

# Second quarter/First half 2019 presentation

August 21, 2019



ODFJELL



## Agenda

- Highlights
- Financials
- Operational review/Strategy
- Prospects and Market update

# Highlights

- The chemical tanker market continued to improve in the second quarter
- EBITDA of USD 57 mill, compared with USD 47 mill in 1Q19
- EBITDA of USD 50 mill from Odfjell Tankers compared with USD 40 mill 1Q19. Excluding the effect from IFRS 16, Odfjell Tankers EBITDA improved to USD 37 mill 2Q19 vs USD 27 mill 1Q19
- EBITDA of USD 6 mill from Odfjell Terminals compared to USD 7 mill 1Q19
- Net result of USD -10 mill compared to USD -15 mill last quarter
- Spot rates on main tradelanes improved by 7% compared to 1Q19, and our COA rates (renewals) are up 6% YTD 2019

## Subsequent events

- We completed the sale of our joint 55% ownership in Odfjell Terminals Jiangyin in July 2019. The sale will result in an equity gain of USD 14 mill and net cash gain of USD 21 mill in 3Q19
- Odfjell Tankers to take delivery of the first super-segregator newbuilding from Hudong Shipyard in August
- Attractive financing secured to redeem USD 61 mill bond maturing in September 2019

## Key figures, USD mill

(USD mill, unaudited)	3Q18	4Q18	1Q19	2Q19	2Q18	FY18	FY17
Odfjell Tankers	208.8	221.3	218.3	223.1	209.0	850.8	842.5
Odfjell Terminals	22.6	17.2	17.6	17.9	25.9	91.0	110.8
<b>Revenues*</b>	<b>233.7</b>	<b>241.1</b>	<b>238.3</b>	<b>243.2</b>	<b>236.7</b>	<b>950.5</b>	<b>961.7</b>
Odfjell Tankers	26.8	27.0	39.7	49.9	28.0	108.7	125.0
Odfjell Terminals	3.9	4.8	6.7	6.2	8.9	24.0	38.4
<b>EBITDA*</b>	<b>31.5</b>	<b>32.7</b>	<b>47.2</b>	<b>56.8</b>	<b>37.2</b>	<b>135.3</b>	<b>165.8</b>
EBIT	(13.5)	(13.0)	7.0	14.4	(52.9)	(76.4)	132.8
Net profit	(31.2)	(47.6)	(15.4)	(10.1)	(120.0)	(210.8)	90.6
<b>EPS**</b>	<b>(0.40)</b>	<b>(0.60)</b>	<b>(0.20)</b>	<b>(0.13)</b>	<b>(1.53)</b>	<b>(2.68)</b>	<b>1.15</b>
ROE***	(13.8%)	(17.6)%	(10.5 %)	(6.1 %)	(22.3 %)	(29.8%)	11.8%
ROCE***	(1.5%)	(1.1)%	1.4 %	2.8 %	(5.4 %)	(8.1%)	8.8%

1) Historical figures are not adjusted for IFRS16

\*Includes figures from Odfjell Gas

\*\* Based on 78.7 million outstanding shares

\*\*\* Ratios are annualised

*"We are pleased to report continued improvements in our results for the second quarter. The improvement in both spot and COA rates are still modest, but we continue to believe that we are in the early stage in the recovery of the chemical tanker market. We expect next quarter to be slightly affected by the seasonal slowdown in the chemical tanker market, but we still expect to report figures in line with the second quarter"*

Kristian Mørch, CEO Odfjell SE



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# Income statement<sup>1</sup> – Odfjell Group by division

USD mill	Tankers		Terminals		Total*	
	1Q19	2Q19	1Q19	2Q19	1Q19	2Q19
Gross revenue	218.3	223.1	17.6	17.9	238.3	243.2
Voyage expenses	(90.2)	(88.4)	–	–	(91.2)	(89.3)
Pool distribution	(13.0)	(16.0)	–	–	(13.0)	(16.0)
<b>Timecharter Earnings</b>	<b>115.2</b>	<b>118.7</b>	<b>17.6</b>	<b>17.9</b>	<b>134.1</b>	<b>137.9</b>
TC expenses	(15.4)	(10.7)	–	–	(15.4)	(10.7)
Operating expenses	(37.2)	(37.1)	(6.9)	(6.9)	(44.6)	(44.5)
Operating expenses – IFRS 16 adjusted	(5.3)	(5.6)	–	–	(5.3)	(5.6)
G&A	(17.6)	(15.4)	(4.0)	(4.8)	(21.6)	(20.2)
<b>EBITDA</b>	<b>39.7</b>	<b>49.9</b>	<b>6.7</b>	<b>6.2</b>	<b>47.2</b>	<b>56.8</b>
Depreciation	(22.7)	(22.8)	(5.4)	(5.3)	(28.1)	(28.1)
Depreciation – IFRS 16 adjusted	(11.4)	(12.4)	–	(0.1)	(11.5)	(12.9)
Impairment	–	–	–	(1.6)	–	(1.6)
Capital gain/loss	(0.2)	0.1	(0.4)	0.1	(0.6)	0.2
<b>EBIT</b>	<b>5.4</b>	<b>14.4</b>	<b>0.8</b>	<b>(0.7)</b>	<b>7.0</b>	<b>14.4</b>
Net interest expenses	(20.1)	(20.9)	(1.4)	(1.4)	(21.6)	(22.4)
Other financial items	0.6	(0.5)	–	(0.2)	0.6	(0.7)
Net finance	(19.4)	(21.4)	(1.4)	(1.6)	(20.9)	(23.1)
Taxes	(1.2)	(1.1)	(0.3)	(0.4)	(1.5)	(1.5)
<b>Net results</b>	<b>(15.2)</b>	<b>(8.0)</b>	<b>(1.0)</b>	<b>(2.7)</b>	<b>(15.4)</b>	<b>(10.2)</b>
EPS	–	–	–	–	(0.20)	(0.13)
Voyage days	6,293	6,308	–	–	6,293	6,308

## Key quarterly deviations:

- TC revenues improved due to stronger performance in Odfjell Tankers
- Lower timecharter expenses due to redelivery of vessels with higher timecharter rates and some vessels has not been replaced
- Lower G&A in Odfjell Tankers driven by currency effects (USD1.2 mill) and seasonally lower costs during the quarter
- Odfjell Tankers EBITDA improved by USD 10 mill compared to previous quarter
- USD 1.6 mill impairment in Odfjell Terminals related to the Ethylene project in Houston, after this project did not materialize
- Adjusted for non-recurring items, adjusted EPS for Odfjell was USD –0.10 compared to adjusted EPS of USD –0.20 in the previous quarter

1. Proportional consolidation method \*Total Includes contribution from Gas Carriers now classified as held for sale

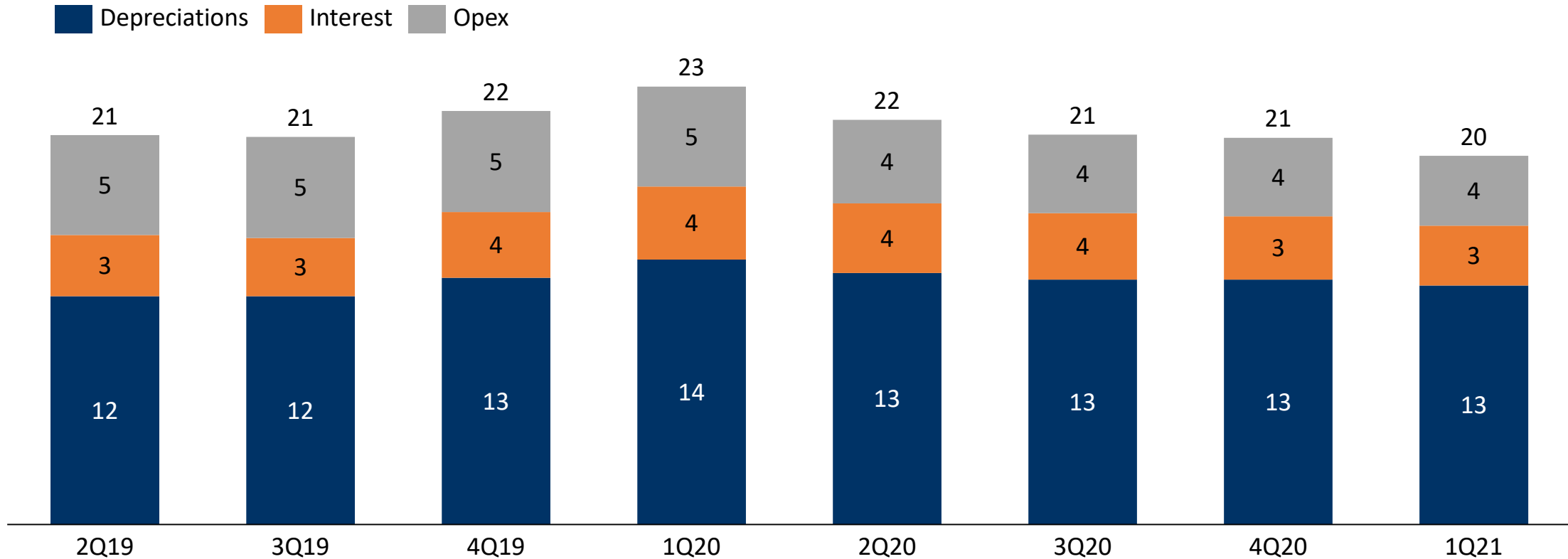
# P&L from chemical tanker segment adjusted for IFRS16 impact

