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Half Year 2018 BW LPG Ltd Earnings Call

EVENT DATE/TIME: AUGUST 30, 2018 / 12:00PM GMT

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PRESENTATION

Operator

Welcome to BW LPG's Second Quarter of 2018 Financial Results Presentation. You will be brought through the presentation by BW LPG's CEO, Martin Ackermann CMO; and CFO, Elaine Ong. They will be pleased to address any questions after the presentation. (Operator Instructions) Certain statements in this conference call may constitute forward-looking statements based upon management's current expectations and include known and unknown risks, uncertainties and other factors, many of which BW LPG is unable to predict or control, that may cause BW LPG's actual results, performance or plans to differ materially from any future results, performance or plans expressed or implied by such forward-looking statements. In addition, nothing in this conference call constitutes an offer to purchase or sell or a solicitation of an offer to purchase or sell any securities.

With that, I am now pleased to turn the call over to BW LPG's CEO, Martin Ackermann. Please go ahead, sir.

Martin Ackermann ***BW LPG Limited - CEO***

Thank you very much, Anna. Welcome to the presentation of BW LPG's Results for the Second Quarter of 2018. The financial period ending 30th of June. I am as always joined by our CFO, Elaine Ong. We appreciate your interest and we will take questions at the end of the call. Before we get into the discussion of the company's financials, and operational results, I want to briefly address where we stand regarding our proposed combination with Dorian LPG. On July 9, we increased our all stock proposal, the revised proposal represents the value of $8.73 per share of Dorian LPG common stock based on our closing share price on 29th August, yesterday, of NOK 34.37. The Dorian LPG Board has not yet formally responded to this increased proposal we submitted more than 8 weeks ago. We continue to believe that the proposed combination of BW LPG and Dorian LPG is a unique opportunity to maximize value for all shareholders and would deliver compelling benefits to the stakeholders of both companies.

Together, the company -- the combined company would have a largest fleet with better geographical coverage, improved utilization, scheduling and positioning. It would also have a significantly strengthened credit profile, which would provide greater financial flexibility to invest for the future and realize substantial financial and operational synergies. We believe, the power of this combination would directly benefit customers, as we advance our vision as a premier shipping company. We have a strong support from Dorian LPG shareholders for the proposed combination, and we look forward to response from the Dorian LPG Board and them showing a willingness to constructively engage with us in the weeks ahead to discuss the merits of the combination.

As such, we announced our intent to nominate 3 independent, highly-qualified candidates to stand for election to the Dorian LPG Board, each of whom is committed to objectivity evaluating all of Dorian LPG's strategic options and value creation opportunities. And we have filed a preliminary proxy statement with the SEC given our intention to solicit proxies to elect directors at Dorian LPG's 2018 Annual General Meeting. The purpose of today's call is to discuss our quarterly earnings. As such, we will not be able to comment any further on the proposed combination with Dorian LPG.

With that, let me turn to the topic at hand, our second quarter performance. The spot market bottomed out at $19.90 per metric ton in mid-April and ending the quarter at $34.40 per metric ton. The U.S. Gulf exports were lower year-on-year in April, but normalized in May and June. Increased exports from the Middle East has meant that export levels are back to pre-OPEC cut levels. BW LPG's overall VLGC fleet performance has been better than the Baltic Index by 29% for the first half 2018. This has been mainly due to a capture of long-haul cargoes from the West in the second half of the quarter and then improved East market. Improved arbitrage economics and ton mile generation from the U.S. Gulf exports have improved the economics for the third quarter with the expectation that the worst is behind us.

Third quarter to date, the Baltic is now just below 40 metric -- $40 per metric ton and now more than 80% of our spot days are covered for the quarter.

