Euronav

Q1 2022 Earnings

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CORPORATE PARTICIPANTS

Brian Gallagher – *Head of Investor Relations*

Huge De Stoop – *Chief Executive Officer*

Lieve Logghe – *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Euronav Fourth Quarter 2021 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 then two. Please note, this event is being recorded.

I would now like to turn the conference over to Brian Gallagher, Head of Investor Relations. Please go ahead.

Brian Gallagher
Thank you. Good morning and afternoon to everyone, and thanks for joining Euronav's Q1 2022 earnings call.

Before I start, I would like to say a few words. The information disclosed and discussed on this call is based on information as of today, Thursday 12th of May 2022, and may contain forward-looking statements that involve risks and uncertainties. Forward-looking statements reflect current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events, performance, underlying assumptions and other statements which are not statements of historical facts. All forward-looking statements attributable to the company or to persons acting on its behalf are 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. And 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 [audio drops] going forward. 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 on 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 first quarter earnings call. I will run through the Q1 highlights before passing on to Lieve Logghe, our CFO, to give more details on the financial with a focus on our balance sheet and P&L. Brian Gallagher, our Head of IR and Research, will then highlight some key trends in the wider tanker market and Euronav's position within it, before I return to summarize our strategy and outlook.

So turning to slide 4 and the Q1 highlights, it was a busy quarter for Euronav on many fronts, but we're particularly pleased with our fleet modernization program, which has a strategic focus, with nine vessel transactions during Q1. Indeed, we sold four older VLCCs and acquired two modern ones, and we sold one Suezmax, jointly owned, and took delivery of two brand new super eco-Suezmax that we had purchased last year as they were still under construction but for a defaulted party. This in turn has improved further the age profile of our fleet.

Freight rates were under pressure for most of the quarter, but the onset of the conflict in Ukraine in early March caused an important dislocation in the oil markets, which in turn has proved to be a positive catalyst for tanker markets. This has driven sequential improvement in freight rates across all segments, starting specifically with smaller ships benefiting from the Russian dislocation and gradually impacting larger ones. While freight rates in absolute terms remain disappointing, the direction of travel is encouraging, especially in Suezmax, with rates on average at $20,000 per day for the current quarter.

I will return later in the call to expand on our thoughts on some of these trends and the outlook, but I will now pass over to Lieve to provide more details on the financial. Lieve, over to you.

Lieve Logghe
Thank you, Hugo. Before I start, Hugo has noticed our financing and market efforts are being recognized, which reflects on the hard work by our employees.

Turning now to slide 7 and the balance sheet. Focusing firstly on our balance sheet, which remains strong and supporting in financing the expansion of our platform. Our two-year liquidity run rate remains core to our strategy and whilst lower than Q1, it is sufficient to deal with more duration to the current down cycle. Leverage has ticked up towards our self-imposed limit of 50%, but our availability of financing remains good and optionality and further fleet recycling readily available, given a buoyant sales and purchasing markets.

I would now like to dive into our income statement and give more detail on Q1 performance on slide 8. As Hugo highlighted earlier, whilst small, freight rates continue to sequentially improve quarter-on-quarter. Strong cost control has allowed us to progress on Q1 2022, even though we have had to incur some exceptional costs during the quarter related to our corporate background. As we highlighted in Q4, our depreciation approach has been updated and it was pleasing to bank a capital gain on some of our legacy sales and lease back arrangements during Q1, which we announced in early January.

I would like to spend a brief moment on our fuel hedging, which continues to be a net benefit for Euronav. Euronav executes a 100% hedging program to manage volatility of the Company's fuel stock. The paper position, which is booked in the financial result of this quarter for a total amount of minus $16.3 million, is more than compensated by the realized gains on consumption and the unrealized gains on the fuel stock for a total amount of $20 million positive.

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

Brian Gallagher
Thank you, Lieve. On slide 10, we look at the tragic events of Ukraine and the impact that they've had from the Russian dislocation, which has had a major impact on our market. Effectively, this catalyst has triggered a set of reactions, which have been largely positive for tanker operators. Slide 10 shows the before and after effect of Russian dislocation and also looks at how we anticipate it developing.

