

Business Review



Stolt Tankers

# Improving cost management through operational excellence



“Process optimisation is top of our agenda as we accelerate our plans to transform the business. We will focus on cost management and streamlining our operations, while continuing to safely deliver service excellence to our customers.”

**Lucas Vos**  
President  
Stolt Tankers

Stolt Tankers (ST) is the leading global operator of sophisticated deep-sea and regional chemical tankers. Our customers are both manufacturers and consumers of chemicals and other bulk liquids, and we provide them with reliable, flexible and high-quality transportation services. Our global platform seamlessly integrates our deep-sea fleet with regional fleets across Europe, Asia and the Caribbean, as well as inland barging services in Europe and the US Gulf. Our capability to ship smaller parcels more frequently generates value throughout our customers' supply chains by helping them to reduce working capital and optimise inventory levels.

**2019 OVERVIEW**

With the US-China trade war, Middle East tensions, oversupply of chemical tankers and reduced market rates, 2019 proved to be another challenging year. Operating profit was \$56.7 million, down from \$66.6 million in 2018, as lower revenue was partially offset by lower deep-sea operating costs. We prepared for the financial impact of IMO 2020 fuel regulations by working with our customers to ensure a pass-through of higher fuel costs. An increase in spot rates, combined with contractual fuel-surcharge clauses, covered the costs of the shift to more expensive low-sulphur fuel.

Swing tonnage remained problematic for much of the year as we continued to see medium-range (MR) tankers in the chemical market due

to lower earnings in the markets they normally serve. This position began to shift during October, as MR rates in petroleum markets more than doubled. Coupled with an improving chemical tanker supply / demand balance and higher fuel costs, this contributed to a rise in spot freight rates.

Stolt Tankers was negatively impacted by some one-offs during the year. In September, an explosion occurred onboard *Stolt Groenland* while she was berthed in Ulsan, South Korea. Investigations as to the cause are ongoing. This incident, as well as extended drydockings and consequent scheduling issues reduced operating days. A terminal fire at ITC's Houston terminal in March resulted in an estimated loss of \$5.0 million related to lost time and cargo volume.

To improve our margins, we focused on cost management in crewing, vessel maintenance, port expenses and fuelling. We launched several new and improved processes to actively manage our voyages through route optimisation, scheduling and speed adjustments.

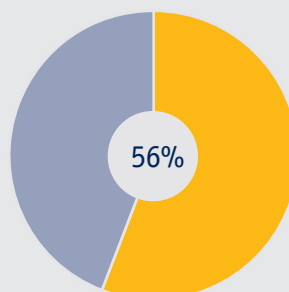
Following the *Groenland* incident we redoubled our focus on safety and our Slashed Zero safety excellence programme – a comprehensive fleetwide training initiative – which began to deliver some performance improvements towards the end of the year.

**Performance**

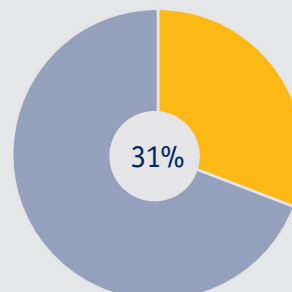
(US \$ millions)	2019	2018	2017
Operating Revenue	1,148	1,219	1,158
Operating Profit	57	67	111

**Percentage of group total**

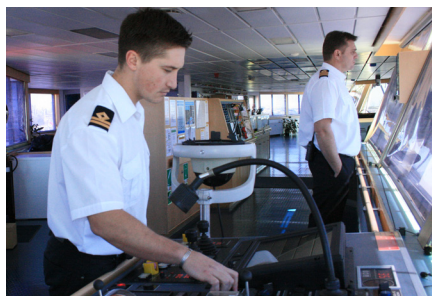
of operating revenue



of total operating profit\*



\* Excludes Stolt-Nielsen Gas, and Corporate and other \$8 million loss



## OUTLOOK

With MR markets expected to remain firm, the pressure from swing tonnage on the chemical tanker trade should abate. We anticipate that newbuilding orders will remain low, as chemical tanker operators focus on restoring profitability, with a steadily improving supply/demand balance. Longer term, due to the uncertainty brought on by changing regulations and a tight financing market, we expect fewer newbuilding orders in the foreseeable future. Our contracts of affreightment (COA) include bunker surcharge clauses which mitigated our fuel cost risk and were supplemented by rising spot rates. We believe we are well positioned to translate these rising rates into improved margins. We remain cautiously optimistic on market improvements in 2020, though we note the potential risk posed by the coronavirus outbreak on both operations and demand for our services.

We have launched a number of new programmes that we expect to deliver returns during 2020, including a focus on process optimisation and investments in innovation. We will continue our efforts to build a safety-first and winning culture driven by our people. We will focus on meeting our financial targets by increasing operational efficiency and reducing costs. Finally, we will prepare the organisation for an initial public offering (IPO), which will be executed when market conditions are right.



**71** deep-sea parcel tankers  
**84** coastal and inland tankers

**3m** total deadweight tonnes

## Markets

- Provides the world's leading manufacturers and consumers of chemicals, edible oils, acids and other bulk liquids with safe, reliable, high-quality and flexible transportation services.
- Global deep-sea transportation services, combined with integrated regional capabilities in Europe, Asia Pacific, the Indian Ocean, the Caribbean and the US provide added value and supply-chain efficiencies.

## Strategy

Stolt Tankers leverages its industry-leading global scale and assets to provide customers with unrivalled access to key hubs and markets around the world, while working collaboratively with its customers and Stolthaven Terminals to offer value-added solutions that enhance bulk liquid supply-chain efficiency.

## Outlook

Through a combination of reduced swing tonnage, a more buoyant spot market and fewer newbuilds, the 2020 supply and demand outlook is favourable. We will continue to improve operational efficiencies and focus on safety through our Slashed Zero programme.