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PRESENTATION

Operator

Welcome to BW LPG's First Quarter 2020 Financial Results Presentation. We will begin shortly. You will be brought through the presentations by BW LPG's CEO, Mr. Anders Onarheim; CFO, Ms. Elaine Ong; and EVP Commercials, Mr. Niels Rigault. 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 risk, 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 is solicitation of an offer to purchase or sell any securities.

With that, I'm now pleased to turn the call over to BW LPG's CEO, Mr. Anders Onarheim.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Thank you, and welcome to the presentation of results for our first quarter. As you heard, I'm joined by our CFO, Elaine Ong; and our EVP, commercial, Niels Rigault. And thank you for taking the time to hear our presentation.

If we then go to Slide, Page 4, along with the highlights. The first quarter, TCE rates on our VLGC fleet averaged $42,300 per day, generating a net profit after tax of $81 million or an earnings per share of $0.58.

We are very pleased to announce the strong commercial and operational performance in a quarter challenged by the transition to IMO 2020, cleaner fuel; the COVID-19; and a change in market outlook. The extra effort put in by the organization is shown in the results, and we efficiently addressed challenges to crew changes, optimized dry docking schedules and transitioned to cleaner fuel to meet the new IMO 2020 requirements. On top of this, the quarter was completed with no injuries on any of our onshore or crew members.

With our continued strong performance in the first quarter, we were once again able to return cash to our shareholders. The Board has declared a Q1 dividend, cash dividend, of $0.20 per share amounting to $28 million. With this dividend payment, we demonstrate our continued commitment to paying 50% of our annual net profits as dividends.

Also subsequent to the quarter end, we secured financing for 5 of the 12 planned dual-fuel LPG retrofittings. The additional $38 million financing covers more than 80% of the expected CapEx and will have an interest cost of LIBOR plus 170 basis points.

We also announced a few things previously: We delivered our last LGC to her new owners in March, which generated $15 million in liquidity and a net gain of $5 million.

In February, we also exercised 2 options for the retrofit of 8 additional LPG dual-fuel engines. With this, we committed to retrofit a total of 12 vessels with pioneering propulsion technology.

We also signed a supplemental agreement to amend our existing $458 million senior secured facility to convert $100 million of term loan to revolving credit with all other terms remaining the same. This increased our [venture] flexibility in these challenging times.

And lastly in February, we took delivery of a time charter-in VLGC newbuilds. Including this delivery, we now operate 47 VLGCs, and we remain the largest operator in this segment.

We are well prepared for the future. Firstly, we will be the first company in the world to retrofit vessels with LPG propulsion technology. This is an economically sensible investment that significantly reduces emissions and paves the way for carbon-emission-free shipping fleet. This Is important to us.

Secondly, we continue to invest in our smart ship technology, which allows us to collect large data for our ships to increase automation, improve fuel consumption, reduce operating costs and improve safety.

If we turn to Page 5, we'll review the key financial of the quarter. So in the first quarter, we achieved a daily rate of $42,300 for the VLGC segment, with 15% of the fleet on time charter contracts and an achieved spot rate of $45,100, including waiting time. The strong spot rates were achieved as the fleet was well positioned to benefit from the strong market in the quarter, matched with the strong operational performance.

So we delivered an EBITDA margin of 78%, given the return on capital employed of 15% and a return on equity of 28%. The annualized earnings yield based on quarter end market value was 77%. As mentioned, profit after tax was $81 million for the quarter or $0.58 per share. Our net leverage ratio decreased from 58% in the first quarter of 2019 to 49% in the first quarter 2020. And we were able to return $118 million in cash to shareholders, at the same time, significantly pay down our debt to a comfortable level.

Our EVP of Commercial, Niels Rigault, will now take you through our market review and the commercial update. Niels?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

Thank you, Anders. Let me start with our updated market outlook on Page 7. It has been an eventful start to the year, with OPEC+ leaving their quotas before turning 180 degrees and agreeing on the largest oil cuts in history; and of course, the spread of COVID-19.

In March, OPEC+ failed to reach an agreement on oil production cuts, which created more LPG cargoes from the Middle East. However, in April, OPEC and Russia were forced to end the oil price following the sharp drop in oil demand caused by COVID-19. This led to a record-high cut in oil production starting from May. We now see the effects of this with a reduction in the number of cargoes available in the Middle East.