If you now turn to Slide 4, we review the highlights of the second quarter. We generated net revenue of $61 million, based on daily rates of $14,800 for the VLGC segment, the VLGC contract coverage of 15% and total contract coverage of 19% for the quarter. EBITDA came in at $8 million for the quarter, netting a loss of $27 million or $0.20 per share. BW Denise was sold and BW Havis was recycled, generating additional liquidity of $13 million and a book gain of $2 million. On 29th May, BW LPG had proposed to combine with Dorian LPG. Subsequently, on 9th of July, we increased the exchange ratio from 2.05 to 2.12 and announced our intention to nominate directors to stand for elections at Dorian's forthcoming Annual General Meeting.

On 30th of August 2018, BW LPG entered into contracts to retrofit dual-fuel LPG propulsion engines on 4 VLGCs including future options. With the world's first LPG-fueled engines, BW LPG continues its emphasis on reducing global emissions and promoting a fuel-efficient alternative for the shipping industry.

I'll now turn to Slide 5 for an overview of our commercial performance. In the second quarter, TCE rates on our VLGC fleet averaged $14,800 per day including offhire and $15,000 per day excluding offhire. Our VLGC spot earnings came in at $14,600 per day excluding waiting time compared to the Baltic spot index rate of $9,200 per day for the quarter. The fleet availability remained solid at 99% with a commercial utilization at 88% reflecting a 12% waiting time for the available fleet. We strive to make it as clear as possible for you by reporting earnings per day on both calendar days and available days. Available days -- or simply calendar days, there's offhire days where the vessels are technically not available. If we were to report our earnings on operating days, which excludes offhire and waiting time, under the definition of one of our peers, our earnings would increase to $17,000 per operating day. This is, however, an incomplete measure of performance and peer comparisons, as more waiting days translates into higher earnings per day.

Let's turn to Slide 6. On this slide, we want to share with you our VLGC fixtures since 2016, showing how BW LPG consistently has been outperforming the Baltic market index through the cycle. Our TCE rate based on full calendar days, that is including even the days when the vessels aren't technical offhire, which is the strictest measure that one can use, outperformed the Baltic market index by 20% in 2016, 38% in 2017 and for the first half of 2018, we are 29% ahead of the market index. This clearly underpins our strong commercial performance.

Moving to Slide 7. Being the best-in-class relies on more than just strong commercial performance. Our balanced portfolio, what we like to call new and young vessels, shows how we can deliver the lowest cost base in the industry. The chart to the left shows the breakdown of our costs on per vessel day basis using the last 12 months financials. This is divided into 2 vessels categories, our young vessels are delivered before 2014 and our new vessels are delivered after 2014. The point I would like to make here is that our young vessels have a lower total cost following mainly lower interest costs and lower depreciation that more than outweighs their slight Opex disadvantage. This makes the overall return profile on these vessels very attractive, especially in an improving market. Our own VLGC fleet has an average age of only 6.9 years. We continue pushing to remain the industry cost leaders through having the lowest Opex per vessel by being the largest VLGC operator in our industry, the low SG&A cost for vessels, which is significantly lower than our peers and the lowest financing cost in our industry backed by a very strong credit profile that allows us to continuously invest in our fleet, including green technology Opex.

Now moving to Slide 8. We're very pleased to announce that we have signed contracts for the retrofitting of 4 VLGCs with LPG-propelled dual-fuel engines for future options. BW LPG would be the global pioneer in operating next-generation high-tech green ships. With LPG propulsion, we will reduce sulfur oxide emissions by up to 97% allowing for full compliance with all current and future sulfur emission requirements. Above and beyond compliance, we're proud to move the maritime industry a step towards a cleaner future. We will be the world's first to install LPG-propelled dual-fuel engines hence improving our output efficiencies by approximately 11% as compared to compliant fuels. This means that we can capture significant improvements in total fuel voyage economics and in addition to saving from reduced fuel consumption and reduced fueling time. We're buffered from price sensitivity to post-2020 fuel price scenarios offering high lifetime saving prospects. The conversion to LPG-propelled dual-fuel engines is a life-cycle upgrade and a long-term commitment. We expect that the first retrofitting will take place in conjunction with the scheduled dry dockings starting very early 2020.

