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PRESENTATION

Operator

Hello, and welcome to the Euronav Q4 2018 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I'd now like to turn the conference over to Paddy Rodgers. Please go ahead.

Patrick Rodgers - *Euronav NV - CEO & Director*

Thank you. Good morning and afternoon to everyone, and thanks for joining Euronav's Q4 2018 Earnings Call.

Before I start, I would like to say a few words. The information discussed on this call is based on information as of today, Thursday, the 24th of January, 2019 and may contain forward-looking statements that involve risks and uncertainties. Forward-looking statements reflect current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events, performance, underlying assumptions and other statements, which are not statements of historical facts.

All forward-looking statements attributable to the company or to persons acting on its behalf are expressly qualified in their entirety by reference to the risks, uncertainties and other factors discussed in the company's filings with the SEC, which are available free of charge on the SEC's website at www.sec.gov and on our own company's website at www.euronav.com. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement and the company undertakes no obligation to publicly update or revise any forward-looking statements. Actual results may differ materially from these forward-looking statements.

Please take a moment to read our safe harbor statement on Page 2 of the slide presentation.

I will now pass you over to Euronav's CFO, Hugo De Stoop, to run through the first part of the presentation.

Hugo De Stoop - *Euronav NV - CFO*

Thank you, Paddy. Good morning or afternoon to wherever you are today, and thanks for joining our earnings call. As always, I would like to start with the agenda slide on Slide 3. I will run through Q4 highlights and provide a full financial review of the income statement and balance sheet before handing back to Paddy to run through the current market themes in the tanker market and Euronav's outlook before we take questions.

Let's now turn on Slide 4. The graphs on Slide 4 shows clearly the market improvement seen in the fourth quarter of 2018 when compared to the fourth quarter of 2017, reflecting the better rate background, especially in November and December. The freight rates we saw were the highest in 2 years and this has continued into strong start of 2019.

On the S&P side, we constantly monitor the market and some of the better opportunities we can see on asset disposal. This was definitely the case for our 10-year-old Suezmax Felicity that was sold just before the year-end and delivered to a new owner for conversion in January.

Capital markets took a major hit in December and shipping stocks, including our own, were particularly mistreated and fell to a point where the company enacted a share buyback as part of our approach of consistently looking to create longer-term value for our shareholders. So far, we have declared having bought around 1.4 million shares since late December. We may continue to look at this mechanism and others in order to return capital and create long-term value for our shareholders.

Moving on to Slide 5 and the income statement. We had a number of one-off extraordinary items affecting our P&L during the quarter. All are noncash, and I will run through each of them now.

Firstly, there was a $5.3 million charge for the relet to 2025 for the Gener8 New York office. This charge was taken as an adjustment to the bargain purchase on the Gener8 merger.

Secondly, there was a $6 million adjustment, again, in the bargain purchase line related to the Gener8 merger as we reassessed the value of the 2 LR1s we purchased from Gener8. These were or are noncore assets, one of which was sold in Q4 taking a small additional capital loss of about $200,000.

Thirdly, despite achieving a remarkable price for the Suezmax Felicity, we had to take a capital loss of $3 million in relation to that sale.

Finally, we had $0.5 million negative mark-to-market value of an interest rate swap instrument. This is due to a significant downward movement of the yield curve in December. These noncash exceptional items totaled $15 million for the quarter.

Moving on to Slide 6 and the Euronav balance sheet. The available liquidity was reasonably stable to $674 million, but leverage remains amongst lowest in the sector at 48% when marked to market values. Euronav has no outstanding CapEx obligation related to newbuilding going forward.

That concludes my remarks for this section of the earnings call, and I will now pass it back to Paddy. Paddy, over to you.

Patrick Rodgers - *Euronav NV - CEO & Director*

Thank you, Hugo.

Now turning to Slide 7 and focusing on the age profile of the VLCC fleet. As this slide shows, since 2011, the average age of vessels leaving the VLCC fleet has been just over 20 years of age, that dovetails with our view that depreciating vessels over 20 years is the correct means of accounting for depreciation in the tanker business, which is a real cost in a capital-intensive industry such as ours.

More critically, however, it is possible to see how the average age has risen by nearly 25% to its current level of 9.5 years. The replacing of single-hull tankers by double-hull tankers a decade ago reduced the average age of the fleet considerably, and we're now only just seeing the fleet return to more normalized levels of maturity. This means in each year going forward, there will be 10, 15 or 20 natural candidates in their late teens or approaching 20 years of age that will exit the fleet. This means that each newbuilding will not automatically result in 1 newbuilding of fleet supply growth.

Staying with the assets, I would now like to look at asset pricing on Slide 8. Newbuild prices have continued to rise steadily over the past 12 months. In fact since Euronav announced our merger with Gener8, newbuilding prices have risen by 13.5%, fully vindicating our countercyclical investment. Whilst price rises have been less significant in other age groups, upward pressure on NAVs for stocks has been a consistent feature of last year. However, equity valuations have not kept pace, indicating a disconnect between asset and equity values. We believe asset prices are giving capital markets a strong indicator.

Finally, Slide 9 and the key issue for investors, the order book and OPEC production cuts. A very heavy delivery schedule for 2019 of 79 VLCC equivalents is clearly a concern for investors and shipowners. Firstly, demand growth we believe will remain on track and the recent reaffirmation by the IEA or its forecast of 1.4 million barrels per day of demand growth would require 43 VLCCs in 2019. We believe a further 14 uranium VLCCs will exit the global fleet in 2019, needing to be replaced by vessels from the commercial fleet.