USD mill	1Q19 reported	1Q19 Adjusted	2Q19 reported	2Q19 Adjusted
Gross revenue	218.3	218.3	223.2	223.2
Voyage expenses	(90.2)	(90.2)	(88.4)	(88.4)
Pool distribution	(13.0)	(13.0)	(16.0)	(16.0)
<b>Timecharter Earnings</b>	<b>115.1</b>	<b>115.1</b>	<b>118.8</b>	<b>118.8</b>
TC expenses	-	(32.6)	-	(30.0)
TC expenses (operating leases less than 12 months)	(15.4)	-	(10.7)	-
Opex	(37.2)	(37.2)	(37.1)	(37.1)
Opex operating lease	(5.3)	-	(5.6)	-
G&A*	(17.6)	(18.3)	(15.4)	(15.4)
<b>EBITDA</b>	<b>39.7</b>	<b>27.0</b>	<b>49.9</b>	<b>36.3</b>
Depreciation	(22.7)	(22.8)	(22.8)	(22.8)
Depreciation operating lease	(11.4)	-	(12.8)	-
<b>EBIT**</b>	<b>5.4</b>	<b>4.2</b>	<b>14.4</b>	<b>13.7</b>
Net finance	(16.6)	(16.5)	(18.1)	(18.0)
Net finance operating lease	(2.9)	-	(3.3)	-
Taxes	(1.2)	(1.2)	(1.1)	(1.1)
<b>Net result</b>	<b>(15.2)</b>	<b>(13.5)</b>	<b>(7.9)</b>	<b>(5.5)</b>

## Key input:

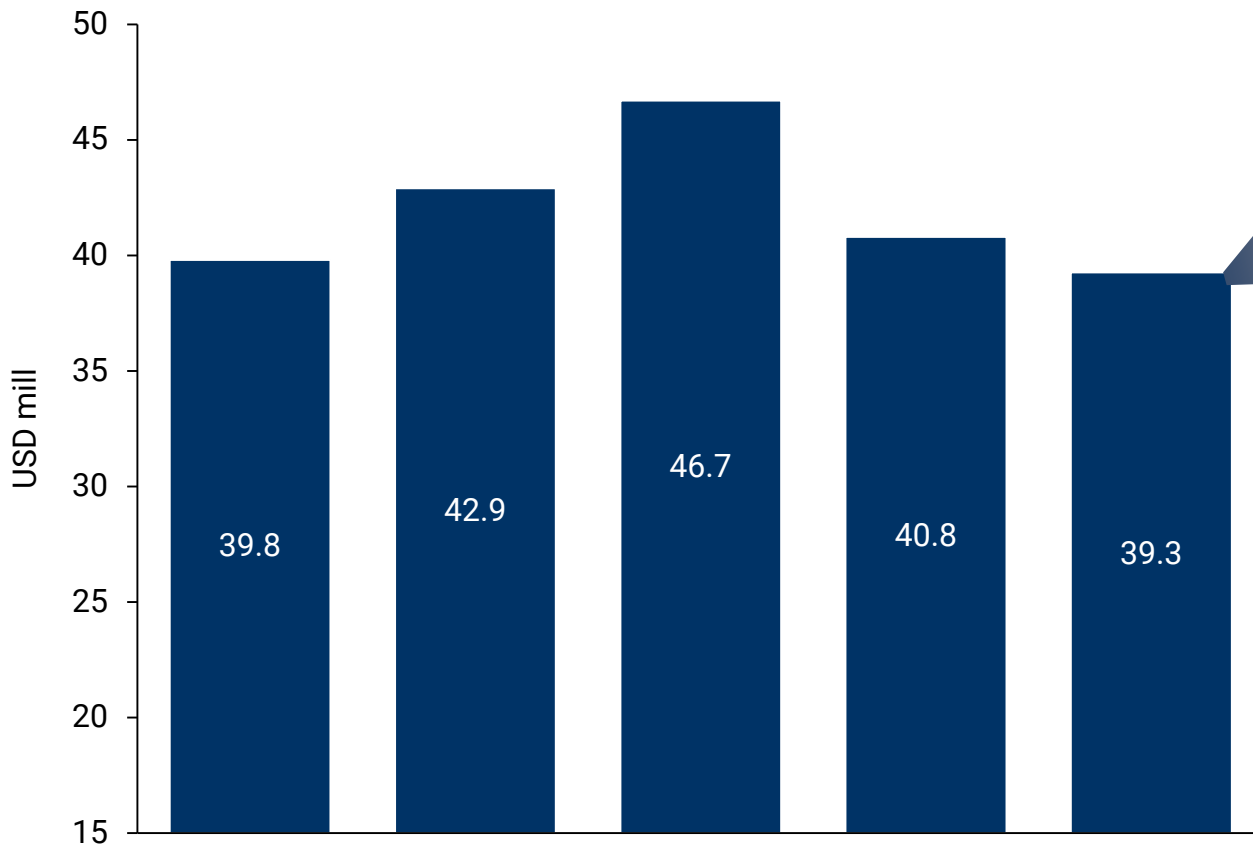
- EBITDA of USD 37 mill improved from USD 27 mill previous quarter
- Net result reduced by USD 2.4 mill when taking IFRS 16 into account

# Odfjell Tankers Long-term charter portfolio – Short-term TC expected to remain stable for the remainder of the year



- 2Q19 short-term TC/BB decreased to USD11 mill compared to USD 15 mill as guided previous quarter due to redelivery of several vessels on timecharter.
- Short-term TC/BB of USD 11 mill in 2Q19 is expected to be stable for the remainder of the year
- Long-term guidance on opex and interest rates is unchanged

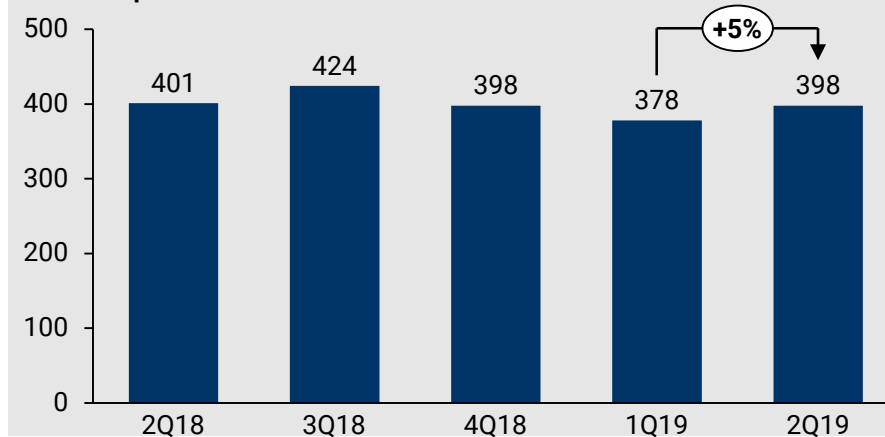
# Bunker expenses – 30.06.2019 – Odfjell Tankers



- Bunker costs after bunker adjustment clauses was USD 39 mill compared to USD 41 mill 4Q18.
- Bunker adjustment clauses hedged 57% of our total volumes during the quarter
- Our planning for IMO 2020 is progressing as planned and we plan to consume compliant fuel from January 2020. Increased bunker costs will be passed on to customers
- We have hedged 18,000 tonnes of MGO which means we have entered into financial hedges for 60% of our bunker exposure not hedged through contracts for the remainder of 2019.

