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Norden

Full-year 2023 Result Presentation

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CORPORATE SPEAKERS:

Stig Frederiksen
Norden; Head of Investor Relations
Jan Rindbo
Norden; Chief Executive Officer
Martin Badsted
Norden; Chief Financial Officer

PARTICIPANTS:

Unidentified Participant
Clarksons Securities; Analyst
Ulrik Bak
SEB; Analyst

PRESENTATION:

Operator^ Hello, everyone. And welcome to the Norden Full Year 2023 Results Presentation. (Operator Instructions)

I will now hand the floor to Stig Frederiksen to begin.

Please go ahead when you're ready.

Stig Frederiksen^ Thank you very much. My name is Stig Frederiksen. And welcome to Norden Full Year Call.

Before I hand over the word to Jan, just our forward-looking statements, please read these as, of course we have some statements going forward into 2024.

And with that, I hand over to Jan.

Jan?

Jan Rindbo^ Thank you very much. Stig. My name is Jan Rindbo. I'm the CEO of Norden. And let me start by highlighting some of the key highlights for 2023.

So Norden delivered a net profit of $400 million a year. We delivered 32% return on invested capital. And this means that this is one of the best results in Norden's history, and we are delivering these results despite lower markets, both in dry cargo and tankers.

Strategically, we achieved some key milestones in the year, which I will come back to a little bit later. We also continued our high cash returns to shareholders. And then finally, we are expecting a net profit for 2024 in the range of $150 million to $250 million.

So let me hand you over to Martin for some financial highlights.

Martin Badsted^ Thank you. We'll start with a brief look at our Q4 numbers. We made a net profit of $43 million in Q4, in line with expectations. Both business units delivered positive results, but by far, the majority of the earnings were actually made in the Assets and Logistics business unit, which generated $41 million. We continue to make good cash flow with a free cash flow generation of $30 million, which actually means that at the end of the year, despite paying out substantial dividends during the year, we ended with a net interest-bearing debt position of only $45 million, even when including all the lease liabilities on the balance sheet.

Finally, let me say we continue to deliver an attractive return on invested capital of 14% for the quarter, which brought the full year number to 32%.

Next slide, please. Looking a bit at our market exposure and our market outlook. Let me start out by saying that actually we have spent a substantial part of 2023 building a fairly large deferred market exposure towards the dry cargo market. We believe the dry cargo market has attractive outlook, not least because the supply side is looking very attractive with limited yard capacity and a limited order book. And during the year to sort of take advantage of this situation in the long term, we have ordered 17 newbuildings in the form of both real newbuildings and long-term leases.

And in addition to that, we've been acquiring five secondhand Capesize vessels. So a substantial increase in our exposure to that market, which we believe will be attractive.

On the tanker side, we actually still believe that the market will remain firm in the short term. Nevertheless, we have felt that we wanted to derisk the portfolio during 2023 by selling vessels and chartering out vessels, which basically means that we have kept a fairly high exposure following sort of the market during the year, but taking a little bit off the top of the risk off. That brings us to the position for 2024, which by early February was an open position in MR tankers of 6,300 days, vessel days there is, and in dry cargo, an open position of just over 4,000 vessel days for the remainder of 2024. But as you can see from the top graph, those -- that position in dry cargo is composed of a short position in the near term in Q1, after which we have added length in the rest of the year and in future years, which, as I said, brought the entire net position in dry cargo to a positive for 2024.

Please turn to Slide number7.

Jan Rindbo^ All right. Thank you, Martin. And let's just turn to a strategy update because in 2023, Norden has made a strong progress in the execution of our strategic priorities, which means that today Norden stands as a global provider of ocean-based freight services for dry and liquid bulk as well as project cargo of all sizes. And that means that we can now integrate freight with port logistics and also decarbonization solutions to our customers.

During the year, we have achieved some specific milestones. Importantly, we have entered into the Capesize market, and this is supported by the acquisition of five owned vessels during the year. We have also expanded our customer offering with Projects and Parcelling where we've seen both commercial and cost synergies realized in the second half of the year. We have invested in the future of renewable fuels through a minority stake in Mash Makes. And we have signed the first emission reduction freight contract and also concluded the first book-and-claim transactions.

From this year onwards, we have also introduced a strategic scorecard where we are outlining five key performance indicators and targets. And this has the purpose of measuring and communicating the development of the value creation, the growth, the profitability, decarbonization and also shareholder returns for Norden.

Moving to the next slide. Also part of our strategic achievements for 2023. We have made some major progress on the ESG agenda. So let me just highlight a few points related to the environmental and social agendas. On the environmental side, we have lowered our emissions measured by EEOI by 9% in the year.