Whilst there has been a reduction in OPEC or of the new OPEC USSR-Saudi relationship of 1.2 million barrels, we believe that this will be replaced primarily by U.S. crude export growth of at least 500,000 barrels per day, but would require another 20 VLCCs, assuming most of this was destined for the Far East. So we already have 77 VLCCs of demand -- of supply, sorry, absorbed by these basic demand forecasts.

Disruption from IMO 2020 is we believe going to be underestimated by market commentators and that the 70 VLCC and 50 Suezmaxes we expect to exit the fleet for retrofitting scrubbers will have a big impact on the availability of supply, particularly due to increased congestion and delays in preparation for IMO 2020. And taken together, this should account for absorption of another 20 VLCCs.

Finally, we forecast 22 VLCC equivalents to exit the fleet for recycling in 2019 based on the age profile of the fleet and up and coming special surveys. Whilst scrapping is affected by the level of freight rates and the steel price, it is ultimately determined by age. And this we showed earlier, the large tanker fleet has matured in recent years, leaving steady supply of older tonnage under pressure.

It would be remiss to me not to focus briefly on developments ahead of IMO 2020 on Slide 10. This week, we have seen one of the key ports in the crude tanker market, Fujairah, ban open-loop scrubbers following on from Singapore before Christmas. The map on Slide 10 shows the current status of where open-loop scrubbers can be operated and where not. Our view remains the same on scrubbers, we remain skeptical and would like to see the technology more thoroughly tested in the tanker environment, as we outlined in our last quarterly call in October. We will, however, remain vigilant during this dynamic period with regard to developments and update shareholders accordingly.

So to conclude on Slide 11. Slide 11, our traffic lights remained in the same position as last quarter. Demand opportunities from IMO 2020 and our financing view remain strong green lights. Supply of oil is a battle between Saudi and U.S. production, which will become clearer later in the year. And finally, vessel supply remains mix of red and amber. As we've demonstrated, absorption of the exceptionally high forecast number of VLCC equivalents is possible given the number of exceptional features, such as Iran and IMO 2020. It will be challenging for all large tanker owners, but nevertheless, we believe that this should be a market with a robust outlook for 2019.

With that, I conclude our prepared remarks and pass back to the operator. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And this morning's first question comes from Jon Chappell with Evercore.

Jonathan B. Chappell - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Paddy, first question is on the preparation for IMO 2020. So from the press release, you said you're working on alternative mechanisms to capture volatility. So I don't want to press you so much as to what exactly you're working on because I'd assume there is some proprietary nature, and as you said, you'd update us on it. But as I try to think about your capital commitments and off-hire time, Hugo mentioned the liquidity. You have no drydocks this year. When do you expect to kind of choose the path forward on preparation? And as we think about what that would mean to fleet utilization and your balance sheet going forward, how could we think about the potential spend on that and any off-hire days associated with it?

Patrick Rodgers - *Euronav NV - CEO & Director*

Jon, I think it's a -- there are a number of different aspects, as we know, to IMO 2020. And you mentioned balance sheet use. I think that we'd be very reluctant to go down the route of capital expenditure that is reflected in long-term changes to our ships, such as installing scrubbers, simply because that's a capital that's gone and then eventually, you hope to catch it back if you're able to bunker at the right time at the right port on the right spread, and we think there's a lot of volatility risk and therefore, that looks like it has a lot of risk in actually having a profitable investment in those modifications. As we've explained to a lot of investors when we meet them, our view is slightly different. We believe that as the purpose of a scrubber is to catch the fuel oil spread in the volatility, it's more interesting, actually, to use some of our purchasing power, which we have anyway for the acquisition of bunkers to simply time the moment that we enter the market in a way that's optimal. And unlike other sectors, like containers or dry cargo, the great thing about tankers is, we have great storage capacity. So I think that we can balance a position during the course of 2019, which will enable us to optimize the moment at which we enter the market in order to establish positions that ultimately will be forward buying positions or they might be opportunistic as we go into 2020 depending on any risk around the fuel oil price collapse. So we'll be trying to work a system around that. I don't think there's much need to tell you more assuming that we are putting in position everything that's necessary as components of that during the course of this first 3 months of the year.

Jonathan B. Chappell - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Okay. That's very interesting. And then my follow-up for Hugo as it relates to part of Paddy's answer. You've mentioned the $664 million (sic) [$674 million] of liquidity. You've obviously been pretty proactive on the buyback front. As you think about kind of free cash for 2019, that gives you the ability to either continue to buy back stock in addition to your fixed dividend or buy assets. Out of that $674 million, what should we think as the real kind of deployable number this year without kind of pressing too far on the leverage button?

Hugo De Stoop - *Euronav NV - CFO*

Thank you, Jon, for the question. Well, obviously, given where we're in the market, the cash flow are positive and therefore, you may expect that position to increase. And I think that Euronav has always said that as far as capital deployment is concerned, we will always look at the time of distributing or returning that capital to shareholders what is the best course of action. So we will look at the share price and then potentially decide whether it's more appropriate to distribute additional dividend beyond and above the fixed one, continue buyback or potentially reduce further debt in order to load a bigger revolver and be prepared for any opportunity that we see in the market. So it's a little bit difficult to tell you at the beginning of the year what we're going to do because first of all, we don't know what sort of cash flow we can have throughout the year. I can tell you that at the moment, we are probably printing more cash than what we're spending on the buyback. And therefore, as we said in the press release, we may very well continue to do that because at the moment, the share price looks like it is severely discounted compared to NAV, but that, as you know, can be corrected in no time, and then we will take other decisions when we analyze all the components.