### Average Platts 3.5% FOB Rotterdam

USD per metric tonne



	2Q18	3Q18	4Q18	1Q19	2Q19
Gross bunker cost	43.7	50.0	55.9	47.4	46.9
Financial hedging	-	-	-	(0.4)	(0.6)
Adj. Clauses	(1.9)	(4.2)	(4.9)	(1.2)	(1.8)
3 <sup>rd</sup> party vessels	(2.0)	(3.0)	(4.3)	(5.1)	(5.3)
<b>Net bunker cost</b>	<b>39.8</b>	<b>42.9</b>	<b>46.7</b>	<b>40.8</b>	<b>39.3</b>



# Balance sheet 30.06.2019<sup>1</sup> - Odfjell Group

Assets, USD mill	1Q19	2Q19
Ships and newbuilding contracts	1,354.0	1,345.0
Rights of use assets	216.8	231.3
Investment in associates and JVs	172.1	169.8
Other non-current assets/receivables	26.7	25.9
<b>Total non-current assets</b>	<b>1,769.8</b>	<b>1,772.0</b>
Cash and cash equivalent	138.6	104.6
Current receivables	99.3	110.1
Other current assets	23.4	25.8
<b>Total current assets</b>	<b>261.3</b>	<b>240.6</b>
<b>Total assets</b>	<b>2,031.1</b>	<b>2,012.6</b>

Equity and liabilities, USD mill	1Q19	2Q19
Total equity	583.5	564.2
Non-current interest bearing debt	891.9	865.4
Non-current interest bearing debt, right of use assets	175.2	188.1
Non-current liabilities and derivatives	23.3	28.2
<b>Total non-current liabilities</b>	<b>1,090.3</b>	<b>1,081.8</b>
Current portion of interest bearing debt	218.9	224.6
Current portion of interest bearing debt, right of use assets	43.3	46.6
Other current liabilities and derivatives	95.1	95.4
<b>Total current liabilities</b>	<b>357.3</b>	<b>366.6</b>
<b>Total equity and liabilities</b>	<b>2,031.1</b>	<b>2,012.6</b>

- Increase in right of use assets relates to delivery of one vessel on long-term bareboat charter during the quarter
- Reduced cash position mainly as a result of repayment of debt and a temporary increase in working capital

# Cash flow – 30.06.2019 – Odfjell Group<sup>1</sup>

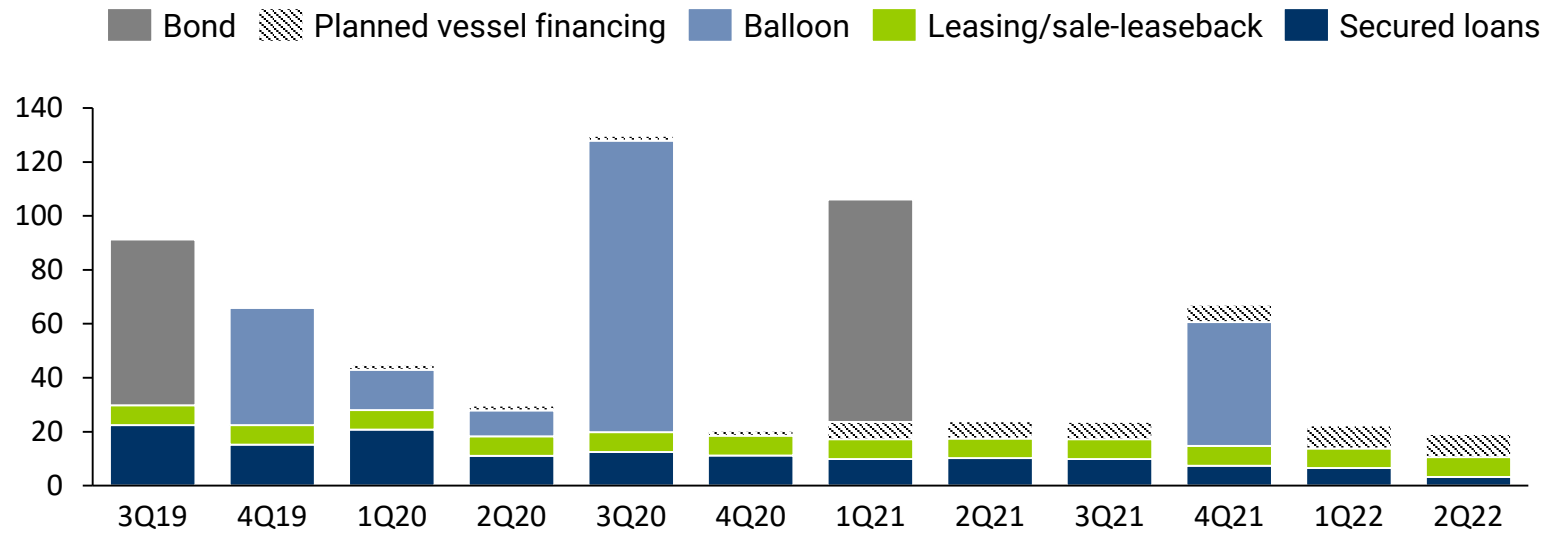
Cash flow, USD mill	1Q19	2Q19	FY18
Net profit	(14.9)	(9.5)	(209.3)
Adjustments	33.8	35.8	104.6
Change in working capital	(5.8)	(14.8)	(20.6)
Other	(1.9)	5.7	167.9
<b>Cash flow from operating activities</b>	<b>11.2</b>	<b>17.2</b>	<b>42.6</b>
Sale of ships, property, plant and equipment	2.0	–	–
Investments in non-current assets	(17.4)	(14.3)	(193.9)
Dividend/ other from investments in Associates and JV's	–	–	81.1
Other	0.1	(0.1)	14.0
<b>Cash flow from investing activities</b>	<b>(15.3)</b>	<b>(14.2)</b>	<b>(98.8)</b>
New interest bearing debt	20.5	(0.6)	301.3
Repayment of interest bearing debt	(35.8)	(24.8)	(267.8)
Payment of operational lease debt	(9.9)	(11.3)	
Dividends	–	–	(14.6)
Other	–	–	(1.2)
<b>Cash flow from financing activities</b>	<b>(25.2)</b>	<b>(36.7)</b>	<b>17.7</b>
<b>Net cash flow*</b>	<b>(29.3)</b>	<b>(33.6)</b>	<b>(39.0)</b>

- Improved operating cash flow despite temporary increase in working capital
- Final equity investment for newbuildings made in 2Q19 (USD 6 mill)

1. Equity method  
2. \* After FX effects

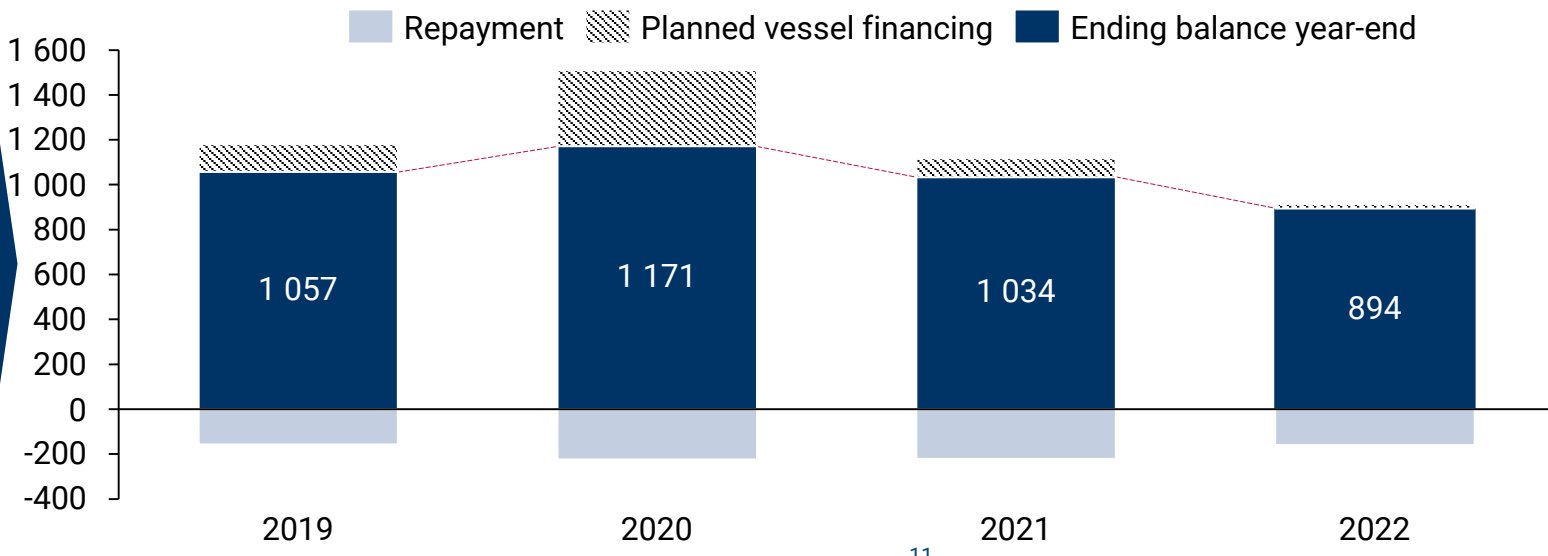
# Debt development – Corporate and chemical tankers

