BWEK Q2 2022, Earnings Call Script, 23rd August 2022

My name is Charles Maltby, CEO of BW Epic Kosan, and I am joined by our Chief Financial Officer, Uta Urbaniak – Sage. We would like to welcome you to our call to discuss our results for the second quarter.

I would like to highlight that the webinar is being recorded for later viewing and allows for Questions to be asked anytime via the Q&A window. We will answer your questions at the end either verbally or via a written response or offer to take offline separately later.

I would also like to draw your attention to the disclaimer on slide 2.

Slide 3 – Q2 2022 Highlights

Our improving headline revenue and forward cover rates have been outweighed during the quarter by a seasonally weaker spot market and higher voyage and operating costs, leading to a second quarter net profit of $3.0 million, -21% year on year. Our fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, earned a second quarter revenue of $86.6 million, a 6% increase from a year ago. Time charter earnings (TCE) per calendar day in the quarter increased by almost 4% year on year to $11,227 per day, driven by our evolving mix of vessels, and modest improvement in the underlying market.

Our operational expenses increased by 14.6% to $5,446 per day, on account of Covid-19 and global inflationary pressures, and one-off costs related to exiting vessels. During the quarter, we have completed over 750 crew changes, many still impacted by Covid-19, and are working to normalise crew transfers, and manage associated inflationary costs.

Our G&A is reducing as we benefit from economies of scale following the merger, with the second quarter down by almost 13% year on year. Our Fleet Operational Utilisation during the quarter was 91.7%, which was 1.8% higher than last year.

Our Lost Time Injury Frequency (LTIF) rate this quarter was 0.92, an improvement from a year ago.

Our year-on-year emissions have increased by 5.4% with an AER of 24.13g of CO_2/dwt-tm because of increased utilisation and consequential fuel consumption, partially offset by investments in carbon emission reduction, such as silicone paints and other energy saving initiatives.

We are also involved with projects that support wider decarbonisation, such as shipping related to carbon capture and storage. Many of our vessels are capable of carriage of future clean fuels including ammonia, and with modest investment, other speciality gases such as CO2.

Our strategy remains to focus on the LPG, petrochemicals, and speciality gases sector, continuing to grow the average size of our fleet and maintain an attractive average age.

Slide 4 – BW Epic Kosan at a glance

As of today, BW Epic Kosan operated a world-leading fleet of 73 vessels ranging in size from three to 12,000 cubic metres, in the pressurised, semi-ref and ethylene capable shipping sectors. We aim to deliver to our customers the best solution for their transportation needs, along with exceptional service and operational standards. “Zero Harm” drives our safety culture and commitment to operating without accidents and achieving our environmental goals.

Our organisation has significant commercial and technical capability across pressurised, semi-refrigerated, refrigerated gas and petrochemical transportation, and the flexibility and capability to meet our customers’ needs around the world.

This operational and technical experience is enabling us to work alongside industry partners to not only reduce emissions, but to also explore projects that support wider decarbonisation, such as shipping related to carbon capture and storage (CCS).

LPG remains a primary cargo for which we are an integral part of the supply chain – both for distribution over the last mile or regionally around the globe, primarily into domestic or residential markets, typically for use as a cleaner energy in cooking and heating. We are also actively involved in the transportation of petrochemicals like ethylene, propylene, butadiene and VCM.

The Company is headquartered in Singapore, with Copenhagen covering our regional activities in the west, alongside offices in Manila, and Tokyo.

Slide 5 – Vessel Supply

Turning to vessel supply. BW Epic Kosan has pressurised, semi-refrigerated and ethylene capable vessels as part of our fleet.

There are a total of 349 pressure vessels (non-Chinese flagged over 3,000cbm) on the water which includes three newbuilds that delivered during the quarter. The international pressure vessel order book has six more newbuilds scheduled to be delivered in second half 2022, five in 2023 and three in 2024, a total of 103,500cbm. This represents a 5.7% increase in the existing 1.83 million cbm fleet capacity.

There are two 7,500cbm CO2/LPG carrier newbuilds scheduled for delivery in 2024 which are being specifically built for a Carbon Capture Utilisation and Storage (CCUS) project in North-West Europe.

Looking now at the semi-ref and ethylene capable sectors. There are three semi-ref vessels which are scheduled for delivery in 2023. This newbuild capacity of 15,000cbm equates to a 3.0% increase in existing semi-ref fleet capacity. There are three 7,200cbm dual-fuel ethylene vessels under order for delivery in 2024, which represents a 2.3% increase in existing fleet capacity.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international pressure fleet today, there are 17 ships totalling approximately 60,000cbm that are aged 30 years and older - these potential scrapping candidates represent 3.3% of existing fleet capacity which offsets some of the newbuild fleet capacity growth. In the similar size segment, there are six non-ethylene semi-ref vessels and three ethylene vessels that are aged 30 years and older equivalent to 3.2% of existing fleet capacity.

