Epic Gas Q4 and Full Year 2020, Earnings Call Script, 17th February 2021.

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 Q4 and Full Year 2020. 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 – Q4 & Full Year 2020 Highlights

The increased average capacity of the fleet combined with effective cost management has helped us deliver an 8% improvement in revenue and a full year operating profit of $10.9m and a net profit of $5.9 million after a loss on sale of vessels of $5 million in line with the Company's strategy to focus on modern, larger-sized vessels.

Whilst our revenues are up year on year, and stable compared to the third quarter, they are down $496 / 4.8% per calendar day since the second quarter, largely due to Covid-19 and oil price volatility impacting the supply and processing of LPG and petrochemicals.

However, by the fourth quarter, our Time Charter Equivalent revenues of 9,823 dollars per vessel calendar day were 4.6% higher compared to Q4 2019. Our Fleet Operational Utilisation was 94.2%, 4.1% higher than the 90.5% achieved a year ago and our OPEX decreased by 9.1% year on year to $4,007. After including the impact of a book loss on the sale of a vessel, we ended the quarter with a net profit of $1.7 million.

We remain focussed on our safety performance and report a Lost Time Injury Free period this quarter. Our environmental goal to reduce Carbon Intensity from 2018-levels which was at 24.6, improved by 8.1% to 22.6 grams CO_2 per DWT nautical-mile at year end 2020. In terms of CO_2 reduction, we achieved a year end reduction of 2.9% compared to 1.4% same time last year.

The Board has considered the annual results and declared a cash dividend of 14.069 cents per share amounting to US$15 million. The shares will be traded ex-dividend from 18 February 2021. The dividend will be payable on or about 26 February 2021 to shareholders on record as of 19 February 2021.

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.

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 is 7,388cbm compared to 7,293cbm a year ago.

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

In December 2020, we announced our intention to combine with Lauritzen Kosan A/S to create BW Epic Kosan. Lauritzen Kosan will contribute 34 gas carriers to Epic Gas's fleet of 42 pressurised gas vessels, in addition to certain other assets, in exchange for new shares in Epic Gas. We remain on track to close by the end of the first quarter 2021. The company will be headquartered in Singapore, with Copenhagen as a regional office alongside offices in London, Manila and Tokyo. The combined organisation will have significant commercial and technical capability across pressurised, semi-refrigerated, refrigerated gas and petrochemical transportation – focused on the delivery of a leading service and operational standards to our global customer base.

Slide 5 – Vessel Supply

There are a total of 336 pressure vessels over 3,000cbm, excluding the Chinese flagged fleet, on the water today including two 7,500cbm newbuilds that delivered during the quarter. There are 14 newbuilds scheduled to be delivered in 2021 and three in 2022. Collectively, these give a total of 84,500cbm representing a 4.8% increase in the existing 1.76 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 one vessel to be delivered in Q3 2021. This newbuild capacity of 9,100cbm equates to total gross semi-ref fleet growth of approximately 1.8%.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international pressure fleet today, there are nine ships totalling 30,500cbm that are aged 30 years and older, and another 10 ships totalling 39,400cbm that are aged 28 to 29 years – these potential scrapping candidates represent 4.0% of existing fleet capacity which offsets 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

The global LPG market is slowly recovering from the pandemic and oil price volatility of March 2020. Pre-Covid-19, Drewry had forecast that sea-borne LPG trade in 2020 would exceed 110 million tonnes. However, their latest estimate is 108.7 million tonnes, a more modest 1.1% year on year increase. Their 2021 outlook remains positive with a forecast of 2.4% growth in sea-borne LPG trade equivalent to 111.3 million tonnes, and a related 5.1% growth in tonne-mile demand. In Asia, China and India remain leading demand drivers, with Chinese petrochemical demand expected to lead to a spike in LPG imports during 2021, whilst in India, the retail and residential and retail sectors are expected to boost LPG demand.

Slide 7 – Demand - Regional Trade

In Q4, US export volumes on pressurised vessels amounted to approximately 168,000 tonnes, up by 32% from a year ago. 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 for smaller vessels in our sector. With over 50% of LPG supply being refinery gas, the resurgence of the Covid-19 virus in the fourth quarter impacted refinery runs on the back of lower demand for gasoline and aviation fuel. Refinery LPG production loss in December was approximately 120,000 tonnes, almost 75% higher than the beginning of the quarter.

Domestic LPG demand in core growth markets such as Bangladesh, Sri Lanka, Vietnam, and Philippines have remained strong.

In the petrochemical trade, China's propylene imports in the fourth quarter averaged 212,000 tons per month, a decline of 18% and 21% compared to the previous quarter and from a year ago respectively. 75% to 80% of these imports come from regional markets, served by the smaller-sized pressurised vessels.

Slide 8 – 12 Month Time Charter Market

The overall supply demand fundamentals have resulted in freight market levels remaining generally flat quarter-on-quarter. Compared to Q3 2020, the average rates were down 2% for 3,500cbm, up 2% for 5,000cbm, no change for 7,500cbm, and up 1% for 11,000cbm. The larger vessel rates in particular have shown a steady recovery in recent years but remain below long-term average levels.

Slide 9 – Epic Gas Operations – Geographical and Commodity Diversity

Our business continues to be a global one, during the quarter, we had 6 vessels operating in the Americas, 24 in the E.M.E.A belt and 13 in Asia.

