

<b>Event</b> BW Epic Kosan Q1 2023 Earnings Presentation
<b>Date</b> 25 May, 1pm Oslo/ 7pm Singapore/ 7am New York
<b>Hosts</b> Charles Maltby, CEO Uta Urbaniak-Sage, CFO

## **CHARLES MALTBY, CHIEF EXECUTIVE OFFICER**

My name is Charles Maltby, CEO of BW Epic Kosan and I'm joined by our Chief Financial Officer, Uta Urbaniak-Sage. We would like to welcome you to our call to discuss our first quarter of 2023. I would like to highlight that the webinar is being recorded for later viewing and allows for questions to be asked any time via the Q&A window. We will answer your questions at the end, either verbally or via original response or offer to take off-line separately at a later stage. I would also like to draw your attention to the disclaimer on Slide 2.

Moving on to Slide 3. The first quarter saw improved utilization of over 95%, driven by a stronger market and our increasing average vessel size. Combined with effectively managed operating costs, we delivered a first quarter net profit of US\$12 million, up 31% year-on-year.

With an eye on a sustainable and future-focused fleet, we continued to upgrade our portfolio, which includes pressurized semi-refrigerated ammonia and ethylene-capable vessels by releasing seven non-core vessels during the quarter, whilst taking delivery of a 7,500 cubic meter newbuild vessel under long-term time charter with purchase options, resulting in our average vessel size being over 9% larger year-on-year.

Consequently, we earned a first quarter revenue of US \$72 million, approximately the same level compared to a year ago despite the 10% reduction in fleet calendar days. Time charter earnings, TCE per calendar day for the first quarter increased by nearly 11% year-on-year to US \$12,956 per day, driven by an improvement in the underlying market and an increase in average vessel capacity.

Our lost time injury frequency, LTIF, rate this quarter remains 0 for which we thank our colleagues at sea and onshore for their focus on Zero Harm. Our year-on-year emissions have increased by 3.5% with an AER of 24.88 in part because of our heavy docking schedule during the quarter, reducing our efficiency. But offset by investments in carbon emission reduction, such as silicon paints and other energy-saving initiatives.

Our sustainability report published during the quarter has further details on our group initiatives. Our first quarter ROE of 9.7% was up from 4.5% in 2022. Whilst a further step in the right direction, there remains more work to be done.

Following payment of a dividend in the first quarter and in line with the company's dividend policy to target a twice-yearly payment of 50% of net profit, the Board will review further dividend payments in August 2023.

BW Epic Kosan operates a world-leading fleet of 64 vessels ranging in size from 3,000 to 11,000 cubic meters in the pressurized, 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 organization has significant commercial and technical capability across pressurized semi 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 decarbonization such as shipping related to carbon capture and storage.

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 teams in Manila and Tokyo.

Turning to vessel supply. There are a total of 354 pressure vessels on the water, which includes three newbuilds that delivered during the quarter. The international pressure vessel order book has nine more newbuilds scheduled to be delivered this year, three in 2024 and four in 2025 and 1 in 2026, a total of just over 100,000 cubic meters of capacity. This represents a 5.5% increase in the existing fleet capacity over the four-year period.

There are 2 7,500 cubic meter CO<sub>2</sub> LPG carrying newbuilds scheduled for delivery in 2024, which are being specifically built for a carbon capture utilization and storage project, that's CCUS, in Northwest Europe.

Turning to the semi-ref and ethylene-capable sectors. The smaller size semi-ref fleet has no new builds on order and there are 3 7,200-cubic meter LNG dual-fuel ethylene vessels under order for delivery in 2024, which represents a 2.4% increase in existing fleet capacity.

The newbuild order book must also be measured in the context of the potential scrapping pool. In the international pressure fleet today, there are 16 ships totalling approximately 50,000 cubic meter that are aged 30 years and older.

