



Dry Bulk Market Update

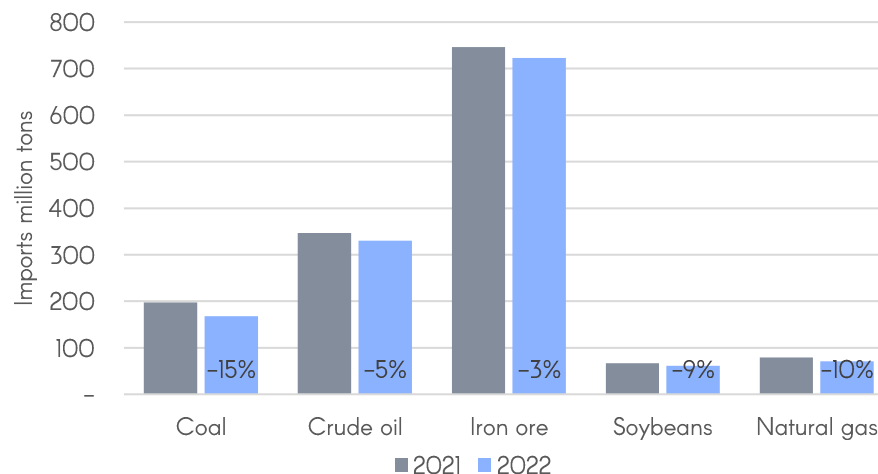
September 12th 2022

# YTD: Weakened Chinese Demand

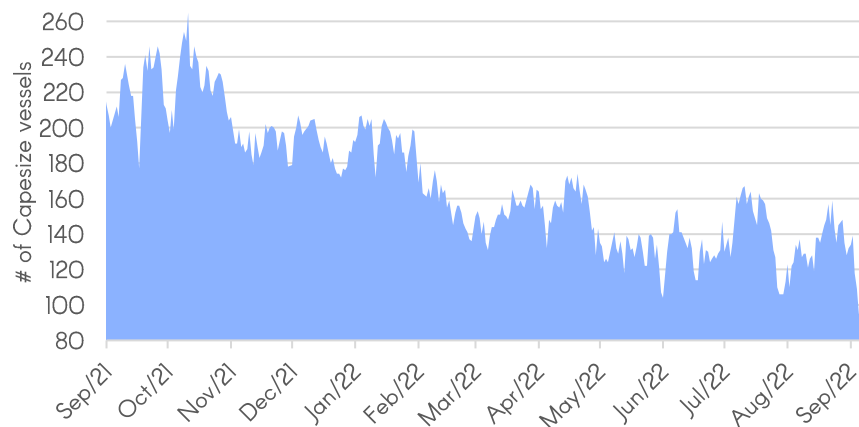
## Key takes

- Chinese imports has fallen YTD for all major commodities, with coal and iron ore imports amounting to 52.5 million tons alone (-29.4mt and 23.1mt, resp.). Soybeans are down 5.8mt and crude oil imports are down by 16.3mt
- Lowered Chinese imports has also led to an unwinding of port congestion, with Capes in FE discharge averaging 115 vessels thus far in Sept., down from an average 220 vessels in Sept.'21
- Coal volumes have mostly been replaced by increased domestic production, which has had a negative impact on ton-miles. However, coal inventories are down significantly at the same time as coal power generation has increased drastically (due to both drought and increased energy prices), and are likely to be replenished by increased imports

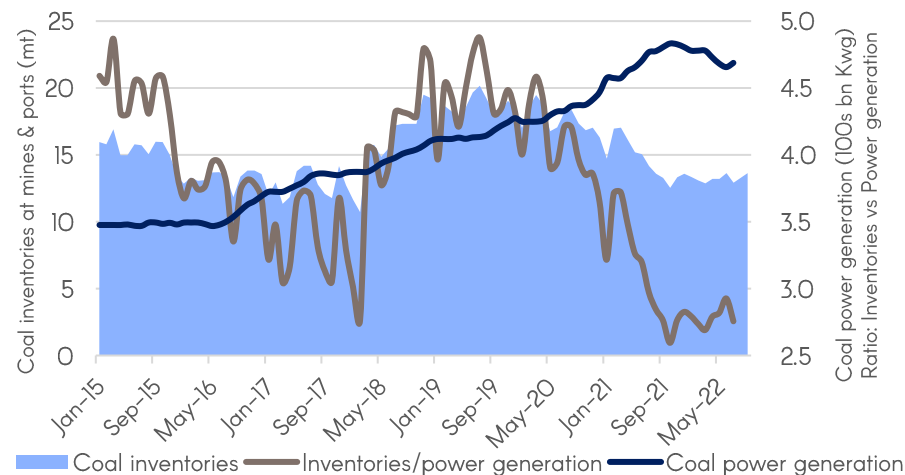
## Chinese imports has fallen YTD for all major commodities



