

# 2<sup>nd</sup> Quarter Earnings Release

Thursday, 10<sup>th</sup> August 2017

## 2nd Quarter Earnings Release

**Conference Code:** 60777666

**Company:** Epic Ship Management Pte. Ltd.

**Operator:** Ladies and gentlemen, thank you for standing by and welcome to the 2<sup>nd</sup> Quarter Earnings Release Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question and answer session, at which time if you wish to ask a question, you will need to press \*1 on your telephone keypad. I must advise you that this conference is being recorded today, 10<sup>th</sup> August 2017. I would now like to hand the conference over to our speaker today, Mr Charles Maltby. Thank you. Please go ahead, sir.

**Charles Maltby:** Thank you, sir. Hello, and welcome to today's call to discuss our results for the second quarter of 2017. My name is Charles Maltby, Chairman and CEO of Epic Gas. I am joined today by our Chief Financial Officer, Uta Urbaniak-Sage.

In 2012, Epic Gas commenced a journey to grow from being a regional participant with 16 pressurised LPG carriers on the water in Asia to a global player with a leading low-cost, high-quality fleet regarded as the partner of choice by customers. Through consolidation, new build orders and multiple single vessel transactions, we now have 42 Japanese built, high-quality modern vessels on the water.

We completed a planned fleet renewal programme last quarter having taken delivery of 17 new buildings and ten secondhand vessels over a period of four years. Our latest acquisition was the Epic Boracay, a 2009 built, 7,500 cubic metre vessel which we took over in July. The fleet average age is now 8 years compared to 8.4 years this time last year. Our fleet calendar days in Q2 were up 7.6% year-over-year to 3,731 days and the average vessel size has increased by 8.6% from 6,037 cubic metre to 6,559 cubic metre, emphasising our focus on investment into the larger pressurised vessels.

Whilst total revenue is up 4% to \$33.9 million and charter hire is up 5% to \$33.5 million, alongside time charter equivalent revenue, also up 5% to \$29.9 million, our adjusted EBITDA

was down 14.7% year-over-year to \$6.4 million. The smaller pressurised vessels ended the quarter on a positive note as the market strengthened. Year-on-year earnings for the smaller 3,500 to 5,000 cubic metre vessels are up 12% to 14% and show every sign of further increases ahead. However, freight levels for the larger pressurised vessels have suffered because of oversupply and new competition in some markets from the larger semi-ref vessels.

There's been an influx of the larger-sized pressurised new builds over the period with ten 11,000 cubic metre and one 13,000 cubic metre delivered so far over the last three years, and one more 13,000 cubic metre to be delivered later this year. Since approximately 50% of the fleet – of our fleet comprises of vessels sized 7,500 cubic metre and larger, our earnings have been impacted by the lower freight levels. On a positive note as at quarter end, the order book for pressurised vessels has reduced to only seven ships and 51,000 cubic metre of capacity equivalent to less than 3.1% of the existing global fleet by capacity.

The two deliveries in the past quarter represent a reduction of 50% year-on-year and there has only been one new build order for a 7,500 cubic metre placed in the past 18 months. A typical shipyard in Japan does not only construct pressurised LPG vessels, but also other vessel types, such as chemical tankers, container vessels and reefers. These yards have no significant capacity before later in 2019. This is the smallest order book for over ten years. For 2017, we anticipate a full-year growth in cubic metre capacity of about 1.5%, excluding any incremental scrapping, compared to nearly 7% last year. Two pressurised and a record eight small semi-ref vessels, representing 1.9% of the combined fleet, have been scrapped so far this year. After combining pressurised and semi-ref vessels, approximately 12.5% are aged 25 years and older and 5.5% are 30 years and older, making them likely scrapping candidates.

On the demand side, we continue to believe in the long-term growth in LPG consumption driven by evolving energy fundamentals and increasing commodity supply. Whilst we are presently working through the difficult market created by the legacy new-build supply, we anticipate overall global LPG seaborne trade growth of over 4% in 2017. That is greater than supply growth. China's demand for propylene imports has remained strong despite domestic production in propane dehydrogenation plants.

The year-to-date monthly average of propylene imports is 255,000 tonnes, up 13% year-on-year and equivalent to an annualised 3 million tonnes. Product is now supplied from Korea, Japan and Taiwan, and increasingly, from Thailand, Indonesia, Philippines and Malaysia. This trade is an important driver of the small-sized pressurised vessel segment. The last mile delivery of LPG into smaller terminals and ports from larger LPG tonnage touches the very large gas carriers has developed significantly over the past three quarters.

We carried out a total of 122 ship-to-ship or STS operations in the second quarter, a 30% increase from the first quarter and 244% a increase year-on-year. Whilst STS operations off Singapore is the largest in terms of number of operations, we have expanded our operations also in the Indian Ocean, Caribbean and off West Africa.

In the West unfavourable pricing has impacted US LPG exports, resulting in several VLGC cargoes being cancelled, and a dormant transatlantic handysize market. On a small number of routes, some of these semi-ref vessels compete with the larger pressurised vessels. Expectedly, the long-haul pressurised trade out of the USA has witnessed a second consecutive quarter with no US pressure cargoes bound for the Med or West Africa. But on a positive note, the trade within the Caribbean continued to grow with a 60% gain from the previous quarter.

