Tanker Investments Ltd. First Quarter 2017 Earnings Results Conference Call

Company: Tanker Investments Ltd.

Conference Title: Tanker Investments Ltd. First Quarter 2017 Earnings Results Conference Call

Moderator: William Hung

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Operator: Welcome to Tanker Investments Ltd. First Quarter 2017 Earnings Results Conference Call. During the call, all the participants will be in the listen only mode. Afterwards, you will be invited to participate in a question and answer session. At that time, if you have a question, participants will be asked to press Star One to register for a question. For assistance during the call, please press Star zero on your touchtone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Mr. William Hung, Tanker Investments Ltd. President and Chief Executive Officer, please go ahead sir.

Scott Gayton: Before Mr. Hung begins; I would like to direct all participants to our website at www.tankerinvestments.com, where you will find a copy of the First Quarter of 2017 Earnings Presentation. Mr. Hung will read this presentation during today's conference call. As a reminder, this presentation contains forward-looking statements. Additional information on those forward-looking statements is contained in the First Quarter of 2017 Earnings Release and Earnings Presentation available on our website.

I will now turn the call over to Mr. Hung to begin.

William Hung: Thank you Scott. Hello everyone and thank you for joining us today for Tanker Investments First Quarter 2017 Earnings Call.

I am here today with Scott Gayton, Tanker Investments Chief Financial Officer. For the Q&A session, we also have Elize Nel Director of Group Reporting for Teekay Corporation and Christian Waldegrave, Head of Research for Teekay Corporation.

Beginning with our recent highlights on Slide Three of the presentation, we reported a net income of 3.2 million dollars or $0.11 per share and generated cash flow from vessel operations or CFVO of 16.9 million dollars. All of which are up from last quarter due to stronger tanker rates, lower overhead and operating costs. As we have discussed in previous calls, in order to help offset some of the headwinds that we expect in 2017, we have been actively looking for out-charter opportunities. And I am pleased to inform you that during the quarter, we have secured twelve-month time charters for both the Shenlong and the Tahoe Spirit at $19,750.00 per day each. The charters commenced in March and early April, already resulting in above market benefit to the fleet.

Including the two Aframaxes that we chartered later last year, we are happy to report that TIL now has over 20% of the remaining 2017 revenue generating days secured on fixed-rate time charters to protect us from an expected weaker spot market environment that we acknowledged and spoke to in last quarter. As most of you know, and as I will detail while discussing my tanker market slides, tanker rates have weakened into the second quarter. And therefore, our Q2 tanker rates booked today are below the levels achieved in the first quarter of this year.

However, despite this current and expected tanker market weakness, Tanker Investments is well positioned with the strong financial profile including low leverage of 41.9% on a book basis, ample liquidity, no covenant concerns or near-term debt maturities and one of the lowest cash break evens in the industry of approximately $7,700.00 per day, including the impact of our recent out-charters.

Turning to Slide 4 now, we take a look at recent developments in the spot tanker market. As shown by the chart, quarter one spot earnings have weakened due to the combination of OPEC supply cuts, higher fleet growth and the start of refinery maintenance. We expect this trend to continue throughout the year, but this will be offset by longer haul crude movements originating from the Atlantic basin to Europe and to Asia, which I will elaborate more on in the next slide.

Slide 5 shows that an increase in US crude oil production and exports have resulted in stronger demand for mid-size tankers. US crude exports have averaged 750,000 barrels per day during 2017, up from 485,000 barrels per day at last year. And in February, reached a record high of 1.1 million barrels per day. Not only are the US crude exports rising, but this oil is also moving further afield. Historically, the vast majority of US crude oil exports have moved to Canada, but this year, we've seen a dramatic shift in the destination of US exports. As shown by the chart on the slide, US crude exports are increasingly moving to Europe and to the Americas on mid-size tankers and on Suezmax' and VLCCs to Asia with ships being reversed lightered using Aframaxes in the US gulf. In fact, China overtook Canada as the largest importer of US crude in February, with imports reaching 340,000 barrels per day.

In addition to rising US exports, we are also seeing an increase in crude oil production in other parts of the world that are supporting mid-size tankers demand. In Kazakhstan, the much-delayed Kashagan fields are now ramping up with oil moving through the CPC pipeline to the Black Sea for loading on Aframaxes and Suezmaxes going to Europe. This has added around 200,000 barrels per day of new exports, the equivalent of one Aframax loading every three or four days. We are also seeing a recovery in Nigerian and Libyan production volumes, which is further adding to the mid-size tanker demand. In sum, rising Atlantic crude production and an increase in long haul exports to Asia as importers look to replace lost Middle East OPEC barrels will offer support to mid-size tanker rates in an otherwise challenging market environment.

