4th Quarter Earnings Release

Wednesday, 14 February 2018

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Operator: Ladies and gentlemen, thank you for standing by, and welcome to fourth 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 your question, you will need to press *1 on your telephone. I must advise this conference is being recorded today, 14 February 2018.

I would now like to hand the conference over to your first speaker today, Mr. Charles Maltby. Thank you. Please go-ahead sir.

Charles Maltby: Hello. Thank you very much, Ajay. Welcome to today's call to discuss our results for the full-year end 2017. My name is Charles Maltby, Chairman and CEO of Epic Gas. And I'm joined today by our Chief Financial Officer, Uta Urbaniak-Sage. There is a accompanying online presentation to go with the call today, so you can see that under our Investor Relations page.

Moving to Slide three of the investor presentation, our fiscal year 2017 highlights. 2017 was a busy year for us, as we continue to focus on building out our scale with an efficient and cost-effective platform concluding with 41 vessels on the water. We took delivery of three new buildings from shipyards in Japan earlier in the year as part of our planned fleet renewal program, having taken delivery of 17 new buildings and 10 second-hand vessels over a full year period.

At year-end 2017, we achieved a total of 14,946 vessel calendar days and earned revenue of $139.5 million, both up by 8% from 2016. The fleet's time charter equivalent revenues of $8,210 per vessel calendar day increased by 1%, whilst our general and administrative expenses of $1,006 per vessel calendar day was reduced by 2.2% year-over-year.

Our adjusted EBITDA amounted to $29.4 million, a 14% improvement over 2016. Overall, we report a net loss of $18 million before one-off non-cash impairment charge on goodwill of $12.9 million.

Moving to the next slide, supply. In 2017, eight newbuild pressure vessels totalling 74,500 cubic metre delivered and two internationally trading pressure vessels totalling 7,100 CBM at an average age of 28 years were scrapped, a net increase of approximately 67,000 cubic metres equivalent to 4.1% of existing capacity and 1.8% of the 329 non-Chinese flagged vessels over 3,000 cubic metre on the water today.

During the last quarter in 2017, two pressure vessels of 4,000 cube and a 13,000 cube and one 7,000 cube semi-ref vessel delivered, whilst four small-sized semi-ref vessels were scrapped, effectively a net zero increase in capacity over the period. There are currently six newbuild pressure vessels to be delivered in 2018 and '19, representing a 1.8% increase in existing fleet capacity, which we believe is now the lowest supply growth in any bulk commodity shipping sector. The smaller sized semi-ref fleet that on occasion can compete and overlap on certain trades with the pressure vessels has an order book of seven vessels, which includes four of the more expensive ethylene vessels. This newbuild capacity equates to net fleet growth all-in of 3.3%.

However, this newbuild capacity must also be seen in the context of the potential scrapping pool. In 2017, in addition to the two pressure vessels scrapped, we saw 12 small semi-ref vessel scrapped, average age of 28. The pressurised fleet has benefited from the removal with incremental demand growth. Today there are 11 pressure and 18 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 legislation, such as ballast water treatment systems will compel owners to consider scrapping these units.

Next slide on the demand side. Global seaborne LPG volumes still continued growth in 2017 reaching 91.9 million tonnes, 4.3% higher than the 88.1 million tonnes shipped in 2016. The USA continued to ramp-up LPG exports, which reached record levels in the last quarter of 2017 and achieved an annual – sorry, achieved an overall 23.6% growth level compared to 2016. India and China's demand for LPG continued to rise and our import volumes grew to an average rate of 14%. Our fleet remained actively engaged as the last tonne mile distributor of LPG and stands to gain from strong underlying demand growth in long-term LPG consumption, driven by the evolving energy fundamentals and increasing supplies, highlighted by our growth in ship-to-ship operations, a point we will revisit later.

Moving to Slide six, the regional trades. Pressurised LPG exports from the USA increased in Q4 2017, up by 30% from the previous quarter and almost on par with the stronger first half of the year. Exports to the Caribbean and Central America remained firm and the first transatlantic cargo to the Mediterranean was loaded in December, a year since the last such delivery. Epic has remained involved with new projects in the region. Most recently, one of our vessels made the first ever delivery of pressurised LPG to a new facility in Puerto Sandino, Nicaragua.

In the Mediterranean, imports into Turkey, Morocco and Spain grew, varying from a modest 2.8% up to a strong 8.3%. Black Sea LPG export volumes have remained subdued since the annexure of Crimea by Russia in 2014. Propylene imports into China reached a record high of 3.1 million tonnes, a 6.8% year-on-year increase despite the 16% increase in domestic propane dehydrogenation capacity. Monthly imports in the last quarter averaged 295,000 tonnes, indicating strong downstream demand. And during the year, there was significant growth of propylene cargoes at Thailand, Philippines and Indonesia, with Japan and Malaysia also showing moderate gains. This contributed additional tonne mile demand to the usual North Asia trade flow from South Korea, Japan and Taiwan.

