

Moderator: Uta Urbaniak-Sage
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OPERATOR: This is Conference #8567322

Operator: Ladies and gentlemen, thank you for standing by; and welcome to the Epic Gas conference call on the second quarter 2019 financial results. We have with us today Mr. Charles Maltby, Chairman and Chief Executive Officer, and Ms. Uta Urbaniak-Sage, Chief Financial Officer of the Company.

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'd like to ask a question please press star then 1 on your telephone keypad and wait for an automated message to announce your line is open.

I should also advise you the conference is being recorded today. I would now like to pass the floor to your first speaker today, Ms. Urbaniak-Sage. Please go ahead.

Charles Maltby: Thanks, Steve. It's actually Charles. My name is Maltby, CEO of Epic Gas, and I would like to welcome you to today's call to discuss our results for the second quarter 2019.

I'm joined today by our Chief Financial Officer, Uta Urbaniak-Sage. Before we start I'd like you to read and reflect on the disclaimer on slide 2.

Moving on to slide 3, our second quarter highlights, during Q2 2019 we grew revenue by 11 percent year-on-year to \$40.6 million. The second quarter is typically a seasonally less active period falling after the northern hemisphere winter with market rates and earnings fairly flat on the quarter.

Nonetheless, the underlying and growing demand for our vessels is evident compared to a year ago. We earned 3.9 percent higher time charter equivalent revenues of \$9,454 per vessel calendar day compared to \$9,102 in Q2 2018.

Adjusted EBITDA amounted to \$9.8 million, up 1 percent year-over-year, resulting in a 29 percent improvement in our net loss to \$1.6 million. We ended the quarter with 40 vessels on the water, having taken delivery of a second time charter vessel for up to four years charter in May.

During the period, we completed a \$60 million equity raise towards the previously announced transaction for the acquisition of four modern 11,000 cubic meter vessels, all built in Japan in 2015.

The transaction completed post-period within July. All four vessels are trading and incrementally positive to our bottom line from day of delivery, with a two-year time charter with a leading LPG commodity trading and shipping company on two of the vessels.

We can see distinct opportunities for further reducing our costs and also incrementally profitable growth in the sector ahead.

Slide 4, vessel supply. There are no new build pressure vessels that delivered during the quarter. Highlighting the longer life of vessels in our sector where vessels typically trade for over 28 years, on the scrapping side, we saw a 35-year-old 5,000 cubic meter semi-ref and a 36-year-old 6,600 cubic meter ethylene capable vessel sent to be broken up. More recently, a 30-year-old 3,300 cubic meter pressure vessel followed.

There are currently four new build pressure vessels to be delivered over the balance of 2019, six in 2020 and three in 2021, all from Japanese yards. Collectively, these give a total of 73,000 cubic meters due to deliver within the next three years, representing a 4.2 percent increase in the existing 1.72 million cubic meter fleet capacity.

Assuming an average vessel life across the global fleet of 28 years, just under 4 percent per annum needs to be delivered in order to keep pace with potential scrapping and before planning for demand growth.

The smaller sized semi-ref fleet, that on occasion can compete or overlap on certain trades with pressure vessels, has an order book of just five vessels, including two of the more expensive ethylene.

This new build capacity of 40,300 cubic meter equates to a total semi-ref fleet growth of approximately 2.8 percent.

However, this new build capacity must also be seen in the context of the potential scrapping pool. In the international fleet today there are 20 pressure vessels, and in the similar size segment, 11 non-ethylene semi-ref vessels and five ethylene capable vessels that are aged 28 years and older.

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

It is possible we will continue to see net negative fleet growth for the smaller gas vessel sector.

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

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

Drewry forecast that global seaboard LPG volumes will exceed 103 million tons in 2019, 4 percent higher than the 99.3 million tons achieved last year, with a further 5 percent increase expected in 2020.

Market analysts anticipate these 100 million tons can grow to nearly 130 million by 2030. LPG exports from the USA increased to record levels this quarter, up by 20 percent Q-on-Q and up by 25 percent year-on-year.

Butane exports often carried on pressurized vessels such as those within the Epic Gas fleet, have gained 61 percent year-on-year, and show further signs of improvement as we head through 2020.

