Pangaea Logistics Solutions nearing half-decade of profits in dry bulk trade

Rhode Island operator uses cargo-first approach to be 'different', chief executive says, even as broadening shareholder appeal remains a challenge

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by Joe Brady in Stamford

Did you hear the one about the public bulker owner that made a profit in each of the past five years?

This may sound like a joke, since the era includes the lowest hire rates in the history of the Baltic Dry Index (BDI) and a wave of restructurings by reeling listed owners.

But that profitable bulker player actually exists.

> *"We are now marching toward five straight years of reported annual profits — we really are different"*
> Ed Coll

Tucked away in the sailing Mecca of Newport, Rhode Island, Pangaea Logistics Solutions is closing in on its fifth consecutive year with positive earnings, as management noted on a conference call last week.

"We are now marching toward five straight years of reported annual profits — we really are different," chief executive Ed Coll said on the call.

It may be one of the more overlooked achievements in shipping during a time when investor reticence to return to stocks has been explained as a natural reaction to years of losses.

Coll's comment came after Nasdaq-listed Pangaea reported third-quarter net income of \$8.3m, or \$0.19 per share, essentially ensuring that 2019 would close in the black, with a \$16m profit buffer entering the fourth quarter.

While the five-year performance is the headline achievement, even profiting in the July to September period this year is nothing to overlook. It is something that larger dry bulk peers Scorpio Bulkers, Eagle Bulk Shipping and Genco Shipping & Trading failed to do.

Pangaea Logistics Solutions chief financial officer Gianni Del Signore has become accustomed to certifying profitable quarters for the Rhode Island-based dry bulk owner Photo: Ernest McCreight/TradeWinds Events

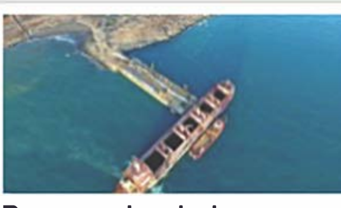
Consistent approach

Pangaea's formula both for the past quarter and past half-decade does not change much.

Coll summarised it on the call as "long-term contacts of affreightment, specialised fleet and cargo-focused strategy".

Essentially Pangaea avoids full exposure to bulker spot rates by taking on adjacent business, such as terminal development, seeking niche project contracts and mainly taking on tonnage only when it has the cargoes first.

"The track record is stellar, especially considering the two drastic downturns that have happened over the past five years," said equity analyst Poe Fratt, who covers Pangaea for Noble Capital Markets.



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"Those downturns triggered huge losses at other companies and wiped out many shareholders, yet Pangaea was able to navigate through the turbulence and emerged as solid as ever," Fratt said.

With net income of \$16m through the first three quarters, Pangaea is on pace to have its best year of the past five, potentially eclipsing the \$17m it recorded last year.

It turned a \$7.8m profit in 2017, \$7.4m in 2016 and \$11.2m in 2015.

The years 2015 and 2016 brought some of the lowest rates in the history of the BDI, including an all-time low of 290 in February 2016.

"Their business model is focused on building a cargo book and then using the most cost-effective capacity, either owned or chartered in, to move it," Fratt said.

"Several others, like Genco Shipping & Trading and Eagle Bulk Shipping, have started to focus more on cargo to add value to their asset base."

For the most recent quarter, Coll noted that the BDI increased from 1,354 points at the beginning to 1,823 at the end. An average of 2,023 for the quarter was up 24% year on year.

The three months also coincided with the summer ice season in the Arctic, where Pangaea lifts iron ore cargoes from Canada's remote Baffin Island and is developing an even more remote trade in ilmenite sand, used in making titanium, from northern Greenland.

The ice trade has been good to Pangaea Logistics Solutions with expanding ventures on Baffin Island and northern Greenland Photo: Pangaea Logistics Solutions

Overall, Pangaea was able to outperform relevant Baltic indexes by 16% for the quarter, Coll said. The strengthening of the BDI actually reduced Pangaea's premium from previous levels, he said.

In 2018, Pangaea outpaced 21 other public dry bulk owners with a 38% premium over the BDI, according to the first VesselIndex Performance Report by Anders Liengaard and Soren Roschmann.

Pangaea owns 22 vessels but typically has at least 40 bulkers, including chartered-in tonnage. The number rose to 50 in the third quarter.

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The owner also increased a newbuilding order for ice-class, post-panamax bulkers at Guangzhou Shipyard International from two to four in the quarter, backed by 10-year contracts with Baffinland Iron Mines Corp.

"While Ed [Coll] is bracing for some bumpiness as IMO 2020 hits, the decision to move forward on the two newbuilds and exercise the options on two more is a sign of confidence in the future," Fratt told TradeWinds.

"Plus, financing on the newbuilds has been secured at a time when others are facing challenges. Hopefully, financing newbuilds will remain challenging for the industry because it will be helpful in constraining supply growth."

For all its success in its operating premiums and profits, Pangaea has not been able to fully translate the momentum into success as a publicly traded stock.

During a year in which New York dry listings have finally started to make some gains in share price, Pangaea's record has been so-so.

Rising share price

Following the close of trade on 8 November, Pangaea's shares were up 8.7% year to date.

This topped only Eagle Bulk, which had lost 12% on the year, among its major New York-trading peers.

Genco leads the pack with a 47% gain, much of that coming after it announced a shareholder dividend last week. Scorpio Bulkers has gained 14%, while Star Bulk Carriers is up 11.3%.

Pangaea in May also introduced a dividend at \$0.14, with hopes of broadening a concentrated shareholder base that makes it a difficult investment for some.

Pangaea's free float had been only 9.27m shares, or 21% of all its outstanding equity. The closely held company had roughly 20% in the hands of management, 27% with non-management directors and 32% in the hands of a former director.

But liquidity of the shares remains poor, with an average of just over 15,000 shares changing hands per day over the past three months.

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