These potential scrapping candidates represent 3% of existing fleet capacity, which offsets some of the newbuild fleet capacity growth. In the similar size segment, there are eight non-ethylene semi-ref vessels and three ethylene vessels that are 30 years and older, equivalent to 3.2% of existing fleet capacity.

So to summarize, for the combined smaller gas carrier sectors, our expectations are for 2.2%, 1.1%, 0.7% and 0.1% net fleet growth in capacity before any further scrapping over the next years of 2023, 2024, 2025 and 2026.

On the demand side, global LPG seaborne trade remains robust and continues to grow. Drewry's latest research has estimated that seaborne LPG trade in 2023 will increase by 2.7% year-on-year to 120.1 million tonnes, with a related 3.1% growth in tonne-mile demand.

U.S. LPG seaborne exports have continued to ramp up whilst recently announced cuts to OPEC oil production is expected to reduce Middle East LPG exports this year according to FGE.

China, India, Japan and South Korea remain the main demand drivers and together, imported over 16.6 million tonnes of LPG in the first quarter of 2023 as reported by Kepler, up 2.8% year-on-year. Chinese LPG demand is driven by its petrochemical sector with producers favouring LPG over naphtha.

U.S. cargoes now account for over 34% of total Chinese imports. Indian LPG demand is from the residential and retail sectors and imports have risen by 11.4% year-on-year. Amidst weaker and uncertain economic conditions, industrial and manufacturing activity declined, which impeded the recovery of the petrochemical sector.

Consequently, the global seaborne olefins, that's ethylene, propylene, butadiene, VCM. In 2023, it's estimated to increase by only 0.2% year-on-year to just over 16 million tonnes with a further 1.2% gain expected next year.

Ethylene exports from the U.S. dropped by 5% from the previous quarter. But with exports to Asia, with associated increased miles in the tonne-mile calculator, accounting for 70% of the volumes compared to 6% last year, when over 90% of the cargoes went to Europe.

Supply of propylene in Asia is expected to increase with new plants coming online that offer long-haul trading opportunities to the West. FGE reports that 7 new propylene dehydrogenation plants, that's PDH plants are planned to start up in China this year, adding approximately 4 million tonnes of annual production capacity to the existing 12 million tonnes.

Turning to the smaller gas carrier demand. The shipping market in Europe remained tight in the first quarter, mostly on account of a strong LPG market. Vessels were generally well employed, serving contractor reflagging, that's CRA, and spot cargoes and short-term floating storage contracts.

Strikes in France have disrupted refineries, crackers and downstream production units and delayed berthing and port turnaround schedules, which impacted shipping availability.

Favourable priced LPG from the U.S. offered gainful employment and higher tonne-mile utilization to the larger-sized pressure vessels. Freight levels were firm and gained across

all vessel sizes. European offshore producers have continued to manage cracker and downstream operating rates carefully.

Downstream demand was stable but at a low level. Hence, crackers and derivative plants were run at low rates, which limited regional spot market activity. U.S. ethylene exports remain steady and with approximately 70% of the product bound for Asia in the quarter, the handsized sector has been tight. In addition, robust exports of ethane from the U.S. further tightened the 12,000 to 22,000 cubic meter fleet offering employment in the Atlantic Basin.

The shipping market in the East was not as strong as in Europe with activity levels impacted by planned and unplanned shutdowns. LPG imports into Bangladesh fell by 12% quarter-on-quarter, impacted by rising costs due to the declining value of their local currency against the dollar.

Sri Lanka's imports -- LPG imports haven't yet gained traction with volumes lower by 17% quarter-on-quarter and 41% year-on-year. Regional supply of olefins was impacted by reduced operating rates, heavy maintenance programs and extended shutdowns on account of poor downstream demand.

Intra-Asian trades have declined and there were no long-haul exports to the West as was the case a year ago. China's propylene imports were 12% higher quarter-on-quarter, but ethylene imports were lower by approximately 20% quarter-on-quarter.

