

# Q4 2023 Earnings call Transcript

**Enya:**

Dear all.

Welcome to the Euronav Q4 earnings call. Everyone is muted and the questions can be taken after the presentation. I will now give the floor to Alexander.

**Alexander Saverys, CEO:**

Thank you very much Enya.

Good afternoon, everyone and welcome to our Q4 2023 earnings call.

My name is Alexander Saverys. I'm the CEO of Euronav. And I'm joined by my brother, Ludovic Saverys, our CFO, and I will immediately hand the word to him.

**Ludovic Saverys, CFO:**

Good afternoon, everybody, and thank you for dialing in on our Q4 earnings call.

We'll go through the presentation of the Q4 results focusing on the financial highlights 1st and then Alexander will take over on the corporate developments and the tanker markets.

We're extremely pleased to say that we've had our record Q4 in the history of the company since 1997. We have been able to deliver a profit for this quarter of \$411 million dollars.

Obviously, that result has been skewed by capital gains out of the sales of part of the frontline fleet of \$323 million dollars.

Nevertheless, the underlying profit of 88 million puts forwards a strong Q4 based on the robust freight markets.

We're happy also to include that in Q4 we've continued our fleet expansion within Euronav with another two VLCCs, which today still puts us with an order book of four VLCCs on order and four Suezmaxes.

On the right hand side of the slide you can see that the Q4 results were far above our P&L break evens, but also that the Q1 guidance is going in the right direction.

Alexander will continue on that.

We fixed for Q1 46% at \$50,430 per day for the VLCCs and on the Suezmaxes we have 54% fixed at \$55,000.

If you look on the next slides, we are highlighting obviously the key metrics of our company.

We still have a leverage on book equity of about 30%.

Obviously with the sale of most of the VLCCs to Frontline, we have strengthened our liquidity dramatically. End of year we ended the year with \$1.243 billion in liquidity. As of today, as most of the vessels of the sale to Frontline have been delivered, we are close to \$2.5 billion in liquidity.

The net profits of 411 million I've mentioned.

Happy also to include that for the full year we are at the \$862 million profits from which \$490 million is coming from the business and 372 from capital gains.

Q4 has also been highlighted by a new chapter for Euronav, which Alexander will continue to explain. We have decided not to do a dividend for Q4 until the mandatory offer is over.

Many of the stakeholders within Euronav, investors, analyst and others have asked us in the last couple of weeks what the dividend policy would be for the company. Previous management and Euronav as a standalone Pureplay tanker company has aimed to dividend out 80% of its net profits. Going forward, and if the transaction with CMB.TECH will be consumed next week, the Board of Directors has decided that the dividend policy would be a full discretionary one.

I think CMB as an anchor shareholder has a track record of rewarding its shareholders. But in terms to give clarity to our investors, the Board of Directors will keep a full discretion on how many dividends will be paid based on the profit.

The further growth we were happy to include in the Q4, 2 new long-term charters to our first-tier client Valero and expand our orderbook.

As of today, within Euronav, we have a remaining Capex of \$700 million throughout the four VLCCs on order and the four Suezmaxes.

Again, highlighting the facts which we mentioned in the Capital Markets Day, if the transaction with CMB.TECH would be approved next week.

CMB.TECH has an outstanding capital commitment to newbuildings of \$2 billion, which will bring the total Capex commitment of \$2.7 billion.

One metric we haven't highlighted, and we hope to be able to grow further in the future is the contract backlog on our marine division today stands at a \$1.75 billion revenue.

As CMB and Euronav have stated, it's our intention to continue to find attractive opportunities to be able to lock in long term cashflow.

Well, further due, I'll pass on the word to Alex on the corporate developments.

**Alexander Saverys, CEO:**

Thank you very much, Ludovic.

Well, on the corporate developments, a lot has already been said over the last couple of weeks. I think if we zoom in on the Frontline transaction, I think the first thing we can highlight today is that 23 out of the 24 VLCCs have already been delivered to Frontline.

You have seen in the Q4 what the result impact is, and we've also projected the impact of the sale of

the 24 vessels or the remaining 24 vessels in Q1. So, one vessel still needs to be delivered, but we're expecting that to be within Q1.

We have also sold the Oceania, our oldest ship in the fleet. This has also been announced today and we're going to realize a capital gain of close to \$35 million which will be recorded in Q1 2024.

