Moderator: UTA URBANIAK-SAGE
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OPERATOR: This is Conference #: 2378418.

Operator: Ladies and gentlemen, thank you for standing by and welcome to Epic Gas conference call on the first quarter 2019 financial results. We have with us Mr. Charles Maltby, executive officer, and Ms. Uta Urbaniak-Sage, chief financial officer of the company.

At this time, all participants on the phone lines are in a listen-only mode. There'll be a presentation followed by a question-and-answer session, at that time, if you wish to ask a question, you'll need to press “star,” “1” on your telephone and wait for an automated message stating that your line is open.

I must advise you the conference is being recorded today and we now pass the floor to one of your speakers, to Charles Maltby. Please go ahead.

Charles Maltby: Thank you very much. My name is Charles Maltby, CEO of Epic Gas Limited and I would like to welcome you to today's call to discuss our results for the first quarter of 2019. I am joined today by our chief financial officer, Uta Urbaniak-Sage.

Before we start, I would ask that you read and reflect on the disclaimer on slide 2 of our presentation. And now I will move us to slide 3, our Q1 2019 highlights.

During Q1 2019, we grew revenue by 3.1 percent year-on-year to $39.6 million. The underlying and growing demand for our vessels can be seen in the 9.4 percent increase of time charter equivalent revenues to $9,718 per vessel calendar day, and the 230 basis points increase in our operating utilization to 94.2 percent, illustrating the positive impact from tightening supply and demand fundamentals.

Our operating expenses of $4,400 per vessel calendar day increased by 3 percent year-over-year. Adjusted EBITDA amounted to $11 million, a 29 percent improvement year-over-year resulting in an 89 percent improvement in our net loss to $300,000. We ended the quarter with 39 vessels on the water.

We can see distinct opportunities for incrementally profitable growth in the sector. In March, we signed an agreement subject to financing and definitive documentation for the purchase of four modern pressurized LPG vessels for a total price of $106.5 million, which has led to the company subsequently closing a $60 million equity race.

We anticipate completing on this transaction during the second quarter. We have also time chartered-in with options two vessels, the first delivering in the first quarter and our second earlier this month.

During the quarter, BW Group launched and completed a voluntary tender offer for Epic Gas shares thereby acquiring an 82.9 percent stake in the business. Their experience and track record as an industry leader in maritime energy transportation aligns with our vision of being the leading provider of pressurized LPG shipping solutions.

We were delighted to welcome Andreas Sohmen-Pao and Billy Chiu of BW Group and subsequently as an independent director, Esben Poulsson, to join our board. I would also like to thank our other remaining shareholders for your ongoing faith in the company and our potential.

We believe that these steps position us well to benefit from the improving fundamentals of the global LPG shipping market and we will talk about the reasons why in the coming slides.

Slide 4, vessel supply. In the first quarter of 2019, there has only been one new build pressure vessel delivered, in this case, a 5,000 cubic meter from a Japanese yard.

On the scrapping side, we saw a 28-year-old 4,200cbm semi-ref and a 35-year-old 12,000cbm ethylene capable vessel sent to be broken up. It is worth noting the 31.5 year average age of these vessels.

There are currently four new build pressure vessels to be delivered over the balance of 2019, five in 2020 and only one in 2021, all from Japanese yards. Collectively, these give a total of 47,000 cubic meters representing a 3 percent increase in the existing 1.7 million cubic meter fleet capacity. We believe this remains the lowest supply growth of any bulk commodity shipping sector.

The smaller sized semi-ref fleet, that on occasion can compete or overlap on certain trades with the pressure vessels, has an order book of five vessels including two of the more expensive ethylene capable vessel types. This new build capacity of 40,000 cubic meters equates to a total semi-ref fleet growth of approximately 2.8 percent over the period.

However, this new build capacity must also be seen in the context of the potential scrapping pool. In the international fleet today, there are 21 pressure vessels, and in the similar size segment, 12 non-ethylene semi-ref vessels and 5 ethylene capable vessels that are aged 28 years and over.

We expect that the higher operating costs and relatively high capital investments required by new legislation such as ballast water treatment systems and IMO 2020 compliance will compel owners to consider scrapping these units.