The quarter ended on a slightly more positive note with improved buying interest on expectations of tighter supply in the upcoming cracker turnaround season and improving underlying demand. The overall supply/demand fundamentals have resulted in increased utilization and firmer freight market levels, improving the underlying revenues and an encouraging increase to forward cover rates.

Year-on-year, there have been gains across all sectors, plus 2% for the 3,500 to 5,000 cubic meter vessels, plus 10% for the 7,500 cubic meter, 11% for the 11,000 cubic meter pressure vessels and 6% for the ethylene 8,250 cubic meter sector. All sectors are now above the 10-year average.

You can follow our market live via our website on a month-to-month basis where we publish a monthly report. Our business is globally diversified. At the end of the quarter, we had 11 vessels operating in the Americas, 32 in the Europe, Middle East, Africa belt and 21 in Asia.

In the first quarter, BW Epic Kosan averaged nearly 4 loading operations every day across our fleet, loading over 1.1 million tonnes and was involved in over 950 cargo operations in over 200 different ports. Our cargo mix is split about 50-50 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. Ship-

to-ship or STS operations remain an important part of our business and is an integral part of the global LPG supply chain. We continue to perform STS operations for delivery of LPG over the last mile into developing economies, with 44 such operations performed in the first quarter.

Turning to our operating metrics on Slide 10. We ended the quarter with 60 core vessels with a total capacity of just under 470,000 cubic meter and an average size of just over 7,800 cubic meter, up 9% year-on-year. We also have 4 additional vessels with a total capacity of 23,573 cubic meter 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 and spot contracts.

During the first quarter, the fleet traded under time charter for 76% of total voyage days compared to 63% a year ago and COA days for 9% as compared to 8% a year ago.

During the first quarter, the fleet experienced 160 technical off-hire days, which included the impact of 6 planned dry dockings, one of which had commenced in December. Our docking program during 2023 is at a higher level than a typical year due to our fleet age profile.

Overall, though, for the quarter, this has resulted in improved fleet availability of 97.1% and an operational utilization of 95.7% when compared to a year ago. I would now like to hand the call over to Uta to step through our financials. Thanks, Uta.

## **UTA URBANIAK-SAGE, CHIEF FINANCIAL OFFICER**

Thank you, Charles. I'm starting with our P&L. In the first quarter, we generated TCE revenues of US\$72 million, the same level we recorded in Q1 last year, despite the reduced fleet calendar days by 10% year-on-year.

Our TCE earnings per calendar day have increased by 10.5% to US \$12,956, reflecting an improved market and the increase of our average vessel size as we redelivered smaller vessels and took delivery of larger size vessels. Vessel operating expenses decreased 5.7% from US\$27.8 million to US\$26.2 million year-on-year, reflecting the reduction in peak calendar days, offset by higher costs due to inflationary pressures.

Operating expenses on a per calendar basis increased from US\$4,957 to US\$5,308 year-on-year, partly driven by the increased average vessel size by 9% to 7,829 cubic meters.

Chartered-in costs increased from US \$2.6 million to US\$3.5 million year-on-year due to charter contracts of additional tonnage, chartered-in on time charter basis. As of 31st of March, we had eight ships on inward charter arrangements, one on a bareboat basis and seven on a time charter basis.

G&A expenses per calendar day increased from US\$1,053 to US\$1,262 year-on-year due to the overall reduction of fleet calendar days. Finance expenses decreased from US\$4.8 million to US\$4.5 million year-over-year due to lower outstanding debt across our fleet, offset by increased interest rates for the unhedged part of our debt.

As of the quarter end, we had interest rate swaps in place for US\$233 million at a weighted average interest rate of 1.14%, covering 77% of our bank debt. We achieved an EBITDA of US\$33.4 million for the quarter, about the same level we reported in the first quarter of last year. We finished the quarter with a net profit of US\$12 million, a 31% improvement year-on-year. This translates into a return on equity of 9.7%.