On the left-hand slide, you can see the relatively stable 4.5 million barrels per day or so of Russian exports that were largely seaborne driven that we made every single day before March. Most of this eastbound oils of Far East markets will continue to remain unchanged, albeit under some pressure from sanctions. The key impact we believe has been, and will continue to be, in the Western or Baltic ports, which have traditionally exported between 2.5 million and 3 million barrels per day to the EU. This trade was performed by Suezmax and Aframax vessels. These ships are now sailing around Europe and directly into Far East markets, taking this Russian oil very long distances.

To replace this lost oil, the EU is already taking more oil from the Middle East and from the Atlantic, namely Brazil, North Sea, US ports as well as West Africa. This trend we believe will deepen and strengthen and then we also anticipate the Russian production will probably fall by around about 1 million barrels per day. This has seen the sector benefit from slightly lower and smaller volumes of crude moving, but that the crude is now moving much greater distances or ton miles. This impact still has some way to run, we believe, and will take over the summer months to fully impact the scale of this dislocation. But overall, it is a very strong positive for the tanker market sector.

And as you can see from slide 10, we believe the spillover effects are already starting to affect and will continue to be a positive effect on the VLCC market. It's important to remember that VLCCs cannot discharge or load in any of the Russian ports, therefore, it's never really been a market for VLCCs. Hence, the impact has been largely seen on Aframax and Suezmax categories.

The catalyst, for want of a better word, have been the key feature in our market over the last quarter or so. And if we now turn to slide 11, we can see other short-term signals, which are now be positive. The four key factors we addressed in slide 7, bottom left US crude exports have risen on a full weekly average basis by over 1 million barrels per day or 41%, since mid-January as a mix of increased production, release of strategic reserves and attractive inter oil pricing has boosted exports. These barrels tend to be very long haul in transportation and support building of a better outlook when considered the top left and looking at the recycling activity. Top left shows that this has begun to rise again. In April alone we saw six Suezmax exit the global fleet, which is a very large number on a month basis, and this follows the Aframax sector, which has been shedding tonnage historically earlier than VLCCs and Suezmax in their recycling cycles.

Top right underpins what we have been seeing on a day-to-day basis, volatile but rising crude volumes, and April recorded the highest global volume on a monthly basis in two years. This is another encouraging data point. Finally, if you look at bottom right, we can show the direct impact of the Russian dislocation. Russian ships made up around about about 7% of the Aframax fleet and about just under 3% of the Suezmax fleet, and this is enough to have driven a much tighter market in those categories, and hence freight rates rising quickly and to extreme levels on specific routes. VLCCs cannot load, as I mentioned before, or discharge directly into Russian crude ports, so it's not much of a direct impact, but we're now seeing a substitution effect, as VLCCs are being used to replace the barrels lost from Russia to the European ports from the Middle East and from the Atlantic.

We now turn to slide 7and the medium term drivers, which continue to build positively for our largest crude tanker market. Slide 7 is a slide which looks at the mix of the immediate future on the left, highlighting a still very heavy special survey program we have for older tonnage, namely those ships going through their 20-year special survey in the VLCC and Suezmax sector. This represents around about 4% of both categories alone over the next 12 months. And again, this is a very important point for owners to decide whether they want to continue to remain in the sector, or take the very attractive scrap prices that are currently available.

The right-hand part of the chart looks at the absence of new orders of VLCCs, we've not seen a VLCC order since early July, and the reasons behind this. So mentioning the furnace schedule this week indicates that it is not just an absolute dollar issue, although that is important. A brand new plain vanilla VLCC costs $150 million at the ports when reported today. And this also means that in order to make an economic return of 10%, the analysis that they conclude needs around about $46,000 to $47,000 per day in terms of a freight rate in order to justify that entry price. With steel prices remaining high and the yards full in terms of the shipyards constructing ships, it's difficult to see how this barrier to entry is going to be lowered anytime soon.

I'm now going to switch gears and look at what was an important milestone last week for Euronav, namely the unveiling of our decarbonization pathway that we now highlight on slide 13.

