

Event	BW Epic Kosan Q2 and H1 2023 Earnings Presentation
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Hosts	Charles Maltby, CEO Uta Urbaniak-Sage, CFO

CHARLES MALTBY, CHIEF EXECUTIVE OFFICER

My name is Charles Maltby, CEO of BW Epic Kosan and I'm joined by our Chief Financial Officer, Uta Urbaniak-Sage. We would like to welcome you to our call to discuss our first quarter of 2023. I would like to highlight that the webinar is being recorded for later viewing and allows for questions to be asked any time via the Q&A window. We will answer your questions at the end, either verbally or via original response or offer to take off-line separately at a later stage. I would also like to draw your attention to the disclaimer on Slide 2.

Moving on to Slide 3. The second quarter saw improved utilisation of 92.8%, irrespective of a heavy dry-docking programme, driven by a stronger market and an increasing average vessel size. Combined with effectively managed operating costs, we delivered a second quarter net profit of US\$11.4 million, up from US\$3m last year.

With an eye on a sustainable and future-focused fleet, we continued to upgrade our portfolio which includes pressurised, semi-refrigerated, ammonia and ethylene capable vessels, by releasing one more non-core vessel during the quarter, contributing to our average vessel size being over 8% larger year on year.

Consequently, we earned a second quarter revenue of US\$70.9 million, 5.5% higher than a year ago despite a 10% reduction in fleet calendar days. Time charter earnings (TCE) per calendar day for the second quarter increased by over 17% year on year to US\$13,154 per day, driven by the stronger underlying market and an increase in average vessel capacity.

Our Lost Time Injury Frequency (LTIF) rate this quarter was 0.5, an improvement from 0.9 in the second quarter of last year. We thank our colleagues at sea and ashore for their focus on zero harm.

Our year-on-year emissions have reduced by 3.4% with an AER of 23.32g of CO₂/dwt-tm, placing us in compliance with our AER and sustainability linked financing trajectory. We continue to invest in carbon emission reduction, especially during routine dry docking, in areas such as silicon paints and other energy saving initiatives.

Our second quarter ROE of 9.2%, was up from 2.5% in 2022. Whilst a further step in the right direction, there remains more work to be done.

Following payment of a dividend in the first quarter, and in line with the Company's dividend policy to target a twice-yearly payment of 50% of net profit, our Board has declared a cash dividend of US\$0.073327 per share amounting to US\$11.7 million, payable on or about 5 September 2023.

BW Epic Kosan at a glance

BW Epic Kosan operates a world-leading fleet of 62 vessels ranging in size from 3,000 to 11,000 cubic meters in the pressurized, semi-refrigerated 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 organization has significant commercial and technical capability across pressurized semi refrigerated gas and petrochemical transportation and the flexibility and capability to meet our customers' needs world-wide.

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 (chloroethane). The company is headquartered in Singapore with Copenhagen covering our regional activities in the West, alongside teams in Manila and Tokyo.

Vessel Supply

There are a total of 355 pressurised vessels on the water which includes two newbuilds that delivered during the quarter. The international pressurised vessel order book has six more newbuilds scheduled to be delivered in 2023, four in 2024 and three in 2025, a total of 71,000 cbm. This represents a 3.7% increase in the existing 1.9 million cbm fleet capacity.

There are two 7,500 cbm 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-refrigerated and ethylene-capable sectors. The smaller-sized semi-refrigerated fleet has no newbuilds on order. There are three 7,200 cbm LNG dual-fuel ethylene vessels under order for delivery in 2024, which represents a 2.4% increase in existing fleet capacity.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international pressurised fleet today, there are 15 ships totalling approximately 53,000cbm 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 eight non-ethylene semi-refrigerated vessels and two ethylene vessels that are aged 30 years and older equivalent to 3.6% of existing fleet capacity.

To summarise, for the combined smaller gas carrier sectors, our expectations are for 1.8%, 1.3% and 0.6% net fleet growth in capacity before any further scrapping in 2023, 2024 and 2025, respectively.

Global demand

Global LPG seaborne trade remains robust and continues to grow. Drewry's latest research has estimated that seaborne LPG trade in 2023 will increase by 4.1% year-on-year (y-o-y) to 121.2 million tonnes, and with a related 4.2% growth in tonne-mile demand.

US LPG seaborne exports have continued to ramp up, and despite OPEC's oil production cuts, LPG exports from the Middle East are expected to increase by 15% to over 50 million tonnes per annum by the end of 2025, according to Facts Global Energy (FGE). China, India, Japan, and South Korea remain the main demand drivers and together imported over 17.3 million tonnes of LPG in the second quarter of 2023 as reported by Kpler, up 5% q-o-q. China's LPG demand is driven by its petrochemical sector and imports increased by 47% q-o-q and 40% y-o-y. US cargoes now account for over 40% of total Chinese imports. Indian LPG demand is from the residential and retail sectors and imports have risen by 4% y-o-y.

