



Hunter Group ASA
First-quarter results 2020

28 May 2020

Highlights

Financial highlights

- Total revenues of USD 20.78m
 - Spot pool revenues of USD 19.93m
 - Time charter revenues of USD 0.85m
- Total operating expenses of USD 5.35m
 - Vessel opex incl. insurance of USD 1.92m
 - Voyage exp. and commissions of USD 0.59m
 - G&A expenses of 0.30m
 - USD 0.25m administrative expenses
 - USD 0.02m legal expenses
 - USD 0.03m non-cash expenses
- EBITDA of USD 18.00m
- Net profit of USD 11.77m
- Average daily earnings of USD 72,030
 - Average spot earnings of USD 72,010¹
 - Time charter earnings of USD 72,500
- Opex incl. insurance of USD 6,420 per day
- Available earnings days and operating days of approx. 289 and 299, respectively
 - Approx. 277 pool spot days
 - Approx. 12 time charter days
- USD 77m of yard payments of were made during the quarter, leaving USD 192m of remaining yard obligations as of 31 March 2020

Key events in Q1 2020

- Successfully took delivery of Hunter Freya on 6 March 2020, which subsequently entered the Tankers International Scrubber Pool on 16 March 2020. Construction on the Company's remaining three newbuilds is proceeding as planned, with deliveries scheduled for June-August
- Secured a USD 220m loan facility from a syndicate of banks consisting of Danske Bank, DNB, Nordea and SEB (the "Syndicate"). The proceeds will be used to fund the final yard instalments for the Company's four final newbuild VLCCs, as well as general corporate purposes, and will be drawn on delivery of each vessel. The facility carries a 275bps margin over LIBOR and has a 16 year repayment profile. USD 55m was drawn in connection with the delivery of Hunter Freya
- Fixed a substantial portion of our fleet on 5-9 month time charters ("TC") with dayrates ranging from USD 72,500 to USD 85,000, adding a total TC backlog of close to USD 60m. Hunter Atla and Hunter Laga commenced their TCs in late March and early April, respectively. Hunter Disen and Hunter Idun will commence their TCs immediately following delivery from the yard. Hunter Freya missed her TC delivery window due to port delays and is still in the Tankers International Scrubber pool

Subsequent events

- The Company and the Syndicate has agreed on indicative terms relating to a loan facility for Hunter Atla, Hunter Saga and Hunter Laga, which are currently financed through a sale-and-leaseback with SFL Corporation Ltd. Upon completion, will Hunter Tankers AS will become the registered owner of all seven vessels. The facility is an accordion feature of the USD 220m loan facility, and is subject to the Syndicate members' respective credit approvals
 - On a fully delivered basis following the refinancing, we expect run rate cash breakeven to come in at USD approx. 20,500² per day
- As of the date of this report, 89% of days in the second quarter have been booked at an average est. dayrate of USD 85,850
 - 76% of spot days booked at an avg. est. dayrate of USD 97,630¹
 - Average Q2 TC dayrates of USD 78,000

1) Discharge to discharge basis

2) Assumes current LIBOR of 36.9 bps

Management update

The tanker market in 2020 has so far been defined by extraordinary volatility. Lofty rates combined with a significant increase in the Company's vessel days led to charter revenues increasing from approx. \$12m in Q4 '19 to \$20m in Q1'20, and the Company being able to secure a TC backlog of \$60m for the year. With three newbuilds yet to be delivered during the summer, we expect revenues and profits to continue to increase in the coming quarters.

When we acquired the first shipbuilding contracts, we stated that the main objective was to maximize shareholder value. The Company has in the last two years gone through a period with substantial capital investments and has so far successfully taken delivery of four VLCCs on budget and ahead of schedule. Our actions during this period, i.e. the \$98m sale of H.No. 5457, the \$180m sale-and-leaseback transaction and the most recently added TC coverage, clearly shows our commitment to shareholders by focusing on covering capital requirements while avoiding shareholder dilution at unfavorable share price levels.

As the construction of the remaining three vessels is nearing completion, and capital requirements are met, the Company will move into a new phase where focus increasingly will shift towards optimizing our capital structure and returning capital to shareholders. All the while ensuring the Company is in a sound financial state. We are currently in a process with a syndicate of banks to refinance Hunter Atla, Hunter Saga and Hunter Laga, which were financed through the abovementioned sale-and-leaseback in September 2019. We expect to significantly reduce our cost of capital and cash breakeven for these vessels, albeit with a lower loan amount. The Company is cautiously optimistic for the outlook of the tanker market going forward and expects to be able to increasingly return capital to shareholders as the investment phase draws to a close, either through dividends, share buybacks or a combination of the two.