The smaller 3,500 cubic metres and 5,000 cubic metre vessels are the preferred sizes in these trades and the tightening market and an upward movement in rates for these vessels sizes is a case and important point as a consequence.

Slide seven, the 12-month time charter market. The rebalancing between supply and demand has led to very encouraging signals from the trade market, with 3,500 and 5,000 vessels continuing their positive run and the largest sized ships gaining traction as distinct demand growth slowly absorbs marginal oversupply amidst occasional competition from larger vessels in some markets.

In the fourth quarter of 2017, the market rates for the 3,500, 5,000, 7,000, 11,000 averaged respectively $7,700, $9,300, $10,000 and $13,075 per day, respectively. If we compare to a year ago, average rates have increased 30% for the smaller 3,500 and 5,000 cubic metre vessels and about flat for the 7,500 and 11,000 cubic metre vessels.

Slide eight, our operations. Epic Gas has loaded 2.8 million tonnes in 2017 and was involved in 2,486 cargo operations across 266 different ports. The last mile regional delivery mean every vessel visits our port on average every six days, which requires a high degree of operational and technical commitment. LPG cargoes made up 80% of the cargoes lifted, with the balance of 20% being petrochemical cargoes, such as the aforementioned propylene into China. This diversity in geography and commodity provides options for our fleet and relative stability in our earnings flow.

Our business continues to be a global one. During 2017, on average, 14% of our operations were in the Americas, 34% in Europe and 11% in Africa, with just 2% in the Middle East, whilst the largest percentage, 39% were in Asia. We anticipate we will continue to build on our global presence in a similar pattern with future inquiry from existing and new customers for both LPG and petrochemical trades on a worldwide basis.

Slide nine, our operations ship-to-ship. The global LPG trade has grown significantly in the past three years with significant incremental demand prevailing 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 handyzise, and have seen our operations in the LPG bareboat 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 82 such ship-to-ship operations during the last quarter of 2017, and a total of 413 during the year, which was more than double the number carried out on 2016 and 17 times the number of operations conducted just three years ago.

Continuing our global theme, we have completed operations in 26 different countries last year, but we have seen strong activity – sorry, strong growth in activity between Indonesia and Singapore, which supplies regional demand centres like Sri Lanka in Bangladesh, whilst operations of West Africa, the Caribbean and East Coast South America have also been stronger locations for growth.

Slide 10, the operating metrics. We ended the year with a fleet size of 41 vessels and a total capacity of 273,100 cubic metre, on an average size and age of 6,661 cubic metre and 7.7 years, respectively, a 5.7% increase in the average fleet size whilst maintaining the average fleet age below eight years. This is the youngest and largest fleet by capacity of pressurised vessels.

During the fourth quarter, the fleet experienced 50 technical off-hire days, which included one scheduled dry-docking. This resulted in fleet availability of 98.7% with operational utilisation of 94.4%, an improvement over the 95.9% and 93% respectively achieved in Q4 2016. The fleet traded under time charter 68.5% of the total voyage days during the final quarter compared to an average of 74% for the year, highlighting a high exposure to the stronger spot market towards the end of the year.

In respect to our forward charter, we ended the year with 39% in place for the balance of 2018, at an average daily rate of $8,988. We have since increased this cover level to 53%.

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

Uta Urbaniak-Sage: Thank you, Charles. Let's go to Slide 11. Looking at 2017, we generated revenues of $139.5 million compared to the $128.8 million we recorded in 2016. The increase reflects our fleet expansion by 8% as measured in fleet calendar days and the increase of the average ships size by 6% as measured in cubic metre capacity. Our TCE earnings per calendar day were $8,210 for the full-year 2017, 1.4% higher than the $8,095 we achieved in 2016. Our TCE per calendar day in Q4 was $8,449, an increase by 6% from Q3.

Vessel operating expenses increased in line with our fleet expansion from $58.2 million in 2016 to $62.4 million in 2017. We actively managed our operating expenses and achieved a reduction on a per calendar basis from $4,233 to $4,176 in 2017. Charter-in costs increased from $13.4 million in 2016 to $16 million in 2017 due to the delivery of an additional 11,000 cubic metre newbuilding into a long-term bareboat charter in early 2017. We have currently eight ships on traditional inward bareboat charter, one bareboat contract will expire in March this year and the ship will be redelivered to the owner.

The SG&A expenses for the full-year 2017 of $1,006 per calendar day are 2.2% below the $1,029 we achieved last year in 2016. Our platform costs include the cost of commercial and technical management of our fleet, as well as corporate level expenses. No fees are paid for services to any outside or affiliated entities. Finance expenses increased from $13.8 million in 2016 to $17.2 million in 2017. 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 the year, which led to higher funding costs.

