



Hunter Group ASA
Second-quarter and half year results 2020

27 August 2020

Highlights

Financial highlights

- Total revenues of USD 29.62m
 - Spot pool revenues of USD 14.78m
 - Time charter revenues of USD 14.84m
- Total operating expenses of USD 6.44m
 - Vessel opex incl. insurance of USD 2.46m
 - Voyage exp. and commissions of USD 0.33m
 - G&A expenses of 0.33m
 - USD 0.19m administrative expenses
 - USD 0.06m legal expenses
 - USD 0.08m non-cash expenses
- EBITDA of USD 26.50m
- Net profit of USD 18.84m
- Average daily earnings of USD 76,340
 - Avg. daily spot earnings of USD 75,000¹
 - Avg. daily time charter earnings of USD 77,700
- Opex incl. insurance of USD 6,348 per day per vessel
- Run-rate fully delivered G&A of USD -300 per day per vessel
- 388 earnings and operating days
 - 197 pool spot days
 - 191 time charter days
 - Zero downtime
- USD 87m of yard payments of were made during the quarter, leaving USD 106m of remaining yard obligations as of 30 June 2020

Key events in Q2 2020

- Received binding commitments from a syndicate of banks consisting of Danske Bank, DNB, Nordea and SEB (the “Syndicate”) for a USD 157.5m loan facility (the “Facility”)
- Successfully took delivery of Hunter Disen on 5 June 2020, the fifth of seven identical VLCCs from DSME. Hunter Disen commenced it’s six-month time charter (“TC”) immediately following delivery from the yard
- The Annual General Meeting was held on 30 April 2020, and all resolutions were passed in accordance with the previously announced proposals, including, inter alia, authorizations to i) acquire up to 10% of the Company’s own shares, and ii) issue up to 25% new shares

Subsequent events

- Successfully took delivery of Hunter Idun and Hunter Frigg on 3 July and 21 August 2020, respectively. The delivery of Hunter Frigg marks the end of the Company’s newbuilding program with all seven VLCCs having successfully been delivered and put in operation. Both vessels commenced TCs following delivery from the yard, with Hunter Frigg recently having been fixed at USD 40,000 per day for 6-8 months
- Exercised call options pursuant to the sale-and-leaseback agreements with SFL and repurchased Hunter Atla and Hunter Saga for a combined amount of approx. USD 117.8m (the “Transaction”). Consequently, the two vessels are now in full ownership of the Company. Concurrently with the Transaction, the Company has utilized approx. USD 100.4m of the Facility
- As of the date of this report, 83% of days in the third quarter have been booked at an average est. dayrate of USD 66,240
 - 55% of Q3 spot days booked at an avg. est. dayrate of USD 49,200¹
 - Average Q3 TC dayrates of USD 72,100
- Current pro forma cash flow breakeven of approx. USD 20,500 per day, including the planned refinancing of Hunter Laga

1) Discharge to discharge basis

Management update

One of the advantages of having a nimbly sized fleet is the flexibility it provides in regards to shifting our market exposure between spot and time charter (“TC”) coverage. A strong spot market usually means a stronger TC market, which is exactly what we saw earlier this year. Even with few vessels in their spot fixing window we were able to benefit from the strong market and lock in a substantial portion of our fleet at attractive rates through the TC market. This helped de-risk our balance sheet and secured steady cash flow in a highly volatile market. With only two vessels left in the spot market, and with rates varying by as much as USD 100,000 per day from one day to the next, it becomes rather arbitrary whether you are in your fixing position at the peak or the trough of the market. However, this risk is reduced as we enjoy spot fixture diversification through the TI Scrubber Pool, now counting 11 vessels and growing.

At the date of this report Hunter Atla, Hunter Saga and Hunter Freya are in the TI Scrubber Pool, and Hunter Laga, Hunter Disen, Hunter Idun and Hunter Frigg are on TC contracts. The most recent TC fixture was Hunter Frigg, our last newbuild, which was fixed for 6-8 months at USD 40,000 per day, leading to 63% of the second half of 2020 being booked at average dayrates of around USD 65,500. In comparison, the FFA market is currently pricing spot rates for Q3 and Q4 between USD 13,500 and USD 31,500 for benchmark¹ VLCCs.

