THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2018 BW LPG Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 21, 2018 / 1:00PM GMT

CORPORATE PARTICIPANTS

Elaine Ong *BW LPG Limited - CFO*
Martin Ackermann *BW LPG Limited - CEO*

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

Operator

Welcome to BW LPG's Third Quarter of 2018 Financial Results Presentation. We will begin shortly. You will be brought through the presentation by BW LPG's CEO, Martin Ackermann; 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.

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

Thank you. Welcome to the presentation of BW LPG's results for the third quarter of 2018, the financial period ending 30th of September. I'm joined by our CFO, Elaine Ong, as always. And we appreciate your interest and will take questions at the end of the call.

The Baltic for VLGCs went up nearly 107% in the third quarter of 2018 compared to the previous quarter, averaging $40 per ton or about $19,000 per day. The primary reasons for a rebound in the freight market for the third quarter are as follows: U.S. LPG production grew by 12.8% year-over-year while domestic consumption fell by 5.5%, enabling record U.S. seaborne exports in Q3 2018 to increase 30% year-on-year. Middle East seaborne export volumes increased 3% year-on-year due to increased production linked to higher crude oil prices and reduced domestic petrochemical demand. The tariffs on U.S. LPG into China and tightening of U.S. sanctions on Iran impacted trade routes and increased miles traveled. These demand factors, combined with a negative fleet growth, as one VLGC was sold for recycling and no new vessels were delivered in the third quarter, were the primary reasons for the market improvement.

Looking into the early part of 2019, we expect the front-end-loaded newbuild deliveries to coincide with the normal seasonal weakness, imposing pressure on geographical LPG price spreads and VLGC day rates. For the full year of 2019, we remain cautiously optimistic as the fleet supply growth should be absorbed by the sustained U.S. LPG production growth. Incremental cargo from Australia and stable Middle East exports as the effects from the reimposed sanctions on Iran is offset regionally.

Turning to Slide 4, we review the highlights of third quarter. We generated net revenue of $82 million based on daily rates of $20,200 for the VLGC segment, with VLGC contract coverage of 15% and total contract coverage of 18% for the quarter. EBITDA came in at $35 million for the quarter, netting a loss of $3 million or $0.02 per share. As announced during our Q2 earnings presentation on 30th of August 2018, BW LPG entered into contracts to retrofit dual-fueled LPG propulsion engines on 4 VLGCs, including future options. With the world's first LPG-fueled VLGCs, BW LPG continues its emphasis on reducing global emissions and promoting a fuel-efficient alternative for the shipping industry. On 8th of October 2018, BW LPG withdrew the proposal to combine with Dorian LPG and withdrew the candidates who were intended to stand for election to the Dorian LPG board.

I'll now turn to Slide 5 for an overview of our commercial performance. In the third quarter, TCE rates on our VLGC fleet averaged $20,200 per day including offhire, and $20,400 per day excluding offhire. Our VLGC spot earnings came in at $21,100 per day, excluding waiting time, compared to the Baltic spot rate index of $19,000 per day for the quarter.

The fleet availability remains solid at 99% with a commercial utilization of 93%, reflecting a 7% 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 are simply calendar days less 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 $21,900 per operating day. This is, however, in our view, an incomplete measure of performance and peer comparisons as more waiting days simply translates into higher earnings per day.

To conclude, freight levels for the third quarter were still well below the levels needed to deliver our target returns. However, I'm pleased to see that our fleet outperformed our listed peers on all performance measures again this quarter.

Turning to Slide 6. On Slide 6, we see the global VLGC fleet stands at 263 vessels as of 31st of October 2018 after growing by 8 vessels in the first 10 months of the year. The current order book ratio to fleet ratio stands at 14% with one more vessel set for delivery in 2018, 22 delivering in 2019 and 15 delivering in 2020. Although the order book remains sizable, we have been pleased to note that the current ordering has slowed down, which we believe is key to a sustained recovery in freight lease. Our VLGC market share is 16%, including VLGC newbuildings. Our total owned and operated fleet comprises 51 vessels.