The total hedged amount as of 31st December was $133 million at the weighted average interest rate of 1.87%. The company reported an adjusted EBITDA of $29.4 million, up 14% year-over-year. Without taking into account any impairment charges, we finished the year with a net loss of $18 million compared to a net loss of $13.4 million in 2016. We decided to writedown the goodwill in our balance sheet, which led to a non-cash impairment charge of $12.9 million. There are no impairment indicators for our vessels. The book value of the fleet of $525 million is in line with broker valuations as of 31st December 2017.

Subsequent to the end of the fourth quarter, we entered into a MoA to sell the oldest vessel in our fleet, the Epic St. John, a 1998-built 5,000 cubic metre ship. Delivery is scheduled for the second half of March. We have now reached the end of our presentation. Thank you all for joining the call. 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 your question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press pound or hash key. Once again, if you wish to ask your question, please press *1 on your telephone keypad and wait for your name to be announced. The first question comes from the line of Aris Zafrasi[?]. Please go ahead.

Speaker: Thank you very much for the presentation today. I apologise in advance if my questions are somewhat ignorant. I'm afraid I'm not an expert on shipping. But I have three questions if that's okay. The first is why do you exclude the Chinese fleet from your figures on the global fleet? Is there some reason why they should be considered separate, or is it that we just don't have reliable data for example? And just out of interest, is China – is it seen as being sort of future net importer of vessels out of this global fleet into a Chinese fleet or the opposite? That's my first question. On the second question is, which is given the sort of change in demands or in demand trends and flows that you've talked about, if you look forward, interim risk with certain types of small LPG vessels become, if you like, somewhat more obsolete or less in demand than others because that's a trend we've seen elsewhere in other shipping segments and I just wanted to ask about was the case and not. And thirdly, just on the secondary market transactions you've seen, not just your own in Q4. How was the pricing of those transactions compared to say earlier in the year or to the carrying values? Thank you.

Charles Maltby: Thank you, Aris. Thank you very much for the interest in our business and for the questions. This is Charles, the CEO. The PRC fleet, why do we exclude? It's a fleet of about 60 to 70 vessels and about 90% of those vessels are engaged in domestic trade more than international trades and they don't carry the international licenses and certification to compete in international trades. So there is not that much point really including them because they do their own thing. We can't compete with them. They can't compete with us. There is maybe half a dozen or so ships, which can, but they tend to stay very close to China. So we don't really see the impact of them either because our fleets obviously trading globally.

On your second question, upsizing of the fleet, I guess, will the smaller vessels become obsolete? I think in any shipping sector whether it's dry-bulk, product tankers, chemical tankers, LPG tankers there is a trend is demand increases, technology increases, supply increases, bigger terminals get built, which can take bigger ships. So 20 years ago, the LPG – pressurised LPG sector was focused around 1,000 and 2,000 cubic metre vessels. Today, we are obviously focused around 3,500 to 11,000 or even 13,000 cubic metre vessels. But the heart of the pressurised LPG trade is delivery into developing ports, developing economies and so on.

And therefore, there is always going to be demand at the bottom end of the scale over the smaller ships to start new trades off. And then as customers develop, as terminals get expanded, distribution chains grow, then obviously demand for the bigger ships comes through. So we see an ongoing demand for the fleets to be 11s and 13s. But what I would say is that demand is growing for the bigger ships. Three, four years ago, there was no demand for 7,000 or 9,000 or 11,000 cubic metre vessels in Asia. Today, we have between six and eight of our vessels trading in Asia and trading fully and trades with cargoes on board.

So that shows the capacity and the capability for the industry to grow into those larger pressurised LPG vessels. You asked the question about pricing of transactions in Q4. You mean the asset prices. Is that right?

Speaker: Yeah, so for the ships in the secondary market transactions, not new orders or scrapping, but if there are, I don't know it works and occurs, just so in like second second-hand vessels or purchasing of them.

Charles Maltby: Yeah. So last year was interesting because last year there was the double the number of transactions to the year before, in fact over double, and a significant step-up in liquidity on the S&P. So I'd say second-hand vessels. And prices have moved up marginally from the bottom – from the floor that we saw in 2015 and 2016. So our particular assets that we have just concluded we have sold for above the broker value, above the book value and obviously above the loan value on it as well. So the prices are moving up now.

Speaker: Perfect. Thank you very much. Again very good presentation, and thank you for taking so many of my questions.

Charles Maltby: No problems. If you wish to pursue any other questions, please talk to Uta or I directly.

Speaker: Great. Thank you.

Operator: Once again if you wish to ask your question, please press *1 on your telephone keypad and wait for your name to be announced. There are no further questions at this point of time. I would now like to hand the conference back to today's presenters. Please continue.

Charles Maltby: Thank you very much to everyone for making the time to join to and listen today. Your question is always appreciated. We much appreciate the interest in Epic Gas. If you'd like to discuss further, please do contact Uta or IR directly and in the meantime we look forward to catching up with you later in the year for our Q1 update. Thank you.

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

[END OF TRANSCRIPT]