On the financial side, we have deleveraged and reduced capital costs through the refinancing of Hunter Atla and Hunter Saga. With the repurchase of these two vessels from SFL Corporation Ltd., and including the planned refinancing of Hunter Laga, the Company will reduce cash flow break-even rates to as low as USD 20,500 per day per vessel. Adjusting for current scrubber and fuel efficiency savings of around USD 5,000 per day, benchmark VLCC¹ rates of around USD 15,500 will be sufficient to reach break-even. As this level is unsustainable in the long run for the majority of the global VLCC fleet, we believe Hunter Group’s flexibility, low cost structure and capital allocation strategy will enable us to safely navigate through potential doldrums while maintaining significant upside potential.

Charter coverage and capital commitments

	Q2 '20	Q3 '20	Q4 '20	Q1 '21
Hunter Atla	TC	Spot	Spot	Spot
Hunter Saga	Spot	Spot	Spot	Spot
Hunter Laga	TC	TC	Spot	Spot
Hunter Freya	Spot	Spot	Spot	Spot
Hunter Disen	Construction	TC	Spot	Spot
Hunter Idun	Construction	TC	Spot	Spot
Hunter Frigg	Construction	TC	Spot	Spot
% days covered	100%	83%	45%	8%
Avg dayrate covered (\$k/d)	76,280	66,240	64,100	40,000
Capital commitments (\$m)	87	224	-	-
Debt drawn/capacity (\$m)	53	206	53	53

1) Approx. ten year old VLCC without scrubber

Second quarter market review

Clearly there has not been a lack of events impacting the tanker market in Q2. First and foremost the outbreak of Covid-19, and its effect on the oil market has played a major role. As short-term oil prices dropped significantly on expectations of drastically lower oil demand, the contango widened and made it lucrative to buy oil delivered today while simultaneously selling it forward. A large portion of the VLCC fleet was consequently tied up in floating storage, which reduced the trading fleet and triggered a spike in rates. Spot and term rates peaked in April with reports of more than 100 VLCCs being pulled out of the market for floating storage. Real achieved spot rates reached approx. USD 200,000 per day during this period, however average rates for the quarter ended at around USD 80,000 per day. Global oil demand dropped significantly in April (down-10.5mbd from March to -80.5mbd from the previous month). Coupled with OPEC+ agreeing to cut crude oil production by 9.7mbd, sentiment and market pressure eased and dayrates began their descent. When the OPEC+ cuts came into force on May 1 we saw MEG loadings decline from ~145 in April to ~95 in June and July. This led to charter rates dropping to +/- \$20,000 per day for benchmark VLCCs, a level they have stayed at during the summer.

Since hitting its trough in April however, oil demand recovered to ~93.4mbd for the month of July, according to EIA, and is currently expected to end the year at around 98.7mbd. This has led to large stock draws and likely a quicker return to “normal” than was initially expected. Numerous and record high government stimulus packages in addition to the OPEC+ decision to increase production by 1.9mbd starting August has so far offset the effect of vessels returning to the market from floating storage and the easing of Chinese port congestion. Based on our own experience port congestion has been resolved, so the number of vessels “out of the market” due to port congestion is in our view rather limited.

Market outlook

We remain cautiously optimistic for the remainder of 2020 and for 2021, owing to the quicker than expected global oil demand recovery and a very promising tanker supply dynamic. Despite tanker rates and values currently at depressed levels due to land and floating storage destocking, we believe the correction will be short lived and not the beginning of a multi-year downturn, as is typically the case following periods of large stock builds. The biggest difference between the current situation and previous periods of stock draws is the outlook for net fleet growth. Historically, the negative effect that years of stock draws have had on tanker markets have been compounded by a large backlog of newbuild deliveries. This time, however, the VLCC orderbook counts 66 vessels, its lowest point since the mid-90's relative to the existing fleet. The VLCC phaseout potential is even larger than the orderbook, with zero vessels scrapped this year and 98 vessels turning 20 years or more during the next 2.5 years. In addition, ordering activity remains muted, with only 5 vessels ordered so far in 2020. This means that there is potential for stagnating, or even negative, fleet growth in the coming years.

