INVESTORCOMMS BW LPG

Event	BW LPG Q2 2021 Earnings Presentation
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Hosts	Anders Onarheim, CEO Elaine Ong, CFO Niels Rigault, EVP (Commercial) Pontus Berg, EVP (Technical and Operations)

Presentation

Opening

Welcome to BW LPG's Second Quarter 2021 Financial Results Presentation.

Bringing you through the presentation today are CEO Anders Onarheim, CFO Elaine Ong, EVP Commercial Niels Rigault, and EVP Technical and Operations Pontus Berg.

We are pleased to answer questions at the end of the presentation. Should you have any, please type them into the chat box in your Zoom panel. You may also use the "raise hand" option.

Before we begin, we wish to highlight the legal disclaimers shown in the current slide. This presentation, held on Zoom, is also recorded.

I now turn the call over to BW LPG CEO Anders Onarheim.

Anders Onarheim, BW LPG

Thank you, Lisa. Welcome to our second quarter results presentation for the financial period ended 30th June 2021. I am joined today by our CFO, Elaine Ong; EVP Commercial, Niels Rigault; and our EVP Technical and Operations, Pontus Berg.

It has been over one and a half years since Covid-19 was declared a global pandemic. Our way of life has been irrevocably impacted, and how we do business must adapt to this new reality. Our operations and crew changes continue to be challenged by travel restrictions, as countries manage subsequent Covid outbreaks and new strains with varying degrees of success.

We thank port authorities and health facilities around the world who have set aside resources to vaccinate our crew. Without our crew, our ships cannot sail; and if our ships cannot sail, we cannot deliver cleaner energy to the world.

The second quarter of 2021 was challenging. VLGC freight rates fell below opex for several months, before staging a modest recovery. We navigated the market with a returns-focused mindset, selling two of our older vessels to generate attractive returns, secured our first ESG-related loan facility, and made good progress on our LPG retrofitting program.

It has been nearly a year since we began our retrofitting program with BW Gemini, the world's first Very Large Gas Carrier to be powered by pioneering LPG dual-fuel propulsion technology.

We are now more than halfway through this program, which is our keystone project for decarbonization. We now have eight vessels on water serving customers with the sector's lowest emissions profile, one at yard and with six more vessels to go. My thanks to our site team, Officers and Crew who are working tirelessly to ensure the project progresses on time, on budget and with Zero Harm.

These vessels emit significantly less greenhouse gases compared to similar vessels running on compliant fuels. Once all 15 VLGCs are retrofitted, we will have saved one million tons in CO2 emissions.

Showcasing an innovative approach to increasing operational efficiency, our VLGC, BW Balder, was the first VLGC to receive LPG bunker via STS, with LPG carrier Epic St. Martin. Our retrofitted vessels refuel as they load, saving turnaround time and increasing operational efficiency.

The infrastructure for distribution and bunkering is already largely available to serve potential marine market demand. There are many LPG storage facilities that can be used for LPG bunkering, and over 700 small-size LPG carriers that can be used for ship-to-ship or STS bunkering.

At BW LPG, we are convinced that LPG is part of the solution as we work towards a zero-carbon future. As a world leader in LPG shipping, we can facilitate global decarbonization as we all work together to combat climate change.

During the second quarter, reported TCE rates for our VLGC fleet averaged USD 24,500 per calendar day. Commercially, we achieved USD 27,500 per available day with a high commercial utilization of 96%.

This performance contributed to a net profit after tax of USD 23 million and an earnings per share of USD 0.16. Adjusted for accounting gains and gains from vessel sales however, the net profit came in at three million dollars. For the second quarter we will distribute a dividend of USD 0.10 per share, amounting to a total of USD 14 million paid out to our shareholders.

Looking at highlights for the quarter, I would like to commend our sailing crew as well as onshore teams, who completed approximately 30 inspections and safely embarked and disembarked more than 500 crew with no delays to port operations.

We concluded the sale and delivery of BW Empress in April this year. This generated USD 40 million in liquidity and resulted in a USD 10 million net gain. Another gain of USD 10 million materialized after we increased our share in our Indian subsidiary from 50% to 88%.

After the end of the second quarter, we sold and delivered BW Confidence, BW Boss and BW Energy. These three transactions added USD 81 million to our liquidity and resulted in a net gain of USD 9 million.

In addition to the above, we also exercised our purchase option for the Yuricosmos, which we have now renamed BW Niigata. And finally, we secured a USD 45 million loan to finance the retrofitting of six dual fuel LPG propulsion engines.

As in previous presentations, Niels will talk more about the market, but we expect rates to remain above cash break-even for the rest of 2021. This view is driven by continued growth in US exports as well as recovering volumes out of the Middle East.

Looking into next year and 2023, we continue to be optimistic, but reiterate that sustained export growth of US LPG and no further newbuilds are key to bring about a balanced market.