Ludovic already said, very important contract done with Valero on a long-term time charter on 2 new Suezmaxes for delivery in Q2 2026.

And then our total order book, part of our optimization strategy, fleet renewal strategy of VLCCs at Beihai Shipyard in Qingdao is now 4 vessels, three of them which will be delivered in 2026 and one which will be delivered in 2027.

So, if you look at our total fleet, apart from the two FSOs that we have, we have 17 VLCC's on the water, plus four newbuildings and 22 Suezmaxes on the water.

We have the Bristol delivery very soon, plus another four on order which are going to come in 2024 and 2026.

We go to the next slide. We cannot have this call without mentioning the Red Sea. As you have heard, we were one of the very first companies to avoid the area after the Houthi rebel attacks on the merchant shipping. We have not changed our viewpoint so far. So, we will continue until further notice to go and choose other routes than through the Red Sea, until that situation has become safer for our crew and for our ships.

The impact of the diversions can be seen every day in shipping in general and I would say crude oil and product tanker shipping in specific.

It is indeed creating more demand for ships because of the longer ton miles and we're expecting the situation unfortunately to last at least for the next couple of weeks. Hoping for this to be resolved in the following months.

You can go to the next slide. Making a little recap what we already did on the capital markets day presentation of what has happened over the past months and what will happen in the next couple of weeks.

On the 9th of October, we struck an agreement with the Fredriksen Group to get out of the deadlock for Euronav. That agreement was ratified in November at this special general meeting of shareholders.

Just before Christmas, we announced the CMB.TECH transaction and next week on Wednesday, we will have a Special General Meeting to vote on that specific transaction.

Shortly thereafter, we hope to open the mandatory bid for Euronav, and we hope to close it by the middle of March.

We want to say a few words about the tanker markets as well. As we are in shipping, there are things we know and things we don't know.

If we zoom in on the supply side and the fleet composition, which are things that should be relatively certain, I can only say that the signals are still very positive.

If we look at the orderbook to fleet, even though there has been some recent increase in ordering activities specifically for Suezmaxes and some VLCCs, we are still at a very low orderbook to fleet ratio from an historical point of view. And this, definitely for the next two years, will be very supportive for our industry.

Zooming in on the age of the vessels, stating the obvious with a fleet that is hardly getting scrapped, the age profile of the vessels is increasing, is going up and we are now looking at average ages of the fleet that we haven't seen for a very, very long time. Again, should be a very positive signal going forward.

We have one more slide. The next slide that zooms in on the VLCC fleet age profile and order book.

Basically, you can see there that a big chunk of the vessels is going to reach the age of 20 years in the following years, which means a lot of potential to scrap, which means that utilisation definitely has some support even if demand, and we'll speak about demand in a second, would stay relatively flat. So only positive things to say about the supply side.

Going into the asset prices, the market reacts as it does when the supply demand balance is tight.

We are seeing very, very healthy second-hand prices for both Suezmaxes and VLCCs.

If we have to say something negative, I would say that the VLCC second hand market has not gone up as the underlying sentiment would have it. It's been underwhelming a little bit, but we're expecting this to catch up as the year proceeds if the fundamentals stay as they are.

On the next slide, we have a few graphs on the demand. Again, even though demand is growing slowly, it's the supply/demand balance, which is still looking very, very healthy. It's well publicised.

The only new VLCC of the year has already been delivered, so there are no more VLCCs coming in 2024. And you can see on the slide that the orderbook for 2025 is indeed very low or non-existent with a slight growth in demand in oil. They should tighten the balance of supply/demand further.

So, I'm already at my concluding remarks before we go and take some questions. Obviously for Ludovic and I, this is a Euronav Q4 earnings call, maybe the last one as a pureplay.

If the transaction of CMB.TECH on Wednesday is ratified, is agreed by the shareholders, then obviously the next earnings call we'll zoom in a lot more on all the different divisions that we will have added.

But for now, we are open for questions.

**Enya:**

Dear all, if you would like to ask a question, please raise the hand and I will tell you your name and tell you to unmute when you can ask your question. So, the first person who can ask their question is Kristof Samoy. You may unmute and ask your question please.