Operator

And the next question comes from Chris Wetherbee with Citi Corp (sic) [Citigroup].

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

I wanted to come back to IMO for a minute and Paddy, maybe just get your sense of how you think the sort of back half begins to play out. Should we expect to see some disruptions in trade lanes as early as sort of, call it, early 3Q or putting -- kind of looking into the crystal ball there, how do you think about the timing and how this kind of starts to play out as we see refiners as well as shippers start to make meaningful adjustments to the way they're approaching the market?

Patrick Rodgers - *Euronav NV - CEO & Director*

Thanks, Chris. Certainly, those changes have to be made. So they are coming. So it's only a question of when we think the timing is. If you're going to have to resegregate the whole industry to cope with sulfur as a critical element in the characteristic of your crude oil and its products, all its products, then obviously, you're going to have to change the way that you operate and segregate and the way you buy and the way that you sell. So this is coming. It's not a question of whether it will come, and then the question is which quarter will it impact in? I know that we've spoken, and so it's not just a personal opinion of sitting in the bath and having a sort of stab at it, but rather taking a view, as I said, sitting in the bath because that's where some of the best thinking goes on is that -- is to say we have spoken to a few people. And I think that the refiners and storers, the logistics companies have said to us it has to happen in Q3 because you just need the time. It could be, but a lot of it already starts end of Q1 because that's the refinery turnaround, and so people may well say, you know what, I'll take the refinery down for longer, reorganize myself now. But I think, as you've correctly identified, Q3 is almost certain and it has to happen then.

Christian F. Wetherbee - *Citigroup Inc, Research Division - VP*

Okay. That's very helpful. And I guess, you've been pretty clear about your views on scrubbers and sort of how you think about it. Is there something -- could there be incremental developments that might make you rethink the way that you approach installation on scrubbers? Just kind of get a sense of what you think are the most important factors to be looking at when you're making that capital decision with your fleet.

Patrick Rodgers - *Euronav NV - CEO & Director*

No, I think so we did a full, and you have seen that in the presentations that we have on our website, and I certainly invite you to have a look at them. I think that fundamentally, we have a jaundiced approach towards the idea of additional CapEx in the hope of that being profitable, repaid and profitable on later earnings developments because that's the sickness of the shipping industry, isn't it? We have to dump all of our cash upfront, and then we're always threatened with time versus depreciation where we hold out for the rates we need to earn our money back with the right rates of return and of course, that's been the story behind what people will plan to do with scrubbers. So will that be -- how much will it cost to invest in one and then the question is, how long will you get to get it paid back and how wide will the spread be? And without going exhaustively through the arguments, I would just say we thought that there were risks to the time that you'd be able to operate and there would be risks to the spread. And the risks to the time might be environmental because organizations might step in and say not in my backyard, and I think we're seeing the pendulum swinging on that at the moment. So what looked like an open field a year ago is beginning rapidly to close down. Now that's really important to the investment case because it's reducing the number of days that you can take advantage of the fuel oil spread in order to pay back the cash flow that you've invested, the capital that you've invested to get back to the cash flow benefits of cheaper fuel. So it's already having an impact. There is an operational impact both in the installation where it may take longer with your ship out of the market to install it. And on the flip side, you might find there are more operational problems in maintaining the equipment and able to keep it running so that you can burn the cheaper fuel. When you look at the fuel spread itself, nobody is quite sure how hard and far HFO will fall, but nearly everybody say it will bounce back, and you'll see that in things like the BP Statistical Review where there show -- they saw a huge bounce back in demand for HFO on the basis that the price would drop so far and so fast that there would be an immediate uptake in additional tranche of scrubbers, which would take away any discounts on HFO. Then, of course, we see the refiners becoming ready to make compliant fuel. And if they make an enough volume, then, of course, there will be no premium to it, and we've already seen trades done at anything between $40 and $100, which would mean the payback time at $100 of about 4 years on a scrubber and alternatively, if it's only $40 this premium over HFO, it could be 14 to 15 years to get your money back let alone make the profit. And then on the general mood music around it, when we talked to oil majors, they always said to us the scrubbers is a story that will affect the market '20, '21, '22. By 2023, it will be all over. And on further probing, it was for all of these different reasons that we've described and then last but by no means least, we've seen the management group in another public company put in place a reward scheme for management based around a differential outperformance of investing capital against higher returns but the target dates for that are only 2020 and 2021, which, again, tends to indicate that the view is that there's going to be a very narrow window. Now if the spread is under question, the window in which the availability of the scrubber use is under pressure and the time spread and is under geographical spread, there are operational difficulties and political risks, then you're balancing out quite a lot of issues you need to take into account. I hope that answers your question.

Operator

And the next question comes from Randy Giveans of Jefferies.

Randall Giveans - *Jefferies LLC, Research Division - Equity Analyst*

So just a few quick questions. Looking at your fleet, I think you still have $42 million or so in the balance sheet for assets held for sale. Is that solely the Felicity or are there other assets that you're planning on selling here in the coming months?

Hugo De Stoop - *Euronav NV - CFO*

No, no, it's only the Felicity.

Randall Giveans - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Any plans for the LR1s or some of the older Suezmaxes in terms of asset sales?

Hugo De Stoop - *Euronav NV - CFO*

Yes. I think we were very clear to say that this -- the other LR1, given that we have sold the first one in December, is a noncore asset, and we will deal with that in due course. It seems that on the valuation front, the market is improving, and so it might be wise to wait a little bit more before selling it. But we didn't classify it as an asset held for sale, as we usually do that only when we have a firm idea of when we're going to sell it and probably to who we're going to sell it.