On Slide 9, we see the global fleet of VLGC stands at 261 vessels as of 31st of July 2018, after growing by 6 vessels in first half of the year. The current order book to fleet ratio stands at 14% with 3 vessels set for delivery in 2018, 22 delivering in 2019 and 12 delivering in 2020. Our VLGC market share is 16%, including LGCs and newbuildings, our total owned fleet -- owned and operated fleet comprises 51 vessels.

On Slide 10, we provide an overview of seaborne LPG trade in the second quarter of 2018. Global seaborne LPG trade grew by 4% year-on-year in the second quarter, mainly due to higher imports into Asia, mainly India, South Korea and Southeast Asia, despite a fall in Chinese and Japanese imports. India had the largest growth with imports up to 35% year-over-year, driven by government initiatives that aims to promote the use of LPG, while Chinese imports partially impacted by trade tariffs sentiments, declined 14% year-over-year. On the export side, North American seaborne LPG grew year-over-year by 14% to 8 million tons driven by a stronger regional trade as well as an increase in volumes to Europe and Southeast Asia. Middle Eastern seaborne LPG exports also grew by 9% to 10.3 million tons, primarily driven by stronger Iranian, Qatari and UAE exports.

Now turning to Slide 11. Here we provide an updated snapshot of the EIA's outlook for LPG balances in the U.S. For the second quarter of 2018, U.S. net exports grew year-over-year by 15.5%, or approximately 1 million tons to 7.6 million tons, driven by stronger U.S. LPG production growth of 9% year-over-year to 21 million tons, while inventory levels have also recovered to their 5-year average. In July 2018, EIA has revised its forecast for the U.S. LPG production upwards to 78 million tons and net exports to 31 million tons implying a production growth of 11.3% and net export growth of 14.4%. By 2019, U.S. LPG production is expected to further grow by 8.3% while domestic consumption is expected to fall by 0.7% resulting in U.S. net export growth of 16.6% to 36 million tons.

With that, let me turn over to our CFO, Elaine Ong, who will walk you through the financial position and our results.

Elaine Ong *BW LPG Limited - CFO*

Thanks, Martin. Starting with our income statement on Slide 12, our net revenue for the quarter was $61 million, compared to $91 million in the same quarter last year. This is mostly due to lower spot rates and smaller fleet size. Charter high expenses for the quarter decreased mainly due to lower hire rates for our charter in vessels. We generated EBITDA of $8 million in the quarter, compared to $40 million in the same quarter last year. We recorded a net loss of $27 million or $0.20 per share in the quarter.

Turning to Slide 13. We provide a snapshot of our balance sheet and cash flow position. We continue to maintain our leverage ratio at 55%, and we ended the quarter with cash and cash equivalents of $40 million.

On Slide 14, you'll see our net debt position at $1.2 billion at the end of the quarter. Total liquidity consisting of available cash and undrawn facilities was $255 million. We currently have 5 debt facilities: an $800 million facility with $316 million outstanding and $215 million of undrawn credit. A $400 million ECA facility with $335 million outstanding. A $221 million ECA facility with $187 million outstanding. The third ECA financing at $290 million with $254 million outstanding. And finally, our $150 million term loan with $145 million outstanding.

With that, I'd like to hand it back to Martin, to conclude our presentation.

