

BWEK Q3 2022, Earnings Call Script, 29th November 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 third quarter.

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 2022 Highlights

Our improving headline revenue and TCE was driven by a seasonal recovery in spot rates, and when combined with lower operating costs we delivered a third quarter net profit of \$9.0 million, up by 105% year on year.

Our fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, earned a third quarter revenue of \$94.9 million, a 2.9% increase from a year ago. Time charter earnings (TCE) per calendar day in the quarter increased by 2.4% year on year to \$11,619 per day, driven by our evolving mix of vessels, and modest improvement in the underlying market.

Our operational expenses (OPEX) decreased by 4.1% to \$4,964 per day, reflecting a reduction in Covid-19-related expenses and some combination synergies.

Our G&A is also reducing as we benefit from economies of scale following the merger and favourable exchange rates, with the third quarter down by 4.6% year on year. However, as we head towards 2023, we can see that both OPEX and G&A are under increasing pressure from global inflation.

Our Fleet Operational Utilisation during the quarter was 92.3%, which was a 1.3% improvement on last year.

Our Lost Time Injury Frequency (LTIF) rate this quarter was 0.74, also an improvement from a year ago.

Our year-on-year emissions have increased by 8.4% with an AER of 24.75g of CO₂/dwt-tm because of increased utilisation and consequential fuel consumption, partially offset by investments in carbon emission reduction, such as silicone paints and other energy saving initiatives.

We are also involved with projects that support wider decarbonisation, such as shipping related to carbon capture and storage, whilst many of our vessels are capable of carriage of future clean fuels including LPG and ammonia.

Our strategy remains to focus on the LPG, petrochemicals, and speciality gases sector, continuing to grow the average size of our fleet and maintain an attractive average age.

Slide 4 – BW Epic Kosan at a glance

As of today, BW Epic Kosan operated a world-leading fleet of 70 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. “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.

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.

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 349 pressure vessels (non-Chinese flagged over 3,000cbm) on the water which includes two newbuilds that delivered during the quarter. The international pressure vessel order book has three more newbuilds scheduled to be delivered in fourth quarter of 2022, six in 2023 and three in

2024, a total of 91,000cbm. This represents a 5% increase in the existing 1.83 million cbm fleet capacity.

There are two 7,500cbm CO₂/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 three semi-ref vessels which are scheduled for delivery in 2023. This newbuild capacity of 15,000cbm equates to a 3% increase in existing semi-ref fleet capacity. There are three 7,200cbm LNG 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 two ethylene vessels that are aged 30 years and older equivalent to 3.3% of existing fleet capacity.

To summarise for the combined smaller gas carrier sectors, our expectations are for 2.2%, 1.6% and 1.5% net fleet growth in capacity before any further scrapping in 2022, 2023 and 2024 respectively.

Slide 6 – Global Demand

Global LPG trade has remained robust despite high energy and feedstock prices and supply disruptions. Drewry's latest research has estimated that seaborne LPG trade in 2022 will increase year on year by 3.5% to 116.4 million tonnes, with a related 4.0% growth in tonne-mile demand. On the other hand, the global seaborne olefins trade (that is petrochemicals such as ethylene, propylene, butadiene and VCM) is expected to decline from 16.1 million tonnes in 2021 to approximately 16.0 million tonnes in 2022, equivalent to a year-on-year change of -0.6% due to the economic slowdown and lower industrial activity in the manufacturing sector.

In Asia, the main demand for LPG comes from China, India, Japan, and South Korea, who together imported over 16 million tonnes in the third quarter of 2022, up by 6.9% qoq and by 2.3% yoy. Asian petrochemicals' production capacity, especially in China, is expected to increase over the next two years, however high feedstock costs impact operating rates at cracker units and could also delay the start-up of propane dehydrogenation (PDH) projects.

US ethylene exports declined by 32% qoq but rebounded towards the end of the quarter with an increasing number of favourably priced cargoes destined for Asia despite a weak market in the Far East. Europe's ethylene and propylene markets remained oversupplied complicated further by storage and logistics constraints. Derivative demand was weak, and regional producers focused on reducing stock levels.

Slide 7 – Smaller Gas carrier Demand – LPG & Petrochemicals

Turning to smaller gas carrier demand.

High LNG prices in Europe tightened up the availability of LPG in the region because it was used as a substitute fuel or pushed back into the gas stream. This renewed interest in cheaper product from the US towards the end of the quarter. So, despite lower activity in Europe further impacted by strike action at French refineries, shipping length began to reduce driven by increasing tonne-mile demand for imports from the US.

In the East, LPG imports into Bangladesh rebounded 10% qoq and 8% yoy indicating firm domestic demand. Sri Lanka has seen LPG imports pick up during the quarter but remain 30% below last year's level due to domestic economic challenges.

