

## **Epic Gas Q2 2020, Earnings Call Script, 13<sup>th</sup> August 2020.**

My name is Charles Maltby, CEO of Epic Gas Ltd and I would like to welcome you to today's call to discuss our results for Q2. I am joined today by our Chief Financial Officer, Uta Urbaniak – Sage.

Before we start, I would like to draw your attention to the disclaimer on slide 2.

### **Slide 3 – Q2 2020 Highlights**

During Q2 2020, we grew revenue by over 13 per cent year on year to 45.9 million dollars. Our Time Charter Equivalent revenues of 10,319 dollars per vessel calendar day were 9.1% higher compared to 9,454 dollars earned in Q2 2019 and a touch ahead of the 10,246 dollars earned in Q1 2020. Our Fleet Operational Utilisation was 95.7%, which was a 3% improvement from the previous quarter and a 5.6% improvement compared to a year ago. Our fleet capacity is 320,900cbm, which is 15.9% higher than a year ago.

We ended the quarter with a Net Profit of \$4.5 million.

We work hard afloat and ashore to improve safety, our fleet's Lost-Time Injury Frequency Rate (or LTIFR) was "0" for the quarter, an improvement from last quarter when our LTIFR was 0.74. Our environmental goal to reduce CO2 from 2018-levels improved to a reduction of 2.96% from 1.33% a year ago.

We have been able to increase the forward cover time charter equivalent by 2.5% year on year, to \$10,418 per calendar day, across 51% of our available days.

### **Slide 4 – Who We Are**

We are an integral part of the LPG supply chain, primarily for LPG into domestic or residential markets over the last mile or regionally on global basis. Domestic or residential demand accounted for approximately 42% of total LPG demand in 2019 and is regarded as the dominant LPG consumption sector. Industry experts expect residential demand growth to account for the primary future growth in demand for LPG.

We are a customer focused organisation, and our investment into primarily larger pressurised vessels over the past five years, has been driven by upsizing in customer demand, evolving energy fundamentals, new and increasing trade alongside increasing supplies, and larger vessel economics – our average vessel size being 5.3% larger than a year ago.

The focus on diversified global growth markets, increased capacity and average vessel size are delivering steady increases in earnings over time.

### **Slide 5 – Vessel Supply**

There are a total of 336 pressure vessels over 3,000cbm (non-Chinese flagged) on the water today including the one 5,000cbm newbuild that delivered during the quarter. There are five newbuilds scheduled to be delivered over the remainder of 2020, nine in 2021 and 3 in 2022. Collectively, these give a total of 92,000cbm due to be delivered by the end of 2022, representing a 5.3% increase in the existing 1.75 million cbm fleet capacity, and broadly matches the 4.6% of existing fleet capacity that are 28 years and over and potential scrapping candidates.

The smaller-sized semi-ref fleet, that on occasion can compete or overlap on certain trades with pressure vessels, has an order book of three vessels, two to be delivered in 2020, and one in 2022. One of them is the more expensive ethylene vessel. There is also one small-sized multi-gas carrier (i.e. LNG/Eth/LPG) that is scheduled for delivery in 2021. This newbuild capacity of 20,800cbm equates to total gross semi-ref fleet growth of approximately 1.4%.

The newbuild orderbook must be measured in the context of the potential scrapping pool. In the international fleet today, there are 22 pressure vessels, and in the similar size segment and 11 non-ethylene semi-ref vessels that are aged 28 years and over.

### **Slide 6 – LPG Demand – lower growth this year**

Global seaborne LPG volumes are forecast to grow at a lower rate than previously expected. The Covid-19 pandemic and a low oil-price environment have impacted global markets including the LPG trade dynamics.

Drewry reviewed the global impact of Covid-19 and lowered their 2020 forecast for seaborne LPG trade from 108.2 to 107.3 million tonnes, and related tonne-mile demand growth down from 4.5% to 0.8%. Meanwhile, LPG exports from the USA increased to record levels this quarter, up by 2% from the first quarter of 2020 (which was also a record quarter), and up by 10% year on year. Butane exports, often carried on pressurised vessels such as those within the Epic Gas fleet, fell by 11% compared to the previous quarter but gained 4% year on year.