**Scheduled repayments and planned refinancing, USD mill**



- Installments and capital repayments on mortgage loans and financial leases totaled USD 25 mill in 2Q19
- We have completed attractive financing to redeem the bond maturing in September
- Secured several refinancing's with extended repayment profiles

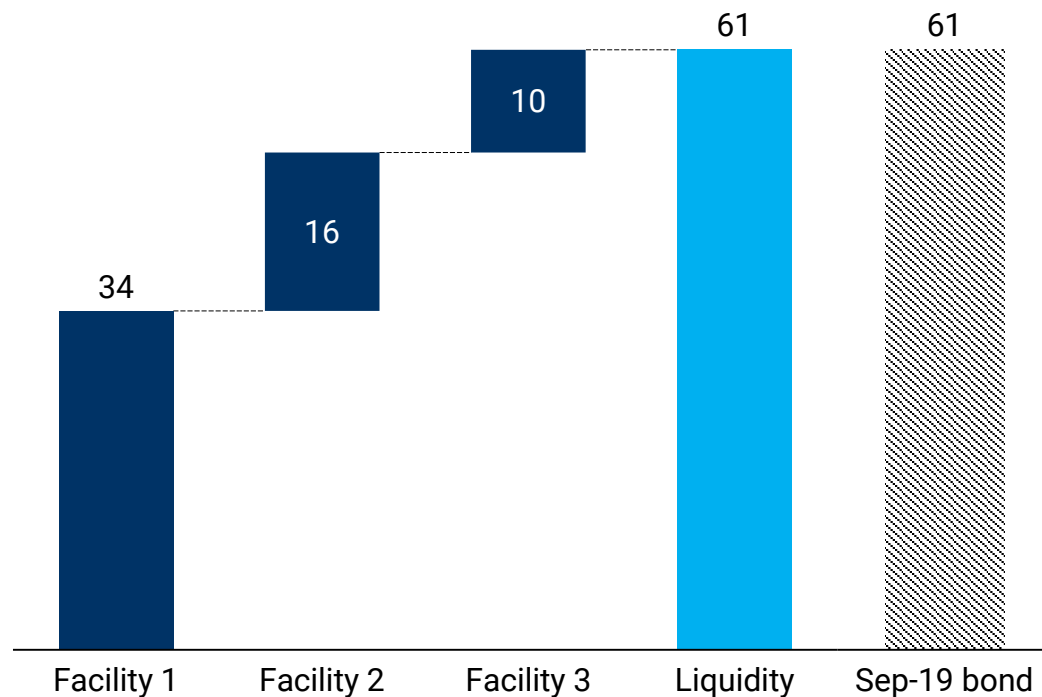
**Gross debt ending balance, USD mill**



- Debt to increase in 2020 due to delivery of newbuildings
- Focus remain on reducing debt to lower our break-even levels...
- Timing of reaching our targets are market dependent

# We have secured attractive financing which will reduce upcoming refinancing needs and break-even cost. This will also be used to redeem the bond maturing in September

## Liquidity effect from secured financing (USD mill)



## Reduced refinancing needs, break-even and margins

- + 2019 refinancing needs reduced to USD 2 mill (from USD 43 mill)
- + 2020 refinancing needs reduced to USD 56 mill (from USD 133 mill)
- + 2021 refinancing needs reduced to USD 4 mill (from USD 46 mill)
- + Daily break-even for the nine involved vessels reduced by USD 990/day due to improved amortisation profiles
- + Sep-19 Bond margin: +550 bps
- + New financing margin range: +250 to +320 bps

- We have secured financing to enable us to redeem the september 2019 bond at maturity with more attractive funding sources
- We might refinance the bond if market conditions are right for Odfjell
- Our new refinancing has been secured at attractive levels compared to a bond refinancing and lowers upcoming refinancing needs, daily break-even and adds balance sheet flexibility through a revolving credit facility

# Capital expenditure programme – 30.06.2019

USD mill	2019	2020	2021
<b>Chemical Tanker newbuildings</b>			
Hudong 4 x 49,00 dwt (USD 60 mill)	128	42	–
Hudong 2 x 38,000 dwt (USD 58 mill)	6	87	–
Total	134	129	–
<b>Instalment structure - Newbuildings</b>			
Debt installment	134	129	–
Equity installment	–	–	–
<b>Tank Terminals (Odfjell share)*</b>			
Planned expansion capex	3	**	**

- We paid USD 6 mill of instalments on newbuildings during the quarter
- We have secured financing for all chemical tanker newbuildings and no equity instalments remains
- The first newbuilding from Hudong was delivered in August 2019
- We have no capital commitments for chemical tankers beyond 2020
- Other chemical tanker investments for the next three years amounts to about USD 10 mill, mainly related to installation of ballast water treatment systems.
- We expect the average annual docking capitalization to be about USD 15 million in the years ahead
- Odfjell Terminals maintenance capex for the next three years amounts to about USD 4 mill

\* Tank Terminals to be self-funded meaning no cash flow from Odfjell SE to meet guided capital expenditures – Tank terminal Capex listed in table is expansions that will impact our P&L

\*\*Our capital expenditure programme for the US will be updated when a new strategy has been concluded together with our new JV partner at the US terminals.

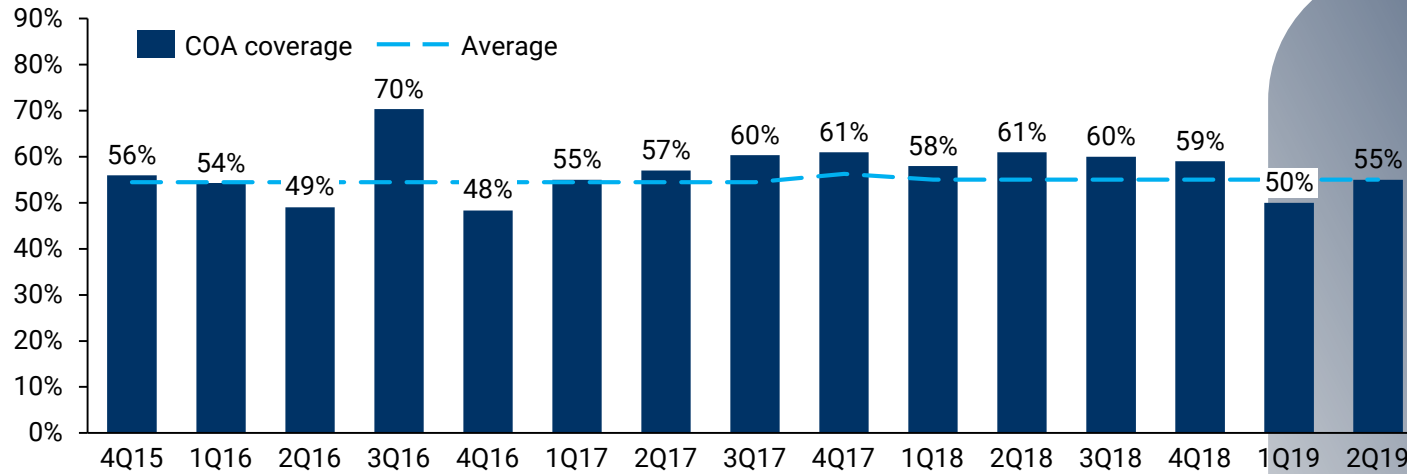


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Spot rates increased in the second quarter and COA rate renewals are up 6% YTD. Our stance to not pursue low COA rates in present market remains intact and has so far proven accretive to our earnings

