

## **BWEK Q2 2021, Earnings Call Script, 17<sup>th</sup> Aug 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 Q2 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 – Q2 2021 Highlights**

The transaction to form BW Epic Kosan was completed in March, increasing our fleet on the water to 76 vessels. The second quarter has been one of transition. Our fleet Calendar Days have increased by 55% year-on-year, a direct result of the consolidated fleet. We achieved a net profit for the second quarter of \$3.3 million, and \$10.3 million for the first half of the year.

Our growing fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, combined with a stable underlying market, saw our second quarter revenue increase to \$81.7 million, a 77% increase from a year ago. Time charter earnings (TCE) per calendar day increased by 5% year on year to \$10,848 per day. Our underlying operational expenses (OPEX) of \$4,754 per day were 17% higher than a year ago. The second quarter OPEX last year was below expectations due to Covid restricting the ability to perform crew transfers, whereas this year we are impacted by the higher costs of performing crew transfers at planned levels and the higher consequential costs. Also, the recent second quarter OPEX are higher due to the higher cost of running semi-refrigerated and refrigerated vessels. Our SG&A expenses per calendar day increased 13% year over year to \$1,156 due to the transaction costs for our combination with Lauritzen Kosan and the increase in the number of employees and office lease in Copenhagen. Our SG&A is planned to decrease in the future as we deliver effective operational integration. Our Fleet Operational Utilisation was 90.1%, which was 6% lower than last year.

Regrettably, our Lost Time Injury Frequency (LTIF) rate this quarter was 1.75 injuries per million hours worked, compared to the previous quarter, which was

a period free of lost time injuries, and highlights the need to always focus on safety, and successful delivery of necessary improvements in working practices.

We are working hard on our fleet emissions. Our fleet's carbon intensity metric expressed as an Annual Efficiency Ratio (AER), whilst down year to date by 0.4%, increased as compared to the first quarter due to our larger fleet and vessel types following the merger completion in March.

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.

We continue to be focused on profitable growth, and subsequent to the quarter end, as per our announcement yesterday, we have signed a transaction agreement to acquire two further 9,000 cbm vessels that have the capability to carry gases such as LPG, propylene, ammonia, and ethylene. They are expected to deliver within October 2021, and contribute positively to our 2022 P&L.

#### **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 capable 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. Many of our vessels are capable of carriage of future fuels including ammonia, and with modest investment, other speciality gases such as CO<sub>2</sub>.

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).

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**

There are a total of 341 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 7,500cbm that delivered during the quarter. There are five newbuilds scheduled to be delivered in the second half of 2021, five in 2022, and three in 2023, a total of 69,000cbm. This represents a 3.9% increase in the existing 1.79 million cbm fleet capacity. The formation of BW Epic Kosan has introduced semi-ref and ethylene capable vessels to our fleet. There are four small-sized semi-ref newbuilds on order, of which one is scheduled for delivery in 2021 and the other three in 2023, equating to fleet growth capacity of 4.9%. There are no smaller-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 15 ships totalling 49,800cbm that are aged 30 years and older - these potential scrapping candidates represent 2.8% 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**

Recovery was uneven in the second quarter, impacted regionally by the Delta variant of the Covid virus. Drewry's latest research has estimated that sea-borne LPG trade in 2021 will increase by 3% from last year to 109.9 million tonnes, with a related 3.9% 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 to approximately 15.3 million tonnes this year, equivalent to a year-on-year (yoy) gain of 2.5%, however the tonne mile demand growth is less clear, especially due to the regional impacts of the covid virus.

In Asia, China, India, Japan, and South Korea are the main demand drivers for LPG, and together imported 14.8 million tonnes in the second quarter, up by 5% yoy. China's LPG demand is driven by its petrochemical sector; imports

reached a record high of almost 6.5 million tonnes in the second quarter. However, India's LPG demand, which is mostly in the residential and retail sectors, suffered due to the second wave of Covid-19.

### **Slide 7 – Smaller Gas carriers – LPG & Petchems**

The USA remained the dominant LPG exporter. LPG exports on small gas carriers decreased by 5%, but 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 quarter on quarter increase of 8% and 5% respectively. China's propylene and ethylene imports in the second quarter declined 2% and 11% respectively compared to the previous quarter as weaker margins and slower domestic demand subdued downstream sentiment in Asia.

