BWEK Q1 2022, Earnings Call Script, 24th May 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 first quarter 2022.

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 2022 Highlights

The increased scale of our fleet combined with improving market conditions and effective cost management has helped us deliver a first quarter net profit of $9.1 million, a 30% year on year increase. We are pleased to guide an interim dividend payment of $0.028219 per share has been approved by our Board for payment on 13 June. Our Board will continue to review dividend payments twice a year.

Our fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, earned a first quarter revenue of $90.6 million, a 52% increase from a year ago. Time charter earnings (TCE) per calendar day in the quarter increased by almost 8% year on year to $11,726 per day, driven by our evolving mix of vessels and improving market fundamentals.

Our operational expenses (OPEX) increased by 12.2% to $4,957 per day, impacted by the change in our fleet to include the semi-refrigerated and ethylene vessels with higher running costs, and on account of Covid 19 costs. During the quarter, we have completed over 600 crew changes, all impacted in some way by Covid-19, and are working to normalise crew transfers as global travel restrictions gradually ease. We are grateful to our seafarers for their loyalty and perseverance.

Our G&A is reducing as we benefit from economies of scale following the merger, with the first quarter down by almost 13% year on year. Our Fleet Operational Utilisation during the quarter was 92.7%, which was 0.6% lower than last year.

Our Lost Time Injury Frequency (LTIF) rate this quarter was zero, an improvement from the previous quarter's 0.44 days per million hours worked.

Our year-on-year emissions have increased by 6% with an AER of 23.69g of CO_2/dwt-tm because of increased utilisation and fuel consumption in our larger fleet, partially offset by investments in carbon emission reduction, such as silicon paints and other energy saving initiatives. We see a modest 0.3% reduction since the fourth quarter.

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 CO_2.

During the quarter we sold a 2007 built 5,000cbm vessel in line with our strategy to focus on larger and younger tonnage, benefiting also from a stronger market for such assets. We ended the quarter with 76 vessels in our fleet. Our strategy remains to focus on the LPG, petrochemicals, and speciality gases sector, grow the average size of our fleet and maintain an attractive average age.

We are monitoring the conflict in Ukraine and implementing measures to minimize the impact on our staff, operations, and financial results. None of our vessels are currently chartered to or owned by Russian companies or trade in Russia or Ukraine.

Slide 4 – BW Epic Kosan at a Glance

BW Epic Kosan operates a world-leading fleet of 76 vessels (as of the end of Q1) 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 as a regional office alongside offices in London, 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 347 pressure vessels (non-Chinese flagged over 3,000cbm) on the water which includes five newbuilds that delivered during the quarter. The international pressure vessel order book has seven more newbuilds scheduled to be delivered in 2022, seven in 2023 and two in 2024, a total of 112,000cbm. This represents a 6.2% increase in the existing 1.82 million cbm fleet capacity.

There are two 7,500cbm CO_2/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 no vessels for 2022, and three 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 2.2% and 2.4% net fleet growth in capacity before any further scrapping in 2022 and 2023 respectively.

Slide 6 – Global Demand

The LPG trade has remained robust despite high energy and feedstock prices and supply disruptions. Drewry's latest research has revised upwards sea-borne LPG trade in 2021, with an estimated increase year on year of 5.4% to 112.5 million tonnes, with a related 9.5% growth in tonne-mile demand. In 2022, a further 3.7% increase to 116.7 million tonnes and a related 4.2% growth in tonne-mile demand is expected. Similarly, the global seaborne olefins trade (that is petrochemicals such as ethylene, propylene, butadiene and VCM) is expected to have increased to approximately 16.1 million tonnes in 2021, equivalent to a year-on-year gain of 6.5%, with a further 1.4% gain expected in 2022.

In Asia, the main demand for LPG comes from China, India, Japan, and South Korea, who together imported over 16 million tonnes in the first quarter of 2022, up by almost 9% yoy. China's LPG demand is driven by its petrochemical sector with producers favouring LPG over naphtha. US cargoes now account for over 35% of total Chinese imports. Indian LPG imports on the other hand are driven by demand from residential users and the retail sector and have risen by 3.7% yoy.

Slide 7 – Smaller Gas carrier Demand – LPG & Petrochemicals

LPG exports from the USA on smaller gas carriers reduced by 3% quarter-on-quarter with the Caribbean and Central American countries accounting for 97% of these exports. In the East, LPG imports into Bangladesh remained flat compared to the previous quarter but gained almost 30% yoy. Imports into Sri Lanka were impacted by the country's economic crisis - volumes dropped 20% qoq and 38% yoy. China's ethylene and propylene imports in the first quarter were lower by 12% qoq. The Covid breakout and associated lockdowns in China created supply disruptions and impacted demand, whilst low margins impacted petrochemical production. Propylene tonnes from Far East Asia to Europe declined in the first quarter due to Asian propylene plant maintenance. Looking ahead, supply of propylene in Asia is expected to increase with new plants coming on-line which will offer long haul trading opportunities to the West.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in firmer freight market levels. Quarter on quarter there have been gains across all sectors, +12 to +13% for the 5,000cbm and smaller pressure vessels, and +5 to +7% for the larger 7500-11,000cbm pressure vessels, and +2% 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 – we have 9 vessels operating in the Americas, 41 in the Europe/Middle East/Africa (EMEA) belt and 26 in Asia.

