GENCO SHIPPING & TRADING LTD
Form 10-K
March 05, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 001-33393

GENCO SHIPPING & TRADING LIMITED

(Exact name of registrant as specified in its charter)

Republic of the Marshall Islands	98-043-9758
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
299 Park Avenue, 12th Floor, New York, New York	10171
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (646) 443-8550

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value $.01 per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant’s voting common equity held by non-affiliates of the registrant on the last business day of the registrant’s most recently completed second fiscal quarter, computed by reference to the last sale price of such stock of $15.50 per share as of June 29, 2018 was approximately $237.3 million. The registrant has no non-voting common equity issued and outstanding. The determination of affiliate status for purposes of this paragraph is not necessarily a conclusive determination for any other purpose.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares outstanding of the registrant's common stock as of March 5, 2019 was 41,645,078 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2019 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018, are incorporated by reference in Part III herein.

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Website Information

We intend to use our website, www.GencoShipping.com, as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included in our website's Investor section. Accordingly, investors should monitor the Investor portion of our website, in addition to following our press releases, SEC filings, public conference calls, and webcasts. To subscribe to our e-mail alert service, please submit your e-mail address at the Investor Relations Home page of the Investor section of our website. The information contained in, or that may be accessed through, our website is not incorporated by reference into or a part of this document or any other report or document we file with or furnish to the SEC, and any references to our website are intended to be inactive textual references only.

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PART I

ITEM 1. BUSINESS

OVERVIEW

General

We are a New York City-based company incorporated in the Marshall Islands in 2004. We transport iron ore, coal, grain, steel products and other drybulk cargoes along worldwide shipping routes through the ownership and operation of drybulk carrier vessels. Our fleet currently consists of 58 drybulk carriers, including 17 Capesize drybulk carriers, two Panamax drybulk carriers, six Ultramax drybulk carriers, 20 Supramax drybulk carriers, and 13 Handysize drybulk carriers, with an aggregate carrying capacity of approximately 5,075,000 deadweight tons (“dwt”). The average age of our current fleet is approximately 9.0 years. All of the vessels in our fleet were built in shipyards with reputations for constructing high-quality vessels. Of the vessels in our fleet, 30 are currently on spot market voyage charters, two are currently on spot market-related time charters, and 26 are on fixed-rate time charter contracts and we are currently time chartering-in six third party vessels.

See pages 7 - 10 for a table of our current fleet.

In 2017, we began implementing initiatives to expand our commercial platform and more actively manage the employment of our vessels. We hired commercial directors for our major bulk and minor bulk fleets and have begun employment of our vessels directly with cargo owners under cargo contracts. To better capitalize on opportunities to employ our vessels, we expanded our global commercial presence with the establishment of new offices in Singapore and Copenhagen. Additionally, we have withdrawn our vessels from pools and have reallocated our freight exposure to the Atlantic basin to seek to capture the earnings premium historically offered. Overall, our fleet deployment strategy remains weighted towards short-term fixtures, which provide optionality in a potentially rising freight rate environment. In addition to both short and long-term time charters, we fix our vessels on spot market voyage charters as well as spot market-related time charters depending on market conditions and management’s outlook.

In 2017, we began a fleet renewal program to modernize its fleet by replacing older vessels with newer vessels having greater fuel efficiency and other improved specifications. Please see below under “Vessel Sales” and “Vessel Acquisitions for further details.

We report financial information and evaluate our operations by charter revenues and not by the length of ship employment for our customers, i.e., spot or time charters. Each of our vessels serves the same type of customer, has similar operations and maintenance requirements, operates in the same regulatory environment, and is subject to similar economic characteristics. Based on this, we have determined that we operate in one reportable segment, the ocean transportation of drybulk cargoes worldwide through the ownership and operation of drybulk carrier vessels.

Our management team and our other employees are responsible for the commercial and strategic management of our fleet. Commercial management includes the negotiation of employment for vessels, managing the mix of various types of employment, such as time charters, spot market voyage charters and spot market-related time charters, and monitoring the performance of our vessels under their employment. Strategic management includes locating, purchasing, financing and selling vessels. We contract with two independent technical managers to provide technical management of our fleet at a lower cost than we believe would be possible in-house. Technical management involves the day-to-day management of vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies. Members of our New York City-based management team oversee the activities of our independent technical managers.