In summary, there are two broad stages to our approach on decarbonization, which will end up with us being net zero by 2050, with an ambition to beat that timeline. Between now and 2030 we're looking to reduce the energy we use, as well as investing in future technologies before the second stage, from 2030 onwards, when the focus will be on adopting cleaner energy and scaling up that investment in technology.

Reducing our CO2 mission intensity by 2030 by 40% will be an important pathway and milestone on this journey and on our commitment to get in line with the Paris set trajectory of net zero by 2050. We believe this is very, very attainable, and in fact we are very confident we can actually beat this time, as I mentioned earlier. Euronav’s attributes in managing the energy transition and decarbonization are, we believe, amongst the best in class already in the tanker sector, if not in the wider shipping community. We encourage all who are interested in Euronav to review our 70 page presentation from last week, which is on our website, with a transcript and a replay also available.

I will now pass back to our Chief Executive, Hugo De Stoop, to give some concluding remarks. Hugo, over to you.

Hugo De Stoop
Thank you, Brian. The Euronav platform is working well and is well equipped to deal with the next stage of the cycle, with high quality assets, a strong balance sheet and the right level of liquidity. We have addressed and will continue to address our fleet age profile, as well as the positioning of that fleet. We've also laid out how this platform going forward will decarbonize and meet the challenges of the energy transition and we have outlined this recently in our ESG event. We believe that our platform will deliver enhanced return for our stakeholders going forward.

Let's now turn on the positioning in the past cycles on slide 16. Euronav continues to manage its business, as we have always done, in a disciplined and focused manner, applying high governance standards and a methodological approach across the platform. As both Brian and Lieve have highlighted, we've been busy in positioning ourselves for the next stage of the cycle. It is important to remember that we are in a cyclical industry. Consolidation opportunities are often present, but timing is always the key.

The chart on slide 16, susses out the VLCC re-sale price and the one-year time charter rate, which are two key variables within our markets. Historically, we have executed consolidation transactions at a similar point in the cycle, eight years ago with the acquisition of the Maersk crude tanker fleet and four years ago when we merged with Gener8. We’re now proposing to merge with Frontline and to offer a material consolidation transaction in order to deliver further shareholder value as we enter into the next stage of the tanker market. This exciting development and merger of two leading companies in the space is a strong signal of our confidence in the sector.

Turning now to the summary slide and outlook on slide 17. Another upgrade is driven by the catalyst that has come in tragic circumstances from the dislocation from the Russian oil situation. This will drive, we believe, sustained change in ton miles, as Brian highlighted, in swapping out Russian barrels to Europe for those from Middle East and the Atlantic and Russian barrels transported over much longer distances than before. Elsewhere, demand and supply of oil offer some encouraging data points, with small but consistent upward trends. Vessel supply looks well underpinned, given the order book at 25 year lows and global fleet age profile at 20 year highs.

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

QUESTIONS AND ANSWERS

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

And our first question will come from Jon Chappell of Evercore. Please go ahead.

Jon Chappell
Thank you. Good afternoon. Hugo, I understand there's sensitivities about what you can say regarding the proposed Frontline merger, but maybe you can just help us understand the next steps. I know the AGM is next week, what does the term sheet mean versus an actual closed deal? What steps need to be taken to get the term sheet to an actual proposed deal, is it just clearing the AGM and getting the Board on board, so to speak? And just what are the other building blocks to bring this to finality?

Hugo De Stoop
Yes, thank you, Jon. Yes, you appreciate that there is a limited amount of information we can share on this call. But you're absolutely right, the first step is to go over the AGM next week and then have the Board reconfirm the merger. And then after that, we will update the market with the next steps, the timing and somewhat of bits and piece that we've been working on. But we can only do that after the AGM.

Jon Chappell
Okay. And then I know this is a stock-for-stock deal and you still are sitting on a fair amount of liquidity, but are you in a strategic holding pattern until there's more clarity on this plays out? Or can you continue the rejuvenation of the fleet, either through sales or purchases, until you get to the finish line on this deal?

