Epic Gas Q3 2020, Earnings Call Script, 12th November 2020.

My name is Charles Maltby, CEO of Epic Gas Ltd and I would like to welcome you to today's call to discuss our results for Q3. I am joined today by our Chief Financial Officer, Uta Urbaniak – Sage.

Before we start, I would like to highlight that the webinar we are using allows for Q&A, so please enter your questions as we go along; 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 2020 Highlights

During the third quarter, as anticipated, Covid-19 has visibly impacted our results, with slightly lower revenues, increased off hire, and higher operational expenses. Whilst our year to date revenues have increased by over 9%, our quarterly revenue fell by 3.6 per cent year on year to 45.4 million dollars, and our Time Charter Equivalent revenues of 9,820 dollars per vessel calendar day were 1.5% lower compared to 9,965 dollars earned in Q3 2019. Our Fleet Operational Utilisation was 91.9%, which was 3.4% lower than the 95.1% achieved a year ago. Our OPEX increased by 8.9% year on year to $4,598, driven by incremental costs of crew change and delivery of spare parts to our vessels under Covid-19.

After including the impact of a book loss on the sale of our eldest vessel, our underlying operating profit of $0.9m for the quarter is adjusted to a net Loss of $2.6 million.

We remain focussed on our safety performance and report a further Lost Time Injury Free period this quarter. Our environmental goal to reduce Carbon Intensity from 2018-levels, which was at 24.6 improved by 7.4% YTD to 22.77 grams CO_2 per DWT nautical-mile. In terms of CO_2 reduction, we achieved a YTD reduction of 2.76% compared to 1.69% same time last year.

Slide 4 – Who We Are

We are an integral part of the LPG supply chain, primarily for LPG into domestic or residential markets over the last mile or regionally on global basis. Domestic or residential demand accounted for approximately 44% of total LPG demand in 2019 and is regarded as the dominant LPG consumption sector. Industry experts expect residential demand growth to account for the primary future growth in demand for LPG.

We are a customer focused organisation, and our investment into primarily larger pressurised vessels over the past five years, has been driven by upsizing in customer demand, evolving energy fundamentals, new and increasing trade alongside increasing supplies, and larger vessel economics – our average vessel size of 7,295cbm is the same as a year ago.

The focus on diversified global growth markets, increased capacity and average vessel size are delivering steady increases in earnings over time.

Slide 5 – Vessel Supply

There are a total of 337 pressure vessels over 3,000cbm, excluding the Chinese flagged fleet, on the water today including one 3,500cbm newbuild that delivered during the quarter. There are four newbuilds scheduled to be delivered in Q4 2020, eight in 2021 and three in 2022. Collectively, these give a total of 81,000cbm due to be delivered by the end of 2022, representing a 4.6% increase in the existing 1.75 million cbm fleet capacity.

The smaller-sized semi-ref fleet, that on occasion can compete or overlap on certain trades with pressure vessels, has an order book of three vessels, two to be delivered in Q4 2020, and one in 2022. One of them is a more expensive ethylene vessel. There is also one small-sized multi-gas carrier (i.e. LNG/Eth/LPG) that is scheduled for delivery in 2021. This newbuild capacity of 20,800cbm equates to total gross semi-ref fleet growth of approximately 1.5%.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international pressure fleet today, there are 10 ships totalling 34,000cbm that are aged 30 years and older, and another 12 ships totalling 47,000cbm that are aged 28 to 29 years – these potential scrapping candidates represent 4.6% of existing fleet capacity which matches 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 3.1% of existing fleet capacity.

Slide 6 – LPG Demand – lower growth this year

Global seaborne LPG volumes are forecast to grow at a lower rate than previously expected. The Covid-19 pandemic and a low oil-price environment have impacted global markets including the LPG trade dynamics.

Drewry have lowered their 2020 forecast for seaborne LPG trade to 108.2 million tonnes from 110.5 million tonnes estimated a year ago, leading to a forecast 0.6% growth this year. Related tonne-mile demand growth forecast has been reduced by about 3.7%. Irrespective, it is important to remember this is slower growth. For example, LPG exports from the USA increased to record levels this quarter, up by 4% from the second quarter of 2020, and up by 8% year on year.

In Asia, despite the volatility, China and India remain the key demand drivers. China's PDH plants and other petrochemical units have re-started, but derivatives production which is dependent on global economic recovery is impacting demand. India's LPG imports increased by 14% in the third quarter compared to the second quarter.