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Scrubbers

On October 27, 2016, the Marine Environment Protection Committee ("MEPC") announced the ratification of regulations mandating reduction in sulfur emissions from 3.5% currently to 0.5% as of the beginning of 2020 rather than pushing the deadline back to 2025. By 2020, ships will now have to reduce sulfur emissions, for which the principal solutions are the use of exhaust gas cleaning systems ("scrubbers") or buying fuel with low sulfur content. If a vessel is not retrofitted with a scrubber, it will need to use low sulfur fuel, which is currently more expensive than standard marine fuel containing 3.5% sulfur content. This increased demand for low sulfur fuel may result in an increase in prices for such fuel.

We have entered into agreements to install scrubbers on our 17 Capesize vessels and are evaluating options to install scrubbers on certain minor bulk vessels. We expect the balance of our fleet will consume compliant, low sulfur fuel beginning in 2020 but intend to continue to evaluate other options. During the course of 2018, we sold seven of our older, less fuel efficient vessels and purchased six modern high specification vessels with a goal of improving fuel consumption and further reduce emissions. We also sold an additional vessel during January 2019 and will continue to seek opportunities to renew our fleet going forward.

Vessel Sales

During 2018, we completed the sale of seven vessels that were part of our previously announced fleet renewal program. Additionally, we completed the sale of an additional vessel during January 2019, which was classified as held for sale as of December 31, 2018.

Vessel Acquisitions

On July 12, 2018, we entered into agreements to purchase two modern, high specification Capesize drybulk vessels for an aggregate purchase price of $98.0 million. These vessels were renamed the Genco Defender and the Genco Liberty (both 2016-built Capesize vessels) and were delivered during the third quarter of 2018. We utilized a combination of cash on hand and proceeds from the $108 Million Credit Facility as described below under "Credit Facilities."

On June 6, 2018, we entered into an agreement for the en bloc purchase of four drybulk vessels including two Capesize drybulk vessels and two Ultramax drybulk vessels for approximately $141.0 million. Each vessel was built with a fuel-saving "eco" engine. These vessels were renamed the Genco Weatherly (2014-built Ultramax vessel), the Genco Columbia (2016-built Ultramax vessel), the Genco Endeavour (2015-built Capesize vessel) and the Genco Resolute (2015-built Capesize vessel) and were delivered during the third quarter of 2018. The Company utilized a combination of cash on hand and proceeds from the $108 Million Credit Facility as described below under "Credit Facilities."

Credit Facilities

On May 31, 2018, we entered into a five-year $460 million senior secured credit facility (the "$460 Million Credit Facility"). On June 5, 2018, proceeds of $460.0 million from the $460 Million Credit Facility were used, together with cash on hand, to refinance all of our prior credit facilities (the $400 Million Credit Facility, the $98 Million Credit Facility and the 2014 Term Loan Facilities as defined in Note 8 – Debt of our Consolidated Financial Statements) into one facility, and pay down the debt of seven of the Company's oldest vessels, which have been identified for sale. The mandated lead arrangers and bookrunners for this facility are Nordea Bank AB (publ), New York Branch ("Nordea"), Skandinaviska Enskilda Banken AB (publ), ABN AMRO Capital USA LLC, DVB Bank SE, Crédit Agricole Corporate & Investment Bank, and Danish Ship Finance A/S.

On February 28, 2019, we entered into an amendment to our $460 Million Credit Facility to provide an additional tranche of up to $35.0 million to cover a portion of the expenses related to the acquisition and installation of scrubbers on our 17 Capesize vessels. Borrowings under the $35.0 million tranche will bear interest at LIBOR plus 2.50% through September 30, 2019 and LIBOR plus a range of 2.25% to 2.75% thereafter, dependent on total net

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indebtedness to consolidated EBITDA for the preceding four calendar quarters. Nordea, Skandinaviska Enskilda Banken AB (publ), Crédit Agricole Corporate & Investment Bank and Danish Ship Finance A/S are the lenders for the additional tranche.

On August 14, 2018, we entered into a five-year senior secured credit facility (the “$108 Million Credit Facility”) with Crédit Agricole Corporate & Investment Bank. We have used proceeds from the $108 Million Credit Facility to finance a portion of the purchase price for the six vessels, as identified above under “Vessel Acquisitions,” which were delivered during the third quarter of 2018 and serve as collateral under the $108 Million Credit Facility.

Equity Offering

On June 19, 2018, we closed an equity offering of 7,015,000 shares of common stock at an offering price of $16.50 per share. We received net proceeds of approximately $109.6 million after deducting underwriters’ discounts and commissions and other expenses. We used the net proceeds to finance a portion of the purchase price for the two Capesize and two Ultramax vessels that we acquired during the third quarter of 2018 as identified above under “Vessel Acquisitions.”

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements, and other documents with the SEC, under the Securities Exchange Act of 1934, or the Exchange Act. The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov.

