we're talking about 2024 and probably towards the end, I mean, Q3, Q4 2024. It's true that there is a number of steps that needs to be taken and it starts with the appointment of two arbitrator, one for each side, and then those two arbitrator will appoint what they call the President of the Arbitration Office or Desk. After that, you have to submit a file, submit your claim, you need to evaluate the damages or the amount of claims that you're claiming to the other side.

So I don't think we’re going to speak much about it until we have something tangible to share with the market. As you know, our philosophy is to really treat this arbitration as, okay, one side believe they had the right to do that, the other side believe they didn't, why don't we ask someone to arbitrate between the two sides, and it will be what it will be. I don't want to dismiss it, but I also don't want to be talking about it quarter after quarter. It is what it is. We will know, unfortunately, more than one year at a time. And we will let you know if there are any development in between, but likely not, and so be patient and make your own guess about it.

Chris Tsung
Appreciate it. Thank you.

Hugo De Stoop
Thank you.

Operator
And the next question comes from Greg Lewis with BTIG.

Greg Lewis
Thank you. And good afternoon, everybody. And thanks for taking my questions. Hugo, I think you

were touching on it a little bit, around the divergence between the Suezmaxes and the VLCCs. Any thoughts around how much of the vessels trading in the dark fleet are helping Suezmaxes outperform, i.e., I imagine it's a lot harder for a VLCC to trade in the dark fleet than maybe as Suezmax, but I'm just kind of curious if you have any thoughts around that.

Hugo De Stoop
Maybe I can start, and I'm sure Brian can complement me. Let's go back a little bit in time. And let's not forget that the VLCC side of the dark fleet was much bigger before the emergence of the Ukraine-Russia conflict. That's because they were busy trading in Iran and busy trading in Venezuela. And so that was already what we call the illicit fleet because the sanctions are very different there than they are in the sanctions that we have applied or that will have applied against Russia.

If you look at Russia, then obviously, that's a place where a lot of Aframax and Suezmax were trading out and probably very little VLCC. That's because the distance was very short. I mean most of it was going to Europe, a little bit to the States, but not very long distance. And that does make sense. And obviously, now that they have to do many more miles, going around the world deliver the oil to new clients and clients that are willing to buy the oil from Russia, it would make sense to see more VLCCs.

At the moment, and you need to go through it and leave a little bit of time for the market to completely adapt, at the moment, it is Suezmax and Aframax which are going into—and I'm not sure that we can call it dark fleet because it's another animal than the one we have seen in trading [indiscernible] crude oil. Here you have a cap, if you are below the cap you can trade. At Euronav, we decided not to trade for a number of complications and also in terms of policy.

But again, if you are below the cap and quite frankly, when you look at the oil price, I don't think that we were ever in a market where the cap had to be applied. There is always a discount on Russian crude and a further discount because now the freight is a little bit more elevated. So a lot of people are capable of doing that. Once they do it, generally speaking, they stay in that specific trade because of insurance, because of finances, because of a number of people who don't want ships to go from one side of the market to the other side.

So at the moment, that's what we're seeing. Many more Suezmax and Aframax have been added to this particular darker side of the fleet. But the VLCC that were there, remain there. They probably continue to do Iran and Venezuela. And going forward, because of the distance, you may see more transshipment. You may see more VLCCs involved in that trade. But that's not the case yet at the moment.

Greg Lewis
Okay, super helpful. Thank you for the time.

Hugo De Stoop
Thank you.

Operator
Thank you. And the next question comes from Thijs Berkelder with ABN AMRO.

Thijs Berkelder
Good afternoon and good morning to the US. Congratulations with the results. Coming back on the dividend policy, I thought your dividend pre-deal policy was 80% of net profit, but excluding one-offs. Now it's 80% including one-offs or 100% of ex one-off profit. Is there a special reason for the 100% ex one-offs? And follow-up there, is more than 100% allowed in Belgium?

Second question is on minimal on the total. But can you maybe give us a bit of explanation on Belgian inflation impact on your Belgium cost base? And third question on the salvage operation in Yemen. Can we expect some kind of a book profit related to that project?