Randall Giveans - *Jefferies LLC, Research Division - Equity Analyst*

Got it, okay. And then just looking at kind of market rates, obviously, they peaked in early December, have fallen pretty consistently here over the last 6 weeks. VLCC is down 35, Suezmaxes maybe 20. So can you discuss maybe 2 or 3 of the biggest drivers for that? And do you expect this weakness to continue through the remainder of 1Q, 2Q, like when does it turn?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes. So I think when we've been meeting investors, we've been guiding on the outlook for this year pretty consistently saying that we think it would be a disruptive year with a lot of volatility, but with a great opportunity on the ship owners side to press for good freight and to get the good average earnings for the year. Now back in December when the market was peaking, late November, early December, and we were earning $60,000 a day, we flagged up when we thought the test period would be -- and the first test period, we thought would be the start of the new year. And the reason for that is simply because as the new year came in that a lot of VLCCs were being bid in to the position list from the yard, even though they weren't really ready to load cargo. And so it weighs heavily on the psychology of the shipowners. And I think that's why we saw the rates given up so quickly in the first few weeks and days of the year. In -- on reflection, it seems that this was an oversold market and the shipowners were a little bit too nervous of the incoming ships from the new building yard simply because a lot of those ships got fixed into gas oil product cargoes as they were clean and are tied up there. So we see some stability. We haven't seen the market completely collapse. We've seen it steadily come off and show some support around $30k a day. We have a reasonable amount of demand, so we're not seeing cargoes drop off, and we expect to see that continue through to Chinese New Year in early February. The market will be tested during Chinese New Year because there will be an absence of buying power for a week or 2. So it's dependent on owner psychology. The market gets tested again around refinery turnarounds March, April and Q2, we believe should be the weakest quarter of the year. But as we said earlier, we think some of the real wins in terms of pressure from IMO will come in the second half of the year, and we expect to see the rates return quite strongly in the second half.

Randall Giveans - *Jefferies LLC, Research Division - Equity Analyst*

All right. And then just to summarize all your comments around IMO and scrubbers, do you expect to have any scrubbers installed by January 2020?

Patrick Rodgers - *Euronav NV - CEO & Director*

I don't think that's -- that you could have had a clearer exposition on the company's position.

Operator

And the next question comes from Mike Webber with Wells Fargo.

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

First of all, the term jaundiced approach to new capital spend is pretty fantastic, something we will be leveraging in our own writing. Paddy, I wanted to just start on the dynamics between asset values and equities, which you guys have spent some time going over in your deck and in your commentary. Obviously, we don't get these kind of divergences very often. You guys have clearly been buyers of your stock here. I'm just curious, when you look at the levels for new tonnage going back to the jaundiced approach to new capital spend, theoretically, are you a still buyer of tonnage at these levels? And when -- I guess, maybe kind of post the move we saw in secondhand pricing in December, have you noticed the bid/ask or kind of volume around tankers thin out a bit when it comes to asset sales kind of post the recent move?

Patrick Rodgers - *Euronav NV - CEO & Director*

So first of all, most of our asset sales that have been done so well by the commercial team in the last 5 years or so have been into the offshore industry. So they'd be pretty much tailored -- they've been pretty much tailored to the quality of Euronav's fleet and the services provided alongside it rather than just iron sales. I think that we're not seeing a great thinning out. The market is naturally quite thin. I think there's a lot just because that's the way the market is. There isn't huge liquidity at all points in the cycle. We think there's a lot of uncertainty in the market now, of course, because we're really into the gravy strokes in the last 12 months of -- before IMO 2020. So I think most people, we feel seem to have placed their bets. I think people are attracted by shipyard pricing, which still remains good, even though it's crept up. I don't think that that's Euronav's style, though, unless we have specific use, order or desire, we would tend not to speculatively invest and certainly right now, by far, the best buy is our share, I mean, absolutely, by far the best buy whatever your outlook is. And the great thing about the competitor buying any steel is that you can buy it, and you can sell it within the same day if you want to. So there's no time lag or confusion. So I mean, we're great believers in the outlook. I think that the general stock market sell-off is a huge problem and one of the things that we would really exhort all of the people who consider themselves sophisticated investors and analysts is to say, look, there's a huge amount of noise. This is where you are meant to earn your stripes by listening through the noise to the signals. We're not like other equities, we didn't get a 5-year runoff on cheap money to make us hugely overpriced for our earnings. We're actually really good value. So in this slope of earnings and -- poor earnings and the poor outlook and potential risk of recession, you're actually looking at an investment that could be resistant and prove to all of them and deliver good value. So I hope some way in the advertisement, I've manged to answer your question.

Michael Webber - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Analyst*

No, I think it was in there somewhere. I appreciate it. Just to pivot, I guess, on the back of maybe Jon's question around maybe alternative ways to look at IMO and I assume, we're talking about some degree of kind of synthetically hedging more and more dynamic approach to fuel exposure. I'm just curious, is that something that would happen at the Euronav level or at TI? And even if that's not something that even if I'm misreading that and that's not something that you guys are looking at, how does your exposure in your relationship with TI kind of structurally and mechanically, how is that impacted by IMO 2020 in terms of pass through and pull points? And maybe just a little bit of an overview there would be helpful.