Starting with the LPG supply, we look ahead to the rest of '20 and '21, and we expect LPG export from North America to be negatively impacted by lower shale oil and gas production. However, we believe that the impact will be partly offset by the existing high LPG inventory and the fact that some producers have started to favor higher NGL production. We have also downgraded our base assumption for Middle East LPG export for the rest of '20 and '21 due to the agreed oil production cuts, which is expected to have negative impact on LPG available for export.

The demand for retail LPG remains strong driven by the significant benefits it provides to the importing countries as a cleaner source of fuel for cooking. For the petrochemical sector, we expect demand to recover as the virus outbreak eases. In addition, demand should be further supported with about 1.7 million tons of additional PDH capacity being completed this year.

On the fleet capacity side, the newbuilding order book stands at 12% with 10% of the fleets over 27 years old by end of '22. The impact on freight rates from our expectations of weakening export, combined with the high order book, is downward pressure on utilization in the medium term. On the positive side, a sudden recovery to higher oil price scenario would positively impact this outlook, and we have already seen some signs of oil price increasing. As of 20 of May, we have fixed 85% of our second quarter ship days. The obtained TCE rates on spot and time charter are on average in the mid-30s.

Turning to Page 8. Here, we share an overview of seaborne LPG trade in the first quarter. There was an overall increase of 2% compared to the same quarter in '19. The first quarter this year, Chinese LPG imports fell by 20% to 3.8 million tons due to the outbreak of COVID-19. In January, China and U.S. signed the Phase 1 trade deal. From March, LPG was exempt from the import tariffs, and we saw the return of cargoes shipping directly from the U.S. to China.

Towards the end of the quarter, we witnessed a rush in India demand for LPG import due to the countrywide lockdown to stem the spread of COVID-19. Similar sentiment has been observed in Brazil as the contract import for LPG has increased more than 30% in the first half of April compared to the same period in '19. The overall demand for LPG remains very strong.

On the export side, global LPG export continue to be driven by the U.S. Total North American LPG export reached 10.9 million tons in Q1, up 32% year-over-year. However, the gain in U.S. export were offset by the decreased export from the Middle East. Total Middle Eastern export decreased by 11% year-over-year to 8.9 million tons.

Turning to Page 9. We provide an updated snapshot of U.S. LPG net export. In EIA short-term energy outlook released in April, they reduced both 2020 and '21 U.S. LPG net export forecast, though they still anticipate growth in the U.S. LPG export in 2020 by 16%, but it expects net export to decline by 11% in '21.

Turning to Page 10. Newbuild order book stands at 35 vessel or 12% of total VLGC fleets, which will give a fleet growth of about 6% next year and 3% in '22 if no vessels are recycled. However, the recycling potential is higher than it has been in the past, with 10% of the fleets being over 27 years old, which is the average recycling age for VLGCs. This should shorten in the down cycle, so we enter a weaker rate environment where several of these vessels could be recycled.

We have no newbuildings on order, but we are investing over $100 million in upgrading our existing fleet with LPG propulsion technology. This investment is expected to increase our competitiveness by using efficient fuel, and at the same time, contributes to significant reduction in emission.

This concludes our market review, and we now move on to our commercial performance, starting at Page 12. We achieved the strongest first quarter since our listing in 2013 with a VLGC fleet average TCE of $42,300 per day, which is $1,000 higher than the peak in 2015. We continue to maintain a high commercial utilization of 97.1%, reflecting only 2.9% waiting time across the fleet. A well-planned transition to IMO 2020, with secured fuel contracts enable us to avoid bunkering, delays and any issues related to fuel quality and specifications.

Operationally, we had a strong quarter with technical off-hire of 2.7%, related mainly to the dry docking of BW Aries and the BW Sakura. The BW Aries was fitted with scrubbers and simultaneously upgraded with our smart ship technology. While the BW Sakura was upgraded with ballast water treatment system.

I will now turn to Page 13 for an overview of the time charter portfolio. Increasing our coverage has been the focus in the first quarter, and we will continue to take on coverage at the right levels. As of 31st of March, our VLGC time charter-out coverage for 2020 stood at 16%, up from 7% last quarter. Our average TC rate for 2020 was $36,300 per day. For '21, the TC coverage was at 5%.

On the time charter-in portfolio, with the delivery of BW Yushi in February, we now operate 9 VLGCs. This fleet contributes for 14% of our total calendar dates in 2020 at a total cost of $55 million or an average cost of $26,500 per day. Our net time charter position stands at $27 million for the full year of 2020, with $82 million in time charter-out revenues and $55 million in time charter cost.