Hugo De Stoop
No, absolutely, what you've seen is that we are not resting on our laurels. It was a very busy quarter on a number of ships transaction, as we have explained in the prefatory remarks, and we have more in the pipeline indeed. So the two companies are being running independently until a merger happens and we will continue to work hard, both on the spot market and DC front, but also on the fleet rejuvenation. And that's something that we believe the right time for, values are already ahead of the market, as you've seen, very strong numbers for the vessels that we sold.

And then we found some opportunities at what we believe are attractive price, especially when you bring in the element of consumption, because through the four vessels that we sold, were designed to go at high speed, a speed that we were performing 10, 15 years ago, whereas the two VLCCs that we purchased were designed to go at the current speed and very economical with the latest eco-design. The same for the two Suezmax, and as you know our VLCC fleet is relatively modern, but our Suezmax fleet needed some rejuvenation, and that's what we've done last year when we purchased and order a purchase contract and order three VLCCs, so a total of five.

So all of that is part of the strategy and that strategy doesn't stop. To the contrary, I think that the more to merrier and hopefully the market appreciates it.

Jon Chappell

Okay. That's helpful. And we'll call that my A and B to question one. My follow-up question for Brian, this diesel shortage issue seems to be gaining a lot of momentum, and clearly your Vs and Suez's carry crude. Have you thought about the secondary and even tertiary fallout of these global diesel shortages and what that may mean to the crude markets?

Brian Gallagher
Yes. I think as you know, Jon, better than anyone else on the call, in our [indiscernible] markets we work in weeks and months and that's the duration of our voyages, whereas obviously capital markets see something today and they want to know what the impact is tomorrow. So we did try to stress on the call we anticipate a lot of this Russian dislocation has still got some way to go, we're in the early stages of it from a shipping market perspective.

In direct answer to the diesel side of things, yes, I think we're getting such an extreme element of dislocation there, you're seeing it with very high rates, that I think we would expect to see some spillover. The arbitrage, quite frankly, can't last forever. We're already seeing that arbitrage, which is doing some heavy lifting of the VLCC rates, as we're seeing Suezmax and Aframax cargos being merged into VLCC cargos, and I think you'll get some blurring at the margin with the product market as well.

But it's a bit early to have actually seen that. I think there's some way to go on the arbitrage within the tanker categories. And if we have more duration, and it looks like it's likely into the summer months on the diesel side of things, then that certainly will come through. And you're hearing that from some of the players like Valero, et cetera, and directly involved in that space, that there does seem to be some duration.

But I think also one absolute output we would expect to see is further continuation of the US exports of crude, because there's obviously some slated deliveries from the strategic reserves, and they are obviously going to come over. And a lot of that is being used as feedstock into the European refineries, because we know expressly the US refinery slate is already full and they don't need that crude. So absolutely, there's some absolute and secondary benefits, I think. But for the diesel side of things, I think we'll have to wait until next quarter before we can give a bit more clarity.

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

Hugo De Stoop
Thank you.

Operator
The next question comes from Frode Morkedal of Clarksons Securities. Please go ahead.

Frode Morkedal
Thank you. Hi guys. First question, regarding that proposed merger with Frontline, is it correct that the shareholders voted the 75% majority needed to get it passed?

Hugo De Stoop
It's a little bit more technical than that. So there are many ways to approach combination and obviously that's what we are working on at the moment. So if you indeed think about, I would say a full-fledged merger on day one, you need 75% of the votes that are being presented at a special meeting. But as I say, there are other structures that could be contemplated which require a lower amount of votes.

Frode Morkedal
Okay. Good luck in the acquisition. [Indiscernible].

Hugo De Stoop
Well, unfortunately, I cannot tell you much more about it, but you need a simple majority to just take control of a company of course, and that's 50% and one share.

Frode Morkedal
Yes, understood. Second question is on the market. Yes, it seems like the Russian oil exports have been holding up fairly well so far. But according to the international energy agency, which had a report today, they said that on May 15th the major oil trading houses have to halt all transactions with Russia. So the question is, do you foresee any immediate impact on the tanker market from that winding down process?