**Kristof Samoy**

Hello. Good afternoon, Alexander and Ludovic. A few questions if I may. The upcoming SGM, the approval of the acquisition, is that by a simple majority vote that it needs to be approved or do we need a qualified majority? And then secondly, best case scenario, when would we see the first consolidation of CMB.TECH if the transaction is approved? And then secondly, regarding the sale of VLCCs to Frontline, the delivery is spread in the fourth quarter and first quarter. Can you give more detail on how this impacts the cash flow statement in the fourth quarter and the first quarter? How many sales of vessels in the fourth quarter in your cash flow statements and how much repayment of borrowings you foresee linked to these sales in the first quarter and fourth quarter of last year? And then third question if I may on Tankers International, the VLCC vessels which have been sold to Frontline are no longer part of the pool, how do you see this for Tankers International, what's the impact there, and how do you see the position of Euronav in Tankers International going forward? Thank you.

**Alexander Saverys, CEO:**

OK, thank you, Kristof. I'll take the last question and then I'll hand over to Ludovic.

So on TI, as we've stated before, as far as we're concerned as business as usual, as you know, we're a 50-50 shareholder together with ISW. The fleet has obviously reduced, but operations are still going as they were before, and actually in recent weeks and months, we've even added new vessels to the pool from other third-party owners.

For the other questions, I'll hand over to Ludovic.

**Ludovic Saverys, CFO:**

Kristof, thanks for the questions. On the SGM next week, it's simple majority i.e. CMB can vote as well. So hence there's high likelihood that the transaction will go through. On the consolidation of CMB.TECH, the simple answer is that you will see that in the Q1 figures which obviously will be announced in May.

We have put an illustrative balance sheet in the Capital Markets Day where the main point to be point out is that we do not take any goodwill, i.e. the vessels on the water in CMB.TECH will be passed on at book value in Euronav. So, you will see a full consolidation in the Q1 set of results. On the sale of the VLCCs: 11 VLCCs have been sold to Frontline in Q4 with a capital gain of \$323 million. Thirteen VLCCs will be sold to Frontline, i.e. 12 have been sold in Q1 and one will be sold around mid-March with a total capital gain of \$372 million for Q1. The total sales amount was 2,350,000,000. The exact detail on the full proceeds in Q1 and Q4, there I have to come back to you on that.

If you're just taking arithmetic average on 11 or 24 vessels, it will be around 1.1 billion in Q4 and then 1.25 in Q1. There was no debt on the ships while being delivered to Frontline. That is because within Euronav, we have refinanced all the remaining fleet that still remains today in our ownership. We've re-leveraged those vessels to 55% of fair market value and we've used the excess cash of debt to take out the debt on the vessels being sold to Frontline, which means that the 2.35 billion came in as net cash proceeds. Does that answer your question?

**Kristof**

Yes. Thank you.

**Enya:**

Okay thank you. Then the next person who can ask his question is Thijs Berkelder, you can unmute and ask your question please.

**Thijs Berkelder:**

Hi, Thijs Berkelder, ABN Amro Oddo BHF. I have 3 questions. First, you presented a P&L break even for your tankers. Is that presale of the fleet or post sale of the fleet or somewhere in between? Then second question is given the situation with the Houthis etcetera, are you making extra costs for protecting your vessels now and if so, what amount should we think of? And 3rd question is on the bunker volumes. What is your bunker strategy going forward?

**Ludovic Saverys, CFO:**

Okay Thijs, thanks. I'll take the first one and Alex takes the next two ones. The breakeven of the tanker as projected are of the remaining fleet, so this is going forward. These are the P&L break evens on both Suezmaxes and VLCCs.

**Alexander Saverys, CEO:**

On the protective measures for the Houthis, we don't need to take any measures because the best measure is not going there. We are basically sailing around and not crossing the area.

In terms of the bunker strategy Thijs, we are basically keeping a strategy of being full floating. So market related, there's not any significant hedging and we are not doing anything that maybe was done in the past of buying bunkers beforehand and loading it on board of the Oceania because now the vessel is gone. So, we basically go back to the normal strategy of staying on the spot markets and not taking any cover. Does that answer your question, Thijs?

**Thijs Berkelder:**

Yes, thank you.

**Ludovic Saverys, CFO:**

Maybe, Enya, before we go back to the question of Kristof, it is what I thought. \$1.1 billion in cash came in, in Q4 and 1.25 in Q1. You can go ahead Enya.

**Enya:**

If there's anyone who still has a question, you can now raise your hand, please. Okay, I see no further questions, Alexander and Ludovic

**Alexander Saverys, CEO:**

All right, we're always there to answer any questions you might have after this call. Thanks for joining us and see you next week on Wednesday at the General Assembly.