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes. I think that's -- well, first of all, it's a very sophisticated question, so -- because it breaks up the different points at which you're going to have to think about your cost of business and your pricing of sales. And I think that it's fair to say that we're working with TI on how that looks, and we may well end up supplying bunkers to them. We're not quite sure how we're going to structure that price point. And no doubt when we have a clearer message on it, we will expose it to you. But I think it won't be a top secret. It'll be something that will be in the marketplace and people will need to understand it. I think that as far as bunker supply goes, and this was a point that we were discussing at a conference yesterday, it was just simply the whole -- people have to understand the whole world of bunkering is changing. If people are going to be buying a product now, which is desulfurized product, they're going to need quality assurance and they're going to need providence of origin. The bunkering market was a residual fuel oil market abandoned by the oil majors and refiners and handed over to bunker suppliers. And so there's been a lot of hanky-panky around the quality and volumes and pricing of bunker fuel, which we saw last year with a number of contamination cases and with the huge spreads that you can see globally, geographically, depending on where you buy and at what time. I think this market where people position themselves not on the quality of the product, but on the credit terms they can give to shipowners is going to get time called on it in IMO 2020 and shipowners are going to have to warrant to their customer that they have fuel supply in providence that is reliable, timely and meets the needs to keep the fleet reliable and of good quality service. And if at the same time you can be buying the customers' fuel is new product fuel, I think you're going to be putting yourself in the front seat, but it's going to be very exciting and interesting time, a lot of developments. Probably, I think the ultimate thing must be consolidation.

Operator

And the next question comes from Greg Lewis with BTIG.

Gregory Robert Lewis - *BTIG, LLC, Research Division - MD*

Paddy, just if we could go back in some of your prepared remarks that you were talking about the outlook for the balancing of the market and you kind of mentioned the retirement of VLCCs in sort of a consistent -- I mean, you kind of threw out 10 to 15 per year. When we think about that, typically, demolitions are lumpy, right? And in years when rates are good, there aren't a lot of demolitions, and when rates are lousy, we see a pickup in demolitions. So as -- with regarding that comment, has something -- have things structurally been changing that are going to kind of flatten out or steady the rate of demolitions we should expect to see over the next few years?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, I think -- and it's really important, Greg, because I think that is the view that I was expressing as something that would not have surprised anybody in 2004, but it surprised somebody in 2019 because of what happened in the years following 2004. So we would've always said that whenever we looked at a new order building book, we always had a look at an age fleet profile because if you -- you would expect to have the -- if the V fleet was -- whatever the size of the V fleet, you would have expected that you needed 5% of that fleet to be on order at the shipyard for every year of the order book delivery window in order to have a steady-state uniform size of the fleet. So that's old school. That's for anybody who was around before double to single hull, but we have such a cleanout of ships in the double to single hull, which helped to fuel that boom 2004 through 2008, but we ended up at the end of it with a very young fleet and then we went through this desert. It's absolute desert that we went through from 2008 when the market collapsed all the way through to 2015 based on the fact that every single ship that was ordered was incremental to the growth of the fleet. Now what's amazed us, of course, is that the fleet managed to absorb a lot of that between '15 and now, on the basis of the expansion of ton miles and the absorbency rate or the inefficiency of the use of a VLCC these days compared to 20 years ago. So we're getting back to the sunny uplands where -- now because 1998 was the first big year of double hull deliveries. So now in 2018, we had negative fleet growth and the reason we got that is because so many of those ships topped out at 20 years of age and were really unworkable. So certainly for the large area of the market, they were not addressable, and so they were left with a very, very small area to work in, possibly they could work in the AG or India, but a lot of that old business, Iran to India or et cetera is very constrained. So what we're going to see as we go forward is that there will be natural 20-year-old scrappers year-on-year. That means every newbuilding doesn't add to fleet growth, you have to see what's going to go out the door. And yes, it is impacted by price sensitivity, but it's impacted a lot more by the service requirement of the customer because it's all very well having a market of $60,000 a day, but if you're earning $8,000 a day on an old tanker because you'd only get fixed by one small client every year, you can't get 4 or 5 fixtures a year, then your earnings won't matter, not general market earnings, and then the scrap price can be very inviting.

Gregory Robert Lewis - *BTIG, LLC, Research Division - MD*

Okay, great. And then just the other question, I mean -- so I mean, the OPEC cuts, I guess, has been -- at this point, the pullback in volumes has been kind of worked through the market. Where, I guess -- where are you seeing those, I guess, we'll call them lost barrels being replaced from? Any kind of color around that would be pretty helpful?

Patrick Rodgers - *Euronav NV - CEO & Director*

No. For us, we just -- I think that we predominantly say as we're predominantly focused on the U.S. Gulf and the Atlantic, so we really see the area where we've seen the pickup in cargoes is through the U.S. Gulf, the Caribbean and down to Brazil, and that seems to be where incremental replacement is coming from. We may be a bit jaundiced just simply because we're largely working for certain Chinese clients who'll look in that area for the oil they want to buy.

Gregory Robert Lewis - *BTIG, LLC, Research Division - MD*

So just if we can dive a little bit into that. If I think about this, and I think the OPEC volumes have been removed, they've been replaced by Caribbean volumes, the bulk of those Caribbean volumes are heading to Asia, shouldn't that be more supportive to the market? Or is there some delay or lag between the Atlantic-based volumes replacing those Middle East volumes?

Patrick Rodgers - *Euronav NV - CEO & Director*

I don't think there's a lag. I think, as I said to you earlier on, I believe that we're set up structurally for that. If we were only looking at the oil supply side, we would be talking about a really good news for the market. I mean, let's not forget, AG to China is about 11,000 miles and China to the U.S. Gulf and back is nearly 3x the distance, so it's absolutely impactful. But of course, there are other elements in it. So the reason we're not getting the rate reflection in it is because of the ship supply side and it's just overhanging the market. So I mean, that's the balancing point for us. Oil side looks good. Ship side, still a little bit negative and particularly in terms of psychology.