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 in the Regional Trades. In Q2, U.S. export volumes on pressurized and small sized semi-ref vessels amounted to approximately 130,000 tons, no change from the previous quarter, but up by 70 percent from a year ago.

Whilst cargo destinations remained mostly the Caribbean and Central and South American countries, there were two cargoes delivered on the longer haul ton-mile routes to West Africa, last seen done in Q2 2016 before the reduction in rates in the VLGC market.

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.

Bangladesh remains a good example of the growth in the pressurized LPG trade where market players expect LPG imports to reach the 1 million ton mark in 2019 to 2020, up from the 800,000 tons in 2018 and 550,000 tons in 2017.

In the petrochemical trades, Chinese propylene imports remain an important driver in the smaller 3,500 and 5,000 cubic meter pressure vessel trade in Asia. A robust, 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 second quarter of 2019, daily rates averaged \$8,351 for the 3,500; \$9,263 for the 5,000 cubic meter; \$10,740 for the 7,500 cubic meter; and \$13,055 for 11,000 cubic meter vessels, respectively.

If compared to Q2 2018, the pricing for 7,500 sizes were up by a modest 3 percent, whilst the 3,500 and 11,000 fell by 1 to 3 percent; and the 5,000 cubic meter, which has been towards long term highs eased down by 7 percent on the back of new build deliveries and some demand shift toward other vessel sizes in the pressurized fleet.

Slide 8, Epic Gas Operations. In the second quarter, Epic Gas loaded 747,000 tons and was involved in an extraordinary 673 cargo operations in 115 different ports. LPG cargos made up 75 percent of the cargos 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 the second quarter, we had five vessels operating in the Americas, 21 in the EMEA belt, and 14 in Asia. The four vessels that delivered post-period are located on both sides of Suez, one in the Americas and three in the EMEA.

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 petchem trades on a worldwide basis.

Slide 9. The global LPG trade has grown steadily in the past three years with incremental demand prevalent for all ship sizes.

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

Growing LPG demand in developing economies where infrastructure is restricted or under development, waterway shallow and storage facilities limited has made the pressure ship an important part of the supply chain.

This trade requires our vessels to make a more complicated manoeuvre and go alongside larger LPG vessels, either stationary as anchorage or at sea, or whilst the vessel continues to make way.

Our vessels carried out 73 such ship-to-ship, or STS, operations during the second quarter of 2019 with increased operations in the Indian Ocean and off East Africa.

Slide 10, Operating Metrics. We ended the quarter with a fleet of 40 vessels with a total capacity of 277,000 cubic meters and an average size and age of 6,900 cubic meters and 8.9 years, respectively, a 2.3 percent increase in average size from a year ago.

Our focus on larger vessels within the sector continues with the incremental time charter vessel and the four post-period vessels increasing our average capacity and reducing our average fleet age. We have the youngest and largest global pressure fleet by capacity.

Slide 11, Fleet Performance. During the quarter, the fleet experienced 124 technical off-hire days which included five routine dry dockings. Dry dockings are typically scheduled every five years on younger vessels and 2.5 years on the older vessels.

2019 has a higher than average docking schedule for our fleet, which is, so far, proceeding ahead of budget. This resulted in fleet availability of 96.6 percent and operational utilization of 90.6 percent. The fleet traded under

time charter for 64.9 percent of total voyage days compared to 75 percent a year ago.

Our fleet's time charter equivalent earnings per calendar day of \$9,454 was 3.9 percent higher than the \$9,102 in Q2 last year. And the time charter equivalent earnings per voyage day of \$9,792 was 4.9 percent higher than the \$9,339 in Q2 last year.

In respect to our forward cover, we ended the quarter with 49 percent in place for the balance of the year at an average daily TCE of \$10,161. I would now like to hand the call over to Uta to step through our financials. Thanks, Uta.

Uta Urbaniak-Sage: Thank you, Charles. Moving on to slide 12, our P&L. Our revenues for the second quarter of 2019 reflect the improved market year-over-year, showing an increase by 11 percent to \$40.6 million.