Slide 5, demand global trade and drivers. Global seaborne and LPG volumes are expected to continue to grow supported by increased supply. Argos expects global LPG production to reach 360 million tons by 2030, a 17 percent increase from 2017.

Increased US natural gas liquids production as anticipated by the U.S. EIA under their current reference or base case, export capacity and strong Asian demand are being the key drivers.

Drewry forecasts that global seaborne LPG volumes will reach 99.8 million tons this year, 1 percent higher than the 97.7 million tons achieved last year, but with a further 9 percent increase anticipated in 2020.

Market analysts anticipate these 100 million tons can grow to nearly 130 million tons by 2030. LPG exports from the USA remain strong with a 12 percent year-on-year increase. Butane exports, often carried on pressurized vessels, have gained a 62 percent a year-on-year.

In Asia, whilst LPG imports by China and India remain the key drivers, countries like Indonesia, Philippines, Thailand and Vietnam are expected to grow in 2019. Our fleet remains actively engaged as a last tonne-mile distributor of LPG and stands to gain from strong underlying demand growth in long-term LPG consumption driven by evolving energy fundamentals and increasing supplies.

Slide 6, demand and regional trade. In Q1, U.S. export volumes on pressurized and small sized semi-ref vessels amounted to 193,000 tons up 19 percent from the previous quarter and almost double the volume exported a year ago. Cargoes were mostly destined to the Caribbean, Central and South America.

Growing LPG consumption for domestic use and developing infrastructure in countries like Bangladesh, Indonesia, Philippines, Vietnam and in sub-Saharan Africa are expected to drive LPG imports and the pressurized LPG vessel trade.

As an example, market analysts estimated Bangladesh imported approximately 800,000 tons in 2018 up from 550,000 tons in 2017. In the petrochemical trade, Chinese propylene imports remain an important driver in the 3,500 and 5,000 cubic meter pressure vessel trade in Asia. A robust and much larger underlying market for associated derivative products continues to positively impact Chinese domestic demand for propylene.

Slide 7, the 12-month time charter market. The rebalancing between supply and demand has led to encouraging signals from the freight market. In the first quarter of 2019 daily rates averaged to $8,610 for 3,500 cubic meters, $9,596 for the 5,000 cubic meters, $10,699 for the 7,500 cubic meter and $12,963 for 11,000 cubic meter vessels respectively.

The pricing for 3,500 and 7,000 cubic meters sizes were up by 3 to 4 percent while the 5,000 and 11,000 sizes fell by 1 to 2 percent compared to Q1 2018.

Slide 8, Epic Gas operations globally. In the first quarter, Epic Gas loaded 760,000 tons and was involved in 640 cargo operations in 103 different ports.

LPG cargoes made up 77 percent 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 Q1 2019. We had five vessels operating in the Americas, 20 in the EMEA belt, and 14 in Asia. We anticipate that we will continue to build on our global presence in a similar pattern with future enquiries from existing and new customers for both LPG and petrochemicals on a worldwide basis.

Slide 9, Epic Gas operations and ship-to-ship. The global LPG trade has grown markedly in the past three years with significant incremental demand prevailing for all ship sizes.

As a recognized provider of quality tonnage for the last ton-mile delivery, we also benefit from the increased demand for larger vessels such as VLGC and handysize and we have seen our recent operations in the LPG break bulk trade grow significantly in recent years.

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 vessel continues to make way.

Our vessels carried out 67 such ship-to-ship operations during the first quarter of 2019 with increased operations occurring in the Middle East and East Africa.

Slide 10, operating metrics. We ended the quarter with a fleet of 39 vessels with a total capacity of 267,000 cubic meters and an average size and age of 6,800cbm and 8.9 years respectively, a 2.9 percent increase in average size from a year ago. We have the youngest and largest global fleet by capacity.

During the first quarter, the fleet experienced 68 technical off-hire days including three dry-dockings and two intermediate surveys. This resulted in fleet availability of 98.1 percent with operational utilization of 94.2 percent, an improvement over the 91.9 percent achieved in Q1 2018.

This ongoing increase in operational utilization indicates a positive impact of the tightening supply and demand fundamentals. The fleet traded under time charter for 75.1 percent of total voyage days compared to 67.7 percent a year ago.