"A ship in port is safe. But that's what not ships are built for"

Charter coverage and capital commitments

	Q1 '20	Q2 '20	Q3 '20	Q4 '20
Hunter Atla		TC		
Hunter Saga				
Hunter Laga		TC		
Hunter Freya	Construction			
Hunter Disen	Construction		TC	
Hunter Idun	Construction		TC	
Hunter Frigg	Construction			
% days covered	100%	89%	64%	36%
Avg dayrate covered (\$k/d)	72,030	85,850	75,780	75,220
Capex (\$m)	77	87	106	-
Debt drawn/capacity (\$m)	55	55	110	-

First quarter market review

VLCC spot rates were especially volatile in Q1 2020, with a benchmark high-low range of \$15k/d-\$200k/d and an average around \$68k.

The beginning of the year started on a high note with spot rates hovering around \$100k/d, before quickly dropping below industry average cash breakeven levels. Some older vessels even experienced dayrates close to zero. The primary drivers behind the drop in rates in the first half of the quarter were adverse developments in both supply and demand for crude oil tankers, i.e. i) the reversal of the COSCO sanctions in Q4, causing 26 VLCCs to gradually re-enter the market in Q1, combined with 12 VLCC newbuilds delivered during the first two months, and ii) the outbreak of Covid-19 in February, reducing crude oil imports. E.g. Chinese crude oil imports dropped by approx. 3mbd from January to February.

Although the virus outbreak initially led to reduced oil imports and tanker demand, spot and time charter rates spiked in the latter part of the quarter. An increasing oil price contango (higher forward oil price compared to oil with near term delivery) following the failure of OPEC+ to reach agreement on production cut extensions in early March and the subsequent oil price war. More specifically, post the OPEC+ failure to extend production cuts, Saudi Arabia instead increased production by 3mbd while simultaneously offering the biggest price discounts seen in 20 years. Combined with the severe and acute negative demand shock from the virus outbreak and worldwide lockdowns, this led to a plunging oil price and Brent spot ending the quarter at around \$23/bbl. Some importers began to take advantage of the unsustainably low oil price, leading to increasing seaborne crude oil volumes and questions of if/when the world might run out of land based storage capacity. At the same time traders were taking advantage of the increasing oil price contango by chartering ships for floating storage (effectively pulling them out of the spot market) and profiting on arbitrage opportunities by buying crude oil with near term delivery while simultaneously selling the same oil forward at a higher price. Illustratively, the quarter end 6-month Brent contango was \$13/bbl, which theoretically could support 6-month TC rates of \$120k/d.

Market outlook

The contango driven boom in tanker rates continued into the second quarter, and past the 12 April OPEC+ meeting where agreement was reached on a 9.7mbd production cut (from October 2018 baseline). As the cuts came into force from 1 May, and the Saudi announcement of an additional voluntary cut of 1mbd, VLCC spot rates naturally began their descent from the April \$200k+/day levels. Spot rates are still healthy at around \$50k/day, however, supported by an estimated 100 VLCC equivalents currently used as floating storage. As the contango trade and floating storage unwinds over the coming months, there could be some further short-term downward pressure on tanker rates, unless land-based storage capacity is tested. Global inventories in April were close to 900m barrels higher than in February, and are by some estimates expected to reach maximum capacity in May-June, forcing a second round of floating storage builds.

Short term developments are naturally highly dependent on the pace of the rebound in global oil demand. Estimates are still clogged in uncertainty, as e.g. illustrated by a 1mbd difference between EIA and IEA's Q2 global demand estimates. The common denominator is however positive revisions to short term forecasts following strong demand fundamentals, particularly in US and China. Chinese demand staged a V-shaped rebound with 13mbd of imports in April compared to 10.5mbd in February, while US demand are in the earlier stages of what looks like a similar shape.

Despite some short-term uncertainty and potential headwinds, we continue to be fundamentally positive to the tanker market, and take comfort in the lowest orderbook for VLCCs since 1997 combined with approx. 15% of the fleet nearing 20 years of age (hist. avg. scrapping age) during the next two years.

Condensed consolidated financial statements for Q1 2020

Consolidated income statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters		Note	Year to date
	Q1 2020	Q1 2019		31.12.2019
Revenues				
Pool revenues	19 930	0		12 026
Time charter revenues	851	0		0
Other income	0	63		378
Net gain on sale of assets	0	0	5	12 308
Total Revenues	20 781	63		24 712
Operating expenses				
Vessel operating expenses	1 920	0		1 442
Voyage expenses and commissions	590	0	1	1 968
Depreciation and amortisation expense	2 535	8	7	1 915
General and administrative expenses	303	280	4	1 113
Total operating expenses	5 348	288		6 438
Operating profit (loss)	15 434	-225		18 274
Net financial income (loss)	-3 667	556		-2 321
Profit (loss) before taxes	11 767	331		15 953
Tax on ordinary result	0	0		0
Net profit (loss)	11 767	331		15 953
Earning per share	0,02	0,00		0,03
Earnings per share diluted	0,02	0,00		0,03
<i>(Unaudited figures in USD 1 000)</i>	Q1 2020	Q1 2019		31.12.2019
Net profit (loss)	11 767	331		15 953
Other comprehensive income, items to be reclassified to profit & loss				
Translation differences	0	-1		0
Comprehensive income for the period	11 767	330		15 953
Total comprehensive income attributable to:				
Equity holders of the parent	11 767	330		15 953
Total comprehensive income	11 767	330		15 953

