

BWEK Q1 2021, Earnings Call Script, 12th May 2021.

My name is Charles Maltby, CEO of BW Epic Kosan Ltd. and I would like to welcome you to today's call to discuss our results for Q1 2021. I am joined today by our Chief Financial Officer, Uta Urbaniak – Sage.

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 – Q1 2021 Highlights

The transaction to form BW Epic Kosan was completed in March, increasing our fleet on the water to 76 vessels. The first quarter has been one of transition, with our results reflecting one month, i.e., March, of combined consolidated operations. Our fleet Calendar Days have increased by 15% year-on-year, a direct result of the consolidated fleet. We achieved a positive start with a net profit for the first quarter of \$7m, excluding \$1.7m of pre-completion unconsolidated profit; hence, an underlying Net Profit of \$8.7m.

Our expanding fleet mix, which now includes pressurised, semi-refrigerated and ethylene capable vessels, combined with a stable underlying market, saw our revenues increase to \$59.8 million, a 35% increase from the previous quarter and a 25% increase from a year ago. Time charter earnings (TCE) per calendar day increased by 7% year on year to \$10,912 per day, whilst our underlying operational expenses (OPEX) costs remained stable at just over \$4,400 per day. Our SG&A has increased due to costs incurred during our combination and can be expected to reduce as we work towards operational efficiency.

Our Fleet Operational Utilisation was 93.3%, a modest gain of 0.4% from a year ago.

We remain focussed on our safety performance and environmental goals. Our fleet delivered a Lost Time Injury Free period this quarter, and in relation to carbon intensity metrics, a reduction of the Annual Efficiency Ratio by 1.9% compared to Q1 2020.

Covid-19 continues to impact our business, including increased overall OPEX primarily related to crew change expenses and freight forwarding costs for spares, and increased offhire for our fleet as we position vessels to facilitate crew changes and meet quarantine requirements.

The Board has confirmed a dividend policy, subject to annual approval after the end of our financial year, based on a pay-out ratio of 50% of annual net profits after tax, adjusted for extraordinary items.

Slide 4 – Who We Are

BW Epic Kosan presently operates a world-leading fleet of 76 vessels ranging in size from three to 12,000 cubic metres, in the pressurised, semi-ref and ethylene shipping sectors. We aim to deliver to our customers the best solution for their transportation needs, along with exceptional service and operational standards. “Goal Zero” 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 also to explore projects that support wider decarbonisation, such as shipping related to carbon capture and storage (CCS).

Our primary cargo remains LPG for which we remain 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

The Company is headquartered in Singapore, with Copenhagen as a regional office alongside offices in London, Manila, and Tokyo.

Slide 5 – Vessel Supply

There are a total of 338 pressure vessels over 3,000cbm, excluding the Chinese flagged fleet, on the water today, which includes five newbuilds - two 3,500cbm’s, two 5,000cbm’s and one 11,000cbm that delivered during the quarter and one 5,000cbm that delivered subsequently in April. There are eight newbuilds scheduled to be delivered over the remainder of 2021, five in 2022, and two in 2023, a total of 76,000cbm. This represents a 4.3% increase in the existing 1.77 million cbm fleet capacity. The formation of BW Epic Kosan has introduced semi-ref and ethylene capable vessels to our fleet. There is one 9100cbm semi-ref on the orderbook for 2022, equating to fleet growth of 1.8%. There are no small-sized ethylene vessels on order.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international pressure fleet today, there are 12 ships

totalling 39,600cbm that are aged 30 years and older - these potential scrapping candidates represent 2.2% of existing fleet capacity which offsets some of the newbuild fleet capacity growth. In the similar size segment, there are five non-ethylene semi-ref vessels and three ethylene vessels that are aged 30 years and older equivalent to 3.0% of existing fleet capacity.

Our expectations are for 1.4% growth in smaller gas carrier capacity before scrapping in 2021.