In Asia, despite the volatility, China and India remain the key demand drivers. China's PDH plants and other petrochemical units are re-starting and LPG imports increased by 42% in the second quarter compared to the first quarter. However, it is prudent to bear in mind that China's derivatives production is partly dependent on global economic recovery and demand. India's second quarter imports were just under 4 million tonnes, lower by 4% compared to the previous quarter.

### **Slide 7 – Demand - Regional Trade**

In Q2, US export volumes on pressurised and small sized semi-ref vessels amounted to approximately 140,000 tonnes, down by 28% from the previous quarter, which was a record high. Cargoes destined for the Caribbean and Central America continued, but there was only one trans-Atlantic cargo to West Africa. Regular LPG deliveries into Morocco, Bangladesh, Sri Lanka, Vietnam, and Philippines continued as domestic LPG demand remained positive.

In the petrochemical trade, Chinese propylene imports remain an important driver in the 3,500cbm and 5,000cbm pressure vessel trade. China Custom's data show that propylene imports in Q2 2020 were 30% higher than the previous quarter but 23% lower than from a year ago, which is a direct impact of the Covid-19 pandemic. As referenced earlier, much depends on the global economic recovery and demand, which is a driver of China's petrochemical derivatives industry.

### **Slide 8 – 12 Month Time Charter Market**

The large-sized pressure vessels generally performed better than the small vessels during the quarter. Compared to Q2 2019, the average rates were down 11% for 3,500cbm, down 8% for 5,000cbm, down 1.5% for 7,500cbm, and down 1% for 11,000cbm. The softer rates were specific to the small vessels in Europe which were most impacted by lower refinery runs. Approximately 80% of LPG supply is refinery gas and the reduction in supply impacted the coastal movements as the available tonnes would have been used to serve domestic markets. Intra-European petrochemical trade also fell by more than 50% in the second half of the quarter which affected the semi-ref. fleet, adding to shipping length and increased competition. The second half of the quarter proved to be difficult in the Middle East Gulf with lower production in Iraq and difficulties receiving product at ports in the Red Sea. This market is typically serviced by the larger pressure vessels that load in the Middle East Gulf and discharge by ship

to ship operations in the Red Sea. Regular LPG deliveries into Bangladesh, Sri Lanka, Vietnam, and Philippines continued as domestic LPG demand remained strong. An improvement in petrochemical volumes in Asia, especially for propylene, has provided steady employment for the small vessels.

### **Slide 9 – Epic Gas Operations – Geographical and Commodity Diversity**

In the second quarter, Epic Gas loaded 862 thousand tonnes and was involved in 634 cargo operations in 147 different ports. LPG cargoes made up 78% 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 Q2 2020, we had 9 vessels operating in the Americas, 24 in the EMEA belt and 11 in Asia.

### **Slide 10 – Epic Gas LPG break bulk trade**

We are an integral part of the LPG supply chain. Therefore ship-to-ship (or STS) operations are an important part of our global business. During the second quarter of 2020, our vessels carried out 114 STS operations, which is equivalent to at least one STS operation every day, and about 20% of our global cargo operations. Developing economies with high LPG demand growth rates are often constrained by infrastructure, shallow waterways, and limited storage facilities. These aspects of the trade make the pressure ship an important part of the supply chain, and the very essence of the last tonne mile delivery. Whilst we are involved with STS operations on a global basis, in the last quarter we increased our operations off East Africa and East India.

### **Slide 11 – Operating Metrics**

We ended the quarter with a fleet of 44 vessels with a total capacity of 320,900 cbm and an average size and age of 7,293 cbm and 9.4 years respectively, a 15.9% increase in total fleet capacity from a year ago. Our focus on larger vessels within the sector continues. We have the youngest and largest global pressure-vessel fleet by capacity.

## **Slide 12 – Fleet Performance**

During the second quarter, the fleet experienced 42 technical off-hire days, which included 1 routine dry-dock. Covid-19 has led to the deferral of a number of dry-docks to later in the year. For the quarter, this resulted in fleet availability of 99% and an operational utilisation of 95.7%.

For the remainder of 2020, subject to Covid-19, we are planning drydocks and intermediate surveys on 12 vessels with a total expected off-hire time of 242 calendar days. We have restarted our docking programme in August, and whilst we are achieving some limited crew changes, each one is bespoke and hard won. There are definitely ongoing operational challenges caused by Covid-19 related to inability to deploy and repatriate crew, delays to spares and dry docks, and quarantine issues in some ports. We will monitor events closely to make the most optimal commercial and operational decisions at the time, but cannot see how we can avoid consequential increased OPEX costs.