Assuming 5% global GDP growth in 2021, consensus expectations are that oil demand and production will return to pre Covid-19 levels during next year. We believe that the tanker market has bottomed and that higher oil prices and tanker rates are ahead of us. An increasing oil price should also put the US shale export story back on the agenda and lead to increasing fuel prices and spreads. The latter being beneficial for modern scrubber-fitted ships like ours and disadvantageous to older vessels burning compliant fuel.

Covid-19 - “We care for the people”

Like all shipping companies, crew changes onboard the Hunter fleet has been a challenge in these Covid-19 times. Hunter Group truly appreciates the hard work, dedication, and professionalism of the crew onboard in keeping the fleet fully operational with no major disruptions and zero downtime. Through very close co-operation with our technical managers at OSM in Arendal, all crewing concerns have been addressed and handled with the mindset that we depend on each and every one of our crew members in order to be able to deliver a performance in line with our expectations.

Furthermore, Hunter Group and OSM have been in continuous and transparent dialogues with the crew through video conferencing. We have communicated our common humane value - “We care for the people” to the crew members through virtual conferences, and as a token of appreciation for the excellent work done by the crew we have also awarded an additional allowance and implemented various measures to try to make these challenging times a little less challenging.

We will continue to support the crew onboard, as well as their families back home, making sure they all feel as valued members of the “Hunter Family”.

For the VLCC fleet in general, SIRE inspections have become more difficult to conduct, as typical discharge ports do not allow inspectors to board the vessels. This issue will need to be addressed, and one possible solution is through the use of remote inspections. All of Hunter Group’s vessels are equipped with augmented reality systems, allowing for remote SIRE inspections to be performed, ensuring the safety of both the crew and the inspector. The system has been tested in cooperation with oil majors, and feedback has been positive.

Responsibility Statement

The Board of Directors and the CEO confirm that to the best of our knowledge the condensed set of financial statements (unaudited) as of 30 June 2020 and the first half year of 2020, which have been prepared in accordance with IAS 34 - Interim Financial Reporting, gives a true and fair view on the Group's consolidated assets, liabilities, financial position and results of the operation for the period, and that the interim management report includes a fair review of the information required under the requirements in the Norwegian Securities Trading Act.

Oslo, 26 August 2020

The board of directors and Chief Executive Director
Hunter Group ASA

Henrik August Christensen
Chairman of the board

Arne Helge Fredly
Board member

Kristin Hellebust
Board member

Erik A. S. Frydendal
CEO

Condensed consolidated financial statements for Q2 2020

Consolidated income statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters			Year to date		Year to date
	Q2 2020	Q2 2019	Note	30.06.2020	30.06.2019	31.12.2019
Revenues						
Pool revenues	14 780	0		34 710	0	12 026
Time charter revenues	14 840	0		15 691	0	0
Other income	0	150		0	213	378
Net gain on sale of assets	0	0	5	0	0	12 308
Total Revenues	29 620	150		50 401	213	24 712
Operating expenses						
Vessel operating expenses	2 463	0		4 383	0	1 442
Voyage expenses and commissions	326	0	1	915	0	1 968
Depreciation and amortisation expense	3 313	8	7	5 849	16	1 915
General and administrative expenses	334	125	4	637	406	1 113
Total operating expenses	6 436	133		11 784	422	6 438
Operating profit (loss)	23 184	17		38 617	-209	18 274
Net financial income (loss)	-4 344	1 155		-8 011	1 711	-2 321
Profit (loss) before taxes	18 840	1 171		30 606	1 502	15 953
Tax on ordinary result	0	-70		0	-70	0
Net profit (loss)	18 840	1 101		30 606	1 432	15 953
Earning per share	0,03	0,00		0,05	0,00	0,03
Earnings per share diluted	0,03	0,00		0,05	0,00	0,03
<i>(Unaudited figures in USD 1 000)</i>	Q2 2020	Q2 2019		30.06.2020	30.06.2019	31.12.2019
Net profit (loss)	18 840	1 101		30 606	1 432	15 953
Other comprehensive income, items to be reclassified to profit & loss						
Translation differences	0	0		0	-1	0
Comprehensive income for the period	18 840	1 101		30 606	1 431	15 953
Total comprehensive income attributable to:						
Equity holders of the parent	18 840	1 101		30 606	1 431	15 953
Total comprehensive income	18 840	1 101		30 606	1 431	15 953