Amidst weaker and uncertain economic conditions, industrial and manufacturing activity declined which impeded the recovery of the petrochemical sector. Consequently, the global seaborne olefins (ethylene, propylene, butadiene, VCM) trade in 2023 is estimated to increase by 2.2% y-o-y to 16.1 million tonnes, with a further 1.2% gain expected in 2024, according to Drewry.

Ethylene exports from the US in the second quarter exceeded 300,000 tonnes, though 1.5% lower than the first quarter. Kpler's data showed that US ethylene exports to Asia accounted for 64% of the volumes in the second quarter compared to 70% in the previous quarter, and 19% in Q2 2022 when over 75% of the cargoes went to Europe on account of pricing. Supply of propylene in Asia is expected to increase with new plants coming on-line that can offer long haul trading opportunities to the West. FGE reports that eight new propylene dehydrogenation (PDH) plants are planned to start up in China this year adding approximately 4.8 million tonnes of annual production capacity to their existing 12.0 million tonnes capacity.

Smaller Gas carrier Demand – LPG & Petrochemicals

Turning to smaller gas carrier demand. The shipping market in Europe started losing momentum halfway through the second quarter as the seasonal lull in LPG demand led to a build-up in shipping length. However, freight levels in Europe continued to demand a premium over the East, and longer-term freight levels remaining firm.

European olefins producers curtailed operating rates of their plants to balance limited storage and weak downstream demand impacting the intra-region trade. There was some interest to export excess volumes to Asia but high freight costs and increasing supplies in Asia limited discussions and fixtures.

LPG exports out of Iraq improved during the second quarter offering gainful employment to ships serving the Middle East and Indian Ocean region. In Asia, rising energy needs supported LPG demand. Bangladesh's LPG imports increased by 4% q-o-q and by 26% y-o-y despite their challenges with the value of their local currency. Similarly, as Sri Lanka recovers from weak demand in 2022, LPG imports increased by 39% q-o-q and by 100% y-o-y.

LPG demand from the Asian petrochemical sector also recovered in the second quarter as plants completed turnarounds and operating rates scaled up. However, limited downstream demand combined with increasing PRC domestic production meant persistent low pricing and negative margins which kept intra-regional shipping activity at low levels. China's propylene and ethylene imports fell by 35% and 4% respectively q-o-q.

12-month time-charter market

The overall supply demand fundamentals have resulted in firmer freight market levels, improving underlying revenues and an encouraging increase to forward cover rates. Year on year there have been gains across all sectors, +2% for the 3,500cbm, +1% for the 5,000cbm, +12% for the 7,500cbm, +16% for the 11,000cbm pressure vessels, and +5% for the Ethylene 8,250cbm sector. All sectors are now above the 10-year average.

BW Epic Kosan Gas Operations – Geographical and Commodity Diversity

Our business is globally diversified – at the end of the quarter, we had 11 vessels operating in the Americas, 30 in the Europe/Middle East/Africa (EMEA) belt and 22 in Asia. In the second quarter, BW Epic Kosan averaged 4 (i.e., 3.8) loading operations every day across our fleet, loading over 1.2 million tonnes, and engaged in 781 cargo operations in 198 different ports. Our cargo mix is split about 51/49% 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 52 such operations performed in the second quarter.

Operating metrics

We ended the quarter with 59 core vessels with a total capacity of 466,054 cbm and an average size of 7,899 cbm, up 8% year on year. We also have four additional vessels with a total capacity of 23,573 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 collaborate with customers over the long-term, and offer flexibility between time charters, voyage charters, contracts of affreightment ('COA') and spot contracts.

During the second quarter, the fleet traded under time charter for 72% of total voyage days compared to 65% a year ago, and COA days for 7% of total voyage days, compared to 10% a year ago. During the second quarter, the fleet experienced 297 technical off-hire days, which included the impact of seven planned dry dockings. Our docking programme during 2023 is at a higher level than a typical year due to our fleet age profile. Overall, for the quarter, this resulted in fleet availability of 94.5% and an operational utilisation of 92.8% compared to 96.3% and 91.7% respectively a year ago.

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

UTA URBANIAK-SAGE, CHIEF FINANCIAL OFFICER

Thank you, Charles, starting with our P&L. In the second quarter, we generated TCE revenues of 71 million dollars, 5.5% higher than the 67 million we recorded in Q2 2022 despite the reduction in fleet calendar days by 9.9%. Our TCE earnings per calendar day have increased by 17.2% to 13,154 dollars, reflecting an improved market and the increase of our average vessel size as we re-delivered smaller vessels and took delivery of the larger-sized vessels.

Vessel operating expenses decreased 16.5% from US\$29.3 million to US\$24.5 million year on year, reflecting the reduction in fleet calendar days, and the end of significant incremental costs related to Covid-19. Operating expenses on a per calendar day basis decreased from US\$5,446 to US\$5,115 year on year.

Charter-in costs were US\$3.0 million, a similar level as in Q2 2022. As of 30th June, we had eight ships on inward charter arrangements, one on a bareboat basis and seven on a time-charter basis.