During the second quarter, the fleet traded under time charter for 78.4% of total voyage days compared to 65% a year ago. Our fleet's Time Charter Equivalent earnings per calendar day in same period was \$10,319 which was 9.1% higher than the \$9,454 a year ago. Similarly, the Time Charter Equivalent earnings per voyage day of \$10,428 was 6.5% higher than the \$9,792 earned in the second quarter of 2019.

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

## **Slide 13 – P&L**

Thank you, Charles.

In Q2 2020, we generated TCE revenues of 41.3 million dollars compared to the 34.1 million dollars we recorded in Q2 2019, reflecting our increased fleet capacity by 16% and increased ship average size by 5%. Our TCE earnings per calendar day were 10,319 dollars, 9% up from the 9,454 dollars we achieved in the second quarter of 2019.

Vessel operating expenses increased from 14.8 million dollars to 15.5 million year over year, mainly due to the 11% increase in fleet calendar days. Opex per calendar day decreased by 5.6% to 4,051 dollars as Covid-19 impacted our ability to perform crew transfers. Part of these crew transfer costs are expected to occur over the balance of this year, meaning that we expect our operating expenses to be higher.

Charter-in costs decreased from 4.9 million dollars to 4.5 million dollars year over year as we exercised a purchase option of an 11,000cbm LPG ship in the

fourth quarter of last year that had been on bareboat charter-in since February 2015. As of quarter-end, we had seven ships on inward charter arrangements, five on a bareboat basis and two on time-charter basis.

SG+A expenses decreased 12% on a per calendar day basis, from 1,160 dollars in Q2 2019 to 1,021 dollars in Q2 2020 as a result of managing our 16% fleet growth without additional headcount. On a lumpsum basis, they decreased 2% from 4.2 million dollars to 4.1 million dollars year over year, mainly due to lower travel expenses due to Covid-19.

Finance expenses decreased marginally from 3.9 million dollars to 3.8 million dollars year over year despite our increased borrowings from 259 million dollars to 334 million dollars to finance the Company's fleet growth. Finance expenses were offset by a lower US Dollar LIBOR and a lower interest margin following our fleet refinancing end of last year.

As of the quarter end, we had interest rate swaps in place for 182 million dollars, covering 76% of our bank debt.

The Company reported an EBITDA of 16.6 million dollars, 73% up from the 9.6 million dollars we achieved in the second quarter of 2019.

We finished the quarter with a Net Profit of 4.5 million dollars, up 380% on Q2 2019.

#### **Slide 14 – Balance Sheet**

The book value of the fleet at period end is 590 million dollars, in line with latest broker valuations.

Our total debt, excluding operating leases, as of 30 June 2020 was 334 million dollars. After reduction of cash of 54.6 million, our net debt is 279 million dollars or 47% of book value.

Other than normal amortisation, we have no further loan expiration until mid-2023.

I will now hand back to Charles for a Summary and Outlook.

#### **Slide 15 – Summary and Outlook**

We would like to conclude our presentation by sharing our outlook on the LPG market. The quarter saw the impact of Covid-19 dissipating the positive tailwinds. Beneficial macro trends of over 5% forecast growth in global LPG

seaborne trade for the year have been revised down to 0.8% growth and is now lower than a forecast 1.5% growth in the pressurised fleet capacity for the balance of the year.

Operational challenges caused by Covid-19 are escalating and include an inability to fully deploy and repatriate crew, delays to spares and dry docking, and quarantine issues in some ports. Despite our strenuous efforts, we expect these challenges to remain with us for the rest of the year, and to lead to increasing OPEX costs. We fully endorse the work of international organisations and industry bodies to unlock the global log jam on safe crew transfers and are grateful to our seafarers for their forbearance.

We observe the increasing industrial activity in some economies, and our core customers in the residential LPG markets are in the most resilient sector of the LPG market, however this is likely not sufficient to continue the positive market momentum, especially for the smaller vessels.

We can take some comfort from a large, efficient, and sustainable younger fleet, with no loan expiry until mid-2023. We also remain opportunistically focused on the fine tuning of our asset base and costs, with our fleet being supplemented by the addition of a modern 7,500cbm vessel later this year.

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 meantime, we look forward to catching up in November 2020 for our third quarter 2020 Earnings report.