Slide 7 – Demand - Regional Trade

In Q3, US export volumes on pressurised and small sized semi-ref vessels amounted to a record high of approximately 174,000 tonnes, up by 24% from the previous quarter. Cargoes destined for the Caribbean and Central America continued, with an increase of trans-Atlantic cargoes into the Mediterranean and West Africa.

Europe is an important market generally for smaller vessels in our sector and has been impacted by lower refinery runs on the back of lower demand for gasoline and aviation fuel. Approximately 80% of LPG supply is refinery gas and the reduction in supply impacted the coastal movements as the available tonnes would have been used to serve domestic markets. Regular LPG deliveries into Morocco, continued as domestic LPG demand remained positive.

The second half of the quarter proved to be difficult in the Middle East Gulf, which is typically serviced by larger pressure vessels, with prolonged maintenance resulting in lower production and exports from Iraq. Regular LPG deliveries into Bangladesh, Sri Lanka, Vietnam, and Philippines continued as domestic LPG demand remained strong.

In the petrochemical trade, plants in Europe adjusted production levels as the pandemic impacted regional demand. Propylene exports from North West European plants were down by over 15% year on year. In Asia, the signs of recovery are evident, with China Custom's data showing that propylene imports increased by 25% as compared to the previous quarter and were 4% higher than last year. As referenced earlier, much depends on the global economic recovery and demand, which is a driver of China's petrochemical derivatives industry.

Slide 8 – 12 Month Time Charter Market

To summarise, the aforementioned factors have resulted in the large-sized pressure vessels generally performed better than the small vessels during the quarter. Compared to Q2 2020, the average rates were down 5% for 3,500cbm, down 2% for 5,000cbm and for 7,500cbm, but up 2% for 11,000cbm.

Slide 9 – Epic Gas Operations – Geographical and Commodity Diversity

In the third quarter, Epic Gas loaded 944 thousand tonnes and was involved in 658 cargo operations in 152 different ports. LPG cargoes made up 77% of the cargoes lifted, with the balance being petrochemicals. This diversity in geography and commodity provides options for our fleet, and relative stability in our earnings floor.

Our business continues to be a global one, during the quarter, we had 7 vessels operating in the Americas, 24 in the E.M.E.A belt and 12 in Asia.

Slide 10 – Epic Gas LPG break bulk trade

Ship-to-ship (or STS) operations are an important part of our global business. During the third quarter of 2020, our vessels carried out 125 STS operations, which is equivalent to more than one STS operation every day, and about 20% 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. Whilst we are involved with STS operations on a global basis, in the last quarter we increased our operations off Singapore, the East Coast of India, East Africa and Brazil.

Slide 11 – Operating Metrics

We ended the quarter with a fleet of 43 vessels with a total capacity of 313,700cbm and an average size and age of 7,295cbm and 9.2 years. Our focus on larger vessels within the sector continues. We have the youngest and largest global pressure-vessel fleet by capacity, and offer flexibility between time charters, voyage charters, contracts of affreightment ('COA') and spot contracts.

Slide 12 – Fleet Performance

During the third quarter, the fleet experienced 216 technical off-hire days, equivalent to 5.4%, which included five routine dry-docks and 66 days incurred facilitating crew transfers 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 94.6% and an operational utilisation of 91.9%.

For the remainder of 2020, subject to Covid-19, we are planning special survey dry docks on 3 vessels with a total expected off-hire time of 53 calendar days.

During the third quarter, the fleet traded under time charter for 71.3% of total voyage days compared to 62.2% a year ago. Our fleet's Time Charter Equivalent earnings per calendar day during the quarter was $9,820, 1.5% lower than a year ago. The Time Charter Equivalent earnings per voyage day of $10,375 was 2.5% higher than the third quarter of 2019.

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

Slide 13 – P&L

Thank you, Charles.

In Q3 2020, we generated TCE revenues of 39.5 million dollars compared to the 39.6 million dollars we recorded in Q3 2019. Our TCE earnings per calendar day were 9,820 dollars, 1.5% down from the 9,965 dollars we achieved in the third quarter of 2019, mainly due to supply-demand imbalances. Our YTD TCE of 10,128 dollars is 4.2% above last year's level.

