



Hunter Group ASA
Fourth quarter and 2020 results

25 February 2021

Highlights

Financial highlights

- Total revenues of USD 24.89m
 - Spot pool revenues of USD 5.19m
 - Time charter revenues of USD 17.85m
- Total operating expenses of USD 10.80m
 - Vessel opex incl. insurance of USD 3.77m
 - Voyage exp. and commissions of USD 1.29m
 - G&A expenses of 0.56m
 - USD 0.35m administrative expenses
 - USD 0.03m legal expenses
 - USD 0.16m non-cash expenses
- EBITDA of USD 19.27m
- Net profit of USD 10.79m
- Average daily earnings of USD 40,480
 - Avg. daily spot earnings of USD 20,820¹
 - Avg. daily time charter earnings of USD 55,600
- Opex incl. insurance of USD 6,380 per day per vessel
- 569 available earnings days and 590 opex days
 - 249 pool spot days
 - 320 time charter days
- Current pro forma cash flow breakeven of approx. USD 21,500 per day

Key events in 4q 2020

- Hunter Saga and Hunter Laga sold for a combined price of USD 168.4m. Both vessels have been delivered to their new owner. The transaction resulted in an equity release of approx. USD 60m (approx. 40% combined return on equity for the two vessels)
- Hunter Idun fixed on a 4-6 month time charter ("TC") at USD 30,000 per day. The TC commenced in December, on a back to back basis following the end of the previous TC
- Bought back approx. 7.7m of own shares at NOK 3.35 per share (prior to NOK 1 per share dividend)

Subsequent events

- Extraordinary General Meeting held on 1 February 2021. All resolutions were passed, including a dividend distribution by NOK 1 per share by reduction of the Company's share premium. The dividend was paid to shareholders on 8 Feb.
- Bought back 517,000 own shares in the market at an average price of NOK 2.5106 per share
- Hunter Frigg fixed on a 12-14 month TC as USD 28,500 per day, on back to back basis following the end of the previous TC
- Signed Memorandum of Agreement for the sale of Hunter Atla for USD 84.5m. Delivery to new owners expected during March 2021
- As of the date of this report, 91% of days in the first quarter of 2021 have been booked at an average est. dayrate of USD 29,700
 - 75% of spot days booked at an avg. est. dayrate of USD 18,340¹
 - Average Q1 TC dayrates of USD 34,380

1) Discharge to discharge basis

Management update

The past six months has been one of the most challenging periods in the tanker market history. Spot rates for older vessels even went into negative territory as Saudi Arabia enacted a unilateral 1mbd cut in January and seaborne oil exports declined further from already low levels. For our modern scrubber equipped tonnage, however, spot rates have held up relatively well. Our vessels in the spot market achieved dayrates for the fourth quarter of \$20,820 per day, which is around our industry leading fleetwide cash breakeven of approx. \$21,500 per day. For the first quarter of 2021, 91% of available days have been booked at an average of \$29,700 per day, including time charter (“TC”) coverage. Following the recent fixture of Hunter Frigg for 12-14 months, our TC backlog has increased to 650 days at an average rate of \$31,100 per day. This means that for the first half of 2021, only approx. \$10,000 of earnings per day for the remaining open days is needed to break even on a cash flow basis. With the current fuel spread, this implies dayrates of negative \$5,000 - \$10,000 for older vessels without scrubbers. Given our positive market outlook we have retained 75% spot exposure for the fleet in Q3 in order to best benefit from what we believe is will be a significantly stronger market.

We continued to execute on our capital allocation policy during the fourth quarter and returned in excess of USD 70m to our shareholders through dividends and share buybacks. These distributions were largely made possible by the sale of Hunter Saga and Hunter Laga for a combined USD 184.2m, which released more than USD 60m of cash and lowered our fleetwide leverage ratio. Furthermore, we recently announced a Memorandum of Agreement for the sale of Hunter Atla for USD 84.5m, with expected delivery during March. All three vessels were ordered at a low point in the market cycle and were delivered just in time for the rate spike during the fourth quarter 2019 and first half 2020. The investment in the three vessels have given a return on equity of 30-50%.

With regards to the past and current market weakness, we believe the worst is now behind us. Rapidly depleting inventory levels and robust demand developments should reverse the massive OPEC+ cuts and increase seaborne oil exports going forward.

