

## **BWEK Q4 & FYE 2021, Earnings Call Script, 22<sup>nd</sup> February 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 fourth quarter and full year 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 – Q4 & FYE 2021 Highlights**

Following our transaction to form BW Epic Kosan in March 2021, our core fleet on the water increased from 43 to 70 vessels, which means our fleet Calendar Days in 2021 increased by 47% year-on-year, a direct result of the consolidated fleet. We report a full year end net profit before non-recurring items of US\$19.2 million. However, we incurred a non-cash impairment and a loss on vessel sale in the fourth quarter amounting to a total of \$18.7m. This resulted in a net loss of \$13.7m in the fourth quarter and a final profit of \$0.4m for full year 2021.

Our growing fleet, which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, combined with a stable underlying market, saw our fourth quarter and full year revenue increase to \$95.5 million and \$329.1m respectively, a 116% and 80% increase from a year ago. Time charter earnings (TCE) per calendar day in 2021 increased by almost 11% year on year to \$11,126 per day, driven by our evolving mix of vessels and improving market fundamentals.

Our operational expenses (OPEX) in 2021 of \$4,975 per day were 16% 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. Over the year we have completed over 3,000 crew changes, all impacted in some way by Covid-19, we are grateful to our seafarers for their loyalty and perseverance.

Our full year General and Administrative (G&A) expenses per calendar day increased 6% year over year to \$1,113, primarily reflecting increased costs from our combination with Lauritzen Kosan. Our G&A is now reducing as we work towards integrated operational efficiency, with the final quarter down 7% year over year to \$1,020 per day. Our Fleet Operational Utilisation during the quarter was 92.7%, which was 1.6% lower than last year.

Regrettably, our Lost Time Injury Frequency (LTIF) rate this quarter was 0.44 days 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 the successful delivery of necessary improvements in working practices.

In 2021, our fleet's carbon intensity metric expressed as an Annual Efficiency Ratio (AER), is up by 1.8% compared to last year, as a result of increased fuel consumption by a much larger fleet of ships, partially offset by increasing utilisation within the year and investments in carbon emission reduction, such as silicon 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. 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 remain focused on profitable growth and operational efficiencies – in October, we took delivery of a 2008-built 9,000 cbm ethylene capable vessel; this followed our acquisition of a sister vessel we had taken delivery of in September. We have recently signed an MOA to sell an older 5,000 cbm vessel, as we focus our investments on the LPG, petrochemicals, and speciality gases sector, whilst growing the average size of our fleet and maintaining an attractive average age.

#### **Slide 4 – Who We Are**

Following the latest vessel acquisition in October, BW Epic Kosan presently operates a world-leading fleet of 78 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 (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 342 pressure vessels over 3,000cbm, excluding the Chinese flagged fleet, in the global fleet today. This includes one 3,500 cbm and one 5,000 cbm newbuild that delivered during the last quarter, the latter being the first dual fuel pressurised LPG vessel. The international pressure fleet's order book has ten newbuilds scheduled to be delivered in 2022, seven in 2023 and one in 2024, a total of 120,500cbm, which represents a 6.7% increase in the existing 1.79 million cbm fleet capacity before scrapping over the next three years. There are two 7,500cbm 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 four small-sized semi-ref newbuilds on order, of which one is scheduled for delivery in 2022 and the other three in 2023, equating to fleet growth capacity of 4.9%. There are also three 7,200cbm dual-fuel ethylene vessels under order for delivery in 2023-2024, 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 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 summarise for the combined smaller gas carrier sectors, our expectations are for 1.9% and 2.4% net fleet growth in capacity before any further scrapping in 2022 and 2023 respectively.

## **Slide 6 – Global Demand**

The market has remained healthy in the fourth quarter despite increasing energy prices. However, petrochemical demand has been affected by reducing margins, and some developing nations have started to switch back to coal and firewood impacting demand for LPG. Drewry's latest research has estimated that sea-borne LPG trade in 2021 increased year on year by 3.6% to 110.6 million tonnes, with a related 5.6% growth in tonne-mile demand. In 2022, a further 3.8% increase to 114.8 million tonnes and a related 2.9% 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 15.2 million tonnes in 2021, equivalent to a year-on-year gain of 1.8%, with a larger 3.8% gain expected in 2022.

In Asia, the main demand for LPG comes from China, India, Japan, and South Korea, who together imported over 60 million tonnes in 2021, up by almost 9% yoy. China's LPG demand is driven by its petrochemical sector, with the main increase in supply coming from the USA, up approximately 70% year-on-year to 8.3 m tonnes and expected to see further growth over 2022. Indian LPG imports on the other hand are driven by demand from residential users and the retail sector, and has risen by 1.8% over 2021

## **Slide 7 – Smaller Gas carrier Demand – LPG & Petchems**

LPG exports from the USA on smaller gas carriers increased by over 17% year-on-year to approximately 930,000 tonnes. The Caribbean and Central American countries continued to account for demand 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 increased by 16% year-on-year. Imports into the Philippines remained healthy through the year, whilst Sri Lankan imports showed signs of a resurgence in the fourth quarter with a 64% quarter-on-quarter gain. China's ethylene and propylene imports in 2021 were around 2.0 million tonnes and 2.5 million tonnes respectively, a modest year-on-year gain of 4.5% for ethylene and flat for propylene. West bound propylene cargoes were fixed in Asia due to ongoing favourable pricing. With reduced operating rates and lower consumption in China and in the region, surplus volumes have been available for long haul export, creating incremental tonne-mile demand. As propylene production capacity in Asia increases, driven by incremental PDH plants in the region, and if favourable pricing allows, West bound propylene cargoes have opportunity for further growth.

