Epic Gas FYE Q2 2018, Earnings Call Script, 15th August 2018.

Charles Maltby: Welcome to today's call to discuss our results for the second quarter 2018. My name is Charles Maltby, Chairman and CEO of Epic Gas Ltd. I am joined today by our Chief Financial Officer, Uta Urbaniak – Sage.

Slide 3 – Second Quarter 2018 Highlights

The second quarter has been busy for us as we continued to focus on optimising our scale, with an efficient and cost-effective platform, concluding with 39 vessels on the water. At the end of the second quarter 2018, we achieved a total of 3,549 vessel calendar days, and earned a revenue of $36.7 million, which is up by 8% year over year. The fleet's Time charter equivalent revenues of $9,124 per vessel calendar day increased by 14%, whilst our operating expenses decreased 1% year over year to $4,127 per day. Adjusted EBITDA amounted to $9.7 million, a very significant 52% improvement over Q2 2017. Overall, we report a reduced Net Loss of $2.3 million, an improvement of $3.1m from a year ago.

Slide 4 – Supply

New build supply has eased considerably. In Q2 2018, two 7,500cbm pressurised vessels were delivered. This new capacity was more than offset by three 3,200cbm pressurised vessels and six small-sized semi-ref ethylene capable vessels of average age 32.3 years that were sold for scrap during the second quarter. A net reduction in fleet capacity of 38,856cbm.

There are currently two newbuild pressure vessels to be delivered in 2018, three in 2019 and three in 2020, representing an approximate 1% increase annually in existing fleet capacity, which we believe is the lowest supply growth in any bulk commodity shipping sector.

The smaller-sized semi-ref fleet that on occasion can compete or overlap on certain trades with the pressure vessels has an order book of 4 vessels, which includes 1 of the even more expensive ethylene vessels. This newbuild capacity equates to a low net fleet growth of 0.9% in 2018 and 2019, and 1% in 2020.

Further, this newbuild capacity must also be seen in the context of scrapping and the potential scrapping pool. Year to date in 2018, 4 pressurised and 10 small-sized semi-ref Ethylene capable vessels average age 30.7 years were scrapped. Looking ahead, there are 12 pressurised and 21 smaller-sized semi-ref vessels that are aged 28 years and over in the international fleet. We expect that higher operating costs and relatively high capital investments required by new regulations, such as increased fuel costs with IMO 2020 and ballast water treatment systems, will compel owners to consider scrapping these units.

Slide 5 – Demand – Global Trade and Drivers

Global seaborne LPG volumes are expected to grow to 95.1 million tonnes in 2018, 3.5% higher than the 91.9 million tonnes achieved in 2017. The USA LPG exports are robust, 17% higher than from a year ago. India and China's demand for LPG remain strong drivers of the seaborne trade despite lower import volumes this quarter compared to the previous quarter. 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 of LPG, highlighted by our involvement in ship to ship operations, a point we will revisit later.

Slide 6 – Demand - Regional Trade

For USA exports, whilst as we saw on the previous slide, the overall volumes are up, the year on year data shows a 27% decrease in exports for the pressurised and small sized semi-ref vessels. This reduction is attributable to cargoes into Mexico, which have eased slightly. Cargoes were destined mostly to the Caribbean and Central America, alongside a few cargoes to Brazil, with no trans-Atlantic cargoes to the Mediterranean or West Africa.

Demand is expected to grow in Indonesia, Philippines, Vietnam and in countries in West Africa, South Africa and the Eastern Mediterranean, as planned infrastructure is developed. Pakistan, Bangladesh and Sri Lanka remain significant demand growth centres. In the Middle East, Sudan and Yemen are growing markets too, though inadequate infrastructure and port security hamper imports and port turnarounds. However, the BGC terminal in Iraq has continued to upgrade infrastructure, with a 2.6x year on year increase in LPG export activity for the first half of the year.

Propylene imports into China have held up despite incremental Propane Dehydrogenation (PDH) capacity. This is primarily driven by an underlying demand for related derivatives. Monthly imports in the second quarter are understood to be around the 230,000 tonnes mark, broadly flat year on year and with the previous quarter.

Slide 7 – 12 Month Time Charter Market

The rebalancing between supply and demand has led to very encouraging signals from the freight market, with the 3,500cbm and 5,000cbm vessels continuing their positive run and the larger sized ships gaining traction as distinct demand growth absorbs marginal over supply, leading to both increased tonne mile demand and capacity utilisation, amidst occasional competition from larger vessels in some markets.

In the second quarter of 2018, the market rates for the 3,500cbm, 5,000cbm, 7,500cbm and 11,000cbm averaged $8,493, $9,884, $10,356 and $13,464 per day, respectively. Compared to second quarter of 2017, average rates have increased 36% for 3,500cbm vessels, 24% for 5,000cbm vessels, down 2% for the 7,500cbm vessels and remained flat for the 11,000cbm vessels. However, compared to summer 2017 where the market for 7500 and 11000cbm appears to have bottomed, we have seen rates recover by 5%.