## Capesize vessels in Far East discharge



## Coal inventories are down while coal power generation is up

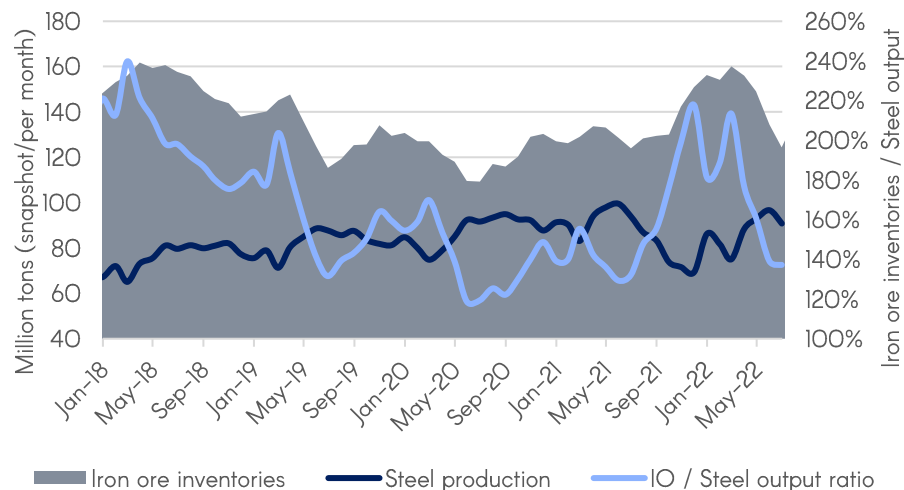


# YTD: Weakened Chinese Demand Continued

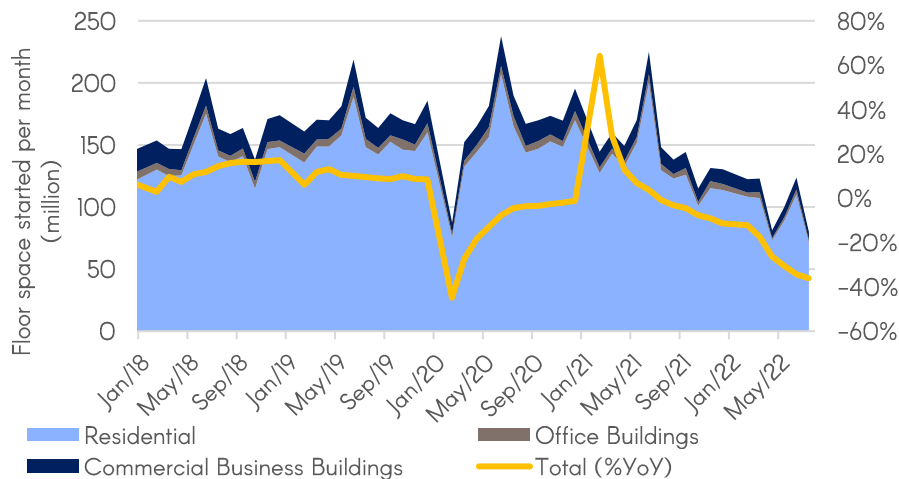
## Key takes

- Chinese steel production for the first 7 months of 2022 came in 7.5% below the same period in 2021, with Covid lockdowns, fewer building projects, and high energy prices all contributing to lowered demand
- The turmoil in the real estate sector has also continued, with newly started floor space for the first 7 months of '22 down 32% compared to the same period last year
- In order to keep their furnaces firing at high utilization rates, Chinese steel mills have intentionally lowered yields by substituting high FE content iron ore (e.g., from Brazil and South Africa) with domestic produce

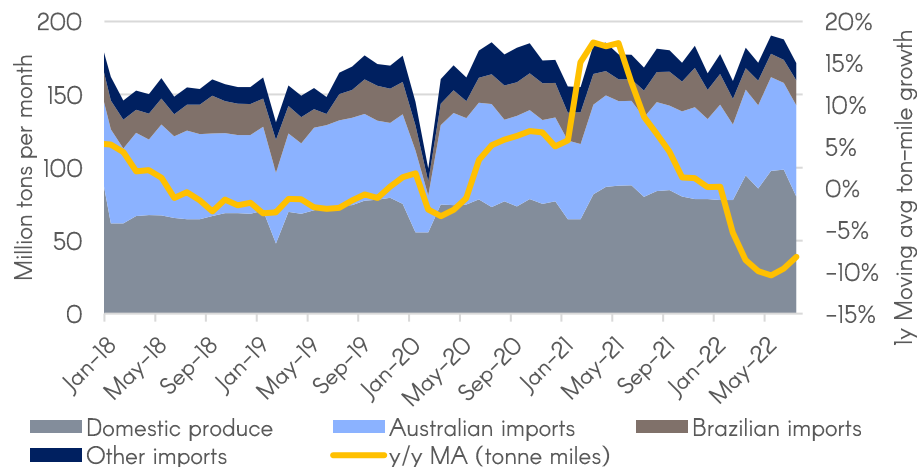
## Steel production and iron ore inventories



## Floor space of newly started buildings



## Chinese steel mills have switched to domestic produce

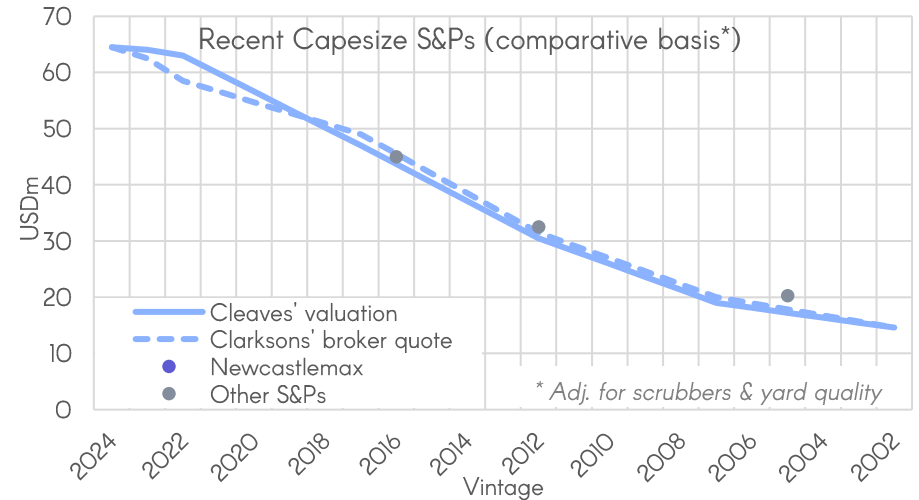


# Asset Prices: We May See a Downward Correction in the Near-Term

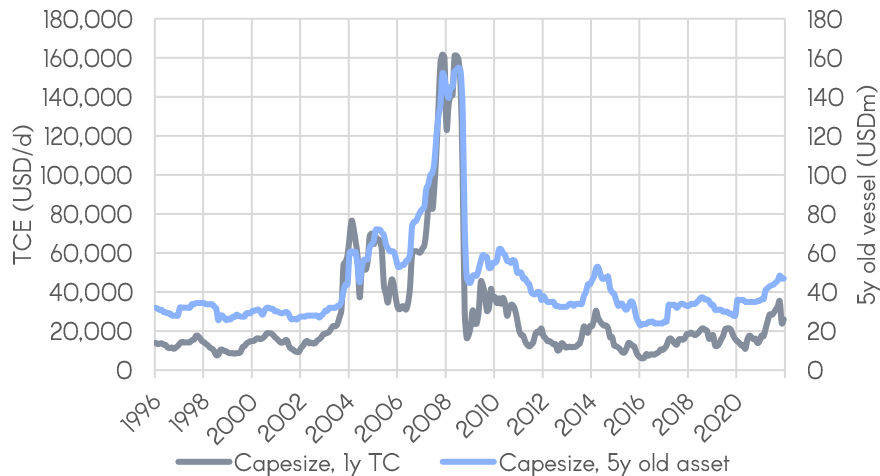
Despite the headwinds, asset prices have held up remarkably well ...