Charter coverage and indicative investment returns

Charter coverage	Q4 '20	Q1 '21	Q2 '21	Q3 '21
Hunter Atla	Spot		Sold @ 84.5m - Est. deliv. during March	
Hunter Freya	Spot			
Hunter Disen	TC		Spot	
Hunter Idun	TC		Spot	
Hunter Frigg	TC			
% days covered	100%	91%	37%	25%
Avg dayrate covered (\$/d)	40,480	29,700	28,890	28,500

Indicative investment returns	Hunter Atla	Hunter Saga	Hunter Laga
Asset sale and TCE revenue	111.5	105.5	112.5
All in construction cost	(86.5)	(86.5)	(86.5)
Opex, G&A and finance	(9.0)	(7.5)	(8.0)
Net equity cash flow	16.0	11.5	18.0
Equity invested	35.0	35.0	35.0
Return on equity	46%	33%	51%

Fourth quarter market review

Benchmark VLCC rates averaged around \$15,000¹ for the fourth quarter of 2020, making it one of the most challenging quarters in recent history for tanker owners. At first glance the low rates and asset prices reflect a continuation of the depressed market dynamics from the end of the third quarter, with a heavy oversupply of vessels relative to demand for seaborne oil imports. At a closer look, however, the market continued to move in the right direction with improving fundamentals. Global oil inventories declined, and oil demand increased quicker than expected while OPEC+ cuts continued, sending the Brent oil price up almost \$10/barrel.

Global oil demand increased from approx. 93.4mbd to 95.5mbd from the third to the fourth quarter, with December demand reaching 96.2mbd. which is a quicker pace of recovery than many had anticipated. Global production averaged just shy of 93mbd, held back by OPEC+ cuts and declining US production, resulting in record global inventory draws of some 240 million barrels, or 2.6mbd. The fourth quarter oil inventory draw represents almost 20% of the approx. 1.2-billion-barrel inventory build during the first half of the year. Looking at the second half 2020, close to half of the build was gone, significantly improving the prospects for tanker demand once OPEC+ cuts are reversed, and as a global rollout of Covid-19 vaccines pave the way for increased mobility and demand for transportation fuel.

For the tanker market the negative effects of the inventory draw in the fourth quarter were compounded by a large number of tankers returning to the market from employment as storage tankers. Around 50 million barrels of the inventory draws during the fourth quarter were from floating storage, which means that an equivalent of 25 VLCCs have returned to normal trading. This added further pressure on an already weak supply and demand balance. In addition, 6 VLCCs were delivered during the quarter, while zero were scrapped.

Market outlook

The tanker market collapse in retrospect seemed inevitable following the import and floating storage boom during the first half of 2020, leading to a 1.2 billion barrel build in inventories, or approx. 6.5mbd during the first half of 2020. A large part of this inventory has now been consumed, which bodes well for the tanker market going forward. Commercial storage levels in the US are now close to their 5-year average and broader OECD storage levels are only around 5% higher than they were in January 2020. Asian demand for oil has already surpassed its pre-Covid peak, while the US consumed 20.7mb during the second week of February, which is close to the same level seen one year ago. The price of Brent oil has rallied by almost \$30/barrel since end October, indicating a balanced or undersupplied market with room for additional production to be brought back online soon.

The oil market is now, even more than usual, managed by OPEC+, as evidenced by the unilateral 1mbd cut by Saudi Arabia in the beginning of January. We believe that the Saudi cut represents the tanker market trough, and that we will see an improving supply and demand balance during 2021. EIA estimates that global demand for oil will reach the 100mbd mark in December, while global production is expected to increase by approx. 5.5mbd for the year from current levels. 3.0mbd of the production increase is expected to occur in April and will largely come from OPEC+, especially from Middle East based production. The majority of oil exports from these producers are seaborne and heavily reliant on tankers. By varying estimates, the expected production increase could require as much as 120-150 additional VLCC equivalents, which would drastically improve the market balance.

Longer term, we are increasingly optimistic due to the structure of the tanker fleet. The orderbook is at its 20+ year low and the average age of the existing fleet is at 20+ year high. More than 100 VLCCs will become older than 20 years during the next 2-3 years (historical average scrap age) . Due to increasing environmental regulation, uncertainties related to propulsion technology and limited access to traditional bank financing we expect net fleet growth during the next 2-3 years to negligible. Add to this the possibility a stronger than expected rebound in GDP growth following the reopening of the world post Covid 19 and the tanker market might be in for a treat.