Consolidated balance sheet

Assets

<i>(Unaudited figures in USD 1 000)</i>	Note	30.06.2020	31.03.2020	30.06.2019	31.12.2019
NON-CURRENT ASSETS					
VLCC vessels	5, 7	423 239	339 255	0	254 234
VLCC vessels under construction	5, 7	71 825	70 777	151 668	79 663
Other tangible assets	7	212	198	86	217
Total tangible assets		495 277	410 230	151 754	334 114
TOTAL NON-CURRENT ASSETS		495 277	410 230	151 754	334 114
CURRENT ASSETS					
Trade and other receivables		12 201	13 088	0	7 351
Other short-term receivables		4 630	2 780	144	851
Total current receivables		16 831	15 868	144	8 202
Cash and cash equivalents	6	17 135	35 190	45 127	52 455
TOTAL CURRENT ASSETS		33 966	51 058	45 271	60 657
TOTAL ASSETS		529 242	461 288	197 025	394 771

Equity and Liabilities

EQUITY					
Share capital (575 362 013 shares)	2	82 625	82 625	82 625	82 625
Share premium	2	114 989	114 946	112 794	114 914
Other equity		44 272	25 431	1 432	13 665
TOTAL EQUITY		241 886	223 003	196 851	211 204
LIABILITIES					
Other interest-bearing debt	7	269 430	225 204	77	174 494
Total non-current liabilities		269 430	225 204	77	174 494
Trade payables		2 936	4 665	61	3 077
Accrued public charges and indirect taxes		55	3	0	15
Current portion of interest-bearing debt		14 762	7 934	0	5 932
Other current liabilities		172	478	36	49
Total current liabilities		17 925	13 081	97	9 073
TOTAL LIABILITIES		287 355	238 284	174	183 567
TOTAL EQUITY AND LIABILITIES		529 242	461 288	197 025	394 771

Consolidated cash flow statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters			Year to date		Year to date
	Q2 2020	Q2 2019	Note	30.06.2019	30.06.2018	31.12.2019
Profit (loss) before tax	18 840	1 171		30 606	1 502	15 953
Depreciation	3 313	8	7	5 849	16	1 915
Gain on sale of VLCC	0	0	5	0	0	-12 308
Financial income	0	0		-102	0	-509
Financial expenses	4 403	1	7	7 979	2	2 974
Change in working capital items	-2 817	-66		-8 527	77	-4 818
Net cash flow from operating activities	23 738	1 114		35 805	1 598	3 208
Investments in VLCC newbuilds and PP & E	-88 322	-43 207	5, 7	-166 973	-95 063	-312 840
Sale of VLCC	0	0	5	0	0	46 136
Sale of other financial investments	0	0		0	24 758	24 758
Net cash flow to investment activities	-88 322	-43 207		-166 973	-70 305	-241 946
Interest received	0	0		102	0	509
Interest paid	-4 403	-1	7	-7 979	-2	-2 974
Proceeds from borrowings financial institution	50 954	0	7	103 767	0	180 184
Installment leasing-debt (IFRS 16)	-23	-8		-42	-16	-48
Capital contribution	0	79 168	2	0	79 168	79 168
Transaction cost capital contribution	0	-318	2	0	-318	-647
Net cash flow from financing activities	46 529	78 842		95 848	78 833	256 192
Total net changes in cash flow	-18 055	36 748		-35 320	10 125	17 454
Currency effect on cash	0	0		0	0	0
Cash and cash equivalents beginning of period	35 189	8 379		52 455	35 001	35 001
Cash and cash equivalents end of period	17 135	45 127		17 135	45 127	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 H1 2019			0	0	1 432	1 432
Other comprehensive income			0	0	0	0
Total comprehensive H1 2019			0	0	1 432	1 432
Private placement 22 May 2019	2	27 249	51 919	0	0	79 168
Transactions costs			-248	0	0	-248
Equity as of 30.06.2019		82 625	115 083	-2 289	1 432	196 852
Net profit H2 2019				0	14 521	14 521
Other comprehensive income				0	0	0
Total comprehensive H2 2019				0	14 521	14 521
Option plan payment			230	0	0	230
Transactions costs			-399	0	0	-399
Equity as of 31.12.2019		82 625	114 914	-2 289	15 953	211 204
Net profit H1 2020				0	30 606	30 606
Other comprehensive income				0	0	0
Total comprehensive H1 2020			0	0	30 606	30 606
Option plan payment			75	0	0	75
Equity as of 30.06.2020		82 625	114 989	-2 289	46 560	241 886