	Capesize	Panamax	Supramax	Handymax	Handysize
NB	64.5	37.5	34.5	32.5	30.5
resale	63.0	38.5	36.0	33.5	31.0
5y	47.0	30.0	29.5	27.8	26.0
10y	30.5	21.0	19.5	18.4	17.3
15y	19.0	15.0	14.5	13.0	11.5
20y	14.6	11.3	11.3	9.8	8.3
scrap	13.6	8.0	6.5	5.6	4.1
<i>All prices are excluding scrubbers</i>					
NB parity	22,727	15,285	14,032	13,022	12,034

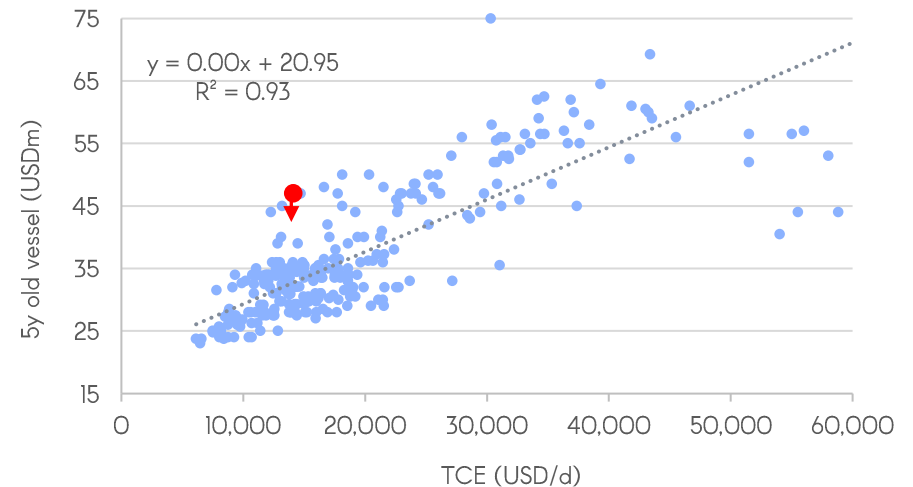
but fewer transactions might indicate an increasing bid-ask spread ...



... and with 1y TC rates having fallen significantly ...



... we may see a downward correction in the near-term

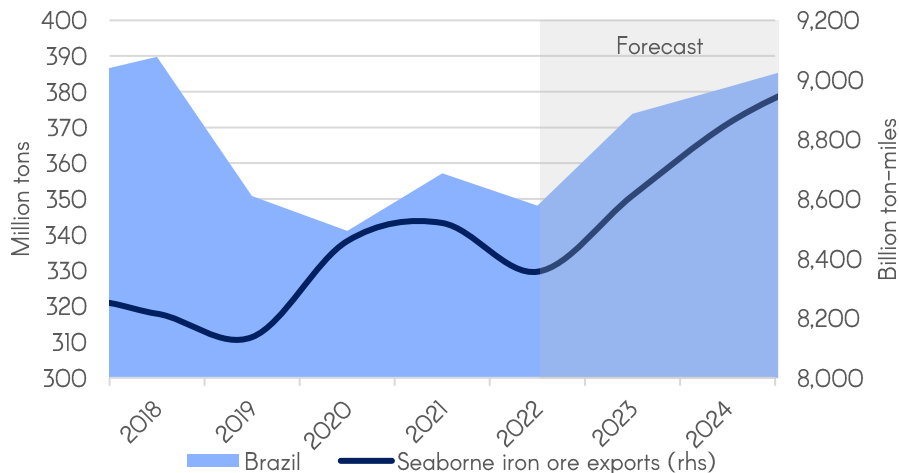


# Although Still Limited, We See Higher Demand Growth Going Forward

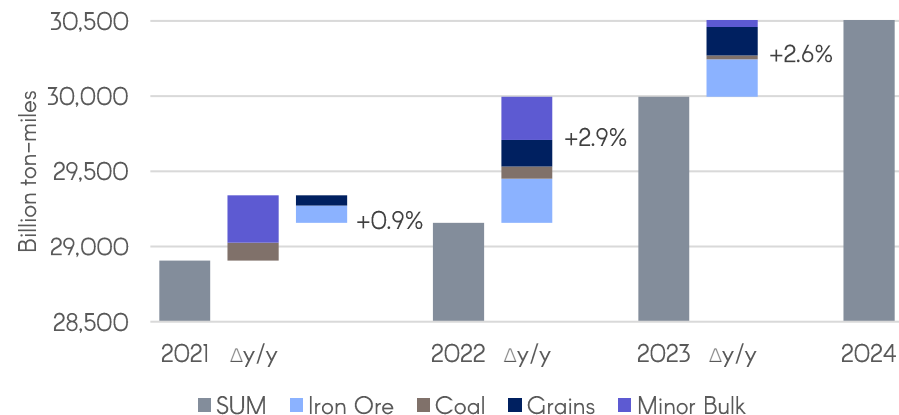
## Key takes

- We forecast dry bulk trade to fall by 0.5% in tons this year, but due to the shift in trade patterns arising from the war in Ukraine we estimate ton-miles to grow by 0.9%.
  - Iron ore exports -1.3% y/y in '22E and +3.43% y/y in '23E
  - Coal -0.3% y/y in '22E and +1.6% y/y in '23E
  - Grains -3.17% in '22E and +4.63% y/y in '23E
  - Minor bulks 0.56% in '22E and +2.22% y/y in '23E
- Expect Brazil to steadily grow their iron ore exports back to pre-pandemic and Brumandinho dam collapse levels, which would have a positive tonne-mile effect going forward
- Expect market conditions to improve going into what is typically the busiest part of the year