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

The overall supply demand fundamentals have resulted in freight market levels recovering from longer term market lows. Year on year there have been gains across all sectors, +8-9% for the smaller sub-5,000cbm pressure vessels, and +2-4% for the larger 7500-11,000cbm pressure vessels, and +1% for the Ethylene 8,250cbm sector. The Pr 7,500 cbm, Pr 11,000 cbm and Ethylene 8,250 cbm vessels are still below long-term average levels, but supply and demand fundamentals support further recovery.

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

Our business is globally diversified – we have 12 vessels operating in the Americas, 36 in the E.M.E.A belt and 30 in Asia.

In the fourth quarter, BW Epic Kosan averaged nearly 6 (5.5) loading operations every day across our fleet, loading almost 1.6 million tonnes, and was involved in 1,085 cargo operations in 198 different ports. Our cargo mix is split about 44/56 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 fourth quarter of 2021, our vessels carried out 107 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 70 core vessels with a total capacity of 500,341 cbm and an average size and age of 7,148 cbm and 11 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 fourth quarter, the fleet experienced 313 technical off-hire days, which included four planned dry-docks and 28 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 95.1% and an operational utilisation of 92.7%.

During the fourth quarter, the fleet traded under time charter for 66.7% of total voyage days compared to 70.5% 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 Q4 2021, we generated TCE revenues of 72 million dollars compared to the 38.5 million dollars we recorded in Q4 2020. The increase is a result of our increased fleet calendar days by 62%. Our TCE earnings per calendar day were 11,337 dollars, 15.4% up from the 9,823 dollars we achieved in Q4 2020. The increase is reflecting improved markets and the higher earnings generated by semi-refrigerated and ethylene vessels.

Vessel operating expenses increased from 15.2 million dollars to 32 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 0.8 million dollars.

Vessel operating expenses per calendar day increased from 4,007 dollars to 5,415 dollars year over year due to higher cost of running different ship types as just discussed. For the full year 2021, our opex per day were 4,975 dollars.

Charter-in costs increased from 4.1 million dollars to 6.2 million dollars year over year due to the addition of chartered-in ships during 2021. As of 31<sup>st</sup> December, we had twelve ships on inward charter arrangements, five on a bareboat basis and seven on time-charter basis.

G+A expenses for the final quarter increased from 4.3 million to 7.2 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 decreased by 7.1% to 1,020 dollars year over year.

Finance expenses increased from 3.5million to 4.8 million year over year due to additional loan facilities to acquire the assets from Lauritzen Kosan and Odfjell.

As of the quarter end, we had interest rate swaps in place for 285 million dollars at a weighted average interest rate of 1.135%, covering 76% of our bank debt in an environment with rising interest rates.

The Company reported an EBITDA of 25.6 million dollars, a 79% increase on the 14.3 million dollars we achieved in Q4 2020.

We recognised a provision for vessel impairment on some of our smaller, older ships in the fleet and a loss on sale of vessels of \$18.7 million. We are in the process of considering changing the accounting standard from US GAAP to IFRS with effect from 1 January 2022. The effects of such transitioning to IFRS are not expected to be material on the Group's financial statements and net results.

Before impairment and loss on sale of vessels, the Net Profit for the quarter was \$5 million, it was \$19.2 million for the full year 2021. After impairment, the Company recorded a Net Profit of \$0.4 million for 2021.

### **Slide 13 – Balance Sheet**

The book value of the fleet at period end is 859 million dollars, 40 million below latest broker valuations.

Our total debt, excluding lease liabilities, as of 31<sup>st</sup> December was 472 million dollars. Including our cash position of 58 million, our net debt is 414 million dollars or 48% of book value.

In October, we took delivery of a 9,000cbm ethylene capable vessel. 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.

In December, we completed the acquisition of an 11,000cbm pressurised LPG carrier. The ship has been on bareboat-charter-in since February 2017, and we exercised the purchase option under the charter contract. This transaction has substantially reduced the all-in cash cost.

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 positive fourth quarter and full year market and results point to a likely further strengthening in market conditions supported by supply and demand fundamentals. However, commodity-price volatility, high energy prices, and continued Covid challenges will impact our business. We see opportunity driven by strong pockets of residential LPG demand, increasing Asian & US petrochemical exports, and a modest increase in activity in European refining and petrochemical plants. Global LPG seaborne tonne-mile demand is forecast to grow by 2.9% in 2022. The new build supply side remains balanced with the small gas carrier fleet 2022 growth forecast to be 1.9% 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 fourth quarter continues as we head into the new year, with 36% days covered for 2022 at an average daily time charter equivalent rate of \$11,967 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 CO<sub>2</sub>.

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 May for our first quarter 2022 Earnings report.