

# **Epic Ship Management Pte. Ltd.**

Thursday, 10<sup>th</sup> November 2016

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**Conference Code:** 10533008

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

**Operator:** Ladies and gentlemen, thank you for standing by and welcome to the Earnings Release Conference Call. At this time all participants are in listen-only mode. There will be a presentation followed by a question and answer session. At which time if you wish to ask question, you will need to press \* then the number 1 on your telephone. I must advise you that this conference is being recorded today, 10<sup>th</sup> November 2016. I would now like to hand the call over to your first speaker today, Mr Charles Maltby. Please go ahead.

**Charles Maltby:** Thank you, Claire. Good morning and afternoon and welcome to today's call to discuss our results for the third quarter of 2016. My name is Charles Maltby, Chairman and CEO of Epic Gas. I'm joined today by our Chief Financial Officer, Uta Urbaniak.

In 2013, Epic Gas commenced a journey to grow alongside a secular growth in demand for LPG from being a regional participant to a 16-small pressurised carriers, to a global player in the regional last-mile delivery with a leading low cost, high quality fleet, regarded as the partner of choice by customers. We have seen demand growth exceed our expectations and are working hard to deliver to this plan. Through consolidation, new build orders and multiple vessels transactions, we today have 37 high quality, modern LPG vessels on the water and a remaining four fully financed, new build vessels due before March 2017.

During the third quarter of 2016, we received a further new build, 7,500 metre vessel and committed for sale a 5,000 cubic metre, our oldest vessel as we continue to refine the age, quality and size profile of our fleet. The net impact is that our fleet calendar days in Q3 2016 continued to edge upwards, up 4% year-over-year to 3,530 days. As the balance of vessels deliver, the average vessel size is scheduled to increase to over 6,500 cubic metre with greater than 50% of earnings generated from the 7,500 cubic metre or larger vessels by mid-2017.

Our adjusted EBITDA of 5.3 million is down by about 3 million year-over-year. This reflects a weaker market, especially in the seasonal summer months of July and August and was

exacerbated by a flat commodity price for LPG globally, which in turn virtually eliminated LPG arbitrage opportunities; thus demand and our vessel utilisation have suffered. However, as a testament to our ability to schedule, either time charter or voyage charter, or to carry either LPG or petrochemicals, to moor from over 300 distinct ports, meant our revenue of 31.1 million was only down 3% year-over-year.

The pressurised LPG sector is showing some mixed sentiment, but with a positive bias. The headlines are effectively shrinking supply growth of just over 6%, alongside robust demand growth of nearly 8%. On the supply side, we're now entering a period of marked slowdown in sector-wide deliveries, and these deliveries virtually cease in 2018. After delivery of our four confirmed vessels, there are only nine incremental vessels in total on order, with deliveries trending down every quarter and no new orders placed over the period, highlighting the underlying market correction at work.

We anticipate 2016 full-year growth in cubic metre capacity of about 6% after scrapping, compared to 9.1% last year. In addition, the smaller semi-ref fleet with which we occasionally compete, is anticipated to see fleet shrinkage during the same period providing incremental demand growth opportunities for the pressurised fleet.

In regard to scrapping, year-to-date, we have so far seen two pressure vessels from the international fleet and two from the Korean domestic fleets scrapped. In addition, four semi-ref vessels are been sent to the scrap yard. There remain 28 pressure vessels and a further 40 small semi-ref or ethylene capable vessels aged 25 years or above, trading in a market where the rate environment and cost escalation related to recently adopted legislation would suggest it is reasonable to assume further scrapping ahead.

If we review fleet growth and the order book by vessel capacity, we can see 30% of the new builds in 2016 are of 5,000 cubic metre or smaller, whilst the balance of vessels are 7,000 cubic metre or larger. It is also the case that the typical pressurised vessel being scrapped is often a smaller, older vessel at 5,000 cubic metre or smaller. Therefore, it is not surprising that our recovery in rates of about 20% off the bottom for the smaller vessels is already occurring. And we see this as a lead indicator for the potential direction of the overall pressurised fleet.

On the demand side, we continue to believe in the long-term growth in LPG consumption driven by evolving energy fundamentals and increasing supply. Whilst we are presently working through the difficult market created by the legacy supply, we now anticipate year-on-year growth of 7.9% in global LPG seaborne trade. Thus we are a market heading into balance.

In North Asia, China has shown further significant downstream demand for propylene for a second sequential quarter with a year-on-year increase in imports during the period leading to support for a regional recovery in rates. In Southeast Asia and the Indian Ocean, our volumes loaded under transshipment from larger VLGCs tonnage into the smaller regional ports for the last-mile delivery remained strong with further volumes in both Singapore and the Maldives assisting to drive a year-on-year growth of over 50%.

When we review regional country-by-country developments, we see for instance that Bangladesh has additional import tanks recently put into service, Sri Lanka is in the process of setting up new infrastructure, Singapore has new incremental LPG exports, customers in the Mediterranean are converting aging semi-ref to younger pressurised vessels. A new facility for

LPG imports into South Africa is coming online and further power plant projects in the Caribbean; all can point to a bright future for pressurised LPG. There has been a notable – noticeable increase in activity also in the Middle East and Arabian Gulf region. Iran, which accounts for the world's second largest gas reserves, and is already responsible for about 6% of global seaborne LPG trade, recorded a record high export total of 1.4 million tonnes in Q3, a 14.5% year-to-date increase in exports compared to the same period in 2015. It is anticipated that Iranian exports will grow steadily in the years ahead. In Iraq, increased LPG production at the Basrah Gas LPG plant, a joint venture between local partners and two well-known international LPG trading companies has resulted in surplus tonnes available for export. We have recently noticed a growing number of pressure cargoes coming out from Iraq, and we expect to see this trend continue. Our vessels are therefore well suited to the growth within this regional trade.