Martin Ackermann *BW LPG Limited - CEO*

Thank you, Elaine. So if you please turn to Slide 15, I will summarize our earnings presentation. We netted a loss per share of $0.20 in the quarter on net revenues of $61 million. BW Denise was sold and BW Havis was recycled. Together, these generated additional liquidity of $13 million and a book gain of $2 million. We proposed to combine with Dorian LPG and then all stock transaction at an exchange ratio of 2.05 and later to 2.12. On 19th of July, we filed a preliminary proxy statement with the SEC relating to our proposal to nominate 3 independent directors at Dorian LPG's Annual General Meeting. On 30th of August 2018, BW LPG has entered into contracts to retrofit dual-fuel LPG propulsion engines on 4 VLGCs, including future options. With the world's first LPG fuel engines, BW LPG continues its emphasis on reducing global emissions and promoting a fuel-efficient alternative for the shipping industry. Looking ahead, we expect total contract coverage of 15% for the remainder of the year. While there has been a recent uptick in freight rates, our short-term outlook remains cautious as we enter the second half of the year due to the large fleet supply growth, unfavorable geographical LPG supply spreads and high VLGC utilization of the Panama Canal and global geopolitical tensions. As winter approaches, we expect further rebuilding of U.S. LPG inventories, and we maintain our view that sustained U.S. LPG production growth and no further fleet supply growth is the key to reopening global price spreads and a rebound in freight levels. Looking forward, the following factors should help rebalance the VLGC market including continued U.S. export growth, new wave of PDH facilities and expansion of existing plants in Asia as well as the healthy growth in Asian retail demand.

With that, we'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Peder from Fearnley Securities.

Peder Nicolai Jarlsby ***Fearnley Securities AS, Research Division - Equity Analyst***

Just 2 quick questions for me. First of all, on the contract book, obviously, not been -- there hasn't been much happening on that for the past years, but with rates now above cash breakeven levels, do you have any indications -- or are there more interest out there now? Can you potentially give us some indications at what level you've been interested in concluding business at?

Martin Ackermann ***BW LPG Limited - CEO***

Peter, good to hear from you and thanks for calling in. Yes, you're absolutely right that there has been an increase in freight levels and as you said yourself current spot rates are above breakeven or at least are at breakeven. And I think -- that's however, where the spot market is right now. I think there's still a bit of a bid-ask spreads between what we want and what the charters are willing to pay. But we are seeing that narrowing and there has been some period charters entered here over the last 6 months, but those rates have been I would say in the high teens and we probably feel we need a little bit more to -- for that to become interesting given our outlook.

Peder Nicolai Jarlsby ***Fearnley Securities AS, Research Division - Equity Analyst***

Okay. And just on the order book. And looking at the order book next year, there's a bit more vessels coming in and there's quite a bit of trader controlled tonnage. Do you think that will affect the market differently than, if those vessels were owned by just the traditional owner operators?

Martin Ackermann ***BW LPG Limited - CEO***

Well, I mean, for sure, there is trader controlled tonnage, but the fleet is also much larger than it was in the past. So of course, sometimes we see that trader relets are diving in a little bit more aggressively than traditional owner operators, but it has to be an open and live market. So we're not very nervous about that.

Operator

(Operator Instructions) The next question comes from Anders from Danske Bank.

Anders Redigh Karlsen ***Danske Bank Markets Equity Research - Analyst***

This is Anders. Quick question on CapEx on the engine modification or on the retrofit. And second, can you elaborate a bit more on your redelivery schedule for chartering ships? And did you deliver one this quarter? Is that correct?

Martin Ackermann ***BW LPG Limited - CEO***

Anders, good to hear from you and thanks for calling in. I think we -- you like to hold the cards a little bit towards our chest in terms of the CapEx commitments. But I think I have previously been out saying numbers in the range of $7 million to $9 million for the complete retrofit of the engine, and of course, that involves everything from the engine operate itself, from the gas supply systems to tanks, et cetera.

Anders Redigh Karlsen ***Danske Bank Markets Equity Research - Analyst***

Okay. And on the redelivery of the ships? Are you planning to redeliver chartering ships?

Martin Ackermann ***BW LPG Limited - CEO***

Well, I think we are not disclosing any detail when our ships trail off, but on Page 19, you can see exactly what ships are -- when they come on and off up until 2021, so there you can see the details of entries and exits on the fleet. So the 2 ships that left the fleet was Denise and Havis during the quarter. And then Berge Ningbo is coming here in third quarter.