On Slide 7, we provide an overview of seaborne LPG trade in the third quarter of 2018. Global seaborne LPG trade grew by 5% year-over-year in the third quarter mainly due to stronger exports from the Middle East and North America supported by increased demand from India and Europe. Chinese imports were down 19% year-over-year due to trade tariffs and the outages of several PDH plants with volumes from North America declining by 89% year-over-year.

On the export side, North American seaborne LPG exports grew year-over-year by 30% to 8.8 million tons in the quarter with increases in volumes to Europe and Japan and South Korea. Middle Eastern seaborne LPG exports grew by 3% to 10.1 million tons, primarily driven by increases from Iran and Saudi Arabia.

Turning now to Slide 8. Here, we provide an updated snapshot of the EIA's outlook for LPG balances in the U.S. In October 2018, the EIA has revised its forecast for 2018 U.S. LPG net exports to 32 million tons, up from 31 million tons from its July update, driven by lower domestic demand. This implies a production growth of 10% and net export growth of 17.4% for 2018. For 2019, U.S. LPG production is expected to grow by 9% while domestic consumption is expected to increase by 0.8%, resulting in U.S. net export growth of 14.5%, a downward revision from the EIA July report that expected 16.6% net export growth for 2019.

With that, let me turn you over to our CFO, Elaine Ong, and we'll talk you -- walk you through the financial position and our results.

Elaine Ong ***BW LPG Limited - CFO***

Thanks, Martin. Starting with our income statement on Slide 9. Our net revenue for the quarter was $82 million compared to $70 million in the same quarter last year. This is mostly due to the recovery in LPG spot earnings, higher fleet utilization and lower operating expenses arising from a smaller fleet size. Charter hire expenses for the quarter increased, mainly due to an additional charter-in vessel. We generated EBITDA of $35 million in the quarter compared to $18 million in the same quarter last year. We recorded a net loss of $3 million or $0.02 per share in the quarter.

Turning to Slide 10, we provide a snapshot of our balance sheet and cash flow position. We continue to maintain our leverage ratio of 55%, and we ended the quarter with cash and cash equivalents of $46 million.

On Slide 11, you will 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 at $236 million. We currently have 5 debt facilities. The first is an $800 million facility with $327 million outstanding and $190 million of undrawn credit; a $400 million ECA facility with $331 million outstanding; a $221 million ECA facility with $184 million outstanding; a third ECA financing at $290 million with $261 million outstanding; and finally, our new $150 million term loan with $140 million outstanding.

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

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

Thanks, Elaine. So if you'll please turn to Slide 12, then I can summarize our earnings presentation.

We netted a loss per share of $0.02 in the quarter on net revenues of $82 million. On the 30th of August 2018, BW LPG has entered into contracts to retrofit dual-fueled LPG propulsion engines on 4 VLGCs, including future options. With the world's first LPG-fueled VLGCs, BW LPG continues its emphasis on reducing global emissions and promoting a fuel-efficient alternative for the shipping industry. On 8th of October 2018, we withdrew the proposal to combine with Dorian LPG, and we withdrew the candidates who are intended to stand for election to the Dorian LPG board.

Looking ahead, we expect total contract coverage of 15% for the fourth quarter and 8% for 2018 currently. With freight rates in the third quarter of 2018 reaching and remaining above regular levels, there have been an encouraging renewed interest in time charter activity in the market. As winter approaches, we expect the normal seasonal weakness to coincide with the newbuild deliveries early '19, putting some pressure on the market in the short term. We expect that the worst is behind us and that the full year of 2019 will be stronger than 2018, supported by sustained U.S. LPG export growth and additional cargoes from key regions, such as Australia. Longer term, we remain our view that sustained U.S. LPG production growth and no further newbuild orders remain key to reopening global price spreads and balancing the VLGC market.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Lukas from ABG.

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

Martin, regarding your comment on increased interest in TCEs, can you elaborate a little bit more on that? What kind of duration is out there? And what is your view on taking on additional fixed-income coverage moving forward?