In addition, our company website can be found on the Internet at www.gencoshipping.com. The website contains information about us and our operations. Copies of each of our filings with the SEC on Form 10-K, Form 10-Q and Form 8-K, and all amendments to those reports, can be viewed and downloaded free of charge after the reports and amendments are electronically filed with or furnished to the SEC. To view the reports, access www.gencoshipping.com, click on Investor, then SEC Filings. No information on our company website is incorporated by reference into this annual report on Form 10-K.

Any of the above documents can also be obtained in print by any shareholder upon request to our Investor Relations Department at the following address:

Corporate Investor Relations

Genco Shipping & Trading Limited

299 Park Avenue, 12th Floor

New York, NY 10171

BUSINESS STRATEGY

Our strategy is to manage and expand our fleet in a manner that maximizes our cash flows from operations. To accomplish this objective, we intend to:

- Strategically expand the size of our fleet — We may acquire additional modern, high-quality drybulk carriers through timely and selective acquisitions in a manner that is accretive to our cash flows. If we make such acquisitions, we may consider additional debt or equity financing alternatives.

- Continue to operate a high-quality fleet — We intend to maintain a modern, high-quality fleet that meets or exceeds stringent industry standards and complies with charterer requirements through our technical managers' rigorous and comprehensive maintenance program. In addition, our technical managers maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea.

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- Utilize an active commercial strategy — Our current fleet of 58 drybulk vessels concentrates on the transportation of major and minor bulk commodities globally. Historically, Genco has employed its fleet mostly through time charter contracts as well as pooling arrangements. In 2017, the Company made a strategic decision to augment its existing in-house commercial operating platform shifting to an active commercial approach as compared to the previous tonnage provider model in order to improve margins and grow our network of customers. We expanded our presence globally with the establishment of offices in Singapore and Copenhagen in addition to our corporate headquarters in New York. As a result of this strategic shift, we have been fixing an increasing number of vessels on spot market voyage charters, where we provide a vessel for the transportation of goods between a load port and discharge port at a specified per-ton or on a lump sum basis, as well as on contracts of affreightment directly with cargo providers. We believe that our active platform provides added flexibility to changing market conditions and improves operational efficiencies within our owned fleet. Furthermore, we also assess arbitrage opportunities on cargoes through utilizing vessel positions by time chartering-in third party vessels and/or reletting cargo commitments on a voyage basis. In addition to these options, we continue to fix our vessels on both short and medium-term time charters, as well as spot market-related time charters, depending on market conditions and outlook. Overall, our fleet deployment strategy is currently weighted towards short-term fixtures which provide optionality for the Company. We constantly monitor the drybulk market and may in the future pursue other market opportunities for our vessels to capitalize on market conditions, including arranging longer charter periods and entering into vessel pools.

- Maintain low-cost, highly efficient operations — We currently outsource technical management of our fleet to Wallem Shipmanagement Limited (“Wallem”) and Anglo-Eastern Group (“Anglo”), third party independent technical managers. Our management team actively monitors and controls vessel operating expenses incurred by the independent technical managers by overseeing their activities. We also seek to maintain low-cost, highly efficient operations by capitalizing on the cost savings and economies of scale that result from operating sister ships.

- Capitalize on our management team’s reputation — We seek to capitalize on our management team’s reputation for high standards of performance, reliability and safety, and maintain strong relationships with major international charterers and cargo providers, many of whom consider the reputation of a vessel owner and operator when entering into time charters. We believe that our management team’s track record improves our relationships with high quality shipyards and vendors, as well as financial institutions, many of which consider reputation to be an indicator of creditworthiness.

OUR FLEET

The table below summarizes the characteristics of our vessels that have been delivered to us that are currently in our fleet:

Vessel	Class	Dwt	Year Built
Genco Augustus	Capesize	180,151	2007
Genco Claudius	Capesize	169,001	2010

Genco Constantine	Capesize	180,183	2008
Genco Commodus	Capesize	169,098	2009
Genco Hadrian	Capesize	169,025	2008
Genco London	Capesize	177,833	2007
Genco Maximus	Capesize	169,025	2009
Genco Tiberius	Capesize	175,874	2007
Genco Tiger	Capesize	179,185	2011
Genco Titus	Capesize	177,729	2007
Baltic Bear	Capesize	177,717	2010
Baltic Lion	Capesize	179,185	2012
Baltic Wolf	Capesize	177,752	2010

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Vessel	Class	Dwt	Year Built
Genco Endeavour	Capesize	181,060	2015
Genco Resolute	Capesize		