

BWEK Q3 2021, Earnings Call Script, 11th November 2021

Introduction – Charles Maltby

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 third quarter of 2021.

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 – Q3 2021 Highlights

We completed the transaction to form BW Epic Kosan in March, increasing our fleet on the water to 76 vessels, which means our fleet Calendar Days have increased by 54% year-on-year, a direct result of the consolidated fleet. We are pleased to have achieved a net profit for the third quarter of \$3.9 million, and \$14.1 million for the first nine months of the year.

Our growing fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, combined with a stable underlying market, saw our third quarter revenue increase to \$92.2 million, a 103% increase from a year ago. Time charter earnings (TCE) per calendar day, driven by our evolving mix of vessels and underlying market fundamentals, increased by almost 16% year on year to \$11,346 per day.

Our underlying operational expenses (OPEX) of \$5,177 per day were 13% higher than a year ago), impacted by the change in our fleet mix to include the more expensive to operate semi-refrigerated and ethylene vessels, Covid 19 costs, and inflationary pressures.

Our SG&A expenses per calendar day increased 10% year over year to \$1,097 whilst we work to complete our integration to form BW Epic Kosan and is an area of focus as we work towards integrated operational efficiency. Our Fleet Operational Utilisation was 91.1%, which was 1% lower than last year.

Regrettably, our Lost Time Injury Frequency (LTIF) rate this quarter was 0.88 injuries per million hours worked, compared to the same period last year, 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), is down by 0.2% year to date compared to last year, despite being 1% higher this quarter compared to Q3 2020. 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.

We remain focused on profitable growth and operational efficiencies - during the quarter we took delivery of one second hand 9,000 cbm vessel built 2008, followed by the second sister vessel in early October. We have also sold and delivered an older 7,200 cbm, as we focus our investments on the LPG, petrochemicals, and speciality gases sector, whilst growing the average size of our fleet and maintaining a low average age.

Slide 4 – Who We Are

Following the latest vessel acquisition in October, BW Epic Kosan presently operates a world-leading fleet of 77 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.

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

Taking a deeper dive on vessel supply. BW Epic Kosan has pressurised, semi-refrigerated and ethylene capable vessels as part of our fleet.

There are a total of 340 pressure vessels over 3,000cbm, excluding the Chinese flagged fleet, in the global fleet today, which includes one 5,000cbm newbuild that delivered during the quarter. There are three newbuilds scheduled to be delivered in the fourth quarter of 2021, nine in 2022, and two each in 2023 and 2024, a total of 89,000cbm. This represents a 5.0% increase in the existing 1.79 million cbm fleet capacity, before scrapping, over the next two years. The two newbuilds scheduled for delivery in 2024 will be 7,500cbm in size and 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 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 two ethylene vessels that are aged 30 years and older equivalent to 2.8% of existing fleet capacity.

To recap for the combined smaller gas carrier sectors, our expectations are for 0.7% and 1.5% net fleet growth in capacity before any further scrapping in 2021 and 2022 respectively.

Slide 6 – Global Demand

The market has remained healthy in the third quarter. The tighter global energy markets have strengthened the demand for LPG as industries and refineries capable of switching fuels have opted to use LPG instead of the more expensive LNG. Drewry's latest research has estimated that sea-borne LPG trade in 2021 will increase by 4.3% from last year to 111.3 million tonnes, with a related 5.2% 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 15.7 million tonnes in the third quarter, up by 14% yoy. China's LPG demand is driven by its petrochemical sector, and with power rationing forcing some petrochemical plants to cut operating rates, LPG feedstock demand reduced, and imports fell by 4% compared to the previous quarter. However, India's LPG demand, which is mostly in the residential and retail sectors, improved from the previous quarter by 23% to a record 4.9 million tonnes.

Slide 7 – Smaller Gas carrier Demand – LPG & Petchems

The USA remained dominant with LPG exports reaching 13.0 million tonnes in the third quarter, and approximately 55% of these volumes bound for Asia. LPG exports from the USA on pressure vessels remained similar to the previous quarter at approximately 200,000 tonnes. The Caribbean and Central American countries continued to account for over 75% of USA-origin cargoes, with the balance heading across the Atlantic to ports in West Africa. In the East, LPG imports into Bangladesh and Sri Lanka, which are driven by domestic demand, saw a quarter-on-quarter increase of 23% and 38% respectively. China's propylene and ethylene imports in the third quarter declined 4% and 5% respectively compared to the previous quarter as heightened Covid-19 measures and power outages disrupted schedules and dampened demand. As capacity in Asia increases, and favourable pricing allows, West bound propylene cargoes continue to be fixed – incremental PDH plants in the region will add further potential for this trade.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in freight market levels recovering from longer term market lows across all sectors. Year on year there have been gains for the pressurised vessels, up 5% for Pr 3,500cbm, up 7% for Pr 5,000cbm, and up 3% for Pr 7,500cbm. Whilst freight levels for the larger sized pressurised vessels and the Ethylene 8,250cbm vessels remain below the long-term average levels, supply and demand fundamentals support further recovery.