Condensed consolidated financial statements for 4Q 2020

Consolidated income statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters			Year	
	4Q 2020	4Q 2019	Note	31.12.2020	31.12.2019
Revenues					
Pool revenues	5 189	12 026		48 567	12 026
Time charter revenues	17 848	0		60 037	0
Other income	-640	97		0	378
Net gain on sale of assets	2 492	12 308	5	2 492	12 308
Total Revenues	24 889	24 431		111 096	24 712
Operating expenses					
Vessel operating expenses	3 766	1 442		12 233	1 442
Voyage expenses and commissions	1 294	1 968	1	2 912	1 968
Depreciation and amortisation expense	5 184	1 886	6	16 325	1 915
General and administrative expenses	556	410	4	1 649	1 113
Total operating expenses	10 800	5 705		33 119	6 438
Operating profit (loss)	14 089	18 726		77 977	18 274
Net financial income (loss)	-3 131	-2 618		-14 723	-2 321
Profit (loss) before taxes	10 958	16 107		63 254	15 953
Tax on ordinary result	-171	0		-171	0
Net profit (loss)	10 787	16 107		63 083	15 953
Earning per share	0,02	0,03		0,11	0,03
Earnings per share diluted	0,02	0,03		0,11	0,03
Other comprehensive income, items to be reclassified to profit & loss					
Translation differences	0	0		0	0
Comprehensive income for the period	10 787	16 107		63 083	15 953
Total comprehensive income attributable to:					
Equity holders of the parent	10 787	16 107		63 083	15 953
Total comprehensive income	10 787	16 107		63 083	15 953

Consolidated balance sheet

<i>(Unaudited figures in USD 1 000)</i>	Note	31.12.2020	30.09.2020	31.12.2019
NON-CURRENT ASSETS				
VLCC vessels	5, 6	427 249	597 190	254 234
VLCC vessels under construction	5, 6	0	0	79 663
Other tangible assets	6	210	304	217
Total tangible assets		427 459	597 495	334 114
TOTAL NON-CURRENT ASSETS		427 459	597 495	334 114
CURRENT ASSETS				
Trade and other receivables		5 416	8 016	7 351
Other short-term assets		1 539	3 745	851
Total current assets		6 956	11 760	8 202
Cash and cash equivalents		95 146	25 397	52 455
TOTAL CURRENT ASSETS		102 101	37 157	60 657
TOTAL ASSETS		529 560	634 652	394 771
Equity and Liabilities				
EQUITY				
Share capital (575 362 013 shares)	2	82 625	82 625	82 625
Own shares	2	-1 121	0	0
Share premium	2	113 364	115 065	114 914
Other equity		76 745	65 961	13 665
TOTAL EQUITY		271 614	263 651	211 204
LIABILITIES				
Interest-bearing debt	6	237 954	345 215	174 494
Total non-current liabilities		237 954	345 215	174 494
Trade payables		2 124	3 066	3 077
Accrued public charges and indirect taxes		68	208	15
Current portion of interest-bearing debt		16 605	21 721	5 932
Other current liabilities		1 195	790	49
Total current liabilities		19 992	25 785	9 073
TOTAL LIABILITIES		257 946	371 000	183 567
TOTAL EQUITY AND LIABILITIES		529 560	634 652	394 771

Consolidated cash flow statement

<i>(Unaudited figures in USD 1 000)</i>	Quarters			Year to date	
	4Q 2020	4Q 2019	Note	31.12.2020	31.12.2019
Profit (loss) before tax	10 958	16 107		63 254	15 953
Depreciation	5 184	1 886	6	16 325	1 915
Gain on sale of VLCC	-2 492	-12 308	5	-2 492	-12 308
Financial income	-186	-506		-270	-509
Financial expenses	3 503	2 882	6	15 074	2 974
Change in working capital items	2 547	-6 673		-22	-4 818
Net cash flow from operating activities	19 514	1 388		91 869	3 208
Investments in VLCC newbuilds and PP & E	564	-122 358	5, 6	-273 805	-312 840
Sale of VLCC	168 400	46 136	5	168 400	46 136
Sale of other financial investments	0	0		0	24 758
Net cash flow to investment activities	168 964	-76 222		-105 405	-241 946
Interest received	186	506		270	509
Interest paid	-3 503	-2 882	6	-15 074	-2 974
New interest-bearing debt	0	120 184	6	254 348	180 184
Installment interest-bearing debt	-112 377	0	6	-180 214	0
Installment leasing-debt (IFRS 16)	-26	-19		-93	-48
Capital contribution	0	0	2	0	79 168
Purchase of own shares	-3 010	0	2	-3 010	0
Transaction cost capital contribution	0	-225	2	0	-647
Net cash flow from financing activities	-118 729	117 565		56 228	256 192
Total net changes in cash flow	69 749	42 730		42 691	17 454
Currency effect on cash	0	0		0	0
Cash and cash equivalents beginning of period	25 397	9 725		52 455	35 001
Cash and cash equivalents end of period	95 146	52 455		95 146	52 455