G&A expenses per calendar day increased from US\$1,007 to US\$1,280 year on year due to the overall reduction of fleet calendar days, in-housing of crewing services and unfavourable foreign exchange movements. Finance expenses increased from US\$5.0 million to US\$5.7 million year over year due to a one-off write-off of unamortised deferred financing costs of US\$0.8 million following our refinancing and increased Libor and SOFR rates on our floating-rate debt, partially offset by our reduced indebtedness.

As of the quarter end, we had interest rate swaps in place for US\$149M dollars at a weighted average interest rate of 1.045%, covering 51% of our bank debt. Our hedge ratio will increase to 95% when incremental forward swaps at a rate of 1.5% commence in June 2024.

We achieved an EBITDA of US\$34.6 million for the quarter, an increase by 31% year on year. We finished the quarter with a Net Profit of US\$11.4 million. This translates into a ROE of 9.2%.

Balance Sheet

The book value of the fleet, excluding leased assets, at period end is US\$758.5 million, US\$105 million below latest broker valuations.

Our total debt including lease liabilities as of 30th June was US\$395 million. Including our cash position of US\$85.3 million, our net debt is US\$309.7 million, equal to 39% of book value which we regard as a conservative level. Our Net Asset Value based on broker valuations is US\$611 million or US\$3.83 per share.

As previously reported, we completed the refinancing for US\$140 million covering 19 vessels and a hunting line amounting to US\$20 million that will be available for potential vessel acquisitions. The new facility includes a sustainability-linked margin adjustment with two key performance indicators. One KPI is linked to fleet emissions and the second is linked to the number of female seafarers. We have no loan expiries until 2026.

During the quarter, we sold one more non-core vessel, and subsequent to the quarter end, we exercised a purchase option under a bareboat charter contract to buy one 11,000 cbm, 2016-built LPG carrier. The option price was 50% of fair market value of the vessel and fully financed with bank borrowings. In July, we purchased an older semi-refrigerated vessel under a put option arrangement and on-sold the vessel above its book value. That leaves us with 62 vessels on the water.

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

CHARLES MALTBY, CHIEF EXECUTIVE OFFICER

Thank you, Uta. To summarise, our improved second quarter results were driven by market strength and an increase in our average vessel capacity. We also continue to add improving longer-term coverage for time charters and COA's and are effectively managing our operating costs.

The supply of new build vessels in our sector remains balanced with the small gas carrier fleet forecast to grow by 1.8% in 2023 before any further scrapping. The order book for larger LPG segments is more substantial, but tight shipyard capacity, demand, and inflationary pressures are leading to increased shipyard newbuild costs – and a longer order book - for all sizes, alongside the higher technology costs associated with lower emission dual fuel engines and other emissions reduction improvements. We note that 74% of newbuild orders now placed for LPG vessels are for dual fuel LPG, ethane, or LNG. We expect that the implementation of the IMO's EEXI and CII regulations in 2023 will result in a general reduction in the global fleet's steaming speed.

The threat of recession in key markets and higher interest rates, with uncertainty on China's economic growth, and ongoing geopolitics provides reasons for uncertainty.

LPG demand is expected to remain firm and Drewry's latest research estimates seaborne LPG trade in 2023 to increase by 4.1% y-o-y to approximately 121 million tonnes, with a related 4.2% growth in tonne-mile demand. The olefins seaborne trade is also estimated to grow, but by a more modest 2.2%, to 16.1 million tonnes. Asia remains the main driver for the LPG and olefins markets but will be impacted by the uncertainty of pace in China's growth. Ethylene exports from the US are also an important driver, and whether most cargoes end up in Asia or in Europe will determine shipping tonne mile demand, and consequential availability. 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.

Whilst the seasonal summer lull has impacted the SGC freight levels in the third quarter, we have placed further cover since the end of the second quarter. As of today, we have TC cover in place for 2023 at \$13,458 per day, an increase of \$1,615 per day compared to the end of the second quarter 2022, with 45% of our remaining fleet days for the year uncovered.

BW Epic Kosan has the scale and operational strength for future success, and is working to grow the average vessel size, and to maintain an attractive average age, so that we can provide safe transportation in a lower carbon world. We believe that LPG will continue to serve as a cleaner form of energy than many alternatives – especially in the residential sector, where it is a growing source of fuel in developing economies. Alongside LPG, we are optimistic for growth opportunities in adjacent sectors such as ammonia and carbon dioxide (CO₂) shipping.

We have now reached the end of our presentation. Uta, please, can you guide if we have any questions today.

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Thank you for your questions. If you have further questions, please send them through to us directly. You can reach us via the contact details in the presentation and via our website. If there are no other questions, thank you very much for everyone taking the time to join us and listen today, and we appreciate your interest in our company. If you have any questions, please do contact Uta and I. In the meantime, we look forward to catching up in November 2023 for our third quarter 2023 earnings report.