To summarise for the combined smaller gas carrier sectors, our expectations are for 2.8% and 1.4% net fleet growth in capacity before any further scrapping in 2022 and 2023 respectively.

Slide 6 – Global Demand

Global LPG trade has remained robust despite high energy and feedstock prices and supply disruptions. Drewry's latest research has estimated that seaborne LPG trade in 2022 will increase year on year by 3.9% to 116.9 million tonnes, with a related 4.1% growth in tonne-mile demand. Similarly, the global seaborne olefins trade (that is petrochemicals such as ethylene, propylene, butadiene and VCM) is expected to increase from 16.1 million tonnes in 2021 to approximately 16.4 million tonnes in 2022, equivalent to a year-on-year gain of 1.4%.

LPG seaborne exports from the United States of America exceeded 14 million tonnes in the second quarter, a 15% quarter-on-quarter (qoq) and 5.9% yoy gain.

Europe-bound cargoes from the US increased by over 40% qoq as the region sought to replace Russian gas.

In Asia, the main demand for LPG comes from China, India, Japan, and South Korea, who together imported over 15 million tonnes in the second quarter of

2022, up by 1.5% yoy, but down by 8% qoq. There has been a reduction in US cargoes bound for Asia compared to the previous quarter from 50% to 47% of total volumes. China's LPG demand is driven by its petrochemical sector with producers favouring LPG over naphtha in a high oil-price environment. On the other hand, Indian LPG imports which are driven by demand from residential users and the retail sector, have dropped by 11.3% qoq due high energy prices.

Slide 7 – Smaller Gas carrier Demand – LPG & Petrochemicals

Turning to smaller gas carrier demand. LPG exports from the USA on such vessels as ours increased by 2% quarter-on-quarter with the Caribbean and Central American countries accounting for 75% of these exports. In the East, LPG imports into Bangladesh fell by 13% compared to a strong first quarter but gained 22% yoy indicating firm underlying domestic demand. Imports into Sri Lanka were impacted by the country's economic crisis - volumes dropped 57% qoq and 60% yoy. The Asian ethylene and propylene markets remained subdued on account of weaker margins and lower downstream demand. The easing of Covid-19 restrictions in China has not yet had the expected positive impact, where China's ethylene and propylene imports in the second quarter were both lower by 11% qoq, and about 30% yoy.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in firmer freight market levels, improving underlying revenues and a modest increase to forward cover rates. Quarter on quarter there have been gains across all sectors, +10 to +14% for the 3,500-5,000cbm pressure vessels, +7 to +10% for the larger 7,500-11,000cbm pressure vessels, and +6% for the Ethylene 8,250cbm sector. The Pr 11,000 cbm and Ethylene 8,250 cbm vessels remain below long-term average levels, with supply and demand fundamentals supporting further improvement.

Slide 9 – BW Epic Kosan Gas Operations – Geographical and Commodity Diversity

Our business is globally diversified – at the end of the quarter, we had 9 vessels operating in the Americas, 42 in the Europe/Middle East/Africa (EMEA) belt and 21 in Asia.

In the second quarter, BW Epic Kosan averaged nearly 5 (4.7) loading operations every day across our fleet, loading 1.4 million tonnes, and was involved in just under one thousand (988) cargo operations in 204 different ports. Our cargo mix is split about 48/52% between LPG and petrochemicals such as ethylene, propylene, butadiene and VCM, and one vessel in the growing ammonia trade. This diversity in geography and commodity has widened with the formation of BW Epic Kosan, and provides options for our fleet, and relative stability in our earnings floor.

Slide 10 – BW Epic Kosan as an integral part of the global LPG supply chain

Ship-to-ship (or STS) operations are an important part of our global business. During the second quarter of 2022, our vessels carried out 81 STS operations, which is equivalent to almost one STS operation every day, and 8% of our global cargo operations. Developing economies with high LPG demand growth rates are often constrained by infrastructure, shallow waterways, and limited storage facilities, thus the use of our vessels to complete the last mile delivery from larger tonnage such as VLGC's make the pressurised ship an important part of the supply chain. In Asia, we continued to provide LPG fuelling supply operations for the increasing number of LPG dual-fuel VLGC vessels.

Slide 11 – Operating Metrics

We ended the quarter with 65 core vessels with a total capacity of 473,941 cbm and an average size of 7,291 cbm, up 3.3% year on year. We also have seven additional vessels with a total capacity of 57,688 cbm under our commercial management. We continue to fine tune our fleet, to focus on modern larger vessels. When it comes to the trading of our vessels, we are keen to work alongside customers over the long-term, and offer flexibility between time charters, voyage charters, contracts of affreightment ('COA') and spot contracts.