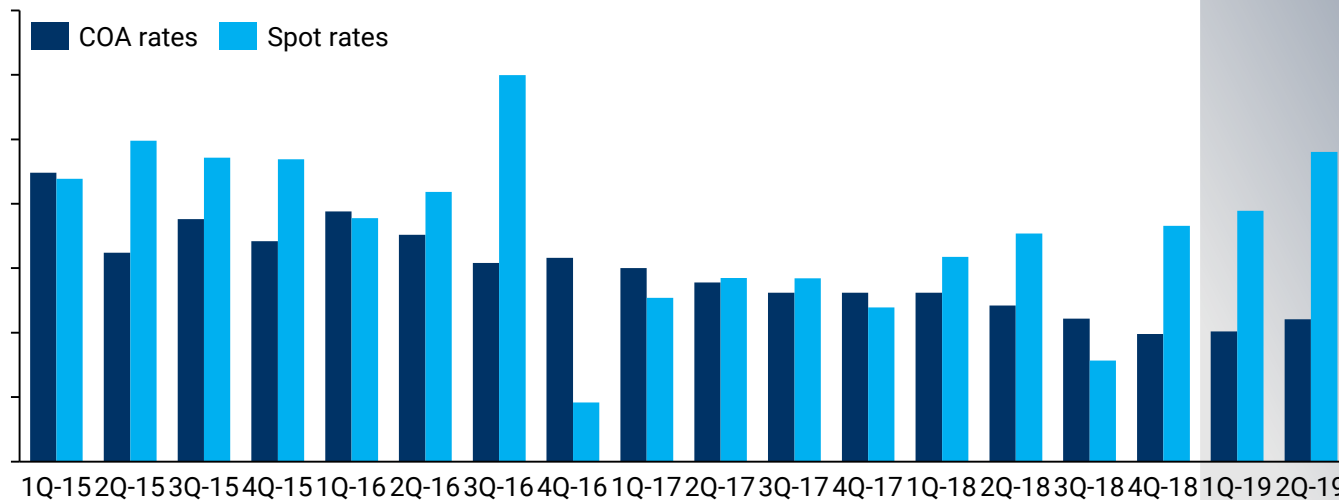
**Contract coverage**



**Comments:**

- Contract coverage increased during the quarter as 1Q19 was partly lower due to seasonally lower COA utilisation
- Our stance to not pursue low COA rate renewals remains intact
- This adds higher exposure to firming spot rates

**COA rates vs spot rate development in main tradelanes**



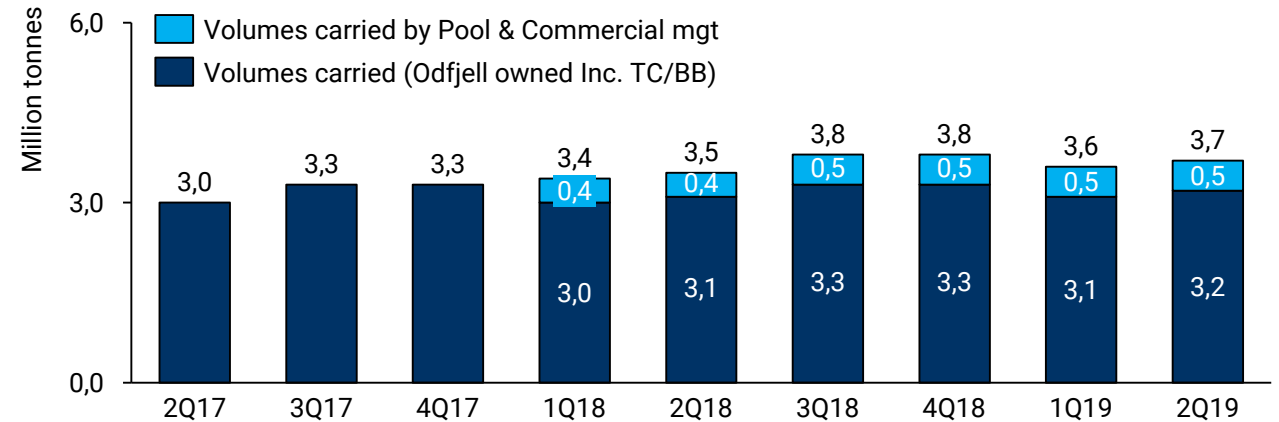
- Spot rates on main tradelanes increased by 7% during the quarter
- ...This reflects the turnaround we saw in the market in 4Q18
- We have renewed a large share of our COA volumes at 6% higher rates...
- We believe this is a reflection of a market consensus of a continued recovery in our markets

# Tankers: ODFIX outperformed the general market index this quarter

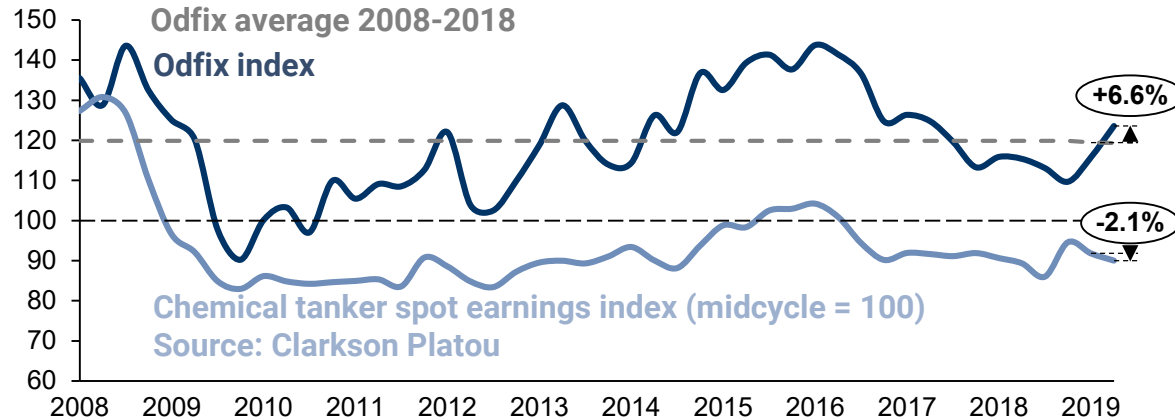
## Observations

- ODFIX outperformed the general market index this quarter. This is driven by:
  - Improved COA rates
  - Increased exposure to higher spot rates
  - Different cargo-mix than comparable index
  - Odfjell's more efficient fleet
- Off-hire relates to scheduled dockings, change of management on vessels and unscheduled off-hire on one vessel for the full quarter