Operator

And the next question comes from Ben Nolan with Stifel.

THOMSON REUTERS

Benjamin Joel Nolan - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So I have a couple of quick ones. First, just in terms of the strength that we've seen lately, and obviously, the spot rates have been a little higher. I'm just curious, if you take any opportunity to pull any vessels out of spot market or out of the TI pool and put them on contracts at all or they're just not something that you've done?

Patrick Rodgers - *Euronav NV - CEO & Director*

Well, the only determinator for us because there are only 2 things is the classic statement in chartering and shipping, which is only 2 things matter on the time charter, the term and the rate. So that's the only thing that we'll really look at. And if somebody comes to us with the right term, that means number of years, and the right rate, daily rate, then we're very interested. And I think we certainly have had constant contact with everybody who is in the market to say, we're open for business, let us know. But most of them have been extraordinarily opportunistic and a lot of them have used the requirement of scrubbers as a beard for disguising the fact that they wanted to enter the market at a multiyear low point for time charters. So even though people are getting paid a premium for having a scrubber onboard their ship, they were getting paid a premium on the lowest point in the market you could have fixed, which would have meant that it was a bad business decision. So I think that -- in talking to the charterers, their view at the moment is they would happily fix at low rates. There's been a little bit of illiquidity because nobody is moving up to match the freight rates. They're not worried about the TCs at the moment compared to the freight, the TC opportunity, so the differential between time charter and spot because they also aren't sure what they want to do in terms of their exposure to fuel because the time charterer then becomes exposed to fuel. So if they sign a time charter today on a period basis and it goes over the end of the year, they have to think about what their exposure is to the change of fuel from HFO to compliant fuel, so there is a natural buffer coming up to it. So there are a couple of constraints to that and whether or not people think there is a risk that more ships might get delivered from the shipyards, which make time charter a little bit soft at the moment in terms of the rates being offered.

Benjamin Joel Nolan - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay, that's helpful. Sorry, go ahead.

Patrick Rodgers - *Euronav NV - CEO & Director*

No, no. (inaudible)

Benjamin Joel Nolan - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. So and then I wanted to circle back to maybe Greg's question on just sort of how you're thinking through supply, and specifically, on Chart #9 where you kind of walked through your table to get from where you are to where you expect to be, and you look at demand growth. But then also there is a line in there for U.S. exports of 500,000 barrels a day. I was curious, it would seem to me that, that 500,000 barrels a day would be within the 1.4 million barrels of demand growth. So is that incremental 200,000, is that just a ton-mile effect or is that...

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes.

Benjamin Joel Nolan - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. So that's yes, the extra dose. That's what I thought.

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, so you go -- I mean, as I said, it's a 3x multiple. So it's really powerful.

Benjamin Joel Nolan - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes. I got you. And then lastly for me, just thinking through sort of the share repurchase program and the capital allocations and how you think about it. Obviously, the share price has been at a discount now for a while and is even more so now. Do you think that it is -- maybe putting on your shower cap back in the bath, do you think that it is maybe possible that investors are a little hesitant to be willing to bid up the equity value even if asset values are rising just as a function of kind of perhaps a reputation by the industry as bad actors when capital becomes loose, and so there is hesitancy to chase the market a bit?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, I mean, look, I can completely understand that argument. And we got -- within the public company sector, there are a number of people who are serial issuers of equity and debt instruments in a manner which is dilutive to anybody who's just bought. So time and time again, it's not the -- people want to take -- the people -- I believe people understand the market argument and want to take market risk. But unfortunately, management or controlling managers have time and time again completely disinvested them from their market thesis by adding additional shares or additional volumes into different mechanisms where they don't ever get the value that they bought in for, but this is very different at Euronav. This is one of the things where we have nailed ourselves to the wall on our capital allocation because we want to make it clear to people what we've have done. And you've seen us manage a series of acquisitions, but including 2 major transactions where each time we made people wait whilst we pestered and worried ourselves about ensuring that whoever is an existing shareholder of Euronav is given preference in value, in returns and opportunity compared to anybody who is coming in as a result of the transaction or whatever we transact for. So I think that we've demonstrated it. There is an element of show me, well, I think we've shown the market, but on top of that, this is a good time to buy and there is something to compensate you for the carry because you do have a fixed dividend of $0.12, and you have seen the company walk the walk as well as talk the talk. We're also coinvestors now because we believe the market is quite frankly misreading the value of the share. So I think that there are a lot of good signs there that should make people prethink and maybe just thinking of what this is a sector for bad actors, but I'm going to look for the signal, choose the right one and not going to be affected by the noise.

Operator

And the next question comes from Magnus Fyhr with Seaport Global.

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

Just a follow-up question on the IMO 2020. With more ports banning the open-loop scrubber, has your calculation changed? I mean, the utilization for VLCCs, maybe calling ports 4 to 5x a year. What is a realistic usage of a scrubber with more ports abandoning the use of open-loop scrubbers?

Patrick Rodgers - *Euronav NV - CEO & Director*

What -- I mean, so sorry, you just -- I was momentarily distracted. You were just saying that the -- what's the effective usage of a scrubber?

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

Right. With -- I mean, how many days would you be, like, for example, if you're call on U.S. port, how many days would you have to turn off the scrubber and -- now with China and Singapore and Middle East also banning scrubber?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, so even just on our base case that we were looking at for our own analysis, we reckon you were out -- you wouldn't be able to operate scrubber 20% of the time. And that was assuming that -- that has nothing to do with any kind of breakdown allowance or any issues. And then since then, of course, we've had added areas where people would question or are beginning to question. So I think that the -- our base case or sort of basic internal graph that we use to run calculations and think about it all the time reckons on that 20% of nonusage.