With that, I will hand it back to Anders, who will share with you some technical highlights.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Thank you, Niels. If I can ask you then to turn to Page 15. We delivered a strong technical and operational performance in the quarter despite several challenges from the market. Our fleet successfully transitioned to IMO 2020-compliant fuel. Scrubbers were installed and operated without commercial disruption. The docking for the first LPG retrofit was moved to early June to both capitalize on a strong market and to ensure the safe and timely arrival of personnel and parts. The first 4 LPG retrofittings are expected to be completed within 2020. And we now have 5 of 6 planned vessels on scrubbers -- that's 5 out of 6 planned vessels on scrubbers.

So to Page 16. Zero Harm is a BW-wide safety initiative, and our goal is to ensure that the safety of all employees remain at the forefront of all our shipping operations. The campaign reinforces a strong safety culture and the growing family of seafarers and shore-based staff. We work very hard to reduce any types of incidents in our journeys towards Zero Harm. This quarter, we're very pleased to see we achieved the Zero Harm goal with no injuries reported, leading to a reduction of our rolling average safety statistic to new low levels.

Now turning to Page 17 and look at the key fleet environmental data. You can see from the various graphs here, that switch -- the switch in fuel consumption over to compliant fuel had given an immediate reduction in sulfur dioxide emissions.

And to Page 18, the LPG propulsion and our sustainability. We are the world's first to retrofit dual-fuel LPG propulsion engines on our ships. Our commitment to sustainability is demonstrated by our commitment to retrofit a total of 12 VLGCs in 2020 and 2021. This will significantly cut emissions and improve fuel flexibility.

From an environmental perspective, installing new technology on the existing fleet should be appealing for our customers. The construction of a new vessel generates about 70,000 tons of CO2 while the retrofit upgrades generates only 2,000 tons. Since running on LPG as opposed to fuel oil saves close to 5,000 tons of CO2 per year, so the environmental payback is 15 years for a newbuild but less than 6 months for retrofit. LPG propulsion has significant economic-environmental benefits. Compared to compliant fuel, LPG propulsion reduces fuel consumption by 10%, sulfur dioxide by 99%, particulate matters by 90%, carbon dioxide by 15% and nitrogen oxide by 10%.

And so on Page 19, we show you some of the operational benefits. LPG is a cleaner fuel and easier to manage. In addition, we can bunker LPG with our loaded cargo, thus saving as much as up to 4 days of bunkering per year -- time per year. The LPG propulsion technology is future-proof. And further technological developments, currently in advanced stages, will allow for upgrades allow for use of ammonia as a fuel in the future. Ammonia is a 0-carbon emission fuel and could be one solution for a shipping company, industry, to reach the IMO emission target of 30% cut in greenhouse gases by 2030.

Turn to Page 20. The main economic benefit from LPG propulsion comes then from: The 10% lower fuel consumption; expected savings on the bunkering logistical cost of about $20 per ton; in addition to about 4 days of bunkering time; and the expected price differential between the LPG and compliant fuel, of course. The last one is the most significant: LPG propulsion gives us fuel flexibility, which allows us to run on a mix of fuels at any time it's most economical.

And the chart below shows the historical and forward price differential between LPG and compliant fuel. For 2021, the forward market prices for LPG -- prices LPG at a cost advantage of $128 per ton versus compliant fuel. That equates to about $6,000 per day in savings. If that spread remains for the lifetime of the vessel, it would give a payback of about 6.2 years on an unlevered internal rate of return of about 15%.

The LPG propulsion technology demonstrate BW LPG's commitment to a safe, sustainable future and is an economically sensible investment that significantly reduce emissions and paves the way for carbon emission-free shipping fleets.

So with that, let me turn it over to our CFO, Elaine, who will walk you through the financial positions and results.

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

Thanks, Anders. Turning to Page 22, we provide an overview of our income statement. Our TCE income for the quarter was $162 million driven mainly by the strong spot rates and high commercial utilization of 97%. As you can see, starting this quarter, we have broken down our TCE revenue into spot earnings and time charter revenues. We have also separated vessel operating expenses from G&A expenses. We hope these details will provide you with greater clarity on our numbers.

The vessel operating expenses line now captures the running cost of our own fleet, the variable-d-in vessel and the time charter-in vessels that have a charter period of more than 12 months. On a per day basis, our OpEx came in at $7,700. The remaining time charter-in expenses relating to time charter vessels with a charter period of less than 12 months continue to be separated as charter hire expenses. EBITDA came in at $126 million, representing an EBITDA margin of 78%.

