Moderator: Uta Urbaniak-Sage
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OPERATOR: This is Conference #: 1839878.

Operator: Thank you for standing by, ladies and gentlemen and welcome to the Epic Gas conference call on the third quarter 2019 financial results. We have with us 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'll be a presentation followed by a question and answer session. At which time, if you wish to ask a question, please press "star," "1" on your telephone keypad and wait to be advised your line is open. I must advise you that the conference is being recorded today. We now pass the floor to one of your speakers, Mr. Charles Maltby. Please go ahead, sir.

Charles Maltby: Thank you very much. Good morning, good afternoon. 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 third quarter of 2019. I am joined today by our chief financial officer, Uta Urbaniak-Sage. Before we start, I would ask you to read and reflect on the disclaimer on slide two.

Slide three. Q3 2019 highlights. During Q3 2019, we grew heavily by 16 percent year-over-year to $47.1 million. Our time charter equivalent revenue is $9,965 per vessel calendar day was 1 percent lower compared to $10,081 in Q3 2018 but 5 percent higher than the $9,454 earned in the previous quarter this year as the market continued its recovery from the seasonally lower early summer period.

Adjusted EBITDA amounted to $13.5 million down 2 percent year-over-year for the positive 38 percent improvement over the $9.8 million in Q2 2019. We ended the quarter with a net loss of 2.9 million after accounting for extraordinary costs of 3.2 million related to the fleet refinancing. This equates to a net underlying profit of 0.3 million if this one of refinance charges are excluded.

Our fleet's safety record of a zero lost-time injury frequency rate or LTIFR continued this quarter and our environmental goal related to CO2 reduction from 2018 that was improved to 1.67 percent from 1.33 percent in the previous quarter. We ended the third quarter with 44 vessels on the water having acquired four modern 11,000 cubic meter LPG vessels for $106.5 million during the period.

Our fleet capacity is now 390 – sorry, 320,900 cubic meter which is 23 percent higher than a year ago. Subsequent to the third quarter we have recently completed a $201 million refinancing project for 20 vessels. This has resulted in a further $2.8 million of annualized savings in debt service and provide a strong financial base for the ongoing development of that platform.

Slide four. We are driving a different business today than five years ago. We are a customer-focused organization and our investment to primarily larger pressurized vessels over the last five years including the four 11,000 cubic meter during that period has been driven by upsizing in customer demand, new and increasing trade, and larger vessel economics. The average capacity of our vessels has increased from 4,500 to 7,300 cubic meter. This increased capacity and average vessel size are already flowing through to our average earnings, EBITDA and then profit via increased time charter earnings.

Slide five. Turning to slide five, we highlight six pillars which underpin the Epic Gas investment case. These include the attractiveness of LPG as a fuel and the potential of the global seaborne LPG trade, but also due to our young fleet and efficient operations. With the recent completion of our refinancing and the increase in size of our fleet we believe that we are well placed to benefit from the continuing growth of the market.

Slide six. Vessel supply. There's a total of 332 pressure vessels over 3,000 cubic meter on the water today. One 5,000 cubic meter newbuild was delivered and a 30-year-old old 3,300 cubic meter vessel was scrapped during the quarter. Subsequently, one 5,000 cubic meter newbuild pressurized vessel was delivered in October.

There are two more newbuilds scheduled to be delivered over the balance of 2019; eight in 2020, and seven in 2021. Collectively, these give a total of 88,500 cubic meter due to be delivered within the next three years representing a 5 percent total increase in the existing 1.73 million cubic meter fleet capacity. Assuming an average vessel life across the global fleet of 28 years, just on the 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 orderbook of five vessels, including two of the more expensive ethylene vessels. This newbuild capacity of 40,300 cubic meter equates to total semi-ref fleet growth of approximately 2.8 percent. The newbuild order book must be measured 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 four ethylene capable vessels aged 28 years and over. We expect the higher operation cost and capital investments required by new legislation, such as ballast water treatment systems and IMO 2020 compliance may 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 seven. Growing demand. Global seaborne LPG trade are expected to continue to grow supported by an increased supply of the commodity. Increased U.S. natural gas liquids production, as anticipated by the U.S. EIA under their current reference or base case, export capacity and strong Asian demand being the key drivers.