In respect of our forward cover, we ended the quarter with 37 percent in place for the balance of 2019 at an average daily TCE rate of $9,998.

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, our P&L. Our revenues for the first quarter of 2019 reflect the improved market showing an increase to $39.6 million. Our TCE earnings per calendar day were $9,718 in Q1 2019, 9.4 percent higher than the $8,881 we achieved in Q1 2018.

Vessel operating expenses decreased from $15.5 million to $15 million year-over-year due to the company's 3.3 percent reduction in fleet calendar days. Charter-in costs increased from $3.9 million in the first quarter of 2018 to $4.2 million in the first quarter of 2019.

In February and September last year, we redelivered two older 4,100 cubic meter bareboat vessels while in January this year, we time chartered in a 2011 built 7,500 cubic meter vessel for one plus one years with purchase options.

Subsequent to the quarter end, we chartered in a modern 9,500 cubic meter vessel on a time charter basis for two plus one plus one years.

SG&A expenses increased 2.5 percent from $4 million in the first quarter of last year to $4.1 million in the first quarter of this year mainly due to one-off legal costs related to projects.

The increase of SG&A on a per calendar day basis to $1,182 is a result of the company's 3.3 percent reduction in fleet calendar days and one-off project costs. 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 $4.1 million to $4 million year-over-year due to the reduction of our debt by $20 million and our refinancing work last year leading to lower financing cost.

Interest rates are hedged on $141 million of our debt at a weighted average interest rate of 2.04 percent. The company reported an adjusted EBITDA of $11 million, up 29.4 percent year-over-year. We finished the quarter with a loss of $300,000 compared to a net loss of $2.7 million in Q1 last year, an 89 percent improvement year-over-year.

Moving on to the balance sheet on slide 12. The book value of the fleet is $491 million, below latest broker valuations. Our total debt excluding operating leases as of 31st of March 2019 was $267 million down from $287 million as of March 2018.

Other than normal amortization, we have no further loan expiration until mid 2022. We will however continue to focus on the long-term finance cost of our vessels. Our cash position at the end of the quarter was $23.1 million. Subsequent to the quarter end, we launched a share issue to existing shareholders at a subscription price of $1.66 per share, raising total gross proceeds of $60 million.

Proceeds will be used to finance the acquisition of the four modern LPG vessels we discussed earlier, to strengthen the company's working capital and for general corporate purposes.

I will now hand back to Charles for a summary and outlook.

Charles Maltby: Thanks, Uta. We would like to conclude our presentation by sharing our outlook on the LPG market. Whilst there is undoubtedly some volatility in commodity prices and noise around the macro environment of global trade, the supply and demand fundamentals for the gas sector provide reasons to be optimistic.

We continue to see improvement in operational utilization and positively evolving market rates due to lack of incremental capacity, a low order book, ongoing demand growth, and ongoing potential scrapping in the pressurized and semi-ref LPG sector.

We have fleet operational utilization of 94.2 percent, TCE of $9,718 per calendar day. And as of today, we actually have 40 percent cover in place for 2019 at an average daily TCE rate of $10,135 with 60 percent open to anticipated improving fundamentals.

As of today, we operate 40 vessels on the water with a leading sector capacity of 276,000 cubic meters and an average size of 6,923 cubic meters. Epic Gas has diversified earnings, by nature of our access to a mix of commodities in both the LPG and petrochemical markets, for our fungible fleet and our flexible customer offering in our global reach.

In summary, we can also see distinct opportunities for growth within our sector including through the purchase of modern secondhand vessels, or the time charter-in of vessels such as the 7,500 charter that delivered in January and the 9,500 charter-in that delivered earlier this month.

We have now reached the end of our presentation and thank you for joining our call today and we'll be grateful to take any questions you may have.

Operator, please open the line.

Operator: Thank you very much indeed, Mr. Maltby. As a reminder, if you wish to ask a question, please press “star,” “1” on your telephone keypad and wait for the automated message advising your line is open. Please then state your first and last name before you ask your question. Thank you.

We now take our first question. Please go ahead, your line is open.

Randy Giveans: OK. Howdy all. This is Randy Giveans from Jefferies. How are you?