The softer spot market during the second quarter pushed our annualized return on equity down to 7% and our annualized return on capital employed down to 6%.

Nevertheless, our operational and free cash flows remain healthy, at USD 68 million and USD 81 million respectively for the quarter. This gives us flexibility and enables us to continue to return cash to our shareholders. Our net leverage ratio continues down from 42% at the end of the first quarter, to now 40% at the end of Q2; the lowest in five years.

Next, our EVP Commercial, Niels Rigault will take you through the Market Review and commercial update.

Niels Rigault, EVP (Commercial)

Thank you, Anders. Good morning and afternoon to all of you.

We have fixed 83% of our Q3 available fleet days at an average rate of USD 32,000 per day (basis discharge to discharge). We expect rates to be firm for the remaining of 2021 but with high volatility due to voyage inefficiencies.

In the medium term, we continue to be optimistic for 2022. However, the high number of recent newbuild orders has increased the uncertainty for 2023, but the tightening of IMO regulations would lead to increased recycling of the ageing VLGC fleet, and the recovery in production from the Middle East will partly offset the newbuild deliveries.

During the second quarter, US LPG exports increased by 22%, and high domestic demand from extremely cold winter weather earlier this year has led to low inventories, which again lead US LPG prices to continue at record high levels.

Despite the high US LPG prices, the strong US exports illustrate the strengths of the LPG import demand as more and more countries are building out the infrastructure to use LPG as a primary source. For the main import regions, South Korea was the only one to show a notable decline due to less retail demand and higher local refinery production.

On slide 10 you see EIA's short-term energy outlook released in August. EIA forecasts that US LPG exports will remain high for 2021 and 2022, albeit production growth slowed to 3.5% from over 10% in 2019.

On the positive side, the oil price has been higher than forecasted, incentivizing US oil producers to increase production. Also, OPEC has gradually started to increase oil production. Therefore, if the entire 5.8 million barrels per day production adjustment is phased out, we expect a meaningful recovery in Middle East LPG exports over the next year.

The focus of slide 11 is the increase in the orders for VLGC. In the last quarterly update, we expected 30 vessels for 2023 delivery and none for 2024. Today another 14 vessels have been added to the orderbook, increasing nine ships in 2023 and five in 2024. This shows that our industry has a strong belief in LPG and the VLGCs market in the future.

All recent orders are with LPG propulsion. We take comfort in the industry following us and embracing the LPG propulsion technology. BW LPG has no newbuild orders but will have the largest fleet of LPG propulsion vessels ready by 2022.

We sold four ships which generated a total free cash flow of USD 121 million and exercised the purchase option on one of our long-term time-charter in. As a result, today, we control a fleet of 42 VLGC and eight of them are chartered in.

We achieved a commercial result at USD 27,500 per day with 96% commercial utilization. The result was impacted by positioning costs related to seven ships due for dry dock and two ships delivered for sale.

Overall, we had 11% planned off-hire days driven by upgrading of vessels with LPG propulsion and smart ship technology. For Q3 we expect off-hire days to be at 6%.

As mentioned, we increased our ownership in the Indian joint venture from 50% to 88%. Our Time charter out revenues for 2022 increased from USD 39 million to USD 52 million dollars, with the average TC out rates increasing from USD 32,900 to USD 33,800 per day.

With expectations of a healthy shipping market for 2022, we increased our TC in coverage with three VLGC at an average cost of USD 25,000 per day, bringing down our average TC-in costs.

That's it for me and Our EVP Technical and Operations, Pontus Berg will take you through the technical update.

EVP Technical and Operations (Pontus Berg)

Thank you, Niels. Turning to slide 15.

In Q2, it was business as usual on the technical and operational front in spite of increasing challenges from Covid-19 as earlier mentioned.

We continued to be a reliable partner for our Customers and Commercial colleagues, as we managed our LPG retrofitting program as well as baseline priorities with market-leading OPEX and safety performance.

We remain focused on the safe and disciplined conversion of our vessels with LPG propulsion technology. As earlier mentioned by Anders, we are now more than halfway through our program, with 8 vessels on the water, 1 at yard, and 1 at gas trial. BW Brage is scheduled to complete her gas trial tomorrow, and we will have 9 VLGCs on water serving customers.

As with all pioneering technology, we expected this ambitious retrofitting project to have its share of teething issues. It turns out that nearly a year in, the main challenges we face are from the logistics of moving people and materials. Our thanks to committed colleagues and partners, for taking these challenges in their stride and keeping to timelines and budgets.

We continue to demonstrate that the industry is ready for LPG to be a mainstream marine fuel. Ship to ship bunkering in international waters continue flawlessly with 14 STS conducted to-date.

We have confirmed LPG fuel contracts with suppliers in the US to ensure uninterrupted supply for our retrofitted vessels. In Q2, we lifted five LPG fuel stems in Houston and Nederland.