And that means that we are well on track to reach our midterm target of minimum reduction of 16% by 2030, all based on a 2022 baseline.

As mentioned before, we have invested into the future supply of alternative fuels by buying a minority stake in a biofuel scale-up called Mash Makes, and we had the first biofuel trial scheduled on one of our vessels here in 2024. We also signed our first green emission freight contract with Teck Resources, a Canadian mining company.

On the social agenda, we have achieved our target of reaching 41% of the underrepresented gender among our employees, and that means we have now reached our target of reaching minimum 40%.

Let me turn to guidance and the final remarks. In terms of guidance, we have -- based on the current market outlook and position, we have set a guidance range of between $150 million to $250 million net profit. When you look at the underlying business units, we expect lower margins in freight services and trading, especially in the first half of the year due to increasing charter costs in the market.

On Assets and Logistics, we continue to benefit from high earnings coverage, both in dry cargo and tankers, at profitable levels. And finally, in terms of our distribution policy, we have decided to base this now still on a payout ratio of 50%, but now with the Board of Directors having the flexibility to allocate between dividends and share buyback programs.

With that, I'm moving into the final remarks. So overall, a great financial performance in 2023. We are expanding our market exposure in dry cargo due to a structurally positive market outlook. We remain positive on the near-term tanker market as well. We are well positioned to continue to grow the business in 2024, now with the successful integration of Projects and Parcelling and also the expansion into Capesize.

We had a strong execution on our ESG agenda in 2023, and that remains high on our agenda also here in 2024. We continue to have high cash distribution to our shareholders. We had $337 million announced for the full year of 2023, with a final dividend of DKK 10 per share, bringing the total dividend to DKK 45 per share, and we have also announced a share buyback program of $125 million.

And then finally, based on our agile business model and high earnings coverage in Assets and Logistics, we expect a net profit for the full year 2024 of between $150 million to $250 million.

So that concludes the initial remarks. So I would like to hand over the word to the operator for Q&A.

QUESTION & ANSWER:

Operator^ (Operator Instructions) The first question is from [Evan Kolstad] from Clarksons Securities.

Unidentified Participant^ So let's start with the quarterly performance of the freight services and trading units. I know we don't like to give too much information about the unit, but could you please at least give some more detailed information about the profits for the cargo and tanker units. I know you were quite bearish towards the dry bulk market? And did that impact your trading margin for the quarter?

Jan Rindbo^ Yes. You're right that we don't actually give the specific figures for the two subdivisions, if you will. But it is true that we entered also into Q4 with a bit of a short position in dry cargo. We have actually spent the time in Q4 rolling that into Q1. So I would say that has been a factor in the slim margins that we realized in the Q4 numbers in FSG. We are now, as I said, for 2024, net long.

And that is actually a development which is continuing also in the last few days.

Unidentified Participant^ Okay. So moving on to the new strategic targets. Looking at your target for the trading margin of $500 per day as a minimum. And could you please say something about how you arrived at $500 a day since it seems a bit conservative.

Jan Rindbo^ Yes. So as you can see in the numbers, historically, we have achieved earnings of $1,206 but that includes a phenomenal year that we had in 2022, where we achieved the margins of over $3,000 a day. So we believe that year was an exceptional year, which we cannot necessarily expect to repeat, although we do think that we have that upside in the business model to do that.

But the $500 is more just to say that is a minimum target that we would like to communicate to our shareholders that we expect that we will be able to generate over time in that business unit, also noting that when you look at the NAV value and then the market value of Norden, that there does not seem to be much value attributed to the Freight Services and Trading business. So this is a way for us to communicate that we believe that over time, there is definitely value in this part of the business and $500 a day is our way of saying that this is what we expect that we, as a minimum, can achieve over time.

Unidentified Participant^ Okay. Got it. Finally, when it comes to your guidance, so what needs to happen for you to achieve the guidance on the lower end? And what needs to happen for you to get on the higher end of the range, like in terms of less on dry bulk rates?

Jan Rindbo^ So on the dry bulk side, as Martin was referring to earlier, we are actually building the position now. So being net long the market, then clearly, we would need to see a disappointing development in dry cargo rates to be moving towards the lower end of that guidance for those days that are exposed to the dry-cargo market. And then the opposite, of course is the case moving towards the upper end of that target. You will notice in those days that we have disclosed that we still have a higher exposure to the tanker market compared to the dry cargo market.

So in the short term, so for 2024, as we speak now, we have more exposure towards the tanker market than the dry cargo market. But again I think it's important to continue to highlight that these are dynamic positions. And especially in dry cargo, we have seen in the past that we can change these positions through our agile tonnage capacity model, where we have the ability to charter in more ships in case we have a higher degree of conviction in the dry cargo market.