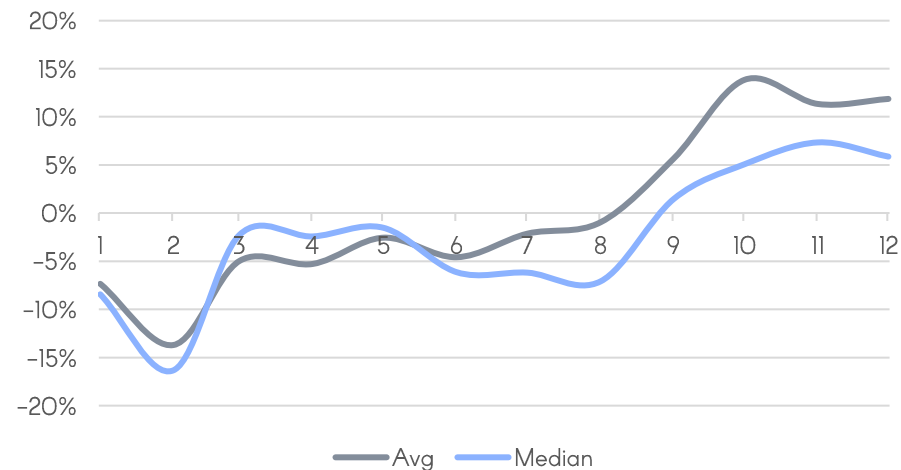
## Increased Brazilian iron ore exports could drive up fleet utilization



## Dry bulk demand forecast

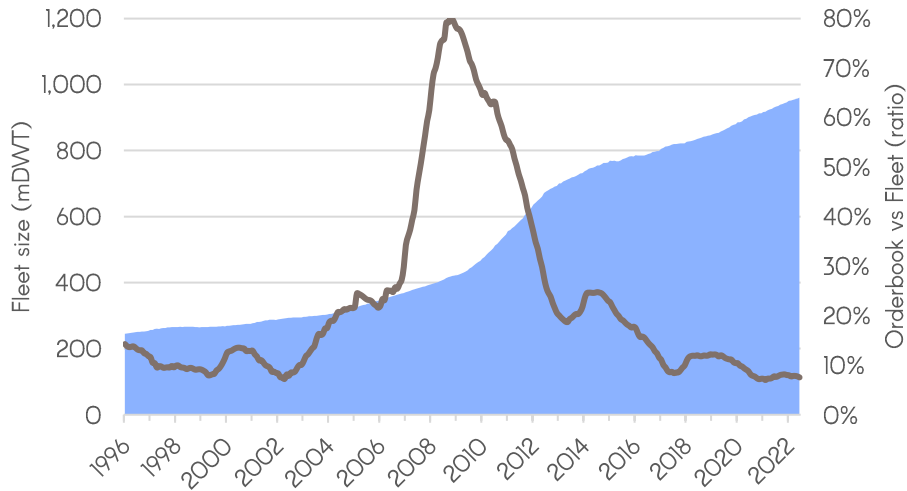


## BDI seasonality since 1985 (index)

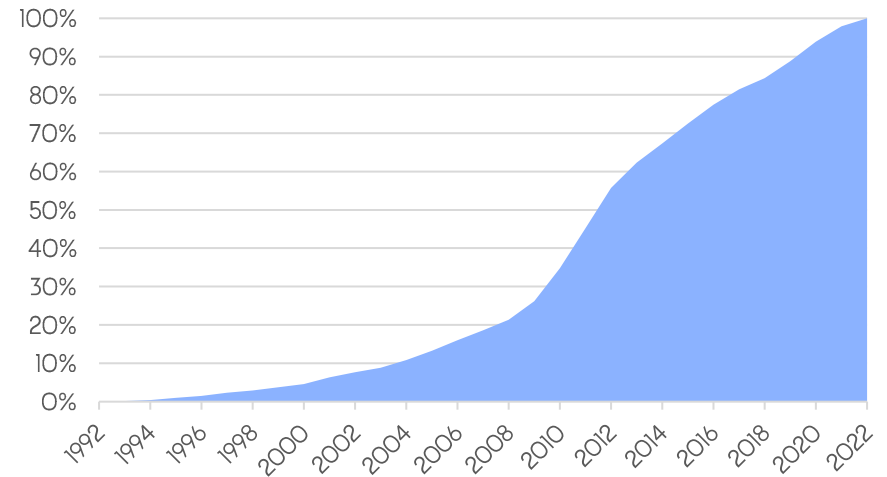


# Unprecedented Supply Situation

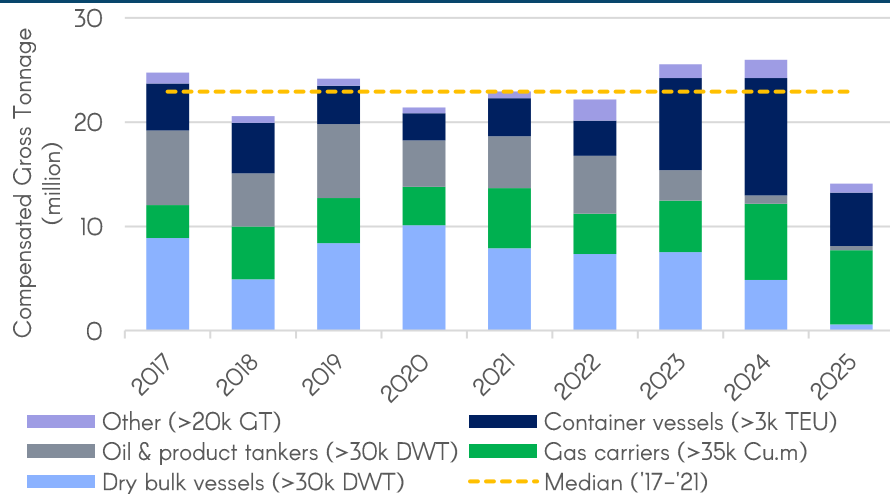
Orderbook-to-Fleet ratio is still close to the lowest on our records