Hugo De Stoop
Okay. I think it's fair to say that you have the official sanctions and, quite frankly, people should make a difference between sanctions and an embargo. So the sanctions is what we've seen in Venezuela and Iran, which are supposed to cover everything on a worldwide basis, using the currency as a way to prevent people from trading oil in mainly the dollar, whereas embargo means that you cannot export or import in Europe and into the US, the Russian oil. So there a series of so-called sanctions, but also embargo towards the end of the year that are being put in place. And then you have a lot of people who have declared that they will do this or not do that as far the Russian oil or other Russian commodities are concerned.

As Brian said, we've seen definitely the first impact of that into the smaller size, the Aframax, that spillover effect, as you've seen on our numbers into Suezmax. And quite frankly, we went out of the trough on the VLCC probably because of that as well and, as Brian said, this is because of combination. So to answer your question, yes, we should see more of that happening and therefore, that should benefit the entire tanker market. Again, in the same order, smaller ships, because the Russian oil is usually transport on Aframax and our two type of vessels, but with consequences on the other market, because along with the distance you need to transport all over the bigger the ship you need for obvious reasons of economies of scale.

So what we anticipate to see in future is probably lifting is being done on smaller ships and then lighted into VLCCs to go all around the world and probably the Far East, India and China sort of place, to carry the Russian oil, where those people will be able to buy it. Because as I said, this is an embargo, not strictly speaking sanctions by the Americans.

Frode Morkedal
Great. Thank you for the color. That's it from me.

Hugo De Stoop
Thank you.

Operator
The next question comes from Thijs Berkelder of ABN AMRO ODDO BHF. Please go ahead.

Thijs Berkelder
Yes. Good afternoon, gentlemen, and lady of course. Three questions. Coming back on, let’s say the merger announcement, in last week's presentation you again highlight that you expect significant

synergies. Can you roughly quantify what is significant for you? Is it $10 million per annum, $30 million or $100 million per annum?

And then secondly, can you somehow give more clarity on and maybe quantify on your expected cost synergies and expected revenue synergies?

Thirdly then, what is still not clear to me, can you in any way explain where the merger ratio is coming from, why 145 Frontline share for 1 Euronav share and not, for instance, something like 2 Frontline shares for 1 Euronav share? Those are my questions.

Hugo De Stoop
Yes, thank you very much for that. Again, we will give a lot more information about the merger after we have had our AGM. It is obvious that we expect significant synergies and indeed there are different buckets. I think on the revenue side, it is about utilization and so when you think about traditional tramp shipping, we usually carry oil from production phase to the refineries and then we come back empty. But obviously the bigger the fleet, the more optionality you have on triangulation and these sort of things. So we will come back with a hard number, even though that hard number will be an estimate obviously.

On the other items, the logical ones are G&A. As we said, we don't expect a lot of synergies in the G&A, because the two companies are structured in very different ways. Frontline is outsourcing part of the services, whereas Euronav is more vertically integrated and the model that we are thinking of is a combination of both. So there will be synergies that will be quantified and we will announce it to the market with more precision and obviously how do we get there.

And on the opex, again this is very logical, when you're thinking about procurement, this is economies of scale. So you are dealing with more volume in pretty much everything that you buy. There are some bigger elements than other, when you think about the fuel that we buy, when you think about the lube oils, so obviously this is a numbers game. And as always, if you are a more important client for your service providers then you can bargain a better price.

Finally, and maybe importantly on the financing side, we believe that the platform will be very attractive to many people, providing capital to companies, especially on the debt side, and here I'm thinking about the banking side but also the bond side, which should benefit from an even better credit rating. So it's too early to give hard numbers, but we are working and crunching the numbers and we'll communicate that in due course, and certainly ahead of a merger proposal that will be put before both sets of our shareholders.

As far as the ratio is concerned, I think that we didn't want to come market with the calculation behind it. That was a result of the negotiation. Usually when you do that in shipping you look at the NAV of the two companies, and the NAV is relatively simple calculation, because we have hard assets, ships namely, and then we have a certain amount of debt and that gives you the NAV number. And that is the starting point of any conversation and the rest is about negotiation.

Thijs Berkelder
Okay. That’s clear, thanks.

Hugo De Stoop
You’re welcome.

CONCLUSION

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