

1st Quarter Earnings Release

Wednesday, 9th May 2018

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Company: Epic Gas Ltd.

Operator: Ladies and gentlemen, thank you for standing by and welcome to 1st Quarter Earnings Release conference call. At this time, all participants are in listen-only mode. There will be a presentation followed by question and answer session at which time, if you wish to ask a question, you will need to press *1 on your telephone. I must advise this conference is being recorded today, 9th May 2018. I would now like to hand the conference over to your first speaker today, Mr Charles Maltby. Please go ahead, sir.

Charles Maltby: Thank you. Welcome to today's call to discuss our results for the first quarter of 2018. My name is Charles Maltby, Chairman and CEO of Epic Gas Ltd. I am joined today by our Chief Financial Officer, Uta Urbaniak-Sage.

Moving on to the presentation, which you can also see online, slide 3 of the first quarter 2018 highlights. The first quarter has been busy for us as we continue to focus on optimising our scale with an efficient and cost-effective platform and concluding with 39 vessels on the water. At quarter end of 2018, our vessel calendar days totalled 3,617 and earned record revenue of \$38.6 million, up by 1% and 14% respectively, year over year. The sale of one smaller, older vessel and the re-delivery of a similar bareboat chartered vessel further improves our fleet age and operating profile. The fleet's time charter equivalent revenues of \$8,932 per vessel calendar day increased by 6%. Adjusted EBITDA amounted to \$8.5 million, also a 6% improvement over Q1 last year. Overall, we reported a reduced net loss of 2.7 million down from 3.4 million a year ago.

Slide 4: vessel supply. In Q1 2018, one 7,500 cubic metre pressurised vessel and one 7,100 cubic metre semi-ref vessel were delivered. This new capacity was more than offset by a 3,400 cubic metre pressure vessel and four smaller semi-ref ethylene capable vessels of average age 28.6 years that were sold for scrap. A net reduction, therefore, in fleet capacity of 27,000 cubic metres. There are currently four pressurised vessels due to be delivered in 2018, three in 2019 and three in 2020 representing an approximate 1% increase in existing fleet capacity which we believe is the lowest supply growth in any bulk commodity shipping sector. The smaller sized semi-ref fleets that on occasion can compete or overlap on certain traits with the pressure vessels has an order book of five vessels which includes four of the even more expensive ethylene capable vessels.

This newbuild capacity equates to a net fleet growth of 4.1% for that sector. However, this newbuild capacity must also be seen in the context of scrapping and the potential scrapping pool. Looking ahead, there are 12 pressurised and 25 smaller semi-ref vessels that are aged 28 years and over in the international fleet. We expect that the higher operating costs and relatively high capital investments required by new legislation such as increased fuel costs with IMO 2020 and ballast water treatment systems will compel owners to consider scrapping these units.

Slide 5: demand. Global seaborne LPG volumes are expected to grow to 95.1 million tonnes in 2018; 3.5% higher than the 91.9 million tonnes achieved in 2017. The USA LPG exports are robust, but slightly lower from their record high in the previous quarter. India's and China's demand for LPG remain strong drivers of the seaborne trade despite lower import volumes this quarter compared to the end of 2017. Nonetheless, China has still achieved a 15% year-on-year increase. Our fleet remains actively engaged as a last tonne mile distributor of LPG and stands to gain from strong underlying demand growth in the long-term LPG consumption driven by evolving energy fundamentals and increasing supplies highlighted by our growth in ship-to-ship operations, a point we will revisit later.

Slide 6: regional trade. For US gulf exports, the year-on-year data shows a 27% decrease in export for the pressurised and small semi-ref vessels. However, compared to the previous quarter, Q4 2017, we have seen a 30% increase. Cargos are destined mostly to the Caribbean and Central America with just one transatlantic cargo which was actually driven by a backhaul to an inbound fronthaul petrochemical cargo as opposed to any arbitrage-driven opportunities.

Demand is expected to grow in Indonesia, Philippines, Vietnam and in countries in West Africa, South Africa and East Med, as planned infrastructure and projects are developed and delivered. Pakistan, Bangladesh and Sri Lanka remain significant demand centres. Port Sudan and Yemen are growing markets too, though inadequate infrastructure and port security can occasionally hamper imports and port turnarounds.