Hugo De Stoop
Thank you, Thijs. Thank you for your questions. It's a little bit technical. So on dividend, let's first start what we can and cannot do in Belgium. So in Belgium, you need to look at the statutory balance sheet, not the consolidated balance sheet. And as long as you have the reserve to pay a dividend, you can pay up to your reserve. So the statutory balance sheet because of our model, where the vast majority of the vessels are on the statutory balance sheet of Belgium, then obviously, when the market is generous, we generate a lot of profit there. And then for the few vessels that are in subsidiaries, this is the case for the FSO, this is the case for the Oceania and a small number of ships, the bareboat, there, we need obviously to dividend stream from the subsidiaries to the statutory balance sheet. So overall, when you look at the statutory balance sheet, you have the limit that we can pay, but this is dynamic because every quarter that balance sheet will increase by the net profits that are being accrued. That's the limit, and it's the only limit.

The second part of the question is, okay, we had specifically a dividend policy where we exclude the capital gains. I think that policy is still in place, but we can make exceptions. And why didn’t we make exceptions this time around is simply because when you look at the amount of capital gains that we have generated last year, around $100 million, what we're generating now, it's because the values have literally exploded compared to the book values.

And so the reason why in the past we were completely excluding them is because that's the money that we wanted to reinvest into new building programs and/or from time to time, second hand modern ships acquisition. But now it's almost too much, especially at a time where, as you have heard at the beginning of this phone call, we believe that values have gone through, as far as new building contracts are concerned, through numbers, through amounts that seems excessive definitely on the VLCC. Maybe still a few opportunities on the Suezmax, but there is no reason for us at this point in time, especially because we also have done quite a lot of activity in the new building programs, if you look at the last two years, three years and the values at which we bought, there is definitely something that we could return to the shareholders.

Then of course, the last point is that we always state our leverage in terms of book value. I just spoke about the market value. So if you look at the leverage of the company compared to the market value, so loan to value to market value, then we are definitely in a territory where we can be generous and we can reward our shareholders.

So all of these elements are being looked at by the board, and then a decision is taken. And I think everybody was very supportive of the decision that was made at that time.

Second question is inflation. I think in Belgium, core inflation was close to 10.5%, maybe even 11% in 2022. It's down to around 5% right now. So I think we have left the peak, and hopefully, we're not going to have a second year like that. How does it affect overhead? Well, only a portion of the offices are in Belgium. As you know, we have offices in Greece, we have offices in London, we have an office in Singapore, et cetera, et cetera., so the element that affects Belgium is indeed the inflation on salaries because in Belgium it's an automatic indexation of salaries to the core inflation number that is produced by the government. So last year, people indeed had an increase of salary at the end of the year of around 10%.

We can clearly see what the impact is there. I don't think that at the end of the day it's much different in the rest of the world. I think that's all over the place. People have to increase salaries anywhere between 5% and 10%. So that's where we are. Let's also not forget that Belgium is not the most expensive place to operate a shipping company. I think the people living in London, New York or Singapore are starting off a base that is already much more elevated than Belgium. But we are not very worried about that.

In terms of the FSO Safer, can you elaborate a little bit on your question, what exactly you want to know? You want to know the capital gain on that ship, if I'm not mistaken?

Lieve Logghe
Thijs, indeed, if I understood you, you were interested to understand the capital gain. So to be concluded finally, but seen from today and the price we had at the top of our mind, it should end again in the order of $19 million to $20 million.

Hugo De Stoop
Yes. And you remember that ship was not an owned ship. It was a ship that we had sold under a sale and leaseback program. So we already sold the ship one time. Thankfully, we had put an option. That option was in the money, and so the capital gain generated the difference between the option that we had and the market price at which we are selling the vessel to this program of the UN.

Thijs Berkelder
Okay, clear. Thanks.

Hugo De Stoop
You’re welcome.

Operator
Thank you. And the next question comes from Quirijn Mulder with ING.

Quirijn Mulder
Good morning and good afternoon, everyone. Two questions from my side. If I look at the graph, you see the prices of VLCCs have gone up materially and for Suezmax still at the same level, maybe related to the low number of orders. But let me say, if there's somebody ordering a Suezmax, it must be much higher than it was. And I missed somewhat logic here because the demand for Suezmax is higher than it has been for many, many years, I think. So maybe you can explain the difference in price development between the new builds of VLCCs against the Suezmax what we can see now.