The Asian ethylene and propylene markets remained subdued on account of weaker margins and lower downstream demand. China's ongoing zero-Covid policy measures have continued to impact demand and market activity. However, on the back of declining US ethylene prices, comparatively higher prices in Asia attracted exports from Houston which tightened shipping length. China's ethylene and propylene imports in the third quarter were higher by 17% and 64% qoq and by 9% and 17% yoy, respectively.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in firmer freight market levels, improving underlying revenues and a modest increase to forward cover rates. Quarter on quarter there have been gains across all sectors, +7 to +8% for the 3,500-5,000cbm pressure vessels, +5 to +9% for the larger 7,500-11,000cbm pressure vessels, and +7% 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 – at the end of the quarter, we had 12 vessels operating in the Americas, 34 in the Europe/Middle East/Africa (EMEA) belt and 26 in Asia.

In the third quarter, BW Epic Kosan averaged nearly 5 (i.e., 4.8) loading operations every day across our fleet, loading 1.3 million tonnes, and was involved in 938 cargo operations in 221 different ports. Our cargo mix is split about 46/54% 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 are an important part of our business 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 227 such operations performed YTD, that is almost one a day.

Slide 10 – Operating Metrics

We ended the quarter with 67 core vessels with a total capacity of 502,171 cbm and an average size of 7,495 cbm, up 5.8% year on year. We also have five additional vessels with a total capacity of 33,650 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 third quarter, the fleet traded under time charter for 64.1% of total voyage days compared to 63.9% a year ago, and COA days for 8.1% of total voyage days compared to 12.1% a year ago.

During the third quarter, the fleet experienced 134 technical off-hire days, which included two planned dry-docks. We incurred 23 days off-hire related to Covid-19 counter measures, down by 20 days year on year, 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 97.8% and an operational utilisation of 92.3%.

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

Slide 11 – P&L

Thank you, Charles.

Starting with our P&L: In the third quarter, we generated TCE revenues of \$70 million, about the same level we recorded in Q3 2021. Our TCE earnings per calendar day were \$11,619, 2.4% up from the \$11,346 we achieved in Q3 2021, reflecting an improved market and the increase of our average vessel size as we re-delivered smaller vessels and took delivery of larger-sized vessels.

Vessel operating expenses decreased from \$31 million to \$27 million year on year, reflecting the reduction in fleet calendar days and the reducing impact of pandemic expenses. Operating expenses on a per calendar day basis also decreased from \$5,177 to \$4,964 dollars year on year.

Charter-in costs increased from \$1.1 million to \$3.4 million year on year due to the conversion of bareboat charter contracts of four vessels into time charter contracts and additional chartered-in vessels on a time charter basis, offset by the redelivery of four vessels in the first half of 2022 that were chartered in on a bareboat basis. As of 30th September, we had ten ships on inward charter arrangements, one on a bareboat basis and nine on a time-charter basis.

G+A expenses for the third quarter decreased from \$7.5 million to \$6.9 million year over year, reflecting cost synergies following the business combination that completed in March last year and favourable currency exchange rates for some of our overhead cost. On a per calendar day basis, they decreased by 4.6% to \$1,024 year over year.

Finance expenses decreased from \$5 million to \$4.9 million year over year due to lower outstanding debt across our fleet, offset by increased Libor rates for the unhedged part of our debt.

As of the quarter end, we had interest rate swaps in place for \$256 million at a weighted average interest rate of 1.15%, covering 76% of our bank debt.

We achieved an EBITDA of \$31.7 million and a Net Profit of \$9.0 million for the quarter. This translates into a ROE of 7.5%.

Slide 12 – Balance Sheet

The book value of the fleet at period end is \$826 million, \$74 million below latest broker valuations.

Our total debt including finance lease liabilities as of 30th September was \$422 million. Including our cash position of \$58.5 million, our net debt is \$363.5

million, down by \$49 million from the start of the year, to 44% of book value which we regard as a conservative level.

Our Net Asset Value based on broker valuations is \$565 million or \$3.54 per share.

Subsequent to the quarter end, we sold one older 6300cbm vessel at a premium to book value and generated net cash proceeds of \$5.2 million. We also signed an MoA to sell one of our smaller 3500cbm vessels, and received the 10% deposit with delivery scheduled before the end of this year.

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

Slide 13 – Summary and Outlook

To summarise, the stronger third quarter results have been driven by a seasonal recovery in spot rates, whilst we also continue to add improving longer-term coverage for time charters and COA's, combined with lower operating costs.

The supply of new build vessels in our sector remains balanced with the small gas carrier fleet forecast to grow by 2.2% and 1.6% over 2022 and 2023 respectively, 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.

Geopolitical conflicts, inflation, interest rates and energy costs are negatively impacting global growth. However, forecast seaborne LPG commodity demand growth for 2022, at 3.5%, is positive, and we expect demand to continue to firm over the winter, and 2023 seaborne LPG commodity demand is present forecast to grow by 2.9%. Favourable intra-region pricing for petrochemicals presently providing incremental tonne-mile demand.

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 modestly improving levels. As of 30 September 2022, the Company was approximately 62% covered for 2022, with 4,003 voyage days covered at an average daily Time Charter Equivalent rate of \$11,804, leaving 2,462 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 and the demand for ammonia dual-fuelled ammonia carriers.

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 February 2023 for our fourth quarter and full year 2022 Earnings report.