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

Our business continues to be a global one – we have 16 vessels operating in the Americas, 38 in the E.M.E.A belt and 22 in Asia.

In the third quarter, BW Epic Kosan averaged nearly 6 (5.7) loading operations every day across our fleet, loading over 1.5 million tonnes, and was involved in 1,114 cargo operations in 191 different ports. Our cargo mix is split about 50/50 between LPG and petrochemicals such as ethylene, propylene, butadiene and VCM. 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 and at sea fuelling Trade

Ship-to-ship (or STS) operations are an important part of our global business. During the third quarter of 2021, our vessels carried out 106 STS operations, which is equivalent to more than one STS operation every day, and almost 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 481,737cbm and an average size and age of 7,084cbm and 11 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 third quarter, the fleet experienced 254 technical off-hire days, which included two planned dry-docks and 43 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 91.1%.

During the third quarter, the fleet traded under time charter for 63.9% of total voyage days compared to 71.4% a year ago, reflecting the higher percentage of cargo COA cover now held.

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 Q3 2021, we generated TCE revenues of 70.5 million dollars compared to the 39.5 million dollars we recorded in Q3 2020. The increase is a result of our increased fleet calendar days by 50%. Our TCE earnings per calendar day were 11.346 dollars, 15.5% up from the 9,820 dollars we achieved in Q3 2020. The increase is reflecting improved markets and also higher earnings generated by semi-refrigerated and ethylene vessels.

Vessel operating expenses increased from 17.7 million dollars to 31.2 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 4,598 dollars to 5,177 dollars year over year due to higher cost of running different ship types as just discussed.

Charter-in costs increased from 4.5 million dollars to 6.4 million dollars 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 earlier this year. As of 30 September, we had twelve ships on inward charter arrangements, ten on a bareboat basis and two on time-charter basis.

G+A expenses increased from 4.0 million to 7.6 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. On a per calendar day basis, they increased by 9.8% to 1,097 dollars year over year, but reduced by 5% compared to Q2 2021. We expect our G+A/day to decline further over the next twelve months as we focus on achieving cost efficiencies.

Finance expenses increased from 3.5million to 4.8 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 278 million dollars at a weighted average interest rate of 1.1%, covering 76% of our bank debt in an environment with rising interest rates.

The Company reported an EBITDA of 23.3 million dollars, an 85% increase on the 12.6 million dollars we achieved in Q3 2020.

We finished the quarter with a Net Profit of 3.9 million dollars, bringing the YTD profit to 14.1 million.

Slide 13 – Balance Sheet

The book value of the fleet at period end is 860 million dollars, below latest broker valuations.

Our total debt, excluding operating leases, as of 30th September was 462 million dollars. Including our cash position of 63.6 million, our net debt is 398.4 million dollars or 46% of book value.

In September, we took delivery of a 9,000cbm ethylene capable vessel built in 2008. The consideration to Odfjell was settled partly in cash (for which we have drawn down equivalent debt financing) and partly by issuance of about 3.4 million new shares in the Company. The vessel entered straight into a time charter and is expected to generate a positive contribution to our P&L from day 1.

Also in September, we sold an unencumbered 2001 built 7,200cbm LPG carrier in line with our strategy to focus on modern tonnage. The sale will not have a material impact on our future earnings.

Subsequent to the quarter end, we took delivery of a second 9,000cbm ethylene carrier from Odfjell at the same terms as the first vessel. Post-completion, BW Group remains our largest shareholder with 56%.

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 pleasing third quarter profit points to a further strengthening in year-on-year market conditions. Despite continued Covid and inflationary challenges we see opportunity driven by strong pockets of residential LPG demand, increasing Asian & US petrochemical exports, and increased activity in European refining and petrochemical plants. Global LPG seaborne tonne-mile demand is forecast to grow by 5.2% in 2021. The new build supply side remains balanced with the small gas carrier fleet growth forecast for the year of 0.7% before any further scrapping. However, ordering of new vessels has picked up in the larger LPG segments, and we note that the majority of smaller newbuild orders now placed are for the more expensive dual fuel LPG or LNG.

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 third quarter continues as we head towards the end of the year, with 61% of the fourth quarter covered at an average daily time charter equivalent rate of \$11,628 per day.

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.

Q&A

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 February 2022 for our fourth quarter and full-year 2021 Earnings report.