Moving on to our balance sheet. The book value of the fleet, excluding asset trade for sale and lease assets at period end is US\$754 million, US\$94 million below latest broker valuations.

Our total debt, including these liabilities as of 31st of March was \$414 million, including our cash position of \$97 million, our net debt is US\$318 million, down by US\$43 million from the start of the year to 40% of book value, which we regard as a conservative level.

Our net asset value based on broker valuations is US\$585 million or US\$3.67 per share. We are in the process of finalising a refinancing for US\$140 million covering 19 vessels and a hunting line amounting to US\$20 million that will be available for potential vessel acquisitions.

The new facility includes a sustainability-linked margin adjustment with two key performance indicators: one KPI is linked to fleet emissions and the second is linked to the line of female seafarers.

The existing facilities were due to expire in 2023 and 2024. Upon completion scheduled for early June, we have no loan expiries until 2026. During the quarter, we sold 3,600 cubic meter pressurized LPG carriers and generated net cash proceeds of US\$13.7 million.

Subsequent to the quarter end, we sold another 3,600 cubic meter vessel in line with our strategy to focus on larger tonnage, delivery completed last week. I will now hand back to Charles for a summary and outlook.

## **CHARLES MALTBY, CHIEF EXECUTIVE OFFICER**

Thanks very much, Uta. To summarize, the first quarter saw improved utilization driven by a strong market in the West combined with an increase in our average vessel capacity. We also continue to add improving long-term coverage for time charters and CRAs and are effectively managing our operating costs.

The supply of newbuild vessels in our sector remains balanced with the small gas carrier fleet forecast to grow by 2.2% this year before any further scrapping. The larger order book for larger LPG segment is more substantial, but tight shipyard capacity, demand

and inflationary pressures are leading to increased shipyard newbuild costs and a longer order book for all sizes, alongside the higher technology costs associated with dual fuel LPG or LNG and other emissions reductions improvements.

We note that 73% of newbuild orders now placed for LPG vessels of a dual fuel LPG ethane or LNG. We expect that the implementation of the IMO's EEXI and CII regulations will result in a general reduction in the global fleets steaming speed.

Our sustainability report published in March of this year provides more details on our strategy and is available on our website. The threat of recession in key markets and higher interest rates with uncertainty on China's economic growth and ongoing geopolitics provide some reasons for uncertainty. LPG demand is expected to remain firm and Drewry's latest research estimates that seaborne LPG trade this year will increase by 2.7% to approximately 120 million tonnes with a related 3.1% growth in tonne-mile demand.

The olefins seaborne trade is also expected to grow, but by a more modest 0.2%. Asia remains the main driver for the LPG and olefins markets, but will be impacted by the uncertainty of pace in China's growth. Ethylene exports from the U.S. are also an important driver and where the most cargoes end up in Asia or in Europe will determine shipping ton-mile demand and consequential availability.

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. As mentioned, we are placing forward cover at improving levels. We have TC cover in place for the balance of the year at US\$12,944 per day, an increase of US\$1,169 per day year-on-year with 58% of our remaining fleet days for the year uncovered.

BW Epic Kosan has a scale and operational strength for future success and is working to grow its average fleet size and to maintain an attractive average age so that we can provide safe transportation in a lower carbon world. We believe that LPG will continue to serve as a cleaner energy form than many alternatives, especially in the residential sector, where it is a growing source of fuel in developing economies.

Alongside LPG, we are optimistic for growth opportunities in adjacent sectors such as ammonia and carbon dioxide CO<sub>2</sub> shipping. We have now reached the end of our presentation. Uta, please, can you guide if we have any questions today.

[...]

Thank you for your question. If you have further questions, please send them through to us directly. You can reach us via the contact details in the presentation and via our website. If there are no other questions, thank you very much for everyone taking the time

to join us and listen today, and we appreciate your interest in our company. If you have any questions, please do contact Uta and I. In the meantime, we look forward to catching up in August 2023 for our second quarter and half year 2023 earnings report. Thank you very much.

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