Consolidated balance sheet

Assets

<i>(Unaudited figures in USD 1 000)</i>	Note	31.03.2020	31.03.2019	31.12.2019
NON-CURRENT ASSETS				
VLCC vessels	5, 7	339 255	0	254 234
VLCC vessels under construction	5, 7	70 777	108 454	79 663
Other tangible assets	7	198	94	217
Total tangible assets		410 230	108 548	334 114
TOTAL NON-CURRENT ASSETS		410 230	108 548	334 114
CURRENT ASSETS				
Trade and other receivables		13 088	0	7 351
Other short-term receivables		2 780	170	851
Total current receivables		15 868	170	8 202
Cash and cash equivalents	6	35 190	8 379	52 455
TOTAL CURRENT ASSETS		51 058	8 549	60 657
TOTAL ASSETS		461 288	117 096	394 771

Equity and Liabilities

EQUITY				
Share capital (575 362 013 shares)	2	82 625	55 376	82 625
Share premium	2	114 946	61 123	114 914
Other equity		25 431	331	13 665
TOTAL EQUITY		223 003	116 830	211 204
LIABILITIES				
Other interest-bearing debt	7	225 204	85	174 494
Total non-current liabilities		225 204	85	174 494
Trade payables		4 665	127	3 077
Accrued public charges and indirect taxes		3	0	15
Current portion of interest-bearing debt		7 934	0	5 932
Other current liabilities		478	53	49
Total current liabilities		13 081	181	9 073
TOTAL LIABILITIES		238 284	265	183 567
TOTAL EQUITY AND LIABILITIES		461 288	117 096	394 771

Consolidated cash flow statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters		Note	Year to date
	Q1 2020	Q1 2019		31.12.2019
Profit (loss) before tax	11 767	331		15 953
Depreciation	2 535	0	7	1 915
Gain on sale of VLCC	0	0	5	-12 308
Financial income	-102	0		-509
Financial expenses	3 576	1	7	2 974
Change in working capital items	-5 711	152		-4 818
Net cash flow from operating activities	12 066	484		3 208
Investments in VLCC newbuilds and PP & E	-78 651	-51 856	5, 7	-312 840
Sale of VLCC	0	0	5	46 136
Sale of other financial investments	0	24 758		24 758
Net cash flow to investment activities	-78 651	-27 098		-241 946
Interest received	102	0		509
Interest paid	-3 576	-1	7	-2 974
Proceeds from borrowings financial institution	52 813	0	7	180 184
Installment leasing-debt (IFRS 16)	-19	-8		-48
Capital contribution	0	0	2	79 168
Transaction cost capital contribution	0	0	2	-647
Net cash flow from financing activities	49 319	-9		256 192
Total net changes in cash flow	-17 266	-26 623		17 454
Currency effect on cash	0	0		0
Cash and cash equivalents beginning of period	52 455	35 001		35 001
Cash and cash equivalents end of period	35 189	8 379		52 455

Consolidated statement of changes in equity

<i>(Unaudited figures in USD 1 000)</i>	Note	Share Capital	Share premium	Currency translation	Retained earnings	Total equity
Equity as of 01.01.2019		55 376	63 412	-2 289	0	116 499
Net profit Q1 2019			0	0	331	331
Other comprehensive income			0	0	-1	-1
Total comprehensive Q1 2019			0	0	330	330
Equity as of 31.03.2019		55 376	63 412	-2 289	330	116 829
Net profit Q2-Q4 2019			0	0	15 622	15 622
Other comprehensive income			0	0	1	1
Total comprehensive Q2-Q4 2019			0	0	15 623	15 623
Private placement 22 May 2019	2	27 249	51 919	0	0	79 168
Option plan payment			230	0	0	230
Transactions costs			-647	0	0	-647
Equity as of 31.12.2019		82 625	114 914	-2 289	15 953	211 204
Net profit Q1 2020					11 767	11 767
Other comprehensive income					0	0
Total comprehensive Q1 2020			0	0	11 767	11 767
Option plan payment			32	0	0	32
Equity as of 31.03.2020		82 625	114 946	-2 289	27 720	223 002

Notes to the Hunter Group condensed consolidated financial statements for Q1 2020

1. Accounting principles

These condensed interim financial statements of Hunter Group were authorized for issue by the Board of Directors on 27 May 2020.