And the second question is about spectrum. Let me say, we have discussed the new build. But what is on the other end? So I can imagine that people are not willing to scrap their vessels, but at a certain day, vessels are too old to handle, and the regulations are also playing a role. So maybe you can elaborate somewhat on the development in that market.

Brian Gallagher
Well, I'll go with the first part. In terms of what we're just trying to show on the chart is exactly what Hugo was talking about earlier, that the prices for VLCCs have accelerated higher and at a faster rate than those in Suezmax. And so when we're looking at those new build opportunities, as rare as they are, we're much more focused on the Suezmax space because the price development has been more excessive in the VLCC space. That's what that chart is just showing. They obviously correlate quite closely, but the VLCCs on a per unit basis have increased more than the Suezmax.

On the second part, I think it's reasonably clear and obvious in that the Suezmax what we're seeing, Quirijn, those ships that are getting over certain ages, it's interesting, we're now beginning to see, as a lot of the commentary was alluding to earlier this year, is that the dark fleet is pretty unregulated. And in the last, what, ten days, we've seen an incident where a Suezmax has caught fire in the Far East, which was exclusively doing this dark fleet.

So we're seeing the dark fleet growing because those ships, there’s a very strong pipeline, as you know, ships in that older age spectrum. And so there's effectively a two-tier market. We're obviously operating in the legitimate market where we're not seeing that supply pressure because the ships are leaving that particular segment.

Hugo De Stoop
And maybe just to add to what Brian is saying, most or a majority of the so-called dark fleet is unregulated. So even classification societies may not issue the certificate, but it doesn't matter. I mean we certainly monitor that even before the Russian-Ukraine conflict in the trade with Iran and Venezuela. It is something that is also emerging in this case, even though you do have a number of legitimate owners who decide to carry Russian oil under the specific sanction, i.e., under the price cap and are able to demonstrate. So you can see that it's less regulated, if I may put it this way. Some of it is not regulated. Some of it is less regulated, attract less attention, maybe the standards are different.

And just to come back on the question because it's a fact that today Suezmax is not increasing in value as much as VLCC, and I don't think that we do have the answer because we're not a shipyard and we're not putting the tag price on it. So I suspect that it is, first and foremost, a question of what the yard wants to build. And the yards are definitely in a luxurious position today because their order book is full and, obviously, it's full of many, many different type of ships, but particularly LNG carriers and containers. Those are ships that, from an added value perspective from a shipyard, is more interesting to build than a tanker. So they are likely to make more money.

And secondly, it's really a question of space. So it takes less space, and it takes a little bit less time to build the Suezmax. And so if you want to sort of squeeze a Suezmax between two LNG carrier or two sort of mid-sized 13,000 TEU, 14,000 TEU container ships, I'm not going to say it's easy, but it's definitely possible. If you want to certainly squeeze the VLCC, then you need to move many more things around.

And the fact is that the shipyards they want to maintain their know-how on how to build ships and tankers. And so they really want to see at least a few tankers being built every year so that the people who specialize in that continue to keep their knowledge and continue to be busy. So that's a little bit more specific to a shipyard desire. And therefore, if they really want to have this type of ship build, they will make sure that the price continues to be attractive. And I think it's less the case for VLCC at the moment. That's why they have let it go to a level where they can make as much money as they would on another type of ship.

Quirijn Mulder
Thank you. But my final question is then, how large is the dark fleet in your view? Have you any idea?

Hugo De Stoop
Well, our idea are simply the one that we read in the market. There are a number of other analysts or even specific people specialized in monitoring that, and they are talking about 150 or—

Brian Gallagher
Yes. I mean there are a lot of numbers floating around here as always. But if we take someone like Vortexa who've done the numbers, they think there's been, in total number of tankers, all sizes, 740.

Quirijn Mulder
But that’s all sizes?

Brian Gallagher
All sizes. As Hugo said, you're exactly right, you're looking in that roughly 100 sort of territory from our segments and our categories, which is sort of getting on, as we've said consistently, I've done some presentation in the past, somewhere between 7% and 10% of both the Suezmax and VLCC fleets.

Hugo De Stoop
I'm sure if you want to send us an e-mail, we can send you some of the report that we have seen and certainly the ones that we believe are more serious than others. Very happy to share that information offline with you.

Quirijn Mulder
Thank you. Thanks a lot.

CONCLUSION

Operator
Thank you. And this concludes both the question-and-answer session as well as the call. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.