Ongoing volatility in commodity pricing has had an impact on rates, especially in the Atlantic, where the transatlantic arbitrage for product ex the USA has been largely closed during the period, removing all demand for larger pressurised vessels on this route. We see the reduction in US propane exports on longer-haul routes, on pressurised vessels as a market normalisation with the underlying demand for butane exports primarily Intra US, Gulf and Caribbean through to the Central Americas where volumes are robust, remaining a longer-term core trade. In the short term, the loss of this trade was influential in our reduced utilisation during the period as we repositioned larger pressurised vessels into other trades.

Looking at our business by region, Epic Gas currently has 23 ships trading west of Suez and 14 ships trading east of Suez. With the incremental delivery of our new builds, we anticipate we will continue to grow our presence in both regions with enquiry from existing and new customers for both LPG and petrochemical trades.

We continue to develop markets where our expertise, assets and network density allows to outperform the time charter market through a combination of diversified commodities in a wide network of routes delivering the full service of time charter, contracts of affreightment and spot business. Whilst the vast majority of our business will remain time charter, we expect to see a continuing growth in our COA performance over the long term.

We are seeing plenty of enquiry and have many reasons to be positive about longer-term demand growth trends. As of today, we have increased our forward cover to 63% for the balance of 2016, and 22% for 2017, and therefore remain open to a recovery in rates on 78% of our fleet for 2017. Our increasing COA exposure, where our engagement with customers is on a voyage-contract basis, accounts for approximately 8% of our forward contracting. A COA provides the customer with scheduling flexibility, whilst providing us with the ability to tightly schedule our fleet in the spot market and to take advantage of fronthaul and backhaul trades. As a team, we are focused on maximising utilisation on our fleet while improving the efficiency of our business. As stated in our report, this quarter has been particularly challenging from a technical perspective leading to over 108 days of off-hire on top of two routine dry dockings taking a further 31.3 days. This resulted in a disappointing operational utilisation of 90.4% during the quarter and 93.5% year-to-date.

In summary, the combination of the weaker markets, our evolving fleet, combined with our net utilisation, means we posted time charter equivalent earnings of 7,351 per calendar day, down

16% year-over-year. It is important to note this rate is as much indicative of circumstances particular to Epic Gas as it is of the market this quarter.

In summary, 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, whilst focusing on developing trades alongside our customers on the regional last-mile routes. I would now like to hand the call over to Uta to step through our financial results.

**Uta Urbaniak:** Thank you, Charles. Looking at our third quarter results, we generated revenues of \$31.1 million, which is \$1.1 million below the level we recorded during the same period in 2015. Vessel operating expenses per calendar days increased by 5% year-on-year to \$4,102, but we are in line with the full-year 2015 level of \$4,103 per calendar day. The increase year-on-year partly reflects the increase in our average vessel size by 500 cubic metres or 8% per ship. Charter-in cost decreased from \$3.9 million to \$3.2 million year-on-year reflecting the redelivery of two bareboat vessels in the fourth quarter of 2015 and the second quarter of 2016. That leaves us with seven ships on bareboat charter arrangement for the remainder of the year.

During the third quarter, the company achieved an 8% reduction year-on-year in the absolute level of SG&A expenses, and a 12% reduction on the cost-per-calendar-day basis. Our platform costs, which include the cost of commercial and technical management of our fleet, as well as all corporate level, general and administrative expenses were \$954 per calendar day in the third quarter. Finance expenses increased from 3.3 million in the third quarter last year to 3.5 million as a result of additional drawdowns under our new-build facility. The company reported in adjusted EBITDA of \$5.3 million down by 38% year-on-year. We finished the quarter with a net loss of \$5 million compared to a net loss of \$0.3 million in the third quarter of last year.

Moving on to our newbuilding programme; the remaining four new builds which are all built at high quality Japanese yards, will deliver by the first quarter of 2017. As of 30<sup>th</sup> September 2016, the company had remaining capital expenditure of \$50.7 million. We expect to draw-down 49.4 million from our existing credit facility with the remaining 1.4 million to be funded from the company's cash balance which stood at \$22.8 million as of 30<sup>th</sup> September. Subsequent to the end of the third quarter, we sold the oldest vessel in our fleet, the Epic St. Paul; a 1995 build, 5,000 cubic metre ship. We also entered into sale and lease back transaction with an Asian financial services company for the Epic Shikoku; an 11,000 cubic metre ship built in 2016.

During the quarter, two of our ships were involved in incidents. One ship is anticipated to be sold shortly following insurance settlement and the other ship will undergo repairs which are expected to be completed by the end of the first quarter 2017. The events are expected to result in a net cash increase of \$10 million, and a decrease in total debt of \$3 million.

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:** Ladies and gentleman, we will now begin the question and answer session. If you wish to ask a question please press \* on your telephone and wait for your name to be

announced. If you wish to cancel your request please press the # key. Once again if you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced.

There are no further questions at this time. I would like to hand the conference back to today's presenter. Please continue.

**Charles Maltby:** Thank you, Claire. Well, thank you to everyone for making the time to join and listen today. 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 February for our full year-end. Thank you.

**Operator:** Ladies and gentleman, that concludes our conference for today. Thank you for participating and you may all disconnect.

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