Propylene imports into China have held up despite incremental propane dehydrogenation capacity. This is primarily driven by the underlying demand for the related derivatives. Monthly imports in the first quarter averaged almost 230,000 tonnes with cargoes coming into China from Korea, Japan, Taiwan, Thailand, Philippines and Indonesia offering gainful employments to the 3,500 and 5,000 cubic metre vessels in Asia and additional tonne miles to the usual North Asia trade flow from South Korea, Japan and Taiwan.

Slide 7: the market. The rebalancing between supply and demand has led to very encouraging signals from the freight market with the 3,500 and 5,000 cubic metre vessels continuing their positive run and the larger sized ships gaining traction as distinct demand growth slowly absorbs marginal over supply amidst occasional competition from larger vessels in some markets. In the first quarter of 2018, the market rates for the 3,500, 5,000, 7,500 and 11,000 averaged 8,274, 9,762, 10,356 and 13,151 per day respectively. Compared to the first quarter of 2017, average rates have increased 31% for the smallest vessels, 24% for 5,000 cubic metre, 1.1% for the 7,500 and about flat for the 11,000.

Slide 8: Epic Gas operations. We have loaded 722,000 tonnes in the first quarter of 2018 and were involved in 677 cargo operations across 139 different ports. Our vessels performed approximately 3.4 load operations per day, an increase of 19% from the previous quarter. LPG cargoes made up for 76% for the cargoes lifted with a balance of 24% of being petrochemical cargoes such as the aforementioned propylene. This diversity in geography and commodity provides many options for our fleet and relative stability in our earnings floor. Our business continues to be a global one. During Q1, on average, 10% of our fleet was in the Americas, 49% in Europe, Africa and Middle East and 41% in Asia. We anticipate we will continue to build on our global presence in a similar pattern with future enquiry from existing and new customers for both LPG and petrochemicals on a worldwide basis. We will use our global scale and commercial competence to reposition vessels as regional and seasonal demand allows.

Slide 9: ship-to-ship operations. The global LPG trade has grown convincingly in the past three years with significant incremental demand prevalent for all ship sizes. As a recognised provider of quality tonnage for the last tonne mile delivery, we also benefit from the increased demand for larger vessels such as the VLGCs and Handysize and have seen our operations in the LPG breakbulk trade grow sharply. This trade requires our vessels to make a more complicated manoeuvre and go alongside larger LPG vessels either stationary at anchorage or at sea, or whilst the vessels continue to make way. Our vessels carried out 86 such ship-to-ship operations during the first quarter of the year. We performed double the number of ship-to-ship operations off West Africa this quarter compared to last as new infrastructure in the region is developed and breakbulk operation grows.

Continuing our global theme, we have completed such operations in 26 different countries last year, but we have seen strong growth in activity between Indonesia and Singapore which supplies regional demand centres like Sri Lanka and Bangladesh, whilst operations off West Africa and in the Caribbean remain strong locations.

Slide 10: we end the quarter with a fleet size of 39 vessels with a total capacity of 264,000 cubic metre and an average age and size of 6,769 cubic metre and 8.2 years, respectively; a 3.2% increase in average size from a year ago. We have taken the opportunity of rising values for smaller vessels to sell the eldest vessel in our fleet, a 5,000 cubic metre 1998 built vessel, alongside also the redelivery of a 4,100 cubic metre 2001 built bareboat chartered vessel allowing us to optimise the youngest and largest pressurised fleet by capacity. During the first quarter, the fleet experienced 72 technical off hire days which included two scheduled dry dockings. This resulted in fleet availability of 98% with operational utilisation of just under 92%. The fleet traded under time charter for 67% of the total voyage days during the first quarter compared to 77% a year ago highlighting a higher exposure to the recently strengthening spot market.

In respect to our forward cover, we ended the quarter with 57% in place for the balance of the year at an average daily TCE rating of 9,762. That's above our earnings in Q1. We have since increased this cover level to 59% at an even higher level of \$9,875 per day. I would now like to hand the call over to Uta to step through our financials.