During the second quarter, the fleet traded under time charter for 64.8% of total voyage days compared to 64.0% a year ago, and COA days for 10.5% of total voyage days compared to 15.3% a year ago.

During the second quarter, the fleet experienced 221 technical off-hire days, which included four planned dry-docks. We incurred nine days off-hire related to Covid-19 counter measures, such as deviation to a port where transfers are possible, waiting time for quarantine and test results, port process and connecting flights. For the quarter, this resulted in fleet availability of 96.3% and an operational utilisation of 91.7%.

I would now like to hand the call over to Uta to step through our financials. Uta:

Slide 12 – P&L

Thank you, Charles.

Starting with our P&L: In the second quarter, we generated TCE revenues of $67 million, about the same level we recorded in Q2 2021. Our TCE earnings per calendar day were $11,227, 3.5% up from the $10,848 we achieved in Q2 2021, reflecting an improved market and the increase of our average vessel size as we re-delivered smaller vessels and took delivery of larger-sized vessels.

Vessel operating expenses increased from $28.6 million to $29.3 million year over year, and include one-off cost related to exiting vessels as well as pandemic and inflationary expenses. Operating expenses also increased on a per calendar day basis from $4,754 to $5,446 year over year.

Charter-in costs increased from $1.1 million to $3.1 million year over year due to the conversion of bareboat charter contracts of four vessels into time charter contracts and one additional chartered-in vessel on a time charter basis, offset by the redelivery of four vessels in the first half of 2022 that were chartered in on a bareboat basis. As of 30th June, we had eight ships on inward charter arrangements, one on a bareboat basis and seven on time-charter basis.

G+A expenses for the second quarter decreased from $7.8 million to $6.8 million year over year, reflecting cost synergies following the business combination that completed in March last year. On a per calendar day basis, they decreased by 12.9% to $1,007 year over year.

Finance expenses decreased from $5.1million to $4.8 million year over year due to lower outstanding debt across our fleet.

As of the quarter end, we had interest rate swaps in place for $265 million at a weighted average interest rate of 1.15%, covering 75% of our bank debt in an environment with rising interest rates.

We achieved an EBITDA of $26.5 million and a Net Profit of $3.0 million for the quarter. This translates into a YTD Return on equity of 5.2%.

Slide 13 – Balance Sheet

The book value of the fleet at period end is $845 million, $65 million below latest broker valuations.

Our total debt including finance lease liabilities as of 30th June was $438 million. Including our cash position of $49 million, our net debt is $389 million, down by

$25 million from the start of the year, to 46% of book value which we regard as a conservative level.

I will now hand back to Charles for a Summary and Outlook.

Slide 14 – Summary and Outlook

To summarise, the weaker second quarter results were impacted by higher costs related to Covid-19 crew change, one-off vessel-exit costs, dockings, bunker fuel and inflation in a seasonally weaker market. The supply of new build vessels in our sector remains balanced with the small gas carrier fleet forecast to grow by 2.8% over 2022 before any further scrapping. The order book for larger LPG segments has been running at higher levels, but we note that inflationary pressures are leading to increased shipyard newbuild costs for all sizes, alongside the higher technology costs associated with dual fuel LPG or LNG.

Forecast seaborne LPG commodity demand growth for 2022, at 3.9%, is positive, and we expect earnings momentum to recover as we exit summer seasonality. There is uncertainty in the market on account of geopolitical conflicts, high energy prices, recessionary forces, and negative margins in the petrochemical industry – however we are working to manage these impacts through the diversity of geography and commodity available to our fleet, and continuing to deliver efficiency to our combined G&A and OPEX levels.

We are also placing forward cover, at modestly improving levels. As of 30 June the Company was approximately 49% covered for 2022, with 6,426 voyage days covered at an average daily Time Charter Equivalent rate of $11,843 leaving 6,818 calendar days open for the rest of the year.

BW Epic Kosan has the scale and operational strength for future success, and is working to further improve earnings potential, deliver operational synergies, increase our efficiency, work towards the IMO emissions targets for 2030 and beyond, and support wider decarbonisation by involving ourselves in projects such as shipping related to carbon capture and storage. Many of our vessels are capable of carriage of future clean fuels including ammonia, and with modest investment, other speciality gases such as CO2.

We have now reached the end of our presentation.

Thank you for everyone making the time to join and listen today, we appreciate your interest in BW Epic Kosan. If you would like to discuss further, please do contact Uta or I directly. In the meantime, we look forward to catching up in November for our third quarter 2022 Earnings report.