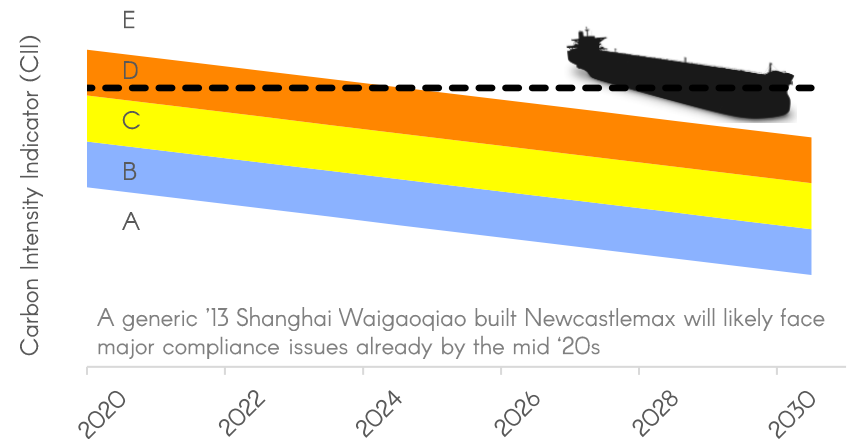
By YE '23E 62% of the dry bulk fleet will be 10 years or older



Yards are sold out on capacity well into 2025E



New regulations could lead to enhanced scrapping from 2023E

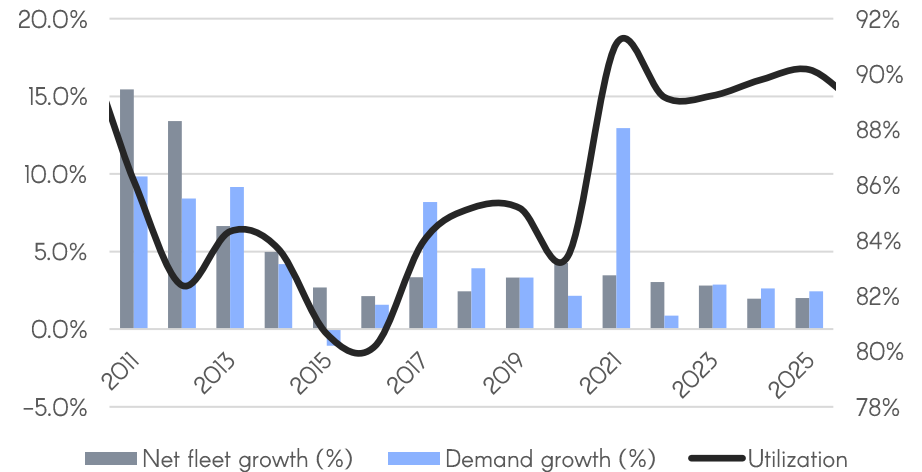


# Putting It All Together

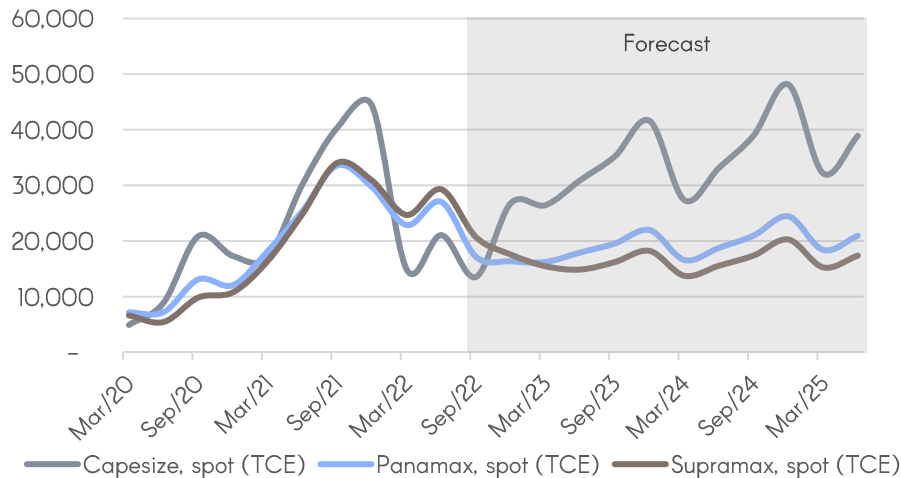
## Key takes

- Although the demand side of the equation has contracted due mainly to weakened Chinese demand, supply side dynamics are looking extremely favorable going forward. With the market finely balanced the big question is, of course, China;
- We do not model a Chinese recession as a base case but expect a normalization heading forward.
- We also see the historical earnings hierarchy between vessel classes to normalize, with Capesize demand increasing throughout the cycle, thereby supporting a further 73% increase in our Dry Bulk Share Index

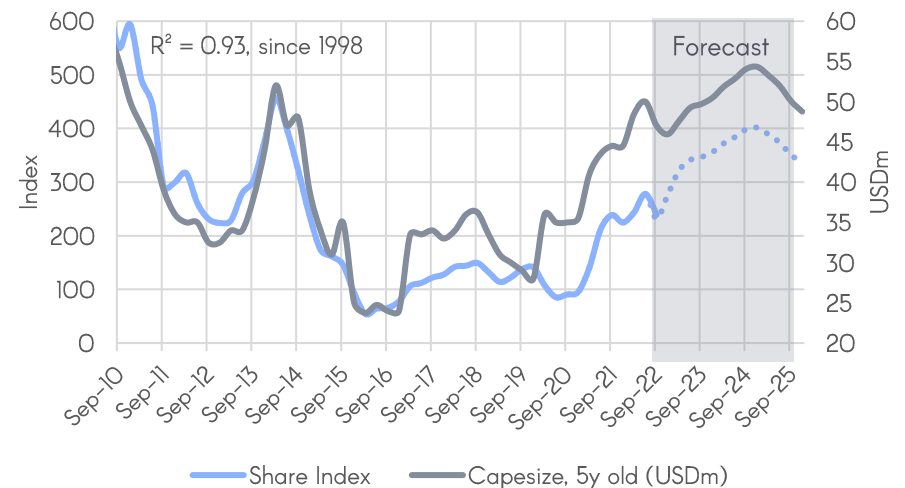
## We see continued high utilization until year-end 2024E



## ... and expect normalization of earnings hierarchy ...



## ... with Capes supporting further upside on our Dry Bulk Share Index



# Equities

## Key takes

- Due to the weakening of the demand side, we revise down all of our dry bulk target prices. However, with a supply side that is looking more and more favorable, we still see significant upside going forward and **reiterate BUY** on the segment.
- Our new top picks are **GNK US with a 96% upside** to our \$28 target price, **2020 NO with a 103% upside** to our NOK 179 target price, and newcomer to our top 3 list; **HSHIP NO with a 92% upside** to our unchanged NOK 96 target price. HSHIP only takes delivery of their first vessel in 2Q23E, thus have no exposure to the softer rates we are currently experiencing.