Slide 6 – Global Gas Demand

Economic activity picked up in the first quarter. Drewry's latest research has estimated that sea-borne LPG trade in 2021 will increase by 3.3% from last year to 110.3 million tonnes, with a related 3.6% growth in tonne-mile demand. Similarly, the global seaborne olefins trade (that is petrochemicals such as ethylene) is expected to increase to approximately 16.3 million tonnes this year, equivalent to a modest year-on-year (yoy) gain of 0.8%.

In Asia, China and India remain leading demand drivers. Chinese petrochemical demand is expected to boost LPG imports - in the first quarter imports reached approximately 5.4 million tonnes, 42% higher than a year ago. In India, it is the retail and residential sectors that are expected to boost LPG demand, but the latest wave of Covid-19 in the country has curtailed domestic demand, especially in the rural areas due to the higher cost of LPG, loss of jobs and no free cylinder refills expected from the government this time.

Slide 7 – Smaller Gas carriers – LPG & Petchems

The USA remains the dominant LPG exporter with gradually increasing operations. LPG exports on small gas carriers increased qoq by 9% and yoy by 6%. Favourable pricing ex-USA resulted in more trans-Atlantic cargoes into North and West Africa which benefitted the larger-sized pressure vessels and increased tonne-miles in this sector. In the East, LPG imports into Bangladesh and Vietnam, which are driven by domestic demand, saw a qoq decline of 15% and 45% respectively, likely Covid-19 related as loss of daily wages led to reduced availability of funds. China's olefins imports have strengthened qoq, a sign that the underlying GDP-linked derivatives market is picking-up again. Propylene imports in the first quarter were flat on the previous quarter, but up 32% from a year ago. Ethylene imports averaged 184,000 tons a month which was an increase of 15% and 18% compared to the previous quarter and from a year ago respectively.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in freight market levels remaining generally flat quarter-on-quarter. The 5,000cbm pressure vessels dropped by 1.1% whilst the 7,500cbm pressure vessels went up by 1.6%. Compared to Q1 2020, the average rates were down 12% for Pr 3,500cbm, down 6% for Pr 5,000cbm, up 1% for Pr 7,500cbm, up 2% for Pr 11,000cbm, and down 3% for the ethylene 8,000cbm sector. Whilst the larger pressure vessel rates have recovered in recent years, they remain below long-term average levels.

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

Our business continues to be a global one – we have 11 vessels operating in the Americas, 42 in the E.M.E.A belt and 23 in Asia.

In the first quarter, BW Epic Kosan averaged 3.9 loading operation every day, loaded almost 1.1 million tonnes and was involved in 748 cargo operations in 180 different ports. LPG cargoes made up 61% of the cargoes lifted, with the balance being petrochemicals. 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 LPG break bulk trade

Ship-to-ship (or STS) operations are an important part of our global business. During the first quarter of 2021, our vessels carried out 95 STS operations, which is equivalent to more than one STS operation every day, and about 13% 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.

Slide 11 – Operating Metrics

We ended the quarter with a fleet of 68 core vessels with a total capacity of 479,833 cbm and an average size and age of 7,056cbm and 11.4 years, respectively. We also have 8 additional vessels with a total capacity of 66,288cbm under our commercial management. We continue to fine tune our fleet, to focus on modern larger vessels. In this regard, we sold one of our smaller vessels during the quarter. 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 first quarter, the fleet experienced 188 technical off-hire days, which included five routine dry-docks and 52 days incurred facilitating crew transfers and other delays 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 95.9% and an operational utilisation of 93.3%.

During the first quarter, the fleet traded under time charter for 64.1% of total voyage days compared to 71.7% a year ago. Our fleet's Time Charter Equivalent earnings per calendar day during the quarter was \$10,912, 7% higher than a year ago. The Time Charter Equivalent earnings per voyage day of \$11,375 was 8% higher than the first quarter of 2020.