Drewry forecasts that the global seaborne LPG volumes will reach 103.5 million tonnes in 2019. That is 4.3 percent higher than the 99.3 million tonnes achieved in 2018 and with a further 4.7 percent increase in 2020. Market analysts anticipate seaborne trade can grow to nearly 130 million tonnes by 2030.

LPG exports from the USA increased to record levels this quarter, up by 2 percent in the second quarter, which was also a record and up by 17 percent year-on-year. Butane exports often carried on our pressurized vessels such as those within the Epic Gas fleet, have gained 27 percent year-on-year. In Asia, while LPG imports by China and India remain the key drivers, countries like Indonesia, Philippines, Thailand, and Vietnam are expected to grow this year.

Our fleet remained actively engaged as a last –tonne-mile distributor of LPG and stands to gain from the strong underlying demand growth in long-term LPG consumption driven by evolving energy fundamentals and increasing supplies.

Slide eight. Demand in recent trade. In Q3, U.S. export volumes o pressurized and small-sized semi-ref vessels amounted to approximately 139,000 tonnes, up by 15 percent quarter-on-quarter. The gain in exports was attributed to the pressurized vessel sector where LPG exports reached a record high of 94,500 tonnes, up by 29 percent from the previous quarter and up by 68 percent from a year ago.

Whilst cargo destination remained mostly the Caribbean, Central, and South American countries, four cargoes moved on the longer haul ton-mile route to West Africa, an increase on the two deliveries in Q2. We have not seen this cargo route since prior to the collapse of the VLGC market in 2016. 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 pressurized LPG trade.

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

In the petrochemical trade, Chinese propylene imports remain an important driver in the smaller pressurized vessel trade, especially in Asia. A robust and much larger underlying market for associated derivative products continues to posotively impact Chinese domestic demand for propylene.

Slide nine. Twelve-month time charter market. Refineries undergoing maintenance in Europe towards the end of the third quarter saw higher offline capacity than a year ago, resulted in lower activity levels and downward pressure on freight levels especially for the smaller vessels. Compared to Q3 2018, the average rates were down 3-4% for 3,500cbm sizes, down 5-6% for 5,000cbm, up 5-6% for 7,500cbm, and level for 11,000cbm.

Slide 10. Epic Gas operations. In the third quarter, Epic Gas loaded 796,433 tonnes and was involved in 678 cargo operations in 135 different ports. LPG cargoes made up 80 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 Q3 2019.

We have six vessels operating in the Americas, 26 in Europe, Middle East, Africa belt, and 12 in Asia. The four recently acquired vessels are located on both sides of Suez: one in the Americas and three in the Middle East and Africa.

Slide 11. Epic Gas operations ship to ship. 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 pressure ships for the last-ton-mile delivery, we also benefit from the increased demand for the larger vessels such as VLGC and handysize, and we have seen our operation in the LPG break bulk trade grow significantly in recent years.

Growing LPG demand in developing economies where infrastructure is restricted or under development, water weight shallow and storage facilities limited, has made a pressure ship an important part of the supply chain. This trade requires our vessels to make more complicated maneuvers and go alongside large LPG vessels,(either stationary at anchorage or at se) or whilst the vessel continues to make way.

Our vessels carried out 77 percent ship to ship operations during the third quarter of 2019 with increased operations off East India and off East Africa.

Slide 12. Operating metrics. We ended the quarter with a fleet of 44 vessels with a total capacity of 320,900 cubic meter, and an average size and age of 7,293 cubic meters and 8.4 years respectively, a just under 7 percent increase in average size from a year ago.

Our focus on large vessels within the sector continues, with the acquisition of four 11,000 cubic meter vessels increasing our fleet's average capacity and reducing the average age. We have the youngest and largest pressure fleet by capacity.

Slide 13. Fleet performance. During the third quarter, the fleet experienced 63 technical off-hire days, which included two routine dry-dockings.

Dry-dockings are typically scheduled five years on younger vessels and 2.5 years on older vessels. In 2019, we have a higher than average docking schedule for our fleet, which is so far proceeding ahead of budget. This has resulted in fleet availability in 98.4 percent operation and utilization of 95.1 percent.

The fleet traded under time charter for 62 percent of total voyage days compared to 75 percent a year ago. Our fleet time charter equivalent earnings per calendar day is at 9,965 which is 1 percent lower than the 10,081 in Q3 2018. Similarly, the Time Charter Equivalent earnings per voyage day of $10,124 was also 1 per cent lower than the $10,232 in Q3 2018.