Consolidated statement of changes in equity

<i>(Unaudited figures in USD 1 000)</i>	Note	Share Capital	Own Shares	Share premium	Currency translation	Retained earnings	Total equity
Equity as of 01.01.2019		55 376	0	63 412	-2 289	0	116 499
Net profit 2019		0		0	0	15 953	15 953
Other comprehensive income				0	0	0	0
Total comprehensive income 2019				0	0	15 953	15 953
Private placement 22 May 2019	24	27 249		51 919	0	0	79 168
Transactions costs				-647	0	0	-647
Option plan payment				230	0	0	230
Equity as of 31.12.2019		82 625	0	114 914	-2 289	15 953	211 204
Net profit 2020					0	63 083	63 083
Other comprehensive income					0	0	0
Total comprehensive 2020				0	0	63 083	63 083
Purchase of own shares			-1 121	-1 889	0	0	-3 010
Option plan payment				339	0	0	339
Equity as of 31.12.2020		82 625	-1 121	113 365	-2 289	79 033	271 614

Notes to the Hunter Group condensed consolidated financial statements for 4q 2020

1. Accounting principles

These condensed interim financial statements of Hunter Group were authorized for issue by the Board of Directors on 24 February 2021.

The interim condensed consolidated financial statements for the three- and twelve-months ending 31 December 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.

On 15 December 2020, Hunter Group ASA purchased 7,691,404 of its own shares at NOK 3.35 per share.

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 2020. All related party transactions have been entered into on an arm’s length basis.

Transactions with related parties	31.12.2020	31.12.2019
Purchased services in USD 1 000	91	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 38t as per 31.12.2020. 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. Furthermore, Hunter Idun was delivered on 3 July 2020 and Hunter Frigg was delivered on 21 August 2020. In addition, one were already sold and redelivered her to her new owner with a gain of USD 12.5m in 2019. As such, all VLCC were completed and delivered by 4Q 2020, and the acquisition cost of the delivered VLCCs were transferred from VLCC under construction to VLCC vessels.

6. 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	152	0	270 919	3 629	274 700
Sale of VLCC	-62	0	0	-164 969	-165 031
Transfer to VLCC in operation	0	0	-350 582	350 582	0
Cost at 31 December 2020	349	10	0	445 340	445 699
Accumulated depreciations at 31 December 2020	-142	-6	0	-18 091	-18 240
Book value at 31 December 2020	207	3	0	427 249	427 459
This year's depreciation	94	3	0	16 227	16 325

The Group took delivery of "Hunter Freya" (NB No. 5465) on 6 March 2020, "Hunter Disen" (NB No. 5466) on 5 June 2020, "Hunter Idun" (NB No. 5467) on 3 July 2020 and "Hunter Frigg" (NB No. 5470) on 21 August 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. ("SFL"), for three VLCCs. The Group received net proceeds of USD 60 million per vessel, and subsequently bareboat chartered the vessels back for 5 years. The Group had purchase options for all three vessels, ensuring maximum flexibility in regard to potential future vessel sales. On 18 June 2020 Hunter Tankers AS received binding commitments for a USD 157.5m loan facility which has, together with available cash at hand, been used to refinance Hunter Atla, Hunter Saga and Hunter Laga.

Hunter Saga and Hunter Laga were sold in 4Q 2020 for an en-bloc price of USD 168.4 million, with a gain of USD 2.5 million.

7. Subsequent events

Extraordinary General Meeting held on 1 February 2021. All resolutions were passed, including a dividend distribution by NOK 1 per share by reduction of the Company's share premium. The dividend was paid to shareholders on 8 Feb.

Bought back 517,000 own shares in the market at an average price of NOK 2.5106 per share

Hunter Frigg fixed on a 12-14 month TC as USD 28,500 per day, on back to back basis following the end of the previous TC

Signed Memorandum of Agreement for the sale of Hunter Atla for USD 84.5m. Delivery to new owners expected during March 2021

As of the date of this report, 91% of days in the first quarter of 2021 have been booked at an average estimated dayrate of USD 29,700. 75% of spot days booked at an average estimated dayrate of USD 18,3401. Average Q1 TC dayrates of USD 34,380.

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