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

So that would be about 70 days and if you call a port, let's say, 4 or 5x a year, I mean you're looking at maybe almost 2 weeks per, I guess, time you call ports. Is that kind of correct?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, that would be realistic.

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

Okay. And then just one question on Page 9. Two things. There was a lot of slippage in 2018. How come -- is there anywhere you have slippage in that graph or is that something, I would think there may be 10, 15 ships that would slip into 2020 in that graph?

Patrick Rodgers - *Euronav NV - CEO & Director*

No. We didn't put any slippage in just because you just have to do a yard-by-yard sort of experience factor. And quite frankly, once you start to play, the more that you affect the data, the more that it becomes a bit unreliable statistically, so -- and we tried not to. We just tried to use it straight line. There it is, no slippage. I think you can make a judgment if you want.

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

Quite right. And then on the uranium VLCCs taken out of the market, I think the IEA or Gibson says there's about 6, currently using 6 uranium VLCCs in floating storage. Do you assume that number, I guess, to get to 14, should we maybe back to the historical 18 by the end of 2020?

Patrick Rodgers - *Euronav NV - CEO & Director*

Our view was higher than that. I think we're going to get closer to 30 by the time they're finished.

Magnus Sven Fyhr - *Seaport Global Securities LLC, Research Division - MD & Senior Shipping Analyst*

Okay. Do you have any view on how many VLCCs are used currently, or do you agree with that they're kind of 6, 7...

Patrick Rodgers - *Euronav NV - CEO & Director*

I see. Why don't you call IR at Euronav and go through that in detail together because you are using -- you're quoting brokers' numbers, and we go through all those charts as well. So we can just have somebody, if you want to, sit down and walk you through which estimates we've used and how we've measured it.

Operator

And the next question comes from Noah Parquette with JPMorgan.

Noah Robert Parquette - *JP Morgan Chase & Co, Research Division - Senior US Equity Research Analyst*

I just wanted to ask about supply. Obviously, the last half of '18 was really good. I think we won 3 VLCC orders. The last week, we had 6 plus an option. What are your kind of thoughts on why that happened? Was it just maybe a rise in secondhand values making the orders more attractive? Is there just a one-off thing here? And how you're thinking about new order risks this year?

Patrick Rodgers - *Euronav NV - CEO & Director*

Well, I suppose that most people are positioning themselves for delivery post 2020. And I think that it's not abnormal. It's normally a good time of the year because I think that packages get put together in order to kick off the new budget that the shipyards have. They would've been given some astronomical sales figures to achieve. So normally, you will see a little bit of rush as they do their first tour.

Operator

And the next question comes from Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

So just on the open-loop issue, if I can just circle back. I mean, my understanding, and I could be wrong, but my understanding is that scrubbers are obviously only used when exhaust is created, and 90% of the time exhaust is created in open sea. So Paddy, I understand you highlighted where it's banned in the ports and maybe inland waterways, but just with respect to that, I guess, fact, how does open-loop, the open-loop ban at ports specifically really actually structurally change the fundamental case for exhaust gas cleaning systems?

Patrick Rodgers - *Euronav NV - CEO & Director*

So, well, first of all, on arrival. So you're also going...

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

I understand all that, but most of the fuel is burned in open sea, correct?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, and most people's calculations haven't taken in their full time that they will be out in -- they will be out in port. But let me just get to the -- there is also boiler consumption, which would be banned then in port if you had a scrubber that could operate off your boiler as well. So Amit, this is -- as I said at the start, it's about the pendulum swinging, the mood music changing. And I think that we're looking at what's happening around the world. Clearly, people are addressing it in a different way, and you will know I'm sure that one of the things under consideration from the Southern European nations is to establish a ban on the whole of the Mediterranean. And I think if that falls into place, there'll be a risk over the British Channel approaches to the hour range and the Malacca Strait. So I think that the pendulum is swinging. Who knows? We'll see what happens.

Amit Singh Mehrotra - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Yes, I guess, the Mediterranean could also turn into emission control area, which in case 0.5% compliant fuel wouldn't even be -- would be, I guess, 0.1%. But anyways, moving beyond that, and this might come across as a tough question, Paddy, but it's not meant to be. It's really just meant to understand your conviction around IMO 2020 in many cases is against many of the other industry participants, and a lot of Ph. Ds that follow energy markets don't really know how this is going to play out, frankly. So I guess, the question I have first is, what percentage of the VLCC fleet do you think will be scrubber equipped in 2020, and what are the disadvantages, if any, you see from not having them? And then this kind of goes back to the question I had last quarter in terms of what happens if you're wrong because wasn't that long ago that you were pounding the table on sustainability of the crude tanker market, you were calling out analysts and industry observers that turned negative on the crude tanker market. Of course, we know how that turned out. So my question is, why take such an aggressive approach given that history. I'm not saying you're wrong, you might be very well right, but no one really know how this is going to end up. So I just wanted to understand the thinking behind that.