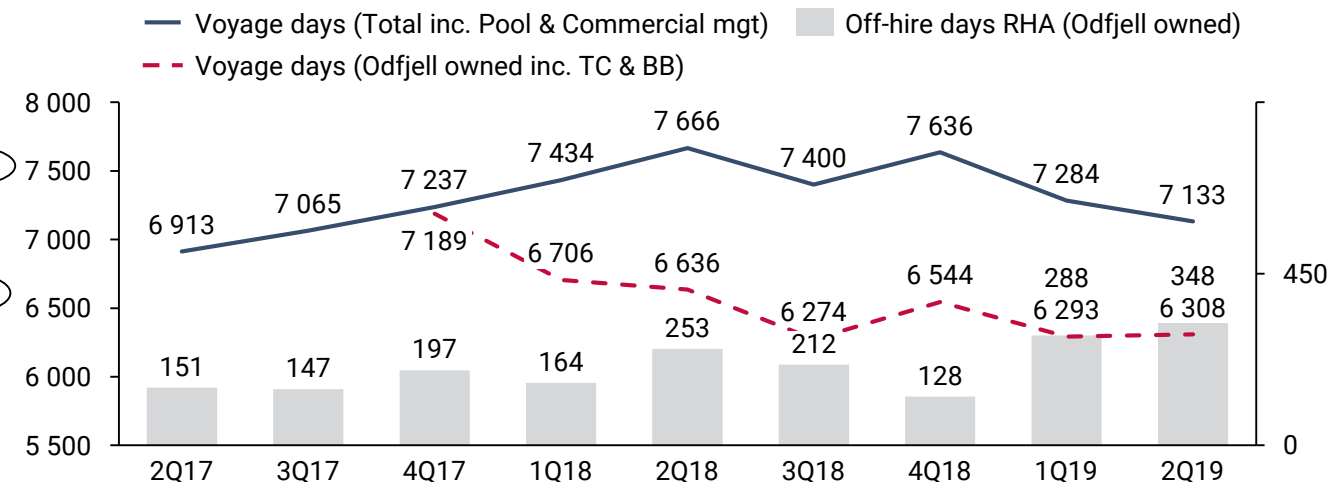
## Odfjell Tankers volume development



## ODFIX versus chemical tanker spot rates



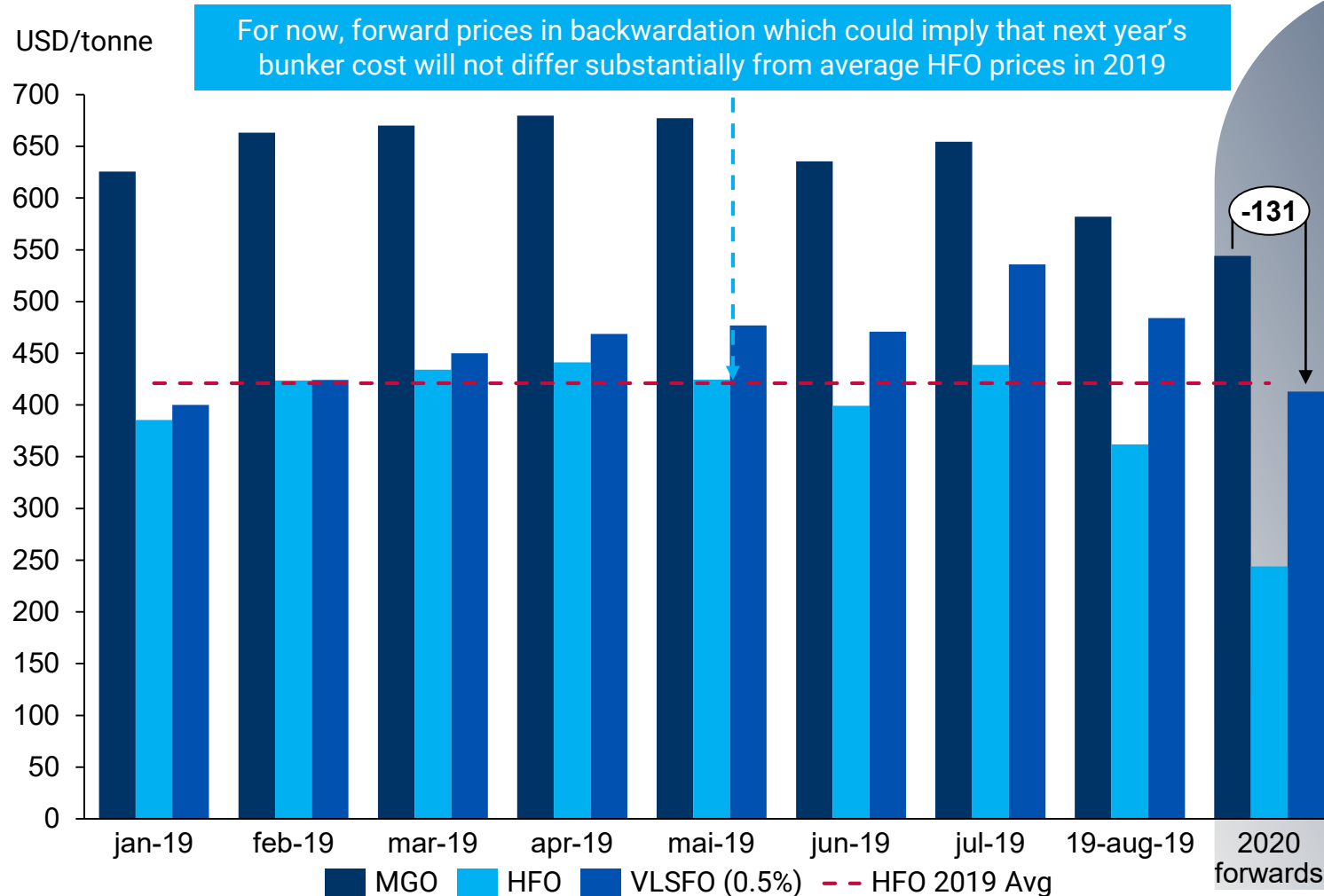
## Odfjell Tankers voyage days development





# IMO 2020: Compliant fuel will be the fuel of choice for Odfjell Tankers and potential increased costs are expected to be passed on to customers

2019 price development of MGO,HFO and VLSFO (0.5%)



## Observations:

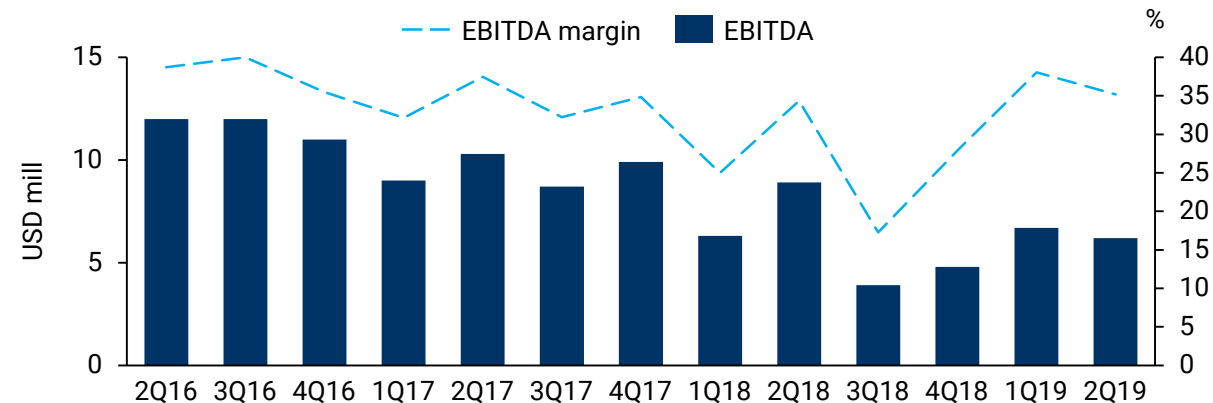
- Price quotes for VLSFO (0.5%) fuel has now been made available at 16 ports
- Physical purchases of VLSFO is increasing but is still considered small
- Contract discussions with customers are progressing well and we expect potentially higher bunker costs to be passed on to customers
- 2020 forward prices for VLSFO currently quoted at USD 413 per tonne. This compares to average HFO prices YTD of USD 420 per tonne and a USD 131 discount to MGO forward prices
- Still too early to conclude on the final impact on prices through and post the implementation period...
- ...But admittedly, the current forward market in backwardation could imply that the impact will not be as severe as earlier feared

# Terminals: Results driven by a strong market in Houston – Transaction with our new partner has closed and focus is on growing our footprint in Houston

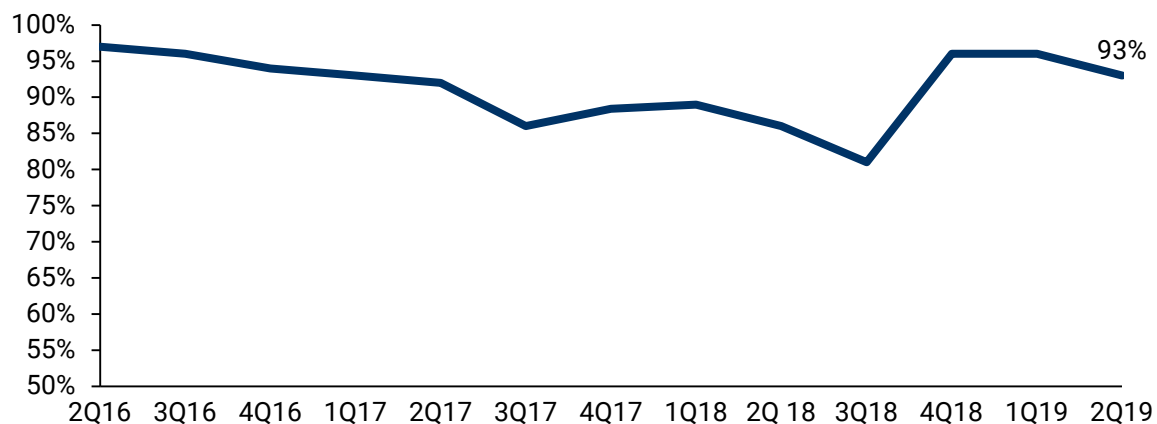
## Comments

- Slightly lower utilisation during the quarter driven by our terminal in Korea and Tianjin. This is the main reason for a 0.5 mill drop in revenues this quarter
- EBITDA margins has stabilized at levels seen before the restructuring of our terminal division where the divested terminals were large contributors to lift overall margins
- Our largest terminal in Houston benefits from a strong storage market and high activity. The transaction with our new partner closed in 2Q19 and we are now focused on growing our footprint in Houston