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

Sorry, I couldn't hear the last end of that sentence. You said fixed-income coverage.

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

Yes. I mean, how do you feel about maybe increasing some of your fixed-income coverage? Are the discussions that you are having at levels that you view as interesting? Or is it still just too low so you rather keep the vessels in the spot market?

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

Thanks, Lukas, and very relevant question. I mean, as I just said, we have 8% of our fleet on contract for next year, so a fairly low level. And as I've been explaining previously, the bid ask gap between was has been available to us in the market has simply not been meeting the levels that we felt were attractive to enter into contract. But there has been quite high activity here in the last quarter. Most deals have been of 12 months' duration. So I think the market is slowly getting towards a level where we can deliver a small return, maybe not an attractive return yet, but it's certainly moving in the right direction. And we're monitoring that also on our side. We're not in a hurry to increase our coverage. We are having very relevant discussions with a number of our clients. And I'm sure we'll be able to provide more information to the market as we move into 2019.

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

Okay. And then you are, as you say, cautiously optimistic on '19, and then you mentioned maybe this is an effect in the first quarter. Is that simply a function of maybe slightly lower volumes and more vessels being delivered in the particular quarter? Or do you right now see anything that might influence the quarter a bit on the soft side?

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

Yes. I think -- well, as you've seen, over the last couple of years, the seasonality impacts have been very limited. But of course, with the market which is reverting back to more normal natures, we would expect to see some of that seasonality come back into play even though, of course, the increase of U.S. exports versus historically predominantly AG exports will probably minimize those fluctuations seasonally. But seasonality is definitely one factor. The other is how cold a winter we're going to get this year. We don't expect as cold a winter as we saw last year in the U.S., which was much colder than normal. But that could be, of course, a negative draw on inventories if that came to fruition. And otherwise, we mentioned that we have 22 vessels delivering in 2019 and a large part of those ships are delivering in the first part of the year. So the way we see it is that the market will likely be softer in the first parts, also simply because we are still at not strong levels currently. So we think the market will build up across the year, softer in the beginning and stronger towards the end.

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

Okay. And finally, with respect to Iran. Can you say what you see happening there in terms of volumes, whether they are being still lifted and moved? And what do you expect is going to happen forward? Is it going to be replaced? Or does it need to come from the U.S.?

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

The market in -- I mean, with the reimposed sanctions, of course, most of the operators and ship owners in the markets are unable to call Iran. So we will definitely see an impact of reduced exports from the country. I think we're already seeing that, not just in the LPG space, but across several products. But there might be a tiered market where you will see some owners, none of the listed ones, but some owners that will be operating with these kind of volumes. But it will be in a much smaller scale. But I don't think that -- if we do have -- end up with a second-tier market, that will prove positive again for the overall market. So we're not worried by Iran. And as I also mentioned on the call, we think that increased volumes from other countries in the region will outweigh any reductions from Iran.

Operator

Thank you. There currently no more questions in queue. (Operator Instructions) There are currently no more questions in queue. We will now take questions from the webcast.

Unidentified Company Representative

Okay. So there is a few questions on the webcast. Let's start with a question from Marius Furuly from Carnegie. On your mutual view on the Middle Eastern LPG volume, despite Iran sanctions being reimposed, where does the incremental volume come from? And in light of a potential upcoming OPEC cut, how do you expect LPG volume could be affected?

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

Thank you for that, Marius. I think I shed some light on that in my answer just now to Lukas on Iran. But I can try to elaborate maybe a little bit more. Where will the incremental volumes come from? We're seeing incremental increases from Saudi; from the Emirates, especially ADNOC here will have more volumes coming out; and to some extent, Qatar as well. So the other Middle East countries will all be adding positively to the volume side of the region. And yes, I think we can go into details on the OPEC cost and how we think that would be adjusting LPG volumes because there's quite a lot of optionality in that question. So I think we're going to take that one offline with you later.