In the first quarter, BW Epic Kosan averaged nearly 6 (5.8) loading operations every day across our fleet, loading 1.4 million tonnes, and was involved in 1,131 cargo operations in 198 different ports. Our cargo mix is split about 47%/53% between LPG and petrochemicals such as ethylene, propylene, butadiene and VCM, and one vessel entering the growing trade in ammonia. 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 first quarter of 2022, our vessels carried out 81 STS operations, which is equivalent to almost one STS operation every day, and 7% 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 also continue 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 68 core vessels with a total capacity of 488,141 cbm and an average size and age of 7,179 cbm and 12 years, respectively. We also have 8 additional vessels with a total capacity of 66,157 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 first quarter, the fleet traded under time charter for 66.2% of total voyage days compared to 64.1% a year ago, and COA days for 8.3% of total voyage days compared to 6.8% a year ago.

During the first quarter, the fleet experienced 297 technical off-hire days, which included five planned dry-docks and 46 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 95.2% and an operational utilisation of 92.7%.

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

Slide 12 – P&L

Thank you, Charles.

Before I provide a summary of our Q1 results, I wanted to highlight that we changed our accounting standard from US GAAP to IFRS with effect from 1 January 2022 to simplify our processes and reduce compliance costs. The numbers for Q1 2021 are re-classified to conform to IFRS presentation.

Starting with our P&L: In Q1 2022, we generated TCE revenues of 72 million dollars compared to the 50 million dollars we recorded in Q1 2021. The increase is a result of our increased fleet calendar days by 33.6%. Our TCE earnings per calendar day were 11.726 dollars, 7.5% up from the 10,912 dollars we achieved in Q1 2021. The increase is reflecting improved markets and the higher earnings generated by semi-refrigerated and ethylene vessels.

Vessel operating expenses increased from 19.9 million dollars to 27.8 million year over year, reflecting the increased fleet calendar days and higher cost of running semi-refrigerated and ethylene vessels. Opex were also impacted by Covid-related expenses of 1.2 million dollars.

Vessel operating expenses per calendar day increased from 4,418 dollars to 4,957 dollars year over year due to higher cost of running different ship types as just discussed. They were down by 8.5% from Q4 last year.

Charter-in costs decreased from 4.8 million dollars to 2.6 million dollars year over year due to the re-delivery of non-core chartered-in ships over the period. As of 31st March, we had ten ships on inward charter arrangements, three on a bareboat basis and seven on time-charter basis.

G+A expenses for the first quarter increased from 5.9 million to 7.3 million year over year, due to an increase in the number of employees and incremental office lease and integration costs related to the business combination that completed in March last year. On a per calendar day basis, they decreased by 12.8% to 1,053 dollars year over year.

Finance expenses increased from 3.9million to 4.8 million year over year due to increased debt across our larger fleet following the business combination with Lauritzen Kosan and the acquisition of three further vessels later in 2021.

As of the quarter end, we had interest rate swaps in place for 273 million dollars at a weighted average interest rate of 1.14%, covering 75% of our bank debt in an environment with rising interest rates.

We achieved an EBITDA of 33.3 million dollars and a record Net Profit of $9.1 million for the quarter. This translates into an ROE of 8% on an annualised basis.

Slide 13 – Balance Sheet

The book value of the fleet at period end is 847 million dollars, 56 million below latest broker valuations. We sold a 2007 built 5,000cbm vessel in March 2022 without any material impact on the Company's future earnings.

Our total debt, excluding lease liabilities, as of 31st March was 452 million dollars. Including our cash position of 55 million, our net debt is 397 million dollars or 47% of book value which we regard as a conservative level.

As indicated by Charles, we will make a dividend payment on the 13th of June of $0.028219 per share, a total of US$4.5m

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

Slide 14 – Summary and Outlook

To summarise, the positive first quarter results were driven by our larger fleet, combined with a strong market in the West, and we are pleased that our activity enables a stronger cash position, and the ability to declare an interim dividend.

The supply of new build vessels in our sector remains balanced with the small gas carrier fleet forecast to grow by 2.2% 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 3.7%, is positive. However, there is uncertainty in the market on account of the situation in Ukraine, strict Covid lockdowns in China impacting demand and logistics, inflation, high energy prices, and negative margins in the petrochemical industry.

Looking forwards, as of 31 March 2022, the Company was approximately 41% covered for 2022, with 8,274 voyage days covered at an average daily Time Charter Equivalent rate of $11,787 leaving 12,067 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 CO_2.

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 August for our second quarter 2022 Earnings report.