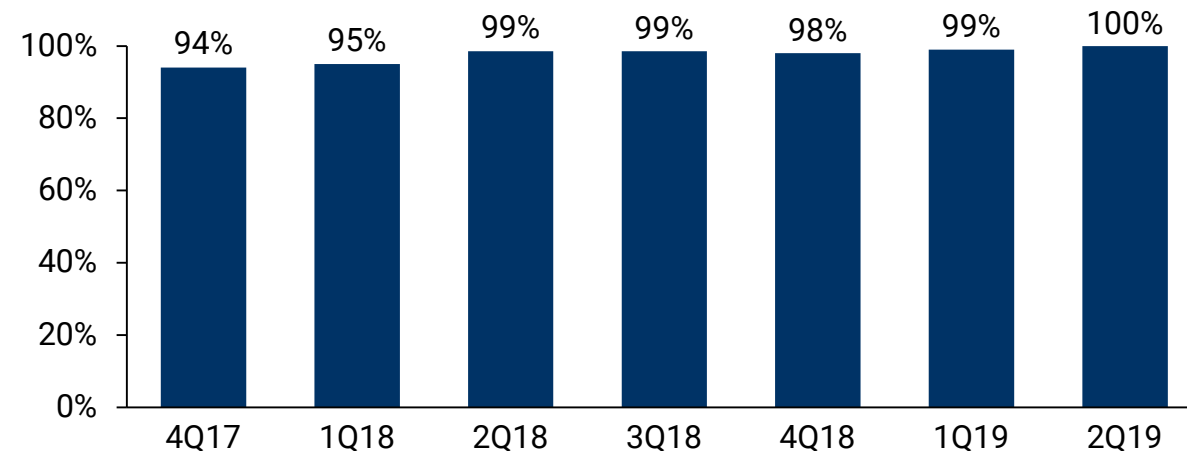
## Odfjell Terminals: EBITDA and margin development



## Odfjell Terminals: Utilisation development

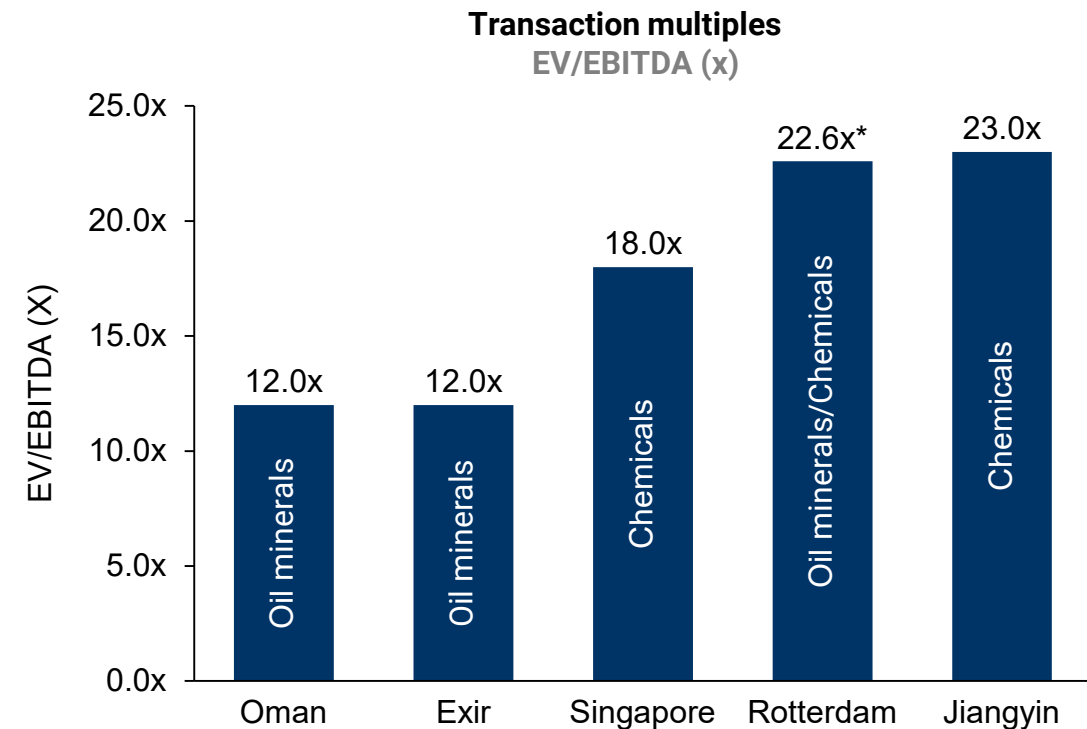


## Odfjell Terminals Houston quarterly utilisation



# We sold our Jiangyin terminal in July at an attractive price – Sale is in line with strategy to focus on terminals with synergy potential for Odfjell Tankers

	Cash proceeds USD mill	Book value effect USD mill
Oman (2016)	85	44
Exir (2016)	6	1
Singapore (2017)	153	135
Rotterdam (2018)	100	-100
Jiangyin (2019)	21	14
<b>Total (2016-&gt;2019)</b>	<b>365</b>	<b>94</b>



- In July, Odfjell Terminals sold its indirect 55% ownership in Odfjell Terminals Jiangyin for a price of USD 46 mill. A capital gain of USD 14 mill and a positive liquidity effect of USD 21 mill will be booked in Odfjell's 3Q 19 results
- The attractive price achieved for the terminal reflects development opportunities for LNG infrastructure at the terminal, which is non-core business for Odfjell. Odfjell Tankers rarely call the terminal and the terminal would also require additional capital to grow further
- LG's ongoing exit from Odfjell Terminals Asia is ongoing and we expect this to be concluded in 2H19 or into 1H20