## Changes to our target prices

	M.cap	Turnover	New		Old		Pricing/UpSide		P/NAV	
			Rec.	TP	Rec.	TP	P	+/-	Now	1y fwd
2020 NO	199	2.0	BUY	179	BUY	202	88	103%	0.71	0.57
BULK NO	253	-	BUY	174	BUY	214	83	110%	0.52	0.47
DSX US	427	6.0	BUY	5.7	BUY	7.1	5.0	15%	0.75	0.74
EGLE US	610	19.9	BUY	71	BUY	80	44.6	59%	0.64	0.65
GNK US	605	18.9	BUY	28	BUY	32	14.3	96%	0.59	0.54
GOGL US	1,838	51.6	BUY	16	BUY	19	9.1	75%	0.89	0.75
SBLK US	2,141	65.1	BUY	34	BUY	40	20.9	63%	0.82	0.75
HSHIP NO	152	1.1	BUY	96	BUY	96	50	92%	0.69	0.66
Average	778	20.6						77%	0.70	0.64
Median	516	12.4						84%	0.70	0.66





# Equities

Updated 12 Sep 18:14 CET

Company	M.cap	Turnover	Return ly	Rec.	Target Price	Last Price	Target/Price	NAV /sh	P/NAV Now	P/NAV ly fwd	ε	EV/GAV	adj. equity	τ
2020 NO	199	2.0	-19%	BUY	179	88	103%	124	0.71	0.57	1.68	0.83	56%	1.00
BULK NO	253			BUY	174	83	110%	159	0.52	0.47	1.20	0.60	69%	0.95
DSX US	427	6.0	12%	BUY	5.7	5.0	15%	6.6	0.75	0.74	2.10	0.89	41%	0.89
EGLE US	610	19.9	2%	BUY	71	45	59%	69.4	0.64	0.65	0.95	0.56	81%	0.99
GNK US	605	18.9	-21%	BUY	28.0	14.3	96%	24.2	0.59	0.54	1.02	0.62	85%	0.85
GOGL US	1,838	51.6	5%	BUY	16.0	9.1	75%	10.3	0.89	0.75	1.60	0.94	54%	0.89
SBLK US	2,141	65.1	13%	BUY	34	21	63%	25.3	0.82	0.75	1.32	0.88	63%	1.00
HSHIP NO	152	1.1	-17%	BUY	96	49.9	92%	73	0.69	0.66	4.20	0.93	24%	1.00
Average	778		-3%				77%		0.70	0.64	1.76	0.78	59%	0.95
Median	516		2%				84%		0.70	0.66	1.46	0.85	60%	0.97

Company	EV/EBITDA				P/E				Dividend yield				FCF yield			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
2020 NO	0.5	6.4	3.1	2.7	2.3	4.8	1.9	1.7	67%	22%	48%	54%	77%	26%	56%	63%
BULK NO	0.4	3.6	1.4	1.1	0.3	5.4	1.4	1.2	87%	25%	58%	65%	76%	51%	69%	78%
DSX US	0.0	5.7	3.8	2.8	1.9	4.9	3.6	3.0	48%	17%	12%	16%	64%	-34%	38%	45%
EGLE US	0.1	2.2	2.7	2.0	1.4	2.3	4.3	4.1	33%	18%	7%	7%	83%	48%	31%	32%
GNK US	0.4	2.8	2.1	1.7	1.4	3.4	2.9	2.6	51%	21%	28%	33%	93%	26%	42%	46%
GOGL US	0.3	4.2	3.6	3.1	2.8	3.6	3.1	2.7	44%	26%	21%	32%	79%	33%	30%	38%
SBLK US	0.1	3.3	2.8	2.4	1.6	2.9	2.7	2.5	46%	28%	27%	37%	81%	37%	43%	45%
HSHIP NO	0.8		10.8	4.8	3.5		3.5	1.3	99%	0%	11%	46%	40%	-84%	-187%	-103%
Average	0.3	4.0	3.8	2.6	1.9	3.9	2.9	2.4	59%	20%	26%	36%	74%	13%	15%	31%
Median	0.3	3.6	2.9	2.6	1.7	3.6	3.0	2.5	49%	21%	24%	35%	78%	29%	40%	45%



A large, light blue, stylized letter 'Q' watermark is centered on the page. The 'Q' has a thick, rounded stroke and a vertical bar at the top and bottom center, which are slightly wider than the main body of the letter. The background is a solid, dark blue color.

# Appendix

# Econometric Overview

Annual view																			
Base case	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Baltic Dry	7,800	6,908	2,811	2,762	1,481	823	1,177	1,107	697	650	1,191	1,395	1,386	1,065	2,941	1,882	2,394	2,583	2,684
Capesize, spot* (TCE/d)	116,535	105,214	42,774	33,406	15,699	7,717	14,578	14,515	8,074	7,421	15,215	16,494	17,915	13,051	33,230	19,631	33,525	36,889	38,552
Panamax, spot* (TCE/d)	57,004	48,682	19,332	25,059	14,016	7,701	9,497	7,726	5,534	5,588	10,053	13,009	12,383	9,906	26,948	17,008	18,910	20,181	20,809
Supramax, spot* (TCE/d)	47,604	41,290	17,351	22,477	14,409	9,459	10,296	9,819	6,941	6,168	9,365	11,488	9,923	8,180	26,774	19,566	16,179	16,735	17,256
Handysize, spot* (TCE/d)	32,541	29,100	11,359	16,437	10,560	7,636	8,190	7,687	5,366	5,222	7,659	10,482	9,274	8,003	25,634	19,776	14,378	15,166	15,555
Capesize, 5y* (USDm)	111	128	52	57	43	34	36	47	33	24	32	35	31	28	40	48	49	53	51
Panamax, 5y* (USDm)	66	73	32	39	31	22	21	24	17	14	18	21	19	18	26	31	29	31	29
Supramax, 5y* (USDm)	57	61	27	32	28	22	21	25	16	13	16	18	17	16	25	30	24	26	25
Handysize, 5y* (USDm)	37	44	21	26	23	18	18	20	13	10	14	15	16	15	20	26	22	23	23