### **Slide 8 – 12 Month Time Charter Market**

The overall supply demand fundamentals have resulted in freight market levels remaining generally flat quarter-on-quarter. There is some modest noise between the vessel sizes, largely driven by intra-regional impact from Covid 19, however, year on year there have been modest gains for the larger pressurised vessels, up 1% for Pr 7,500cbm, and up 2% for Pr 11,000cbm. 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, 39 in the E.M.E.A belt and 26 in Asia.

In the second quarter, BW Epic Kosan averaged 4.1 loading operation every day, loaded over 1.4 million tonnes and was involved in 836 cargo operations in 202 different ports. LPG cargoes made up 52% 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 second quarter of 2021, our vessels carried out 84 STS operations,

which is equivalent to almost one STS operation every day, and about 10% 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 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. 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 experienced 340 technical off-hire days, which included six routine dry-docks and 82 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 94.5% and an operational utilisation of 90.1%.

During the second quarter, the fleet traded under time charter for 64% of total voyage days compared to 78.4% a year ago, reflecting the higher percentage of cargo COA cover now held. Our fleet's Time Charter Equivalent earnings per calendar day during the quarter was \$10,848, 5% higher than a year ago. The Time Charter Equivalent earnings per voyage day of \$11,479 was 10% higher than the second 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.

In Q2 2021, we generated TCE revenues of \$67.1 million compared to the \$41.3 million we recorded in Q2 2020. The increase is a result of our increased fleet calendar days by 55% following the business combination with Lauritzen Kosan.

Our TCE earnings per calendar day were \$ 10,848, 5% up from the \$ 10,319 we achieved in Q2 2020.

Vessel operating expenses increased from \$15.5 million to \$28.6 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-19.

Whilst Opex in Q2 2020 were below our normalised level due to Covid restricting the ability to perform crew transfers, we have seen higher Opex in Q2 2021 as we are now able to perform crew transfers at planned levels with associated higher consequential costs. As a result of this, vessel operating expenses per calendar day increased from \$ 4,051 to \$ 4,754 year over year.

Charter-in costs increased from \$4.5 million to \$ 6.4 million year over year as we took delivery of a 7500cbm new build on a bareboat charter-in contract for a firm period of 6 years end of last year, and due to the addition of five chartered-in ships following the combination with Lauritzen Kosan. As of 30 June, we had twelve ships on inward charter arrangements, ten on a bareboat basis and two on time-charter basis.

G+A expenses increased from \$4.1 million to \$ 8.0 million year over year, due to an increase in the number of employees and office lease in our new Copenhagen office and integration costs related to the business combination. On a per calendar day basis, they increased by 13% to \$ 1,156 year over year, but reduced by 4% compared to Q1 2021. We expect our G+A/day to decline further as we focus on achieving cost efficiencies.

Finance expenses increased from \$ 3.8 million to \$ 4.9 million year over year due to an additional loan facility of \$155 million to acquire the assets from Lauritzen Kosan.

As of the quarter end, we had interest rate swaps in place for \$ 276 million, covering 76% of our bank debt.

The Company reported an EBITDA of \$ 22.6 million, a 36% increase on the \$16.6 million we achieved in Q2 2020.

We finished the quarter with a Net Profit of \$3.3 million, bringing the YTD profit to \$10.3 million.

### **Slide 13 – Balance Sheet**

The book value of the fleet at period end is \$858 million, below latest broker valuations.

Our total debt, excluding operating leases, as of 30<sup>th</sup> June was \$467 million. Including our cash position of \$56.2 million, our net debt is \$411 million or 48% of book value.

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

Subsequent to the quarter end, we entered into a transaction agreement with Odfjell to acquire two 9,000cbm ethylene capable carriers (2008 built). The consideration will be settled partly in cash for which we have arranged equivalent debt and partly in shares. Post-completion, Odfjell will own a share of 4% in the Company. BW Group remains the largest shareholder with 56%. The transaction is expected to generate a positive contribution to our P&L.

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 second quarter profitable results point to a modest year on year recovery in market conditions, albeit regionally disrupted by Covid-19. 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% 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 modest improvement in the second quarter continues as we head through the third quarter, with 67% of our third quarter covered at an average daily time charter equivalent rate of \$11,587 per day, and for 2021, 56% of available days covered at \$11,636.

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<sub>2</sub>.

We have now reached the end of our presentation.

## **Q&A**

If there are any questions, we will now answer.

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 2021 for our third quarter 2021 Earnings report.