Patrick Rodgers - *Euronav NV - CEO & Director*

I think you were paraphrasing William Butler Yeats in No Second Coming when he said, "The worst are -- the best lack all conviction, whilst the worst are full of a passionate intensity." And I hope that you've never misunderstood my natural theatrical desire to keep an audience awake on a detailed industrial argument for some sort of misty red eye crusade. It's important when you're faced with the noise of people who are clearly in a sales mode that you try to get through to your audience to make them just check doubts, be skeptical. Faith is your enemy. Skepticism and doubt are your friends. So it's very important to always check, and that's really our position on scrubbers. It's been an issue of saying pollution is critical because every time I bring this up at the dinner table, it's not understood by my family or my friends or anybody else that I meet, even the most jaundiced of ship brokers seem to be surprised that there was a solution to a pollution problem by simply grabbing it from the air and sticking it into sea. That means if that audience is uncertain, there is a political risk. And a political risk is a real risk and a risk that you should take into case when you start to think about your economic position. So when we look at it, it's very simple. The arguments that I've heard from day one from every single analyst, including yourself, Amit, I talked about payback time. Well, what happens to the old-fashioned concept of making a profit on capital investments? Nobody seems to talk about that. Well, if you want us to put $400 million of capital into the capital spend of Euronav and then run it back through the cash flows into the P&L and claim a victory in 2020 and 2021 and then ride off into the sunset before everybody realizes that all we've done is circulate capital around the company and claimed this a triumph, all well and good. But if this show is over by 2022, this will have been a monumental error of judgment and a bad investment. And that's why we've been skeptical. As far as what other people choose to do, of course, it affects us because we do live in a prisoner's dilemma of who's going to sell in the market and what are they going to sell and how are they going to price. We believe there are about 200 people who might install scrubbers, which, of course, will underscore the value of HFO. But if it doesn't and HFO collapses, we won't be going to an HFO port to load 5,000 tons and hope we hit the market at the widest divergence of spread, then I would rather go and buy using Euronav's enormous liquidity and capital spread, a really significant position that could change value for Euronav during the year of 2020, that might mean 1 million barrels or 2 million barrels. So I just want to make it clear that we are skeptical, I think we are good business people. I think we're always willing to take difficult questions and answer them with, I hope, an impassionate, sensible and doubtful skeptical approach.

Operator

And the next question comes from Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis - *Morgan Stanley, Research Division - VP, Research*

Paddy, I want to ask you about Slide 9, and your forecast about the impact on vessel demand. I'm wondering, do you think that there are going to be inventory draws next year because I see that you show the demand increasing by 1.4 million barrels. Obviously, the OPEC cut is 1.2 million barrels. Are you -- what is more relevant for shipping? Is it the demand or the supply of crude in terms of where crude flows?

Patrick Rodgers - *Euronav NV - CEO & Director*

Yes, we had -- I have to say, we've had this discussion before. And as you know, we don't live in the world of IEA estimates. And certainly, if I walk into the charter desk and say to them how is the market, they don't say to me, "Oh, bang in line with IEA forecasts from 4 months ago." They simply say it is in the reports that we get from them is cargo counts per load area. And what we say eventually is that when we look at this, we see a nice correlation between cargo counts and the expansion, so we get the absorption that we expect. So all I would say to you is that we do year-on-year and look at it, growth in cargo move is good, and the distances over which it's moved is even better.

Fotis Giannakoulis - *Morgan Stanley, Research Division - VP, Research*

So shall we think about the demand or the supply of crude? And I'm wondering, if the crude flow going to increase next year given the OPEC cuts because OPEC tends to be more seaborne flow while the overall demand might be inventory draws, that's my question.

Patrick Rodgers - *Euronav NV - CEO & Director*

No. I think that's an old-fashioned view, if you don't mind me saying. So I think that we used to say OPEC was a swing factor on shipping, but let's be clear. As far as demand is concerned, we're really lucky that the crude prices adjusted downwards, which the IEA recognized with their forecast for 2019. So oil looks cheaper, that's going to drive more consumption, particularly in the OECD and in the non-OECD, then I think it's GDP growth and structural investments. And of course, we have -- China is still a powerhouse even at the percentages being quoted and particularly because of a lot of the infrastructure build they're doing around the world with One Belt, One Road. I don't think that the outlook is too negative. I think that it's a combination of supply and production, of demand and production and it's -- and of course, price is critical to the factor.

Fotis Giannakoulis - *Morgan Stanley, Research Division - VP, Research*

One more, if you allow me, and I won't ask about IMO 2020. In any way or another, there is going to be an additional cost to the industry either through scrubbers or through higher fuel cost. At what point the shipowner has the bargaining power to pass through this increase in fuel cost? And under what scenario, this is not going to be possible and that kind of be a risk for the industry?

Patrick Rodgers - *Euronav NV - CEO & Director*

Well, Fotis, you'd be pleased to know that I'm very glad that you've asked this question. And the reason I ask is that it's very, very easy to pass through to the customer an increase in fuel cost if you're buying his increasingly expensive product because he understands that basically you're not only his service provider on the movement of oil, but you're also his customer because you're buying his oil. But of course, if you're buying dirty old heavy sulfur crude oil that you've got from an independent refiner or from some slurry bucket in Singapore then, of course, you might not have the same benign view to you passing on the cost of your capital expenditure, which is now depreciation in the freight rates and that is the core of the point I was trying to make earlier on about your pass-through ability once you've made a capital spend. You can pass through operating cost, particularly when the person you're passing it to is the person who benefited from the increased cost, whereas the capital spend that you made at the shipyard or to an industry, marine equipment supplier and is now depreciation, you're not going to find so easy to pass through.

Operator

And as there are no more questions at the present time, I would like to return the floor to management for any closing comments.

Patrick Rodgers - *Euronav NV - CEO & Director*

No, we don't, I think.

Operator

Okay, very good. Thank you so much. This concludes this teleconference. Thank you for attending today's presentation and you may now disconnect your lines.