Today, we have eight of our vessels trading in the Americas, up from five at the end of last year and three in 2014. This quarter also sees us increase our presence in Brazil where we now have two vessels on the coast. Brazil's domestic LPG production is forecast to rise moderately which would and could lead to increased demand for pressure vessels.

Looking at our business further by region, Epic Gas currently have 26 ships trading west of Suez and 16 ships trading east of Suez. Of the 16 ships in the east, six of them are now sized 7,500 cubic metre and above, reflecting a changing market dynamic in the region where the larger pressure ships are finding regular trade.

As a team, we focus on maximising utilisation of our fleet while improving the efficiency of our business. This quarter has been particularly challenging, as we chose to schedule and complete four routine special survey dry dockings whilst completing one unscheduled repair docking from the previous quarter. This contributed to a uniquely high 236 technical off-hire days, and as a result, our operational utilisation in Q2 was 89.6% and year-to-date of 91.4%.

However, with the bulk of dockings for the year completed and the return of trading for the Epic Madeira in July, we have a lower level of planned technical off-hire days for the balance of the year. Therefore, the net impact of the commercial and technical factors mean that our Q2 2017 time charter earnings, our TCE is down 2% year-over-year to \$8,022 per calendar day. Further highlighting the bottom-up recovery in rates in the pressurised LPG sector, as of 30<sup>th</sup> June, we have increased our forward cover during the last quarter to 54% for the balance of the year at an average daily TCE rate of \$8,119. That's up 8% year-over-year in the charter level.

We believe, with a significant reduction in net fleet growth, alongside broad ongoing demand growth, we are working our way through the supply-induced lower-rate environment. We will continue to fine-tune our fleet to deliver a high-quality, long-term, low-cost asset base, especially in the larger segments of the pressurised sector.

I would now like to hand the call over to Uta to step through our financial results. Uta.

**Uta Urbaniak-Sage:** Thank you, Charles. Looking at our second quarter results, we generated revenues of \$33.9 million which is 4% above the level we recorded during the same period in 2016, meaning larger vessel sizes and an increased fleet partially offset the lower utilisation due to the four dry dockings we completed during the period.

Vessel operating expenses increased in line with our fleet expansion from \$14 million in the second quarter of 2016 to \$15.6 million in the second quarter of this year. On a per calendar day basis, OPEX increased only 3% year-on-year to \$4,170 despite an increased ship average size by 9%, as measured in cubic metre capacity.

During Q2 2017, we averaged eight ships on traditional inward bareboat charter; that is the contracting in of vessels from external third-party owners representing 728 calendar days. This is up from 619 days in the second quarter of 2016. Whilst a 3,500 cubic metre, 2006 built bareboat ship was redelivered in the second quarter last year, we took delivery of an 11,000 cubic metre new building into a long-term bareboat charter in January this year.

Consequently, our charter-in costs increased from \$3.4 million to \$4.1 million year-on-year and are expected to remain flat for the remainder of 2017. During the second quarter of 2017, the company achieved another 5% reduction year-on-year in the SG&A expenses on a per calendar day basis which is currently \$1,049 per day.

Except for two ships managed by third parties, we do not pay any fees for services to any outside our affiliated entities. We are focused on delivering further improvements and platform efficiencies. Finance expenses during the period were \$4.2 million compared to \$3.4 million in the second quarter of last year.

The increase reflects our higher level of bank borrowings associated with our fleet expansion. We increased our interest rate hedge ratio to 61% of bank debt by entering into further interest rate swaps up to seven years, for a total of \$42.5 million at an average interest rate of 1.93%. The company reported an adjusted EBITDA of \$6.4 million down from \$7.5 million in the second quarter of 2016. We finished the quarter with a net loss of \$5.4 million.

Following the quarter end, we had a number of subsequent events which we would like to highlight briefly. We have taken delivery of the 42<sup>nd</sup> vessel in our fleet, the Epic Boracay, a 7,500 cubic metre vessel built in 2009 in Japan. The acquisition was financed with a combination of cash, shares and debt. We signed an MoA to sell our oldest vessel, the Epic Capri, a 3,300 cubic metre ship built in 1997. The sale will be completed later in the year and will not have a material impact on our earnings.

Furthermore, we entered into a sale and leaseback transaction for the Epic Salina, an 11,000 cubic metre ship, 2017 built for a charter period of ten years with a Japanese ship-owning company. This transaction will release \$2.1 million of equity and at the same time, reduce our financing costs. Over the next 12 months alone, we expect savings of about \$235,000 with further savings over the remaining nine years.

We have now reached the end of our presentation. Thank you for joining the call today. We will now take any questions you may have. Operator, please open the line.

**Operator:** Sure, ma'am. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press \* followed by 1 on your telephone keypad and wait for your name to be announced. Once again, ladies and gentlemen, if you wish to ask a question, please press \*1 on your telephone keypad and wait for your name to be announced.

Excuse me, we do not have any questions at the moment. Back to you.

**Charles Maltby:** Okay, thank you very much everyone for making the time to join and listen today. We very much appreciate your interest in Epic Gas. If you'd like to discuss further, please do contact Uta or I directly, but in the meantime, we look forward to catching up in the November for our Q3 update. Thank you very much everyone.

**Operator:** Thank you, sir. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may all disconnect now.

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