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

Slide 12 – P&L

Thank you, Charles.

The transaction with Lauritzen Kosan to form BW Epic Kosan closed in March with economic effect from 1st January. It means that the result of the first two months is adjusted in the purchase price consideration and that full consolidation started in March. In the first quarter, we generated TCE revenues of 50 million dollars compared to the 41 million dollars we recorded in Q1 2020. The increase is a result of our increased fleet calendar days by 15% following the business combination. Our TCE earnings per calendar day were 10,912 dollars, 7% up from the 10,246 dollars we achieved in Q1 2020.

Vessel operating expenses increased from 17 million dollars to 19.9 million year over year, reflecting the increased fleet calendar days and also the impact of Covid-19. On a per calendar day basis, vessel operating expenses decreased from 4,442 dollars to 4,418 dollars year over year, irrespective of the upwards pressure included within these numbers due to covid-19.

Charter-in costs increased from 4.5 million dollars to 4.8 million dollars year over year as, in November last year, we took delivery of a 7500cbm new build on a bareboat charter-in contract for a firm period of 6 years with purchase options. This number is expected to increase next quarter when we will see the full quarter impact of the five chartered-in ships taken over from Lauritzen Kosan in March. As of 31 March, we had twelve ships on inward charter arrangements, ten on a bareboat basis and two on time-charter basis.

G+A expenses increased from 4.3 million to 5.9 million year over year, due to an increase in the number of employees and office lease in our new Copenhagen office and legal and professional fees related to the transaction. On a per calendar day basis, they increased by 12% to 1,208 dollars, but are expected to decline as we focus on achieving cost efficiencies.

Finance expenses decreased from 4.2million to 4 million year over year due to a lower USD Libor.

As of the quarter end, we had interest rate swaps in place for 285 million dollars, covering 75% of our bank debt.

The Company reported an EBITDA of 21 million dollars, a 42% increase on the 15 million dollars we achieved in Q1 2020.

We finished the quarter with a Net Profit of 7 million dollars.

Slide 13 – Balance Sheet

The book value of the fleet at period end is 866 million dollars, below latest broker valuations.

Our total debt, excluding operating leases, as of 31st March 2021 was 481.6 million dollars. This includes a new 155 million dollars loan facility that was used to refinance the Lauritzen Kosan fleet. Including our cash position of 60.3 million, our net debt is 421 million dollars or 49% of book value.

Other than normal amortisation, we have no further loan expiration until mid-2023.

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

Slide 14 – Summary and Outlook

We would like to conclude our presentation by sharing our outlook on the LPG market.

The improved first quarter results point to a modest year on year recovery in market conditions. The recovery is still fragile, and highly dependent on the ongoing impact of Covid-19 on the global economy, and our overall operating expenses. Opportunities lie ahead with global LPG seaborne trade growth forecast to rebound to 3.3% in 2021. Asian demand growth for LPG is generally positive, driven by China's petrochemical industries and India's retail and residential sectors, but the second and third waves of Covid-19 has impacted domestic demand especially in rural areas in India.

The new build supply side remains balanced with the small gas carrier fleet growth forecast for the year of 1.4% before scrapping. However, ordering of new vessels has picked up in the larger LPG segments. Capital discipline will remain an important factor in returning the company to reasonable levels of profitability, with current returns below expected levels.

The improvement in the first quarter continues as we head through the second quarter, with 61% of our second quarter covered at an average daily time charter equivalent rate of \$11,275 per day, and for 2021, 47% of available days covered at \$11,478.

Having created a company of greater scale and operational strength, BW Epic Kosan has a strong foundation for future success, and is working to further improve earnings potential, deliver operational synergies, increase our efficiency, and work towards the IMO emissions targets for 2030 and beyond.

We have now reached the end of our presentation.

Q&A

If there are questions for live answer, we will now answer live.

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 August 2021 for our second quarter 2021 Earnings report.