Charles Maltby: Hi, Randy. Thank you for joining our call today. How is it going?

Randy Giveans: For sure. All is well. I had a few quick questions, some operational, some strategic. So operationally first, obviously following the BW Group acquisition here the vast majority of Epic Gas in recent weeks, months, how do you see that affecting your STS business knowing that BW Group also owns, operates some of the larger VLGCs?

Charles Maltby: I think it's very early to say whether it has any impact whatsoever. We are already doing STS operations and have been for a number of years with all of the large VLGC owners and also all of the large global LPG traders.

And our priority is to make sure all customers have access to our vessels but clearly, we'll be talking to BW further in the months ahead to see if there's any synergies there at all.

Randy Giveans: Sure, OK. And then looking at slide I guess 11 in the top right corner, it seemed that from the third quarter of 2017 to the third quarter of 2018, we saw a pretty remarkable improvement in your TCE rates earned but your – and your vessel OPEX was decreasing at the same time.

Now since then from 3Q 18 to present, rates have come back, vessel OPEX increasing so I guess two questions. What was going on from late '17, the late '18 to show that kind of divergence in TCE and OPEX? And then when do you think that divergence continues going forward?

Charles Maltby: We made the decision in Q1 this year to pay our seafarers slightly more money so that's actually the largest impact on our OPEX. It's higher salaries for our seafarers and also to increase the number of seafarers we have onboard the vessels so that's a one-off impact.

And if you look back in time, our OPEX really hasn't materially moved. There's also a bit of impact because our average fleet size has been creeping up a little bit more again so the ships are slightly larger but really, there's no material movement in the OPEX.

Randy Giveans: OK. And then on the current day rate on the TCE side.

Charles Maltby: Yes. So yes, we've seen a very strong recovery in rates for the 3,000 and 5,000 cubes and that's really what's driven the majority of the rate increases since the back end of 2017.

We're now seeing utilization tightening up on the larger ships as well as the smaller ships, and that's what's been happening in the last few months really is a sort of a rejigging of customers who've pushed as far as they could on the 3s and the 5s and now, they're looking to move into slightly larger vessels and the rate structure if you like.

The arbitrage between the different ship sizes is being worked through and we're seeing utilization increase on the 7s and the 11s and that will lead to rate increases ahead because of the lack of new build supply.

Randy Giveans: OK. So for the first six weeks of 2Q, you're seeing higher utilization than 1Q.

Charles Maltby: We're seeing improving utilization q on q since beginning of last year.

Randy Giveans: Got it, OK. And then the last question on the strategic kind of you touched on the price tightening earlier of the 3,500 to 5,000 and now more recently the 7,000, 9,000, 11,000 cubic meters, which and kind of vessel size are you most attracted to or focused on for acquisitions going forward?

Charles Maltby: I think in the last five years, we've built 17 new build vessels of which 13 had been the larger, 7s, 9s, and 11s. And we've also bought 10 secondhand vessels which are 7s upwards.

In the beginning of this year, we've charted in two ships a seven and a half and a nine and a half and we've indicated that we've signed a letter of intent to buy four pressurized vessels for $106.5 million. They are of the largest size as well.

So, our preference and interest is definitely within the larger pressurized vessels. That's for a number of reasons. Firstly though and then maybe the primary reason, we do see solid customer interest in upsizing to the larger pressurized vessels. So we wish to make sure our fleet is future-proofed from a customer and demand point of view.

Randy Giveans: Got it. All right. Well hey, that's it. Thanks again and yes, congrats on the sale a few weeks ago, a month ago.

Charles Maltby: Thank you.

Operator: Thank you, sir. And just once more, if you wish to ask a question, please press “star” and “1” on your telephone keypad and wait for the automated message. So that’s “star” and “1” please.

At this time, sir, there appear to be no further questions so I shall pass the floor back to you for closing remarks.

Charles Maltby: Thank you very much. Well, thank you everyone for making the time to join and listen today. We appreciate your interest in our company. 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 2019 earnings report. Thanks again.

Operator: Thank you very much indeed and with many thanks to both our speakers today, that does conclude the conference. Thank you all for participating and you may now disconnect. Thank you everyone.

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