Effective January 1, 2020, we revised our vessels' useful life from 30 years to 25 years. The quarterly impact is an increase in depreciation of approximately $5 million. Our last LGC was delivered to her new owners in March, generating $15 million in liquidity and a net gain of $5 million.

Profit after tax this quarter was $81 million or $0.58 per share. The fair value changes included a $28 million loss on our interest rate hedges and a $15 million loss on our forward freight agreements and bunker hedges. These mark-to-market changes are deferred in equity, bringing our total comprehensive income for this quarter to $37 million.

Turning to Page 23, we provide a snapshot of our balance sheet and cash flow statement. Our vessels' book values, supported by broker valuations, stood at $1.9 billion at the end of the quarter. Shareholders' equity was $1.2 billion or $8.37 per share. We generated $142 million of net cash from our operating activities during the quarter. And cash and cash equivalents amounted to $179 million, with $150 million drawn on our revolving credit facility. Our balance sheet and available liquidity remains healthy.

Turning to Page 24. With the strong cash flows generated in the quarter, we reduced our leverage further. Over the last 12 months, our net leverage ratio decreased by 9%, even after paying out $118 million in dividends. This is possible because of our low operating cash breakeven of $20,900 per day for our owned fleet and $21,600 per day when including the time charter-in vessels. Our all-in cash breakeven level for 2020 is $23,700 per day, which is the average TCE needed in 2020 to cover all our cash costs, including dry dockings and the equity portion of our fleet upgrade CapEx.

Page 25 provides an overview of our liquidity and debt position. At the end of Q1, our net debt position was at $1.1 billion. Our available liquidity stands at $329 million with no major maturities until 2026. Our next balloon payment of $47 million is only in 2023. We believe our competitive financing and strong liquidity has positioned us to navigate through the uncertain markets ahead.

With this, I would like to hand it back to Anders to conclude our presentation.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Thanks, Elaine. If we then summarize and go to Page 27. So it was a strong quarter, both commercial and operationally, with earnings per share of $0.58, our net profit after tax of $81 million. And on the back of our strong earnings and taking into account our balance sheet, liquidity CapEx and a cautious market outlook, the Board has declared a cash dividend for the first quarter of $0.20 per share, amounting to $28 million. The dividend is 34% of net profits for the quarter as of -- and -- but our target is still to pay out 50%. At the share price this morning, the gives an annual dividend yield of about 25%. With the dividend announced today, the company has, since its IPO, declared 65% to accumulated earnings as dividends.

Subsequent to the quarter end, we have signed a supplemental agreement to increase our existing $400 million loan facility by $38 million, again, to refinance -- to finance the retrofitting of the fuel-dual LPG propulsion engines at very competitive rates.

Finally, I would like to provide a summary of our outlook for the VLGC market. Looking ahead at the rest of 2020 and 2021, we have downgraded our outlook for both U.S. and Middle East LPG exports. We expect that this in combination with the still high vessel order book will put downward pressure on vessel utilization. Our outlook is sensitive to changes in the assumption of future oil prices, which could change quickly, as we've seen and Niels told you. And a recovery to higher oil price environment would affect our outlook positive.

So with that, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a questions from the line of Lukas Daul.

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

I was wondering on the CapEx number going forward that you disclosed of $136 million, Elaine, how much of that have you already funded by available debt? And is there more that you expect to fund by debt? So basically asking what the equity portion on that would be.

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

Lukas, thanks for your question. Basically, as Anders had mentioned earlier and we announced, that we have 5 of the -- first 5 of the 12 LPG propulsion engines have been funded by debt at this point. The remaining 7 is currently unfinanced because they don't come due till next year in the second half.

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

Okay. But in sort of a base case, you would then assume to pretty much fund all of that through available debt? Is that your sort of line of thinking?

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

Yes. Yes, we would seek to secure financing [for the remaining 7.]

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

Okay. And on -- and then just on the life adjustment on the vessels, is there any specific reason behind taking it down from 30 to 25? Or what's the rationale?

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

Well, I think there was 2 things, right? There is the whole IMO 2020 impact, but also the fact that bringing it from 30 years to 25 years was also to bring it more into alignment with industry standards.