Unidentified Company Representative

Sure. Okay. Let's do another question from the web. We have a question from Axel Styrman from Nordea. If the WTI stays at around current levels, do you expect this to reduce LPG export growth from the U.S. relative to your current forecast? And what is the latest news on Marcus Hook volumes and the potential ramp up of export there in the near term?

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

Thank you very much. The first question is not easy to answer. But I mean, I would say that when we look -- if we look back 2 years and what we were saying then, we were confidently saying that if the market on oil price can sustainably stabilize at $50 or above, we would be very optimistic for continued U.S. production growth and, hence, export growth, especially vis-à-vis a very flat domestic consumption. And I think even though we've seen drops in the oil price recently, we're still far above the numbers we were looking at back then. So we remain quite optimistic on U.S. -- continued U.S. production even at current levels of an oil price. So we definitely maintain our positive production look there. And then the only thing that can potentially delay that is infrastructure in what we've seen a little bit of in the Permian and Eagle Ford basins, where it has been at locations difficult to get LPG as fast to market as one wanted to.

For Marcus Hook, I don't have any other intelligence than what they have said publicly, that they will honor their contractual volumes. We are probably thinking of that as 5 incremental shipments on a VLGC equivalents in the first phase until they get their full pipe capacity up and running.

Unidentified Company Representative

Okay. We'll do another question from the web here. It's Havard Hansen from DTN that asks, do you think consolidation is needed in order to reduce the current supply overhang of ships? Or is demand growth alone enough to absorb the supply?

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

Well, we've said it before, both in words and actions, that we are positive towards further consolidation in this market. We showed that with our acquisition of Aurora. We demonstrated it over the summer with our offer on Dorian in terms of the combination we proposed. But we don't necessarily think it's a requisite for the current supply overhang. We think it will be advantageous for the market overall. But we think that there is sufficient demand growth in the years to come, and we also see that there is quite a number of ships looking at 2020 onwards, which will be over the age of 25% and ultimately will be recycled or put into storage. So we remain positive on the outlook of the market.

Unidentified Company Representative

Okay. And then there's a question from Santiago Domingo from Solventis. He asks, IMO 2020, could you give us more color on what actions you're going to take to face it, scrubber or LPG retrofit engines? And he also asks about after dropping your bid on Dorian, are you thinking about new targets? Any M&A expected in the coming years?

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

Well, so to start with the last one, which ties it to the question -- or the previous question, we obviously do not announce any ideas about expected M&A going forward. As we've always been saying, we have our eyes open. We don't have to do anything. We are a sizable company as is. We have 51 vessels. We have a good and strong balance sheet. But of course, we keep all options open in terms of continue to create value for our shareholders going forward. So unfortunately, I cannot be more precise on that.

As to the IMO 2020, I mean, as we've said last quarter, we are enormously positive in terms of the refitting of LPG installations of our engines. We think it's a very good solution for the climate. It provides 11% superior fuel efficiencies, which reduces the volume of fuels. It reduces emissions drastically. It takes out all of the SOx, all particulate matters. It reduces CO2 by 25%. And I could probably go on and on about why LPG is a very positive fuel solution, not just to comply with IMO 2020, but simply as a fuel for the future. So LPG propulsion is a big leap over and above IMO 2020.

But of course, we're starting with 4 ships. It's a CapEx-intensive exercise. If you compare it today to the pricing of heavy fuel oil versus the cost of LPG, it makes a lot of sense with LPG-fueled engines. But of course, we're not blind to the fact that it's a fairly big investment. So ultimately, we will need to see how the demand in the market will be for these ship types, and we will continue to market this to our customers and clients. We're, otherwise, firm believers that 2020 regulations will be dealt with by far by switching to compliant fuels, as that is the long-term solution required to clean up the industry and switching to a much greener fuel to reduce emissions and, of course, the sulfur impact on health and safety across the globe.

Unidentified Company Representative

Okay then, there's no further questions from the web.

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

Okay. Well then, thank you very much, everyone, for joining our quarterly update, and we'll speak again next quarter. Thank you.

Operator

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