The interim condensed consolidated financial statements for the three months ending 31 March 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

Vessels and equipment

The net cost of the VLCCs (less estimated residual value) is the basis for a straight-line depreciation over the estimated remaining economic useful lives (25 years). Other equipments (excluding vessel upgrades) are depreciated over its estimated remaining useful life (5 years). The estimated residual value for the VLCCs is calculated by multiplying the lightweight tonnage with the market price of scrap per tonne. Residual values are reviewed annually.

Voyage expenses relates to fuel and other costs incurred before the vessel joins the Tankers International pool.

2. Equity transactions

On 22 May 2019, HUNT has issued 190,454,000 new ordinary shares for gross proceeds of NOK 695 million (USD 79m) with a subscription price of NOK 3.65, and registered it in The Register of Business Enterprises.

3. Segment information

As the Dwellop-segment was discontinued in 2018, and the Indicator-segment has not had any activity during the last couple of years, the management monitors the operating results in 1 segment which develops and operates the VLCCs.

4. Transactions with related parties

The following table provides the total amount of transactions with related parties controlled by the members of the executive management of Hunter Group for 2019. All related party transactions have been entered into on an arm's length basis.

Transactions with related parties	31.03.2020	31.12.2019
Purchased services in USD 1 000	21	160

The Group has used the services of the law firm Ro Sommernes DA for legal advice in 2019 and 2020. Ro Sommernes DA has invoiced the Company USD 110t in 2019 and USD 7t in Q1 2020. The Company's chairman Henrik Christensen is a partner in Ro Sommernes DA.

From 1 November 2018 the Company rents office space from Dronningen Eiendom AS. The rental agreement is for 36 months. One of the Company's shareholder is also a shareholder of Dronningen Eiendom AS.

5. VLCC under construction

The Company entered into a total of eight shipbuilding contracts of which Hunter Atla, Saga and Laga were delivered in 2019 and Hunter Freya were delivered on 6 March 2020. In addition, one were already sold and redelivered her to her new owner with a gain of USD 12.5m in 2019.

6. Cash and cash equivalents

Due to minimum cash requirements in the bareboat-agreements with SFL, USD 2 million per vessel yet to be delivered are placed in separate bank accounts.

7. Property, plant & equipment

<i>(Unaudited figures in USD 1 000)</i>			VLCC vessels		Total
	IFRS 16	Other tangible	under		
Per 31 December 2019	PP&E	assets	construction	VLCC vessels	
Cost at 1 January 2020	259	10	79 664	256 098	336 030
Additions in the period	0	0	77 555	1 096	78 651
Transfer to VLCC in operation	0	0	-86 441	86 441	0
Cost at 31 March 2020	259	10	70 777	343 636	414 681
Accumulated depreciations at 31 March 2020	-67	-3	0	-4 380	-4 450
Book value at 31 March 2020	192	7	70 777	339 255	410 230
This quarter's depreciation	19	0	0	2 516	2 535

The Group took delivery of "Hunter Freya" (NB No. 5465) on 6 March 2020. In 2019 NB No. 5457 were sold and redelivered her to her new owner with a gain of USD 12.5m.

Hunter Tankers AS entered in 2019 into a USD 180 million sale-and-leaseback transaction with Ship Finance International Limited ("SFL"), for the three delivered VLCCs. The Group received net proceeds of USD 60 million per vessel, and subsequently bareboat chartered the vessels back for 5 years. The Group have purchase options for all three vessels, ensuring maximum flexibility in regards to potential future vessel sales.

The acquisition cost of the delivered VLCCs has as such been transferred from VLCC under construction to VLCC vessels.

8. Subsequent events

The Company and the Syndicate has agreed on indicative terms relating to a loan facility for Hunter Atla, Hunter Saga and Hunter Laga, which are currently financed through a sale-and-leaseback with SFL Corporation Ltd. Upon completion, will Hunter Tankers AS will become the registered owner of all seven vessels. The facility is an accordion feature of the USD 220m loan facility, and is subject to the Syndicate members' respective credit approvals

- On a fully delivered basis following the refinancing, we expect run rate cash breakeven to come in at USD approx. 20,500² per day

As of the date of this report, 89% of days in the second quarter have been booked at an average est. dayrate of USD 85,850

- 76% of spot days booked at an avg. est. dayrate of USD 97,630¹
- Average Q2 TC dayrates of USD 78,000

1) Discharge to discharge basis

2) Assumes current LIBOR of 36.9 bps

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