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

Okay. Fair enough. And then maybe one for Anders. I mean, you delivered good results, you lowered your market outlook, and you are sort of cautious a bit on the dividend while still having an ambition to pay out 50%. But fast forwarding to Q2 or Q3, given your market view, is the payout ratio presented in Q1 something we should sort of expect as a floor while the market remains a bit challenging? Or.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Obviously, our target is still to pay out on, an annual basis, 50% of our net profits. Obviously, it's -- there are -- there will be judgments made every quarter. But obviously, we do not want to be overly aggressive in the first quarter, given that we don't want to end up having to scramble at the end of the year. So I think you can assume that our dividend policy stands firm. We will always evaluate also, given our outlook, what's the right level. But the goal for the year is to pay out 50% of our NPAT.

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

Okay. And that, given this outlook that you have, what would be sort of the moving parts that would make it better or worse over the course of the next 12 months as you see it? Because now you are sort of preparing for something, where could the delta come from?

Anders Onarheim ***BW LPG Limited - CEO & Director***

Are you -- related to the dividends or just in general?

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

No, no, I was thinking about your sort of market view, right? Now you are sort of provided your outlook, which I think is highly appreciated. So if you were to think about any elements that could drastically change it in one or the other direction, where would you sort of think they would come from?

Anders Onarheim ***BW LPG Limited - CEO & Director***

Well, I think -- and Niels, you can also fill in. I mean, I think it is very much dependent on the oil price. We need a higher oil price for -- I think, for the U.S. production to really stay high. Obviously, we think there's some mitigation factor, mitigating factor, that there will be focus on NGLs, but I think it's clearly that we believe we need higher oil prices to maintain high production in the U.S. And clearly, that's going to be important.

There could be, of course, we were going to watch very closely developments around the world in terms of how the refineries are coming back on stream and what the effect will be on local LPG production in the various places. So there could be some upside there. But I think as it stands right now with -- both with the OPEC cuts and with the outlook in the U.S., I think we are cautious, and we will take more cover if we see we can do that at sensible levels right now.

And U.S. analysts are as good as us in, I think, predicting the oil price going forward. Obviously, if we can get -- if we see in sort of permanent shutdowns, the shut-ins of production, perhaps we could see a good oil price environment towards middle of, end of, next year. But your guess is good as mine. Niels, do you want to add something?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

No, I think you got it right. I mean it would be nice to say goodbye to COVID-19, but yes, hopeful of that.

Operator

We also have another question from the line of Anders Karlsen of Danske Bank.

Anders Redigh Karlsen ***Danske Bank A/S, Research Division - Analyst***

Yes. I was wondering, first of all, just quickly on the conversion point to the LPG propulsion. What do you anticipate in terms of off-hire [there]?

Anders Onarheim ***BW LPG Limited - CEO & Director***

I didn't hear your question, but if it relating to -- I think about [2 months delaying, we spoke about].

Anders Redigh Karlsen ***Danske Bank A/S, Research Division - Analyst***

[It's relating to] conversion time.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Yes. I think approximately 2 months, I think, is 60 days. Well, around 60 days, I think, is what we were planning for.

Anders Redigh Karlsen ***Danske Bank A/S, Research Division - Analyst***

Okay. Then in terms of -- I think, Niels, you said something about -- you saw some switching to higher NGL content in U.S. production. Did I hear you right? Or are you seeing some of that?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

Yes, yes. We also see -- we see stronger demand for LPG.

Anders Redigh Karlsen ***Danske Bank A/S, Research Division - Analyst***

Okay. You're not seeing any switching to naphtha from the petrochemical businesses? Any -- as a react? Or is it too early?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

No. We have seen that from -- already from Europe. And we expect also the other refineries in Taiwan and Korea and Japan. Obviously, with the naphtha price as low as it is, they will probably switch back to naphtha. But we'll see. Oil price is increasing now.

Anders Redigh Karlsen ***Danske Bank A/S, Research Division - Analyst***

Yes, that's true. So in terms of -- what are your main concerns? I mean, what is keeping you up at night in terms of market developments? What's the risk that you have there?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

I mean, hopefully, I think we have seen the worst. I mean, we had a lot of action in Q1. Say that we have prepared ourselves to meet the new -- well, the new environment. And I'm fairly confident that we will adapt if we will see some other changes next quarter.