Turning to Slide 6, we look at the positive fleet fundamentals, which we believe will help drive a tanker market recovery from 2018 and onwards. As shown by the chart on the slide, three years of very low scrapping have led to a build-up of over 300 older mid-size vessels, age 15 years or older will face a scrapping in the coming years. When held up against the current order book of just under 200 vessels, the mid-size tanker fleet growth is set to remain very low from 2018 and onwards. Particularly as impending regulations such as ballast water, where IMO implementations come into effect in September

2017 and low sulphur, regulations by 2020 could encourage even more scrapping as owners look to avoid costly CAPEX requirements.

Although recent weeks we've seen an uptick in new tanker orders, most of the orders have been in the VLCC segment and only two in the Suezmaxes and 13 in Aframaxes orders placed since the start of the year. Furthermore, we believe that ordering will remain limited to a small number of owners and that financial constraints and shrinking shipyard capacity will help keep the overall levels of orders low compared to historical averages.

Turning now to Slide 7, we look at developments in the tanker asset values. We believe modern tanker asset values have bottomed out and they're now at an inflexion point with recent sales indicating a five to ten percent increase in price. This increase is due to a lack of modern sales candidates coupled with renewed buying interest as owners look to acquire tonnage at a weak point in the freight cycle and ahead of an expected market recovery from 2018 and onwards. It should be noted that the increase in asset values is only limited to the modern vessels and a two-tier marketing is developing with older assets seeing a continued decline in price due to an ample supply of sales candidates.

Turning to Slide 8 now, as I explained earlier, tanker rates have weakened since the start of the year and this has continued into the second quarter as can be seen in the dark blue bars. So far this quarter, we have booked approximately 55% of our spot Suezmax and Aframax days at approximately $19,250.00 a day and $14,250.00 per day, respectively. As a reminder, as of Q1 2017, we have moved our two coated Aframaxes, the Hovden Spirit and the Trysil Spirit to trade in the crude segment and thus we no longer report separate LR2 rates.

Tanker Investments is financially well positioned to ride through the weaker parts of the spot market in 2017 through our strong Balance Sheet and liquidity position. TIL has one of the lowest break-evens in the mid-size tanker segment and as I mentioned earlier has now hedged out over 20% of the remaining revenue generating days at above market charters for the remaining of the year. Thank you for calling in and Operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing Star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach equipment. Again, press Star one to ask a question. We'll pause for just a moment to allow everyone the opportunity to signal for questions.

Our first question comes from Magnus Fyhr of Seaport Global, please go ahead.

Magnus Fyhr: Yeah, good morning guys. Just a question on, on your, kind of put a pretty positive picture there with asset values bottoming out and you know, that we potentially near the stage to the recovery. Has that changed your, you know, view of, of using your cash in the Balance Sheet potentially buying back stocks here if, I mean the stock according to our, you know, calculations trending at a pretty significant discount to nab, so just we're curious if that has changed with the recent developments? Thank you.

Scott Gayton: Yeah, thanks. Hey Magnus. No I wouldn't say that it's changed, I think that we've been pretty consistent for the last probably two to three quarters in a row that we want to see two things happen; both a bottoming in asset values, which as we'll walk through it appears as though we have now hopefully come to that point and maybe we're even at an inflection point. And we also want to see where the market goes to throughout the weak or summer period that we are expecting, so, it's a bit of a timing issue, but no we've not changed our stance and we still remain committed to returning all excess capital to shareholders as we execute on the second phase of our strategy here.

Magnus Fyhr: OK and then, you know, with the out-coming seasonal weakness, I mean, do you have any more opportunities to charter vessels, I mean you did a couple of them, you know what are the opportunities to further time charters do you think you have the right mix going into this summer?

William Hung: I think we're always going to be looking for the opportunities, but the reality is that the markets come off now and the rates that we're seeing for a one-year period, it's just not attractive to us. But we do find that opportunity and that, that pearl in the, in the ocean, then we're definitely going to continue to, to increase our hedge. But, it's got to be the, the, at the right rate.

Magnus Fyhr: OK, thank you, that's all I have.

William Hung: Thanks Magnus.

Operator: Thank you. Once again, if you do have a question, please press Star one at this time. There are no further questions at this time. Please continue.

William Hung: OK, well, thank you everybody for calling in. Look forward to talking to you next quarter. Thank you.

Operator: Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line and have a great day.