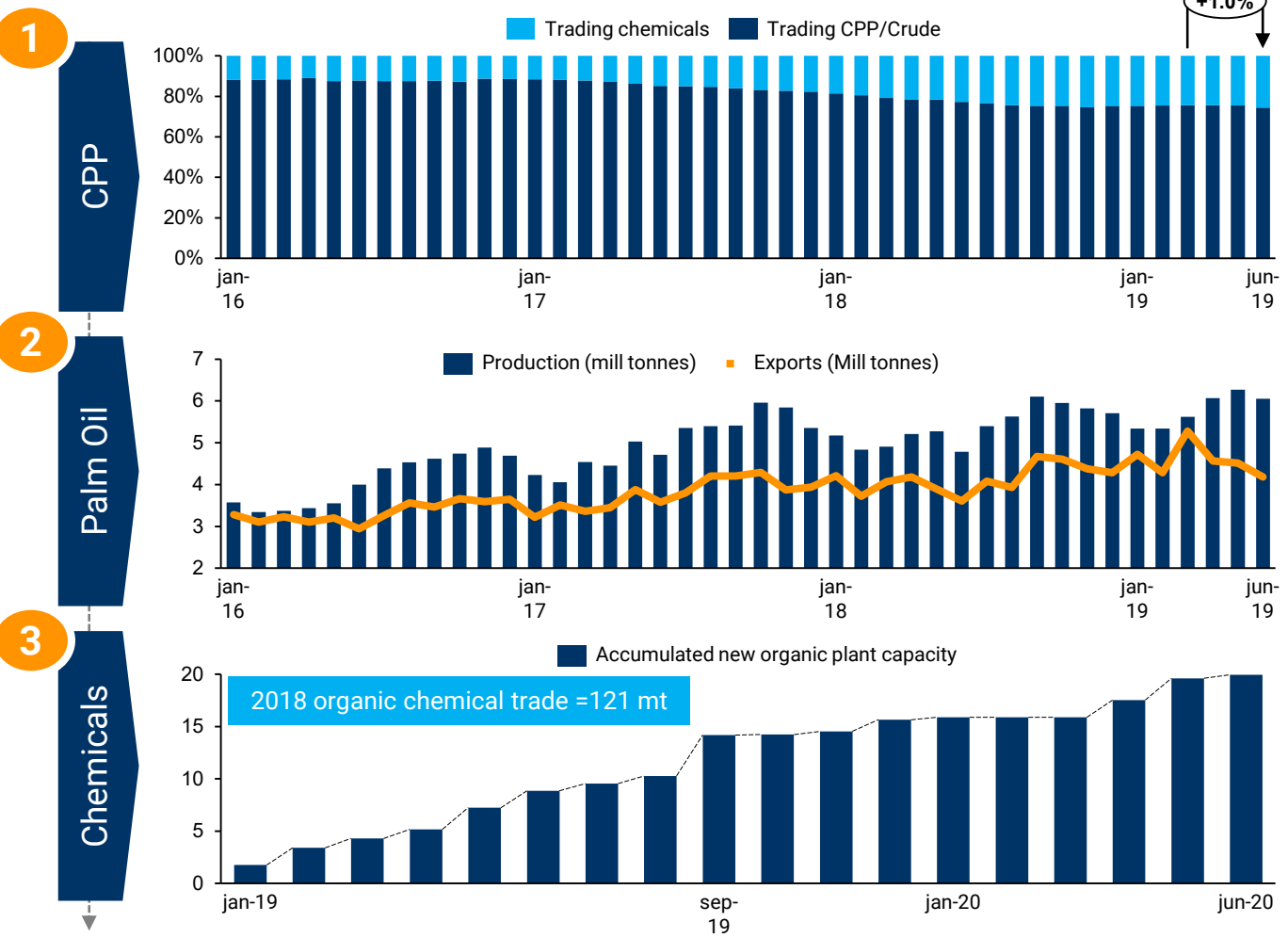


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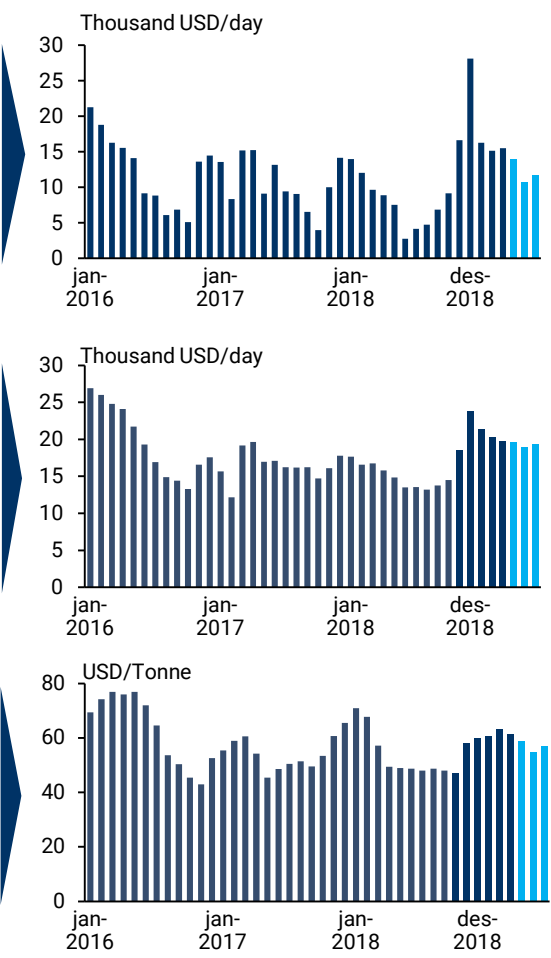
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# Strong fundamentals led to stronger chemical tanker spot rates in 1Q19 and CPP rates showed relative strength during the seasonally weaker first quarter

## Fundamental drivers:



## Rate development:



## Comments:

- Swing tonnage increased by 1% since CPP Mar-19
  - Reduced swing tonnage is needed to visualize underlying strength in the chemical tanker market...
  - ...This is widely expected from 4Q19 based on seasonality and IMO 2020 implementation
- 
- Vegoil rates remains strong and a driving factor of swing tonnage remaining high
  - Further improvements in rates expected during peak palm oil production season in early 4Q19
- 
- New organic chemical capacity expansions in the US and Middle East expected to peak between 4Q19 and 2Q20
  - ...And 5.0% tonne-mile demand growth

# Market outlook conclusion: we still consider 2018 as the turning point. Supply growth is slowing while demand prospects looks robust

## Demand

### Spot rates and COA rates up

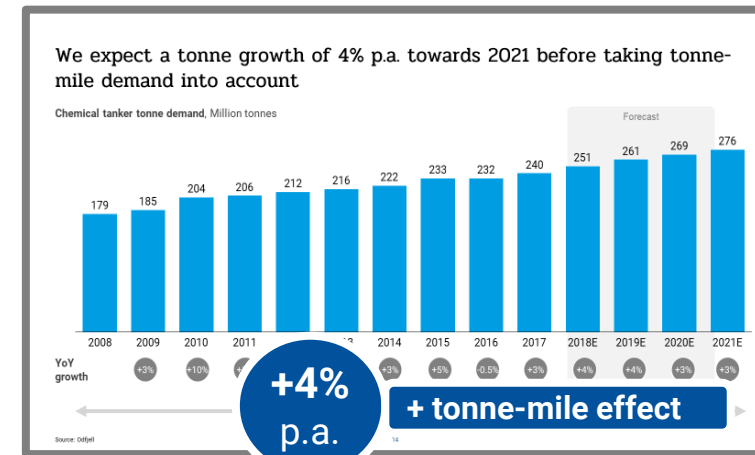
- Spot rates has maintained its momentum from end of 4Q18, but has now stabilised
- Spot rate momentum has positively impacted momentum for COA rate renewals

### Key directional drivers in 4Q19

- Peak start-up of new chemical capacity to impact the market from 4Q19 until 2Q20
- Peak palm oil season and expected improvement in CPP from 4Q19

### GDP & Middle East tensions

- Continued downgrades of global GDP growth with downside highlighted
- A global recession brings a risk to ongoing chemical tanker recovery
- Middle East tension with limited impact on the market as of yet



## Supply

### Orderbook

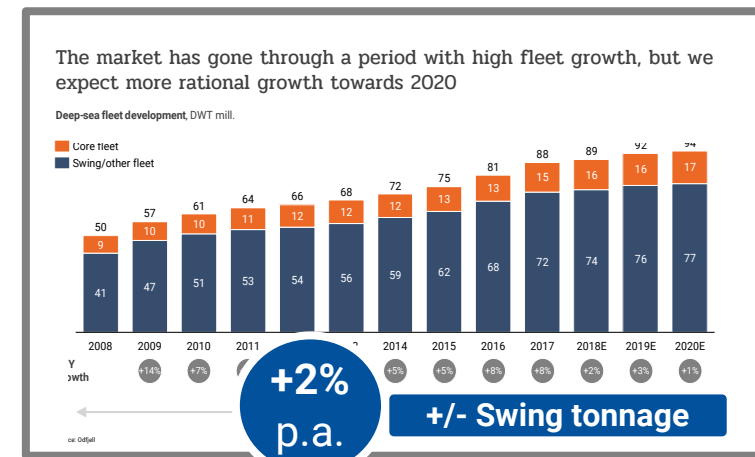
- 6.6% orderbook to fleet ratio and 2020 fleet growth now limited to 1.4%
- Eight new orders placed during the quarter, first order since July 2018

### Swing tonnage

- 1% increase in swing tonnage due to weak CPP market and strong Vegoil market
- A stronger CPP market from 4Q19 expected will move chemical tankers into CPP

### IMO 2020 Scrapping – Slowsteaming – Swing tonnage

- Increased bunker costs likely to be passed on to customers.
- Increased bunker costs potentially accelerating scrapping
- Biggest effect from IMO 2020 would be reduced swing tonnage from CPP tonnage



## Odfjell SE – Summary and Prospects

### Results

We are pleased to report continued improvements in our results for the quarter but recovery is still in a early phase

### Operational/ strategic review

Spot rates and COA rates have kept momentum since the market turned in late 2018 but are still at low levels

### Odfjell Terminals

Jiangyin Terminal sold at an attractive price and focus going forward will be on developing our Houston terminal

### Market outlook

Strong underlying demand growth through structural drivers and lower supply growth to improve markets next years

### Prospects

Third quarter results expected to be in line with the second quarter - We continue to believe that the chemical tanker market is on a firming trend



# Contact

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