Our crew continues to handle our cargo operations flawlessly. In the first half of the year, we had nearly 600 port calls, which means that our team manages an average of thre port calls per day.

In Q2, we managed about 30 mandatory inspections with zero screening rejections. These inspections were conducted either at safe ports or done remotely. We credit the excellent results to our crew and marine colleagues, who have worked hard to maintain our vessels to industry-leading standards, despite the worry and challenges from COVID-19.

Planned special and intermediate surveys dockings were also carried out on time and on budget. To protect the safety of our crew onboard, colleagues from the office undergo two to three weeks of quarantine, and vessels follow strict cordoning rules while at yard.

Lastly, some words on the impact of Covid-19 on crew changes. Our thanks to the crewing team who currently holds one of the most complicated jobs in shipping– juggling ever-changing regional and international travel restrictions and finding connecting flights to get our crew home to their families.

In Q2, over 500 crew joined or left our vessels safely, with only minor impact to port operations. We remain vigilant, quarantining and testing crew before they leave their home country, and before they board vessels. Every port call is also analyzed for local restrictions and quarantine requirements, so that we are prepared and are in full compliance.

Let me now turn over to our CFO, Elaine Ong, who will discuss our financial position and results.

Elaine Ong, BW LPG CFO

Thanks Pontus.

Here on page 16 is an overview of our income statement. Our TCE income was USD 94 million for the quarter. As Niels mentioned earlier, we had a higher than usual planned off hire this quarter with four of our vessels at the yard undergoing LPG propulsion retrofits. In addition, our TCE income also includes a negative USD 5 million impact related to the effects of IFRS 15.

Vessels operating expenses came in at USD 8,100 per day, this includes incremental manning costs incurred due to the pandemic. EBITDA came in at USD 55 million for the quarter, representing a continued high EBITDA margin of 58%.

We sold the BW Empress during the quarter, realizing a net gain of USD 9.9 million dollars. The vessel was delivered to its new owner for further trading in April.

We increased our equity share in our Indian joint venture from 50% to 88% during the quarter. Our equity investment is now accounted for as a subsidiary, and the remeasurement of our existing equity interest was a gain of USD 9.8 million. This gain was derived from an uplift in asset values relating to the vessels in the joint venture prior to the transaction. Further details can be found in notes 15 and 16 in our financial report.

Our net profit after tax for this quarter was 23 million, or 16 cents per share, yielding a return on equity of 7%.

Page 17 provides a snapshot of our balance sheet and cash flow statement. Our vessels' book values, supported by broker valuations, stood at USD 1.8 billion at the end of the quarter. This is after the reclassification of BW Confidence, BW Boss and BW Energy as assets held for sale.

We concluded the sale and delivery of these three vessels after the quarter-end. These transactions will be reflected in our Q3 report. Shareholder's equity was USD 1.3 billion, or USD 9.17 per share.

As mentioned earlier, we have increased our ownership in our Indian joint venture from 50% to 88% and thus consolidated the financial results from April 2021.

The impact on our balance sheet are as follows:

- Approximately USD 200 million increase in vessel values
- USD 100 million increase in cash, and
- USD 180 million reduction in loan receivable from the JV
- Giving us a USD 120 million increase in total assets
- And a USD 100 million increase in total liabilities

Looking at our cash position, we continue to generate positive cash flows from our operating activities. Including the positive cash flows from divesting our older vessels, we ended the quarter with USD 134 million of cash.

We also have USD 256 million of undrawn revolving credit facility, which gives us USD 390 million of available liquidity at quarter-end.

At the end of June, our net leverage ratio is at its lowest level in five years, at 40%. Our available liquidity at USD 390 million is at the highest level to date. Our operating cash breakeven is at USD 21,300 per day.

Our net debt position at the end of the quarter was USD 872 million. Gross debt was USD 1 billion. Of which, USD 175 million relates to lease liabilities arising from our time charter in vessels.

This leaves us with approximately USD 830 million in debt outstanding which relates to our five term loans, including our new USD 198 million facility for our Indian subsidiary which was concluded in May.

This new USD 198 million facility was partially drawn during the quarter with the remaining USD 92 million reserved for future growth.

In August, we have also secured a USD 45 million transition revolving credit facility to finance the retrofitting of six VLGCs with dual-fuel LPG propulsion engines at a margin of LIBOR + 1.7%. This is an upsize of our existing USD 290 million term loan facility whose terms remain unchanged, and is our first transition financing done in tandem with our journey towards net zero carbon emissions.

We have four remaining LPG propulsion retrofits still to be financed for which discussions are already well underway.

And, we will have no major balloon payments due in the next five years.

On this note, I would like to open the call up for questions.

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Conclusion

We have come to the end of today's presentation. Thank you for attending BW LPG's Second Quarter 2021 Financial Results presentation. More information on BW LPG is available online at www.bwlpg.com. Have a good day and good night.

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