Quarterly view																			
Base case	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Baltic Dry	1,739	2,793	3,641	3,591	2,021	1,620	1,801	2,088	2,008	2,219	2,480	2,868	2,003	2,355	2,710	3,264	2,295	2,705	2,784
Capesize, spot* (TCE/d)	17,126	31,120	40,329	44,344	14,873	17,407	19,487	26,757	26,433	30,902	35,190	41,573	27,345	33,138	38,974	48,101	32,142	38,895	40,196
Panamax, spot* (TCE/d)	18,493	26,052	33,565	29,682	22,853	13,599	15,224	16,355	16,233	17,920	19,539	21,949	16,577	18,764	20,968	24,414	18,388	20,938	21,430
Supramax, spot* (TCE/d)	16,633	25,538	34,043	30,881	24,676	17,208	18,823	17,554	15,453	14,855	16,201	18,205	13,739	15,557	17,389	20,254	15,245	17,364	17,773
Handysize, spot* (TCE/d)	16,610	22,507	31,817	31,601	23,580	19,672	21,058	14,793	12,717	13,764	14,768	16,263	12,931	14,287	15,654	17,792	14,054	15,635	15,940
Capesize, 5y* (USDm)	35	38	45	45	49	50	47	46	48	49	50	50	52	53	54	54	53	52	50
Panamax, 5y* (USDm)	22	26	29	29	31	35	30	29	29	29	29	29	30	30	31	31	31	30	29
Supramax, 5y* (USDm)	19	23	29	29	31	33	29	27	24	24	24	24	25	25	26	26	26	25	24
Handysize, 5y* (USDm)	16	20	23	23	27	27	26	24	22	22	22	22	23	23	24	24	23	23	22



## Changes to our forecast

Delta					
Base case	2021	2022	2023	2024	2025
Baltic Dry	64	(998)	(302)	(346)	203
Capesize, spot <sup>a</sup> (TCE/d)	792	(11,130)	(5,217)	(5,702)	3,349
Panamax, spot <sup>a</sup> (TCE/d)	530	(10,568)	(1,970)	(2,153)	1,265
Supramax, spot <sup>a</sup> (TCE/d)	551	(7,869)	(1,137)	(1,790)	1,051
Handysize, spot <sup>a</sup> (TCE/d)	564	(6,124)	(1,222)	(1,335)	784
Capesize, 5y <sup>a</sup> (USDm)	-	(3)	(5)	(2)	2
Panamax, 5y <sup>a</sup> (USDm)	-	(2)	(2)	(1)	1
Supramax, 5y <sup>a</sup> (USDm)	-	(2)	(2)	(1)	1
Handysize, 5y <sup>a</sup> (USDm)	-	(1)	(1)	(1)	1

Delta					
Base case	3Q22	4Q22	1Q23	2Q23	3Q23
Baltic Dry	(1,470)	(1,577)	52	(141)	(527)
Capesize, spot <sup>a</sup> (TCE/d)	(19,293)	(21,989)	(132)	(2,327)	(8,681)
Panamax, spot <sup>a</sup> (TCE/d)	(13,324)	(14,824)	(50)	(879)	(3,278)
Supramax, spot <sup>a</sup> (TCE/d)	(9,958)	(8,412)	1,958	(730)	(2,725)
Handysize, spot <sup>a</sup> (TCE/d)	(6,127)	(9,023)	(31)	(545)	(2,033)
Capesize, 5y <sup>a</sup> (USDm)	(5)	(7)	(6)	(4)	(5)
Panamax, 5y <sup>a</sup> (USDm)	(5)	(5)	(2)	(2)	(2)
Supramax, 5y <sup>a</sup> (USDm)	(3)	(6)	(1)	(2)	(2)
Handysize, 5y <sup>a</sup> (USDm)	(2)	(1)	(1)	(1)	(1)

<sup>a</sup> Average during period

New					
Base case	2021	2022	2023	2024	2025
Baltic Dry	2,941	1,882	2,394	2,583	2,684
Capesize, spot <sup>a</sup> (TCE/d)	33,230	19,631	33,525	36,889	38,552
Panamax, spot <sup>a</sup> (TCE/d)	26,948	17,008	18,910	20,181	20,809
Supramax, spot <sup>a</sup> (TCE/d)	26,774	19,566	16,179	16,735	17,256
Handysize, spot <sup>a</sup> (TCE/d)	25,634	19,776	14,378	15,166	15,555
Capesize, 5y <sup>a</sup> (USDm)	40	48	49	53	51
Panamax, 5y <sup>a</sup> (USDm)	26	31	29	31	29
Supramax, 5y <sup>a</sup> (USDm)	25	30	24	26	25
Handysize, 5y <sup>a</sup> (USDm)	20	26	22	23	23

New					
Base case	3Q22	4Q22	1Q23	2Q23	3Q23
Baltic Dry	1,801	2,088	2,008	2,219	2,480
Capesize, spot <sup>a</sup> (TCE/d)	19,487	26,757	26,433	30,902	35,190
Panamax, spot <sup>a</sup> (TCE/d)	15,224	16,355	16,233	17,920	19,539
Supramax, spot <sup>a</sup> (TCE/d)	18,823	17,554	15,453	14,855	16,201
Handysize, spot <sup>a</sup> (TCE/d)	21,058	14,793	12,717	13,764	14,768
Capesize, 5y <sup>a</sup> (USDm)	47	46	48	49	50
Panamax, 5y <sup>a</sup> (USDm)	30	29	29	29	29
Supramax, 5y <sup>a</sup> (USDm)	29	27	24	24	24
Handysize, 5y <sup>a</sup> (USDm)	26	24	22	22	22

<sup>a</sup> Average during period

## Asset price revisions due to recent S&P's

New					
Summary	Capesize	Panamax	Supramax	Handymax	Handysize
<b>NB</b>	64.5	37.5	34.5	32.5	30.5
<b>resale</b>	63.0	38.5	36.0	33.5	31.0
<b>5y</b>	47.0	30.0	29.5	27.8	26.0
<b>10y</b>	30.5	21.0	19.5	18.4	17.3
<b>15y</b>	19.0	15.0	14.5	13.0	11.5
<b>20y</b>	14.6	11.3	11.3	9.8	8.3
<b>scrap</b>	13.6	8.0	6.5	5.6	4.1