Uta Urbaniak-Sage: Thank you, Charles. Moving on to slide 11, looking at the first quarter of 2018, we generated time charter equivalent earnings of \$32.3 million compared to \$30.1 million we recorded in the first quarter of last year primarily reflecting the improved market. Our TCE earnings per calendar days set a record \$8,932 for the first quarter of 2018, and 6% higher than the \$8,423 we achieved in the first quarter of last year. The operating expenses increased from 14.6 million in Q1 2017 to 15.5 million in Q1 2018. The increase is a result of our fleet expansion by 1% as measured in fleet calendar days, the increase of the average ship size by 3% as measured in cubic metre capacity as well as some vessels trading in areas with higher store supply and repair costs. Charter-in costs increased from 3.8 million to 3.9 million year-over-year due to the delivery of an 11,000 cubic metre new building into a long-term bareboat charter in early 2017. The redeliveries of the bareboat chartered-in vessel in February 2018 leaves us with seven ships on traditional bareboat charters.

Driven by the growth of the company's fleet over the past 12 months, the SG&A expenses of \$1,100 per calendar day in Q1 2018 were 11% above the \$987 we achieved in Q1 2017. Our platform costs include the cost of commercial and technical management of our fleet as well as all corporate level expenses. No fees are paid for services to any outside or affiliated entities.

Finance expenses increased from 4 million to 4.1 million year-over-year due to higher LIBOR costs. Furthermore, we put interest rate hedges in place on the various loan facilities during the course of last year and in Q1 2018 which led to higher funding costs. The total hedged amount as of 31st March 2018 was 153 million at an average interest rate of 2.03%.

The company reported an adjusted EBITDA of 8.5 million, up 6%. We finished the quarter with a net loss of 2.7 million compared to a net loss of 3.4 million in Q1 last year.

Moving on to slide 12: our balance sheet. The book value of our fleet of 515 million is below latest broker valuations. Our cash position as of 31st March was 21.9 million up from 20.5 million as of 31st December. This includes unrestricted cash of 9.9 million which is also up from the 7 million we held end of last year. We completed the sale of our eldest vessel in March at a margin over book value. We also continue to focus on the long-term finance costs of our

vessels and have completed two transactions of four vessels. We refinanced the Epic Manhattan, a 9,500 cubic metre 2007 built ship through a sale and leaseback transaction with a Japanese owner. The transaction will mature in ten years. Following the quarter end, we exercised purchase options on three vessels: the Epic Balta, Bolivar, and Burano under existing leases expiring in Q1 next year, and subsequently entered into a five-year finance lease transaction with a Japanese ship owner. Under both finance leases, we have purchase options to re-acquire the vessels during the charter period. Both transactions result in lower cash finance costs for the company.

Charles Maltby: Thanks, Uta. Moving on to slide 13, our summary slide. We would like to conclude our presentation by sharing our outlook in the LPG market. We are very optimistic as we continue to see improvement in freight rates due to lack of incremental capacity, a low order book, ongoing demand growth and ongoing for potential scrapping in the pressurised and semi-ref LPG ship sector. Epic Gas operates 39 vessels on the water with a total capacity of 264,000 cubic metres, average size of 6,789 cubic metres and average age of 8.2 years. We have a fleet operational utilisation of 91.8% and a TCE of 8,932 per calendar day and over \$9,100 per day on a voyage basis.

As of the end of last quarter, 57% of our employment has been covered for the year at an average daily TCE rate of 9,762. Epic Gas has access to both the LPG and the petrochemical markets cornering 139 different ports over the first quarter. Our fleet operates globally with 4 operating in the Americas, 19 in the Middle East and Africa and Europe and 16 in Asia.

We have now reached the end of our presentation. Thanks for joining our call and we will now take any questions you may have. AJ, please open the line.

Operator: Certainly. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press # key. Once again, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel a request, please press # key. Once again, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

There are no questions at this point of time. I would now like to hand the conference back to our presenters for today.

Charles Maltby: Thank you very much, everyone, for making the time to join and listen. 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 August for our second quarter results. Thank you very much.

Operator: Ladies and gentlemen, that does conclude the conference for today. Thank you for participating. You may all disconnect now. Thank you.

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