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Norden (Q3 2023 Results)

Q3 2023 Results Presentation – Conference call



CORPORATE SPEAKERS:

Stig Frederiksen

NORDEN; Head of Investor Relations

Jan Rindbo

NORDEN; Chief Executive Officer

Martin Badsted

NORDEN; Chief Financial Officer

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PRESENTATION:

Operator^ Hello, and welcome to the NORDEN Q3 2023 results presentation. My name is [Elliot], and I'll be coordinating your call today. (Operator Instructions). I'd now like to hand over to Stig Frederiksen, Head of Investor relations. The floor is yours. Please go ahead.

Stig Frederiksen^ Thank you very much, and thanks for listening in. Before I hand over the word to Jan, just remind you of our forward-looking statements. Please read what we have written here, and then I will give the word to Jan.

Jan Rindbo^ All right, thank you very much, and welcome to this conference call. NORDEN delivered a strong financial result in the third quarter of 2023, with a profit of \$99 million and a return on equity of 27%. This was based on high coverage in dry cargo and a continued strong tanker market. We have seen a challenging dry cargo market during the quarter, where spot rates have been down, and that is due to a weaker global demand and a more normalized congestion situation.

And in tankers, the positive market continued, even though rates are softer compared to the last quarter. During the quarter, we also had a successful start to the integration of Projects & Parcelling, where we realized both commercial and cost synergies. We have announced an interim dividend of ten savings corner per share for the third quarter, and also a new share buyback program of \$30 million.

And all that will bring the cash return to around \$1.1 billion since 2020. When we look at the guidance then based on the year-to-date profit and high near-term earnings visibility from the high coverage and also the derisking of the portfolio, our profit guidance for the full year 2023 is narrowed to between \$380 million and \$420 million. I will now hand you over to Martin Badsted, our CFO, to go through some of the group financials.

Martin Badsted^ Thank you, Jan. So, we continue to deliver a strong financial performance, and in line with our expectations for the quarter, we continue to build on our financial track record of delivering positive results that we have maintained since 2017. EBITDA in the quarter came out at \$177 million. Of course, that was lower than the fantastic year of 2022 and was impacted by somewhat lower margins in dry cargo, lower spot rates in tankers, and higher costs due to the fact that new tanker charters are taken in at the higher TC rates.

As Jan said, the group profit was \$99 million, and that is composed of \$69 million from assets and logistics, and \$30 million in our freight services and trading business units, which correspond to a margin around the historical average of \$738 per day. We generated decent cash flow of \$109 million, which is before acquisitions and driven by a high cash conversion of the \$99 million net income. Overall, that corresponds to a return on invested capital of 33%,

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which is supported also by the asset-like business model, leading to a lower invested capital as rates go down. Please turn to Page number Six.

We continue to focus on derisking our portfolio by taking cover mainly in client, but certainly also on the tanker side. You will see from the graphs on the right-hand side that the red bars on top show how many net open vessels we have in dry. And the blue bars show how many net open vessels we have on the tanker position. It is obvious from the top graph that we have fairly limited net exposure over the coming quarter -- four to five quarters, with a small short in the beginning and a small long position towards the end of 2024.

And that is in line with our market outlook. We think the [Trigema] market will remain fairly subdued in the near term, but we are quite attracted by the long-term outlook where we see as soon as macroeconomic headwinds turn to tailwinds, the low order book will really have an impact in 2025 and onwards.

On the tanker side, we expect the market to remain strong. And the reason for taking cover here is mainly that we often think that the upside is fully priced in and it makes sense to derisk the portfolio while still gaining a lot of the earnings that are available in the market. Please turn to page six and I will hand you back to Jan.

Jan Rindbo^ All right, well the start of the integration of the acquired Projects & Parcelling activities have been successful, and we are seeing both commercial and cost synergies being realized. On the commercial synergies we are seeing an improved capacity utilization of our own and charter feed. And this is especially in the handy and supramax segments. And we're also seeing on, for example, procurement of bumpers. And on the IT administration area, we're seeing those as key drivers for the cost images that are being realized.

And when we look at the numbers then Projects & Parcellings operated more than 30 chartered vessels during the quarter and have reported an EBITDA of \$7 million in Q3. If we turn to the next page and focus on ESG, then NORDEN continues to work on new initiatives to reach our ESG targets and help our customers decarbonize their supply chains. In the third quarter, the emissions on an EEOI basis have been reduced by 5% year on year, which is driven by higher fuel efficiency related to lower average speed and fuel consumption per tonnage miles.

In August, NORDEN announced the investment of a minority stake in MASH Makes, which is a Danish Indian biofuel scaler. MASH Makes first bio product is in late development stage, and NORDEN expects to conduct the first trial aboard a vessel in early 2024. Also in the third quarter, NORDEN signed an emission reduction freight contract with the Canadian mining company Teck Resources, where we are committed to reduce their emissions by 25%.

If we move on to guidance, then based on the year-to-date profit of \$357 million and high coverage for the rest of the year, we are narrowing our guidance range to a full year profit of

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\$380 million to \$420 million. That means we are lifting the lower end of the guidance range from \$360 million to \$380 million. And this includes the loss from sale of vessels. For freight services and trading, expectations are that earnings and margins per day in the fourth quarter of this year will decrease further compared to Q3 2023.

And also based on the current market outlook, margins for the first half year of 2024 are expected to be significantly lower than the historical average level for the last five years, which is \$757 per day when we are excluding the full year of 2022. For assets and logistics, expectations are that earnings will continue at a high level in the fourth quarter of this year and stay elevated for the full year 2024. And that is driven by the high coverage across dry cargo and tankers.

With that, let's move to the final remarks just highlighting again strong financial performance in line with our expectations and high level of coverage gives near term high earnings visibility. On the market level, we expect a dry cargo market to perform in line with normal seasonality and lower growth in demand. On the tanker market, we expect that to stay near term positive, but exposed to higher volatility and macro and geopolitical risks.

Integration of Projects & Parcelling is up for a successful start, where we are realizing both commercial and cost synergies. Plastic distribution to shareholders of \$76 million announced here for the third quarter of 2023 through an interim dividend and a new share buyback program.

And the profit guidance for the full year of 2023 is narrowed upwards to a range of \$380 million to \$420 million. And the third quarter builds to our track record of more stable earnings and returns, even in more challenging markets. With that, we are now ready to turn to our Q&A session.

Operator^ (Operator Instructions). We'll pause for a moment to allow questions to register.

Stig Frederiksen^ All right, well, if there are no questions, then we will conclude the third quarter conference call. Thank you for your interest in NORDEN. Thank you and have a good day.

Operator^ Ladies and gentlemen, today's call is now concluded. We like to thank for your participation. You may now disconnect your lines.