Slide 8 – Epic Gas Operations – Global

Epic Gas loaded 737,000 tonnes in the second quarter of 2018 and was involved in 653 cargo operations across 133 different ports. Our vessels performed approximately 3.2 load operations per day. LPG cargoes made up 77% of the cargoes lifted with the balance of 23% being petrochemical cargoes such as propylene. 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 Q2 2018, as on average 10% of our fleet was operating in the Americas, 49% in Europe/Middle East/Africa and 41% in Asia. We anticipate we will continue to build on our global presence in a similar pattern, with future enquiry from existing and new customers for both LPG and Petrochemical trades on a worldwide basis, using our global scale and commercial competence to reposition vessels as regional and seasonal demand allows

Slide 9 – Epic Gas Operations – Ship to Ship

The global LPG trade has grown significantly in the past three years, with significant incremental demand prevalent for all ship sizes. As a recognised provider of quality tonnage for the "last tonne mile delivery", we also benefit from the increased demand for larger vessels such as VLGC and handysize, and have seen our operations in the LPG break bulk trade grow by leaps and bounds. This trade requires our vessels to make a more complicated manoeuvre and go alongside larger LPG vessels, either stationary at anchorage or at sea, or whilst the vessel continues to make way. Our vessels carried out 76 such ship-to-ship (STS) operations during the second quarter of 2018, with more operations in the Indian Ocean but fewer in South East Asia and off West Africa compared to the previous quarter.

Slide 10 – Operating Metrics

We ended the quarter with a fleet size of 39 vessels with a total capacity of 264,000cbm and an average size and age of 6,769 cbm and 8.2 years respectively, a 3.2% increase in average size from a year ago.

During the second quarter, the fleet experienced 92 technical off-hire days, which included three scheduled dry-dockings and one unscheduled repair period. This resulted in fleet availability of 97.4% with operational utilisation of 92.9%. The fleet traded under time charter for 75% of total voyage days during the second quarter compared to 73.9% in the same period a year ago. In respect to our forward coverage, we ended the quarter with 64% of calendar days for the remainder of 2018 covered at an average daily TCE rate of $9,999. For 2019, we have secured 17% coverage at a higher level of $10,301 per day, leaving plenty of capacity for further re-pricing in an improving market.

I would now like to hand the call over to Uta to walk us through our financials. Uta:

Slide 11 – Income Statement & Cash Flow

Uta Urbaniak-Sage: Thank you, Charles.

Looking at Q2 2018, we generated time charter equivalent earnings of $32.4m compared to the $29.9m we recorded in Q2 2017, primarily reflecting the improved market. Our TCE earnings per calendar day were a record $9,124 for Q2 2018, and 14% higher than the $8,022 we achieved in Q2 2017.

Vessel operating expenses decreased from $15.6 million in Q2 2017 to $14.6 million in Q2 2018 mainly due to the reduction of our fleet calendar days by 5%. On a per calendar day basis, our opex was also reduced by 1% from $4,170 to $4,127 year over year.

Charter-in costs decreased from $4.1 million in Q2 2017 to $3.8 million in Q2 2018 due to the re-delivery of one older 4,100cbm bareboat vessel in February, leaving us with 7 ships on traditional inward bareboat charter.

Our SG+A expenses remained flat at $3.9 million in Q2 2018. However, on a per vessel calendar day they showed an increase of 6% to $1,109 reflecting the fact that in Q2 2018 we operated 39 vessels compared to 41 vessels in Q2 2017 Our platform costs 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 $4.2m to $4.3m year over year mainly due to higher Libor cost. Interest rates are hedged for $150m of our debt at a weighted average interest rate of 2.03% which is below current USD 3m Libor.

The Company reported a record adjusted EBITDA of $9.7m, up 52% year over year.
We finished the quarter with a net loss of $2.3m, compared to a net loss of $5.4 million in Q2 2017, an improvement by 58%.

Slide 12 – Balance Sheet

The book value of our fleet of $509 million is below latest broker market valuations which went up in June 2018 compared to December 2017, reflecting the improved market.
We continue to focus on the long-term finance costs of our vessels, and have exercised purchase options on 3 vessels, the Epic Balta, Bolivar and Burano, under existing leases expiring in Q1 2019, and subsequently entered into a 5-year finance lease transaction with a Japanese ship owner at lower finance cost.
Following the quarter end on 2nd July 2018, we completed the refinancing of 5 LPG carriers in partnership with Crédit Agricole. The new US$ 34 million facility has a term of five years and has allowed us to reduce the margin by 85 bps. Loan proceeds were used to prepay the loan outstanding of $28.5million under existing facilities expiring in 2019. The balance of $5.5 million will be used for general corporate purposes. That leaves Epic Gas with only one ship to be refinanced by November 2019 with a balloon amount of $ 6.5 million. There are no further loan expiries before mid-2022.

I would like to hand back the call to Charles for a summary and outlook.

Slide 13 – Summary & Outlook

Charles Maltby: We would like to conclude our presentation by sharing our outlook on the LPG market. We are optimistic as we continue to see improvement in freight rates due to lack of incremental capacity, a low orderbook, ongoing demand growth and ongoing potential scrapping in the pressurised and semi-ref LPG ship sector. Epic Gas operates 39 vessels on the water with a leading sector capacity of 264,000 cbm, average size 6,769 cbm, and average age of 8.2 years. We have a fleet operational utilisation of 92.9%, TCE $9,124 per calendar day and $9,365 per voyage day. As of the end of last quarter, 64% of employment has been covered for the balance of 2018 at an average daily TCE rate of $9,999, and thus we have plenty of capacity to capture the higher market levels anticipated for 2019. Epic Gas has access to both the LPG and petrochemical markets, and calling 133 different ports over the first quarter, our fleet operates globally, with 4 operating in the Americas, 19 in the Europe/Middle East/Africa, and 16 in Asia.

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.

Q&A

Thank you for everyone 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 mean-time we look forward to catching up in November for our third quarter results.