Our TCE earnings per calendar days were \$9,454 in Q2 2019, 4 percent higher than the \$9,102 we achieved in Q2 last year. Vessel operating expenses increased marginally from \$14.7 million to \$14.9 million year-over-year.

Charter-in costs increased from \$3.8 million in the second quarter of 2018 to \$4.9 million in the second quarter of 2019. In February and September last year, we redelivered two older 4,100 cubic meter bareboat vessels; while in January and April this year, we time chartered-in a 2011 built 7,500 cubic meter vessel for one plus one years with purchase options and a 2011 built 9,500 cubic meter vessel for one year with options to extend.

SG&A expenses per calendar day increased 4 percent from \$1,109 in the second quarter of last year to \$1,155 in the second quarter of this year, mainly due to one-off legal cost related to projects.

Subject to exchange rates, we expect SG&A per day to decline modestly during the remainder of 2019 following our fleet expansion at minimal incremental costs.

Finance expenses decreased from \$4.3 million to \$3.9 million year-over-year due to the reduction of our debt by \$22 million and our refinancing work last year leading to lower financing cost.

Interest rates are hedged on \$137 million of our debt at a weighted average swap rate of 2.04 percent. Our focus remains on exploring further opportunities to realize finance cost efficiencies.

The Company has reported an adjusted EBITDA of \$9.8 million, slightly above the \$9.7 million we achieved last year. We finished the quarter with a reduced loss of \$1.6 million compared to a net loss of \$2.7 million in Q2 last year, a 29 percent improvement.

Moving on to slide 13, Balance Sheet: the book value of the fleet at period end of \$487 million is below latest broker valuations. Our total debt excluding operating leases as of 30 June was \$259 million, down from \$281 million as of June 2018.

Other than normal amortization, we have no further loan expiration until mid-2022. In April 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 were used to finance the acquisition of four modern LPG vessels, to strengthen the company's working capital and for general corporate purposes.

Following the equity raise our cash position at the end of the quarter was \$78 million. Subsequent to the quarter end, we completed the acquisition of four modern Japanese built 11,000 cubic meter LPG vessels we discussed earlier.

The acquisition was financed with a combination of equity and a seven year senior secured credit facility of \$63.9 million from BNPs and Danish Ship Finance. The vessels will contribute positively to our bottom line from day one. I will now hand back to Charles for a summary and outlook.

Charles Malthy: 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 some reasons to be optimistic.

Whilst Q2 has shown some typical seasonality, we broadly 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 90.6 percent, a TCE of \$9,454 dollars per calendar day. As of today, we have 53 percent cover in place for 2019 at an average daily TCE rate of \$10,419 compared to the \$10,161 end of June or Q2.

As of today, we operate 44 vessels on the water with a leading sector capacity of 321,000 cubic meter and an average size of 7,293 cubic meters.

Epic Gas has diversified earnings by nature of our access to a mix of commodities in both the LPG and petrochemical markets through our fungible fleet and our flexible customer offering and our global reach.

2019 year-to-date has been a key period as we continue to proactively work to improve our business scale and reduce our business costs whilst delivering an improving service level to our global customer base.

We can also see distinct opportunities for growth within our sector, including through the purchases of modern secondhand vessels or the time charter-in of vessels such as the 7,500 cubic meter charter delivered in January, and the 9,500 charter-in that delivered in May.

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

Operator: Thank you very much, ladies and gentlemen. We will now begin the question-and-answer session. As a reminder, if you would like to ask a question today, please press star then 1 on your telephone keypad and wait for the automated message advising your line is open.

Please then state your first and last names before you ask your question. If you wish to cancel the request, please press star then 2.

Once again, star then 1 to ask a question over the phone today. Once again, as a reminder, please press star then 1 to ask a question over the phone today. Thank you very much. There are no questions queued at this stage. Please continue.

Charles Malthy: Thank you very much. Thank you, everyone, for making the time to join and listen today. We appreciate your interest in Epic Gas.

If you'd like to discuss further, please do contact Uta or I directly. In the meantime, we look forward to catching up in November for our third quarter 2019 earnings report; and appreciate if you prepare some questions. Thank you very much. Take care.

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