In respect of our forward cover, we ended the quarter with 58 percent (in place for the balance of) 2019 at an average daily TCE of $10,377. I would now like to hand the call over to Uta to touch on our financials.

Uta Urbaniak-Sage: Thank you, Charles. Moving on to slide 14, (P+L). Our revenue for the third quarter of 2019 reflect the 16 percent year-over-year increased fleet capacity, showing an increase by 16 percent to $47.1 million. Our TCE earnings per calendar day were $9,965 in Q3 2019, one percent lower than the $10,081 we achieved in Q3 last year but 5 percent higher than the $9,454 in Q2 2019.

Vessel operating expenses increased from $14.3 million to $16 million year-over-year mainly due to the 11 percent increase in fleet calendar days.

Charter-in costs increased from $3.7 million in the third quarter of 2018 to $5.3 million in the third quarter of this year, as we have time chartered-in two modern LPG carriers in January and April this year.

As of quarter-end, we have eight ships on inward charter arrangements, six on a bareboat basis and two on time charter basis. SG+A expenses per calendar days decreased 4 percent from $1,092 in the third quarter of last year to $1,043 in the third quarter of this year, incurring no incremental costs despite our fleet growth.

Finance expenses increased from $4.1 million to $6.2 million year-over-year and include the one-off write-off of deferred finance charges of $1.6 million related to one of our previous secured loan facilities. We also increased our bank debt by drawing down a new seven-year senior secured loan facility of $63.9 million in July to finance part of the acquisitions of four 11,000 cubic meter ships.

In relation with the fleet refinancing we completed in October, I will talk about in a minute, we terminated existing interest rates swaps of $119 million at the end of September. The swaps had a negative mark-to-market value of $1.7 million due to the decline in long-term interest rate over the last months. Upon completion of our refinancing, we hedged $80 million at the swap rate of 1.64 percent, which is 50 basis points below the previously hedged level.

The company reported an adjusted EBITDA of $13.5 million, slightly below the $13.8 million we achieved last year. We finished the quarter with an operational profit of $300,000 and, after taking into account the one-off charge related to the refinancing, with a net loss of $2.9 million.

Slide 15. Balance Sheet. The book value of our fleet at period end is $587 million, below latest broker valuations. Our total debt, excluding operating leases as of 30th of September was $313 million.

The refinancing of two ships in September via a sale-and-lease-back transaction with a Japanese owner for 10 years enabled us to reduce our debt service by 1.3 million dollars p.a. for both ships. Subsequent to the quarter end, we completed the refinancing of a further 20 ships in our fleet. The 201 million facility has a term of 5 years and leads to savings in debt service of 2.8 million dollars per annum. 10 million dollars are not drawn yet and are available for future acquisitions. Other than normal amortisation, we have no further loan expiration until mid-2023.

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

Charles Maltby: Thanks, Uta. Slide 16. The summary and outlook slide. We would like to conclude our presentation by sharing our outlook on the LPG market. Whilst there is undoubtably 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.

Q3 has shown some typical seasonality especially for the smaller vessels, but we continue to see a modest improvement in operational utilisation and positively evolving market rates for the larger vessels due to an orderbook that is under control, ongoing demand growth and ongoing potential scrapping in the pressurised and semi-ref LPG ship sector.

We have fleet operational utilisation of 95.1 per cent, TCE 9,965 dollars per calendar day. As of today, we have 59 per cent cover in place for 2019 at an average daily TCE rate of 10,360 dollars, compared to 10,161 dollars at the end of June (Q2 2019).

Following our vessel additions, we operate 44 vessels on the water with a sector leading capacity of 321 thousand cbm, and average size 7,293cbm.

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 has so far 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 recent purchase of modern second-hand vessels, or the time charter-in of vessels such as the 7,500cbm charter delivered in January and a 9,500cbm charter-in that delivered in May.

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: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press "star" and "1" on your telephone keypad and wait to be advised your line is open. Please state your first and last name before you ask your question.

If you wish to cancel your request, please press "star" and "2." So once again, "star" and "1" if you wish to ask a question. There are no questions coming through at this time, sir.

Charles Maltby: Thank you very much. Well, look, thank you very much, 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 2020 for our fourth quarter and full year-end 2019 earnings report. Thank you very much.

Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect.

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