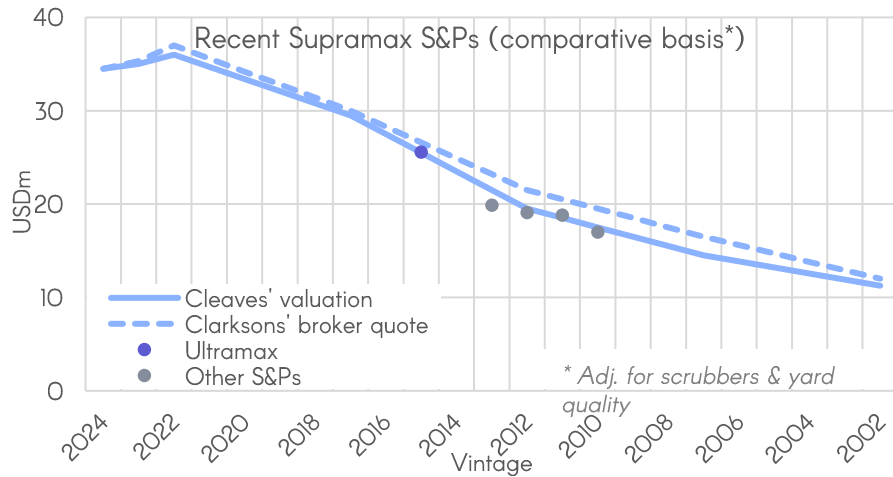
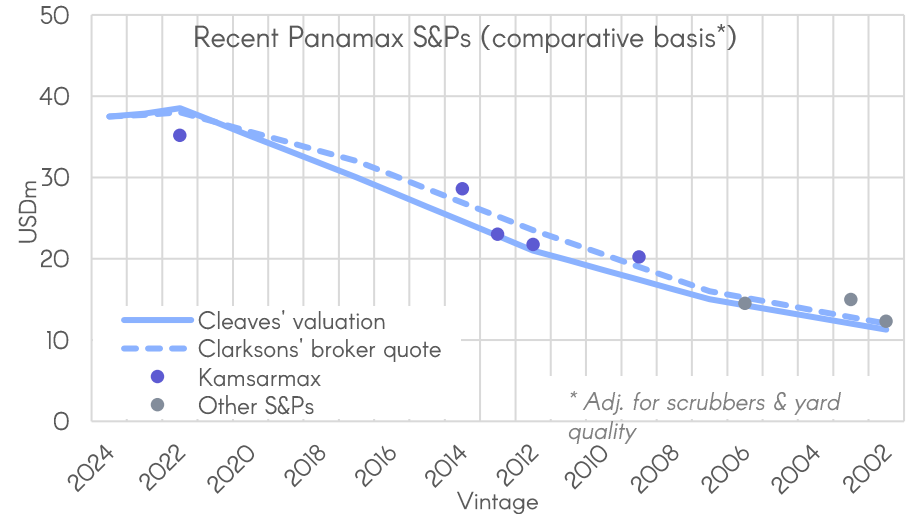
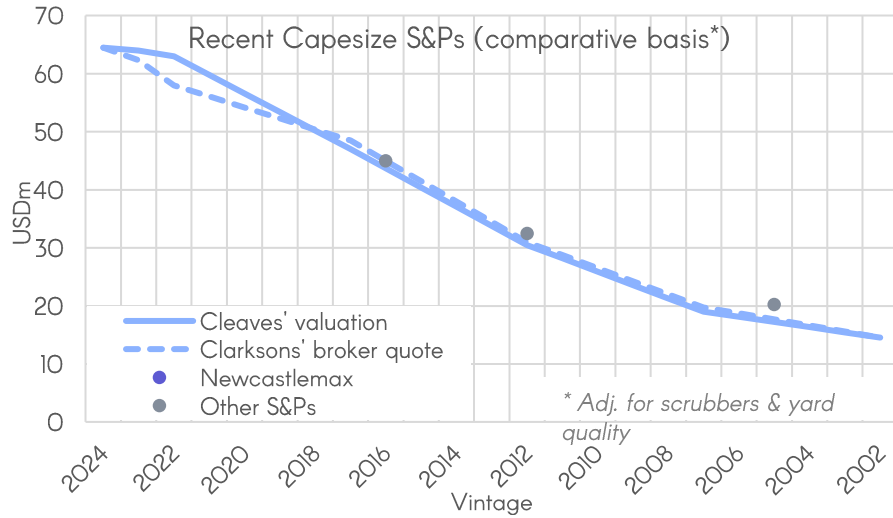
All prices are excluding scrubbers

delta					
Changes	Capesize	Panamax	Supramax	Handymax	Handysize
<b>NB</b>	1.5	0.8	0.0	0.3	0.5
<b>resale</b>	-3.0	-3.5	-3.5	-2.3	-1.0
<b>5y</b>	-3.0	-4.5	-3.0	-1.8	-0.5
<b>10y</b>	-4.5	-1.5	-1.3	-0.9	-0.5
<b>15y</b>	-3.0	0.0	-1.0	-0.6	-0.3
<b>20y</b>	-0.9	0.0	-0.8	-0.4	0.0
<b>scrap</b>	-0.5	-0.3	-0.2	-0.2	-0.1



# Supporting Graphs

## Recent S&P's



# About Cleaves Securities

## About Cleaves

Cleaves is an independent financial services group of companies with a 40+ year history focusing on:

- Shipping & offshore
- Energy
- Commercial real estate
- Renewables/ESG

## Corporate Finance

Cleaves Securities has significant international deal experience through numerous corporate finance transactions involving both equity and debt capital markets, as well as M&A transactions. Furthermore, the company is an active incubator of start-up projects.

## Sales

- Equity and Fixed Income
- Experienced sales personnel
- Extensive international client base
- Covering all investor classes

## Asset Management

Cleaves Asset Management was started in 2021 and aim to build a portfolio of funds under management. Our first fund, Cleaves Shipping Fund, is a long/short shipping-focused hedge fund.

## Research

Our equity research covers the markets for oil tankers, dry bulk, LNG and LPG. Our shipping research has been ranked #1 globally by Bloomberg during both 2019, 2020, 2021, and 2022.

## Business Management

Cleaves Management AS oversees administration of the respective investment companies facilitated by Cleaves Securities, as well as providing investor service.

Cleaves Securities AS

Kongen  
Frognerstranda 2, 0250 Oslo  
Norway  
[www.cleaves.no](http://www.cleaves.no)