Operator

Your next question comes from Lukas from ABG.

Lukas Daul ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Martin, you seem still a bit cautious on the near-term market outlook, even though we have seen day rates popping up. Can you talk about a little bit what you see in the market right now? And what do you think we are going to have a seasonally weaker Q4, which used to be the case until 2 years ago? Or how are things shaping up?

Martin Ackermann ***BW LPG Limited - CEO***

Yes. I think it's difficult to be much more specific than I just was in the call, but I mean, we are -- I would say, we are more positive than we have been and as I also said, we think the worst is behind us. And that's probably as close I will come in terms of all the guidance.

Lukas Daul ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

And looking into 2019 then and the delivery schedule that we are facing there, you said that worst is behind us, that means you seem to be a bit more optimistic on that being absorbed without hitting the earnings the same way it did this year. Is that how we should interpret it or?

Martin Ackermann ***BW LPG Limited - CEO***

Yes, I mean, the order book is still out there and we're still at -- we're coming through a quarter with depressed levels, so it's difficult to be super optimistic. But I mean, we're definitely seeing the -- we're seeing supply-demand balancing out when we look ahead, at least to more normalized levels. And that gives us some fair amount of optimism when looking ahead. But we don't want to be too forward-leaning on this here. There's still -- we certainly don't need any additional supply growth and we mentioned also a number of factors, which creates some concern out there with, of course, the demand picture, especially in Asia, is very promising looking ahead.

Lukas Daul ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Okay. And given the demolitions that we have seen so far this year. Have -- you sort of have any -- do you have any updated thoughts on that? Has that pool of potential demolition candidates maybe increased a little bit going forward? What do you think?

Martin Ackermann ***BW LPG Limited - CEO***

I don't think we have changed our view very much on that. We hope that ship owners will be prudent and disciplined, and we definitely, as I've also said, I think the 2020 regulations are a factor that people -- that will make shipowners think twice before conducting life extension surveys for older ships. So of course, if you are faced with a ballast water treatment system upgrade and potentially increased fuel cost post-2020, maybe that's the time to say goodbye to your older ships.

Operator

Your next question -- we have one more question on the audio sir. It's from Lars, who is from Arctic Securities. As we are not hearing any response, I believe, we have a question on the web. Please go ahead, sir.

Iver Baatvik ***BW LPG Limited - Head of Strategy, Research & IR***

Okay. There's a question from Marius Furuly, and he is asking what is the cost of retrofitting LPG propulsion per vessel. I think Martin answered that earlier. He also asked what is the LPG consumption per day on a laden VLGC at normal speed.

Martin Ackermann ***BW LPG Limited - CEO***

Thanks for that question and your interest, Marius. I think we will -- we can give you some detailed assumptions for your modeling efforts, but as we said, (technical difficulty) mentioning there is 11% more efficiency in an LPG burning engine than compared to a normal fuel. So I think that would be the number I would use in the model. And then you need to put in whatever you expect the price spread or the prices will be on LPG propane versus top line fuel. So I think that covers that question.

Was there any more online?

Iver Baatvik ***BW LPG Limited - Head of Strategy, Research & IR***

There is no more questions on the webcast.

Martin Ackermann ***BW LPG Limited - CEO***

Okay. Any more questions on the audio cast?

Operator

There are no more questions in queue, sir.

Martin Ackermann ***BW LPG Limited - CEO***

All right. Well, thank you, everybody, for dialing in and your attention to our quarterly release.

Operator

Thank you, Martin. Ladies and gentlemen, we have come to the end of today's presentation. Thank you for attending BW LPG's Second Quarter 2018 Financial Results Presentation. More information on BW LPG is available online at www.bwlpg.com. Goodbye.