In the fourth quarter, Epic Gas loaded 896 thousand tonnes and was involved in 626 cargo operations in 141 different ports. LPG cargoes made up 73% 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.

Slide 10 – Epic Gas LPG break bulk trade

Ship-to-ship (or STS) operations are an important part of our global business. During the fourth quarter of 2020, our vessels carried out 95 STS operations, which is equivalent to more than one STS operation every day, and about 15% 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.

Slide 11 – Operating Metrics

We ended the quarter with a fleet of 43 vessels with a total capacity of 317,700cbm and an average size and age of 7,388cbm and 8.9 years - the youngest and largest global pressure-vessel fleet by capacity. We continue to fine tune our fleet, to focus on modern larger vessels, and consequently have sold two smaller or older vessels during the second half of the year and taken delivery of two younger 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.

Slide 12 – Fleet Performance

During the fourth quarter, the fleet experienced 151 technical off-hire days, equivalent to 3.9%, which included four routine dry-docks and 28 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 96.1% and an operational utilisation of 94.2%.

During the fourth quarter, the fleet traded under time charter for 70.5% of total voyage days compared to 67.7% a year ago. Our fleet's Time Charter Equivalent earnings per calendar day during the quarter was $9,823, 4.6% higher than a year ago. The Time Charter Equivalent earnings per voyage day of $10,218 was 5.8% higher than the fourth 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 2020, we generated TCE revenues of 160 million dollars compared to the 145 million dollars we recorded in 2019. The increase is a result of our increased fleet calendar days by 5.6% and the increased average ship size by 1%. Our TCE earnings per calendar day were 10,053 dollars, 4.4% up from the 9,632 dollars we achieved in 2019.

Vessel operating expenses increased from 62.9 million dollars to 65.3 million year over year, reflecting the increased fleet calendar days and also the impact of Covid-19 with higher crew change cost, quarantine cost, embarkation, testing and extra flight costs of 1.7 million dollars. We've also seen an increase in freight forwarding costs for spares of 300,000 dollars due to Covid-19. On a per calendar day basis, vessel operating expenses decreased from 4,330 dollars to 4,276 dollars year over year, irrespective of the upwards pressure from covid-19 expenses.

Charter-in costs decreased from 19.1 million dollars to 17.7 million dollars year over year as we exercised a purchase option of an 11,000cbm LPG ship in the fourth quarter of 2019 that had been on bareboat charter-in since February 2015. In November, we took delivery of a 7500cbm, 2011 built LPG ship that was time-chartered in. In the same month, we took delivery of a 7500cbm new build on a bareboat charter-in contract for a firm period of 6 years with purchase options. That leaves us with seven ships on inward charter arrangements, six on a bareboat basis and one on time-charter basis.

SG+A expenses decreased 2.9% from 17.2 million to 16.7 million year over year, mainly due to lower travel expenses during Covid-19. On a per calendar day basis they decreased by 7.8% to 1,048 dollars.

Finance expenses decreased from 19.5 million to 15 million year over year, a reduction of 23%. The number last year was impacted by a write-off of deferred finance charges of $1.7 million dollars. Even without taking these one-off charges into account, the lower interest margin achieved during our refinancing at the end of 2019 has delivered a significant our decrease in finance expenses.

As of the year end, we had interest rate swaps in place for 173.5 million dollars, covering 75% of our bank debt.

The Company reported an EBITDA of 58.5 million dollars, 30% up from the 44.9 million dollars we achieved in 2019.

In 2020, we sold two older legacy ships with relatively higher book values compared to our modern tonnage. Subsequent to the year end, we sold Epic Corsica, another legacy 3500cbm ship, in line with the Company's strategic objective to focus on larger-sized tonnage. As a result of these sales, the Company realised a total loss on sale of vessels of 5 million. We finished the year with a Net Profit of 5.9 million dollars.

Slide 14 – Balance Sheet

The book value of the fleet at period end is 566 million dollars, below latest broker valuations.

Our total debt, excluding operating leases, as of 31st December 2020 was 323.5 million dollars. After reduction of cash of 55.5 million, our net debt is 268 million dollars or 47% 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.

The challenges of 2020 are expected to remain with us. Covid-19 has led to increased overall operational expenses (OPEX) for the year, primarily related to crew change expenses and freight forwarding costs for spares. A secondary impact has been increased offhire for our fleet as we position vessels to facilitate crew changes and meet quarantine requirements.

Whilst the pandemic has impacted global LPG supply and demand dynamics and disrupted our business operationally, opportunities lie ahead with global LPG seaborne trade growth forecast to rebound to 2.4% in 2021. Asian demand growth for LPG remains positive, driven by China's petrochemical industries and India's retail and residential sectors.

On the vessel supply side, the pressurised fleet growth forecasts for the year is 3.8%, but this is excluding a potential scrapping pool of 4.0% of the existing fleet capacity.

For 2021, we presently have 38% of available days covered at an average daily Time Charter Equivalent rate of $11,158. Our strategy remains to further improve our earnings potential, reduce our costs, increase our efficiency, and work towards the IMO emissions targets for 2030.

Our merger with Lauritzen Kosan is on track to complete by the end of the quarter and will provide a second strong leg for the combined "BW Epic Kosan", with critical mass within the semi-ref, refrigerated and ethylene capable sector, alongside opportunity for efficiency and synergy.

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 Epic Gas. 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 2021 for our first quarter 2021 Earnings report.