Vessel operating expenses increased from 16 million dollars to 17.7 million year over year as we were able to step up the number of crew transfers during Covid-19. This resulted in higher crew change cost, quarantine cost, embarkation, testing and extra flight costs of 500,000 dollars. We've also seen an increase in freight forwarding costs for spares of 200,000 dollars due to Covid-19. The impact of Covid-19 is also reflected in our Opex per calendar day which increased by 8.9% to 4,598 dollars year over year. On a YTD basis, our opex are 1.4% higher than last year. We expect to see further over-spend on Covid-19 related expenses for the balance of the year.

Charter-in costs decreased from 5.3 million dollars to 4.5 million dollars year over year as we exercised a purchase option of an 11,000cbm LPG ship in the fourth quarter of last year that had been on bareboat charter-in since February 2015. Subsequent to this quarter end, we took delivery of the Epic Beata, a

7500cbm, 2011 built LPG carrier that was previously time-chartered in. That leaves us with six ships on inward charter arrangements, five on a bareboat basis and one on time-charter basis.

SG+A expenses decreased 4.2% on a per calendar day basis, from 1,043 dollars in Q3 2019 to 999 dollars in Q3 2020, mainly due to lower travel expenses during Covid-19. On a lumpsum basis, they decreased 3.3% from 4.2 million dollars to 4.0 million dollars year over year.

Finance expenses decreased from 6.2 million dollars to 3.5 million dollars year over year. The number last year was impacted by a write-off of deferred finance charges of $1.6 million dollars. Even without taking these one-off charges into account, our finance expenses decreased significantly by 24% year over year due to a lower US Dollar LIBOR and a lower interest margin following our fleet refinancing end of last year.

As of the quarter end, we had interest rate swaps in place for 178 million dollars, covering 77% of our bank debt.

The Company reported an EBITDA of 12.6 million dollars, 6% down from the 13.4 million dollars we achieved in the third quarter of 2019. On a YTD basis, our EBITDA is up by 30% compared to 2019.

We finished the quarter with a Net Loss of 2.6 million dollars which includes a book loss of $3.5 million on the sale of the oldest ship in our fleet. On a YTD basis, our result is a Net Profit of 4.2 million.

Slide 14 – Balance Sheet

The book value of the fleet at period end is 577 million dollars, below latest broker valuations.

Our total debt, excluding operating leases, as of 30 September 2020 was 326 million dollars. After reduction of cash of 59.3 million, our net debt is 266 million dollars or 46% of book value.
Other than normal amortisation, we have no further loan expiration until mid-2023.
I will now hand back to Charles for a Summary and Outlook.

Slide 15 – Summary and Outlook

We would like to conclude our presentation by sharing our outlook on the LPG market. Covid-19 is visibly impacting our results, with lower revenues, increased off hire, and higher operational expenses. Beneficial macro trends of over 5%

forecast growth in global LPG seaborne trade for the year have been revised down to 0.6% growth and is now lower than a forecast 2.1% growth in the pressurised fleet capacity for the balance of the year.

Operational challenges caused by Covid-19 have escalated and include an inability to cost effectively deploy and repatriate crew, delays to spares and dry docking, and quarantine issues in some ports. Despite our strenuous efforts, we expect these challenges to remain with us into the first half of 2021, and to lead to ongoing higher OPEX costs over the period. We fully endorse the work of international organisations and industry bodies to unlock the global log jam on safe crew transfers and are grateful to our seafarers for their patience.

We observe the increasing industrial activity in some economies, especially Asia, and our core customers in the residential LPG markets are in the most resilient sector of the LPG market. Forecasts for 2021 remain positive, with LPG seaborne trade growth forecast to rebound to 2.8%, whilst fleet growth forecasts are 2.3%.

For 2021, we presently have 21% of available days covered at an average daily Time Charter Equivalent rate of $9,947.

We can take some comfort from a large, efficient, and sustainable younger fleet, with no loan expiry until mid-2023. We also remain opportunistically focused on the fine tuning of our asset base and costs, with our fleet being supplemented by the addition of a modern 7,500cbm vessel later this month.
We have now reached the end of our presentation.

Q&A

If you have any questions, please drop us a line. As there are none at this moment in the Q&A, we are very happy to also take questions directly to Uta or I in the next few days via email or call.

Thank you for everyone making the time to join and listen today, we appreciate your interest in Epic Gas. We look forward to catching up in February 2021 for our fourth quarter and full year 2020 Earnings report.