Third Quarter Earnings Release

Thursday, 9th November 2017

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Company: Epic Gas Ltd

Operator: Ladies and gentlemen, thank you for standing by and welcome to the third quarter 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 a question, you will need to press *1 on your telephone keypad. I must advise you this conference is being recorded today, 9th November 2017.

I would now like to hand over the conference to your first speaker of the day, Mr Charles Maltby. Please go ahead, sir.

Charles Maltby: Thank you AJ. Welcome to today's call to discuss our results for the third quarter of 2017. My name is Charles Maltby, Chairman of Epic Gas Limited. I am joined today by our Chief Financial Officer Uta Urbaniak-Sage.

This year has been one of execution as we finalise our planned fleet renewal program, having taken delivery of 17 new buildings, and 10 second-hand vessels over a period of four years. Our most recent acquisition was the Epic Boracay, a 2009 built, 7,500 cubic metre vessel which we took over in July.

Last month we completed the sale of the oldest and smallest ship in the fleet, the 1997 built, 3,300 cubic metre Epic Capri.

Epic's fleet size now stands at 41 vessels with an industry leading capacity of 273,000 cubic metres, an average of 6,661 cubic metre and average years of 7.7.

Our fleet calendar days in Q3 2017 continued to increase by almost 10% year over year to 3,858 days, with more than 50% of our days generated by the 7,000 cubic metre and larger size vessels.

Market rates for the 3,500 and 5,000 cubic metre vessels, driven by increasing demand and light new build supply, improved through the quarter ending the period up 10% from the previous quarter and more than 25% from a year ago.

Rate levels for the largest size 7,500 and 11,000 cubic metre vessels remained flat with legacy oversupply alongside competition from larger vessels in some markets.

The increasing scale of our business and improving market means our revenue has grown. Compared to the same period last year, our total revenue of $34.5 million and charter hire of $34.2 million are up 11% and our adjusted EBITDA of $7.1 million increased by $1.8 million.

On the supply side, we are now seeing a marked slowdown in sector-wide deliveries. As of today, there are six vessels on the entire order book and we anticipate 2017 full year growth in cubic metre capacity of about 4% after scrapping, compared to 6% 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.

Year to date we have seen 14 smaller pressure and semi-ref vessels sent to the scrapyard. There remain 9 further pressure vessels and a further 11 small semi-ref or ethylene capable vessels aged 28 years and above trading in a market where the rate environment and cost escalation related to age and legislation makes it reasonable to assume further scrapping lies ahead.

If we review the fleet growth and the order book by vessel capacity, we can see that seven of the eight new builds in 2017 are 7,500 cubic metre or larger whilst the pressurised vessels scrapped this year are smaller, sub 4,000 cubic metre sized vessels.

On the demand side, we continue to see long-term growth in LPG consumption driven by evolving energy fundamentals and increasing supply. We now anticipate year-on-year growth of at least 3.5% in global LPG seaborne trade in 2017 with higher growth forecast in 2018.

In North Asia, China's downstream demand helped propylene imports remain at a respectable level which kept the smaller ships busy in the region. Interestingly, propylene cargoes from Southeast Asia picked up during the quarter contributing additional tonne-miles to the usual North Asia trade.

Our experience in the LPG break bulk trade continued to grow. We carried out 113 ship-to-ship or STS operations during the quarter almost three times more than a year ago. Apart from these STS activities in the Indian Ocean and off Singapore, our operations off West Africa have almost doubled compared to the previous quarter.

Looking at our business by region, Epic Gas currently has 24 ships trading west of the Suez and 17 ships trading east of the Suez. With the incremental delivery of our new builds, we anticipate we will continue to grow our presence in both regions, with enquiries from existing and new customers for both LPG and petrochemical trades on a global basis.

We continue to develop markets where our expertise, assets and network density allows us to outperform the time charter market through a combination of diversified commodities and a wide network of route delivering the full service of a time charter, contracts of affreightment and spot business. Whilst the majority of our business will remain time charter, we expect to see growth in our COA execution 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 65% for the balance of 2017 and 23% for 2018 and therefore remain open to recovery in rates on 70% of our fleet for 2018.

Reflecting the improved fundamentals and tighter market conditions, the average rate for our forward cover is nearly 10% higher than this time last year.

As a team, we are focused on maximising the utilisation on our fleet while improving the efficiency of our business. This quarter, the fleet experienced 95 technical off-hire days of which one scheduled dry docking accounted for an extraordinary 66 days due to extensive upgrading work. This resulted in an operational utilisation of just under 91% during the quarter and just over 91% year to date and time charter equipment earnings of $7,960 per calendar day up 7.8% year over year.

In summary, we believe with the 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. Thank you Uta.

Uta Urbaniak-Sage: Thank you Charles.

Looking at our third quarter results, we generated revenues of $34.4 million which is 3.4 million above the level we recorded during the same period in 2016. The increase reflects our fleet expansion by 10% as measured in fleet calendar days and the increase of the average ship size by 7% as measured in cubic metre capacity.

Our TCE earnings per calendar day of $7,960 were up 8% compared to the $7,384 we achieved in the third quarter of 2016.

Vessel operating expenses increased in line with our fleet expansion from $14.5 million in the third quarter of last year to $16.5 million in the third quarter of this year.

On a per calendar day basis, operating expenses increased by 4% to $4,274 reflecting the increase of the average ship size.

On a year-to-date basis, operating expenses per day are $4,178, about the same level we have seen in 2016.

Charter-in costs increased from $3.2 million to $4.1 million year on year due to the delivery of an additional 11,000 cubic metres new building into a long term bareboat charter in January this year. We have currently eight ships on traditional inward bareboat charter and charter-in costs are expected to remain flat for the remainder of the year.

The SG&A expenses year to date of $1,016 per calendar day are slightly below the $1,019 we achieved during the first three quarters of last year but have increased in the third quarter by 6% year over year to $1,012. Our platform cost 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 $3.5 million in the third quarter of last year to $4.8 million in Q3 this year. The increase reflects our higher level of bank borrowings associated with our fleet expansion. Furthermore, we put interest rate hedges in place under various loan facilities during the course of this year which led to higher funding cost. The total hedged amount as of 30th September was $132 million at a weighted average interest rate of 1.86%.

The Company recorded an adjusted EBITDA of $7.1 million which is up 34% year over year.

We finished the quarter with a net loss of $5.7 million compared to a net loss of $5 million in the third quarter of last year.

Subsequent to the end of the third quarter, we sold the oldest and smallest vessel in our fleet the Epic Capri, a 1997 built, 3,300 cubic metre ship at a price marginally above our book value. The vessel was unencumbered at the time of the sale.

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, thank you Uta. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask your question please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again if you wish to ask your question, please press star one on your telephone keypad and wait for your name to be announced.

Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

There are no questions at this point of time. Over to you, ma'am.

Charles Maltby: Thank you AJ. Thank you to everyone for making the time to join and listen today. We really appreciate all of 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 with you in February for our full year end. Thank you.

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

[END OF TRANSCRIPT]