So for us to, you can say a surprise to the upside, we would need to see probably a continued building up of exposure in dry cargo and then a continuation of the dry cargo market to surprise in the upside when we look into the second quarter onwards.

Operator^ Our next question is from Ulrik Bak from SEB.

Ulrik Bak^ Also a few questions from my side. The first one on your guidance and the variability of that guidance. So in terms of assets and logistics, would it be fair to assume that, that should be fairly stable and perhaps even at the levels that we saw here in Q4 for 2024?

Jan Rindbo^ Very stable is perhaps overstating it, but it's true that, that business unit has a fairly high cargo. But of course some of the tanker exposure is also placed within that business unit. So that would be the main sensitivity.

Ulrik Bak^ All right. And then for this you have a comment that gains from vessel sales and subleases of $59 million has been included in the guidance. Can you just elaborate how the phasing of those $59 million will be and what vessels you have sold? Yes, any color you can give, please?

Jan Rindbo^ Yes. So we don't comment on this specific individual vessel sales. But I think what we can say here is that in terms of the quarterly sort of replacement of these vessel sales, so this is very front-loaded of the sales that we know of today. So you should expect them to come early in the year.

Ulrik Bak^ But no color in terms of dry bulk versus the tanker vessels. And also, if I can ask a question on, do you intend to sell further vessels?

Jan Rindbo^ So it is a mix of both dry cargo and tankers. And clearly, the significant gains are predominantly on the tanker vessels because of the high asset values in that part. In terms of further sales, then again it is something that is dynamic and we look at opportunities as they come in. We are not actually right now looking at selling more tonnage.

You may have noticed that towards the end of the year, we bought a -- basically a resale Capesize ship that has joined our fleet here in January.

And that is part of building up our exposure in dry cargo.

Ulrik Bak^ Understood. Then in terms of your Freight Services and Trading, obviously we saw quite a steep decline in earnings. But you mentioned that you expect the second half of '24 to be better than the first half. Can you please just elaborate on why that is?

Jan Rindbo^ Yes. I would say it's to do with what I talked about earlier that we have rolled in the short position into Q1, which basically means that we have, I would say not been able to capture so much value from the rising dry cargo market here in the front end. But as we have already built the long position for the remainder of the first half and into the second half as long as the market stays strong, of course we should have more benefit of the strong rate environment in the second half.

Ulrik Bak^ Okay. That makes sense. And then just some comments on the Red Sea situation and also how the rate increases that we have seen, how has that impacted your business and your positioning perhaps you already discussed it right before, but -- and some further comments would be appreciated.

Jan Rindbo^ Yes. So I can start by saying that if you look at the dry cargo side, it's actually only 6% of global trade that moves through the Red Sea. So it's a smaller portion compared to -- well, especially the container business, but also the tanker business. But what we are seeing, of course now is an increasing number of ships being rerouted south of Africa. It's fair to say that bulk owners in general, have been slower to reroute the ships, it started to be sort of very much a container issue.

But now more dry cargo ships are being rerouted. We have not seen, in our opinion, the full effect of this yet because it's only really in the last 3, four weeks, perhaps for some even shorter, this rerouting has started. And therefore, these ships are not missing, so to speak, in the global markets, yes. So we think there's more, you can say strength to come into the market from the rerouting of ships. And that's also why you're seeing seasonally very strong rates in dry cargo at the moment.

And then it's a similar picture on tankers, where I think the rate reaction has been even stronger than earlier because the product tanker rates have a higher proportion of trade going through the Red Sea compared to dry cargo. And here, we see, again strong rates for MR tankers segment here at the beginning of the year. The way this is impacting us is that, of course the Red Sea is a new event that has happened. And therefore, where overall for the Norden portfolio, also looking much further than just

2024. This is a net positive to our portfolio because we see increase in asset values, increasing forward rates beyond 2024.

So overall, that is benefiting our position.

Of course in the short term, and this is talking about the Freight Services and Trading unit, the cost of chartering in ships to carry the cargos that we've committed to has gone up, which is part of the issues that margins are squeezed in that part of the business.

Ulrik Bak^ Okay. Thank you so much.

Operator^ We currently have no other questions from the telephone lines.

Jan Rindbo^ All right. Okay. Well, thank you for the interest and thank you for joining the call. Thank you for all the questions. We look forward to talk to you again when we have our first quarter results in April.

Thank you.

And good day.

Operator^ Thank you. This concludes today's conference call.

And you may now disconnect your lines.