Anders Onarheim ***BW LPG Limited - CEO & Director***

Yes. I think for us, the really important thing is we need to both stay competitive. We need to make sure that we are operating efficiently. And again, although these times, there's many, many companies talk about ESG and sustainability and so forth, we actually really -- we really believe that the LPG propulsions is part of the future. It's going to make us very competitive and it's also going to -- and it's actually a -- it's a real step towards sustainability. It's not just one of the glossy pages in our annual report.

Operator

Thank you for the questions. We currently don't have any more questions from the line. Please continue.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. We have a question from the webcast here from [Bob Corwin]. And he starts by congratulating us on good numbers. And yes, a question from -- for Niels here.

He says U.S. production is down 20% from Q1 highs, domestic U.S. demand is up significantly over year-over-year and propane exports are down from its height in Q1. Can you please elaborate on how you view the U.S. energy market and how it's impacting shipping?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

Thank you, Iver. I mean, as we said earlier in the presentation, we have downgraded our view to U.S. exports in '20 and '21. There is certainly a downside risk to freight rates, especially from second half 2020. And we'll see some pressure on utilization. Also when we see the OPEC cuts or OPEC+ cuts,continue to cut their productions.

But as we also said in the market outlook, we do think that some of the production fall will be offset by depletion of U.S. inventory and producers favoring NGL production, midstream producers maximizing fractionators with backlog of NGLs.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. And then one more question here.

Can you please comment on the impact from growth in U.S. domestic petrochemical capacity and that impact on the VLGC trade, that is, will increase domestic petrochemical-demand-challenged VLGC volumes?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

U.S. domestic consumption largely remains stagnant in the long term. We are certainly aware of new petchem project. But with current low oil prices, we have already seen projects being delayed due to CapEx reduction. I mean, one example is the Enterprise PDH 2 facility being delayed to 2021.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. Do you expect any increases in U.S. terminal capacity?

Niels Rigault ***BW LPG Limited - EVP of Commercial***

Yes, we do. We expect Netherlands' expansion to complete in Q4 2020. And Targa have also announced that the expansion will be completed by Q3 2020. So yes.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. Then we have a question from Petter Haugen.

He says, could you please expand on the reason for the large discrepancy between achieved spot rate in the Baltic and your guiding for Q2, both the numbers given earlier in the call? And how the different regions are expected to perform.

Niels Rigault ***BW LPG Limited - EVP of Commercial***

Well, thank you, Petter. I mean, there are -- well, there are 2 reasons. And I think the main reason is the -- in Q1, you had the transitioning period to IMO 2020. I mean, we already started to bunker compliant fuel towards the end of October. So obviously, we had a more expensive fuel on board compared to the high-sulfur. And this is, obviously, will have the lag effect on the Baltic. The Baltic are using high-sulfur. And for the rest of the year, I mean, compliant fuel in January was in 600-plus. And during the quarter, it went down to high 200, 300. So obviously, you will have this lag effect on the bunker, which is the main reason why we also are lagging to the Baltic.

Another, which is smaller, it's positive, and that's basically is the premium market with -- well, the difference between premium market out of the AG or out of the U.S. and we have mainly been loading out of the U.S., and the AG market has, in Q1, been traded on the premium market compared to the U.S.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. Good. So one more question from the webcast from [Bob Corwin].

With respect to commodity trading, are you still trading for your own book? And how should investors think about counterparty price risk, base

risk, for this part of the business?

Anders Onarheim ***BW LPG Limited - CEO & Director***

I can start answering that. I mean, clearly, our commodity trading is an integral part of our shipping business. We do this really to secure utilization for our shipping. And obviously, yes, there are some other types of risks that we need to understand and control. But in the end, we are exposed to -- every year, we're exposed to the shipping market. And for us, this is really a way of laying off risk, not taking on additional risk. And we, of course, have very, very firm and strong internal routines for -- in our risk management.

And so I think investors should at least appreciate this as being a complement and not a separate trading activity. And it does give us a few more tools in our toolbox, when the market is either liquid, or for other reasons. So I would say, and particularly, in a difficult market, I would think that our product services is going to be an even more important and -- part of the shipping business. But again remember, it's a part of the shipping business, it's not a separate trading business.

Iver Baatvik ***BW LPG Limited - Head of IR***

Okay. Thank you for that, Anders. Then there's no further questions on the webcast. So back to the operator.

Operator

Thank you. We have come to the end of today's presentation. Thank you for attending BW LPG's First Quarter 2020 Financial Results Presentation. More informations on BW LPG is available online at www.bwlpg.com. Goodbye. Thank you for your participation.