Notes to the Hunter Group condensed consolidated financial statements for Q2 2020

1. Accounting principles

These condensed interim financial statements of Hunter Group were authorized for issue by the Board of Directors on 26 August 2020.

The interim condensed consolidated financial statements for the three- and six-months ending 30 June 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 equipment (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 ton. 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 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	30.06.2020	31.12.2019
Purchased services in USD 1 000	65	160

The Group has used the services of the law firm Ro Sommernes DA for legal advice in 2019 and 2020; USD 110t in 2019 and USD 42t as per 30.06.2020. 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. Hunter Freya was delivered on 6 March 2020 and Hunter Disen was delivered on 5 June 2020. In addition, one were already sold and redelivered her to her new owner with a gain of USD 12.5m in 2019.

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

6. Cash and cash equivalents

Due to minimum cash requirements in the bareboat-agreements with SFL for Hunter Atla, Hunter Saga and Hunter Laga, USD 2 million per vessel are placed in separate bank accounts.

7. Property, plant & equipment

<i>(Unaudited figures in USD 1 000)</i>	IFRS 16	Other tangible	VLCC vessels		Total
			PP&E	assets	
Per 31 December 2019					
Cost at 1 January 2020	259	10	79 664	256 098	336 030
Additions in the period	38	0	164 883	2 090	167 011
Transfer to VLCC in operation	0	0	-172 721	172 721	0
Cost at 30 June 2020	297	10	71 826	430 908	503 041
Accumulated depreciations at 30 June 2020	-91	-3	0	-7 669	-7 764
Book value at 30 June 2020	206	7	71 826	423 239	495 277
This period's depreciation	43	0	0	5 805	5 849

The Group took delivery of "Hunter Freya" (NB No. 5465) on 6 March 2020 and "Hunter Disen" (NB No. 5466) on 5 June 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 SFL Corporation Ltd., for three VLCCs. The Group received net proceeds of USD 60 million per vessel, and subsequently bareboat chartered the vessels back for 5 years, with call options. On 18 August 2020, Hunter Tankers AS exercised two of its call options and repurchased Hunter Atla and Hunter Saga for a combined amount of USD 117.8m.

8. Subsequent events

Successfully took delivery of Hunter Idun and Hunter Frigg on 3 July and 21 August 2020, respectively. The delivery of Hunter Frigg marks the end of the Company's newbuilding program with all seven VLCCs having successfully been delivered and put in operation. Both vessels commenced TCs following delivery from the yard, with Hunter Frigg recently having been fixed at USD 40,000 per day for 6-8 months

Exercised call options pursuant to the sale-and-leaseback agreements with SFL and repurchased Hunter Atla and Hunter Saga for a combined amount of approx. USD 117.8m (the "Transaction"). Consequently, the two vessels are now in full ownership of the Company. Concurrently with the Transaction, the Company has utilized approx. USD 100.4m of the Facility

As of the date of this report, 83% of days in the third quarter have been booked at an average est. dayrate of USD 66,240

- 55% of Q3 spot days booked at an avg. est. dayrate of USD 49,200¹
- Average Q3 TC dayrates of USD 72,100

Current pro forma cash flow breakeven of approx. USD 20,500 per day, including the planned refinancing of Hunter Laga

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