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Q4 2020 BW LPG Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to BW LPG's Fourth Quarter 2020 Financial Results Presentation. We will begin shortly. Bringing you through the presentation today will be CEO, Anders Onarheim; CFO, Elaine Ong; EVP, Commercial, Niels Rigault; and EVP Technical & Operations, Pontus Berg. They will be pleased to address any questions after the presentation. (Operator Instructions)

Before we begin, I would like to highlight the legal disclaimers shown in the current slide. I'm now pleased to turn the call over to BW LPG's CEO, Mr. Anders Onarheim. Please go ahead.

Anders Onarheim *BW LPG Limited - CEO & Director*

Thank you, and welcome to the presentation of our results for the fourth quarter of 2020 ending 31st of December. As mentioned, I'm joined with our -- by our CFO, Elaine Ong; our EVP, Commercial, Niels Rigault; and our EVP, Technical & Operations, Pontus Berg. Thank you for joining us. And we will take questions at the end of the call.

2020 has been a year like no other. And into the first quarter of 2021, we still see COVID-19 continuing to threaten our health and disrupt economic activities. I would like to take the opportunity to thank our 2,000-plus employees on shore and at sea who keep global trade going in the face of personal and professional challenges.

It's this kind of resilience against strong headwinds, I think, defines who we are as a company. If we go on to the next slide, Slide 4. In the face of challenges from COVID-19, we continue our momentum to act on climate change and decarbonization and deliver cleaner energy to roll markets sustainable.

Our program to retrofit our VLGCs with pioneering LPG propulsion technology is progressing on budget and with 0 safety incidents. Our retrofitted vessels, the BW Gemini, the BW Leo, the BW Orion and BW Libra are now on water, serving customers with the lowest emissions profile in the whole VLGC sector.

BW Gemini has also completed her full run voyage with LPG at primary fuel. And we are proud to partner with Enterprise Products on this historic voyage. Our Product Services Department has lifted the world's largest LPG cargo from the Enterprise Terminal and delivered the world's first LPG cargo of LPG propulsion to our customers.

In December 2020, we announced our commitment to retrofit an additional 3 VLGCs with this LPG propulsion technology. This is bringing the total to 15 vessels and with an investment of over \$130 million. And this is the largest single -- this is the sector's single largest commitment to decarbonization in 2020. We aim to show that while there are a vast number of uses for LPG, there's only 1 way to ship it sustainably, with us at BW LPG.

If we move on to earnings on Slide 5. We're proud to end 2020 on a strong note, and once again, to return cash to our shareholders. In the fourth quarter, TCE rates in our VLGC fleet averaged \$37,300 per calendar day, with a fleet-wide utilization of 89%.

The off-hire was mainly due to the retrofits of LPG propulsions on BW Leo, BW Orion and BW Libra. Commercially, we achieved \$40,700 per available day with consistently high commercial utilization of 97%. And this strong performance translates to a net profit after tax of \$77 million or an earnings per share of \$0.55.

This includes the write-back of vessel impairment charge of \$12.4 million. Excluding this effect, our net profit after tax was \$64.8 million and earnings per share of \$0.46. This brings our full year 2020 net profit after tax to \$244 million or an earnings per share of \$1.76.

Full year return on equity was 20%, with \$331 million of free cash flow. Once again, we're happy to announce that the Board has declared a Q4 dividend -- cash dividend of \$0.34 per share amounting to \$47 million. This translates to a payout ratio of 73% for the quarter, excluding the write-back of vessel impairment charges. And with this dividend, BW LPG has declared a total of \$0.84 per share for 2020, representing about 50% with the \$1.67 per share in cumulative earnings per share. This is in line with our target payout ratio of 50% on an annual basis. And notably, BW LPG is the only listed VLGC company that has consistently paid dividends to shareholders throughout this volatile year of 2020.

Turning to Page 6. We review quickly the key financials of the quarter. Following the V-shaped recovery in VLGC freight rates in Q3, rates remain high and strengthened further in Q4 due to strong underlying fundamentals and high shipping inefficiencies.

VLGC freight rates had peaked at over \$100,000 a day in December and early January. Our VLGC day rate came in at \$37,300 per calendar day in the fourth quarter, and this allows us to generate an annualized return on capital employed of 15% and an annualized return on equity of 25% for the quarter.

Strengthening and deleveraging our balance sheet have been one of the key tasks for 2020. Our strong cash flows from operations have enabled us to return cash to shareholders, while at the same time, paying down our debts. Our net leverage ratio has decreased significantly from 50% in the fourth quarter of 2019 to 44% in the fourth quarter of 2020, and we're very comfortable at these levels.

Next up is Niels, who will take you through the market review and commercial update.

Niels Rigault *BW LPG Limited - EVP of Commercial*

Thank you, Anders, and good afternoon, morning to all of you. Q4 was the quarter of records, supported by a record high U.S. LPG export and widening LPG price arbitrage due to strong heating demand from Asia and the record high number of waiting days at the Panama Canal transits.

Towards the end of November 2020, we saw the largest daily movements on the VLGC Baltic index with a jump of 25% in TCE or about \$15,000 per day increase in 1 day. The positive momentum continues and we've received Baltic index measured from Ras Tanura--Chiba shortly rallied above \$100 per metric tonne for the first time since 2015. Consequently, the VLGC freight rate from Houston to Chiba also jumped and doubled from an average of \$90 per metric tonne in October to around \$180 per metric tonnes in December, or a TCE equivalent of over \$100,000 per day.

However, the positive momentum from Q4 have changed completely to a negative sign in Q1. And we experienced a record drop in VLGC freight rates towards the end of January to OpEx levels to date. And we expect the market in Q2 to be under pressure.

However, we had most of our vessel fixed before the market collapsed to OpEx levels. In Q1, we have fixed approximately 80% of our spot and time charter available days at an average rate around \$41,000 per day on a discharge-to-discharge basis. Despite the current correction in VLGC freights, we continue to hold a positive market outlook for the second half of '21. This is driven by continued high shipping inefficiencies, resilient U.S. LPG production, potentially recovery in the Middle East production due to strong oil price and still robust underlying demand for LPG.

Let's turn to Slide 9 and talk about the LPG seaborne trade. In 2020, U.S. LPG production remained robust despite lower oil and gas prices compared to 2019. Growth in the U.S. LPG exports continued to offset the falling supply from other export regions. U.S. exported a record number of VLGC cargos in 2020, with an average of 70 cargos loaded per month. BW LPG was the largest lifter out of the U.S. with a 20% total market share.

We are twice as big as the second lifter in the area. Due to the negative impact of COVID-19, LPG imports by most of the major importers

have fallen except India. India has proven to be the most consistent and meaningful driver of LPG demand in 2020. And its total LPG imports have increased by 11% to 16 million tonnes.

BW LPG is proud to take part of the Indian growth story. We are now the largest VLGC operator in India, with 9 VLGC in business, including 5 Indian flagged vessels.

LPG import into China had decreased in 2020. However, we have seen Chinese import recovering towards the end of 2020. In '21, we expect to see the newly commissioned PDH plants and steam crackers in China to ramp up production as well as another flurry of new PDH plants to come on stream.

Turn to Slide 10. In Slide 10, you will see EIA short-term energy outlook released in February. Interesting part here is that they have revised the '21 U.S. LPG production up significantly and as such expected the U.S. LPG export to grow by 4% from 2020 to 48 million tonnes. Notably, this is the first time EIA estimated growth in U.S. LPG export in '21 since the February release in 2020.

Talk about, in Slide 11, the VLGC fleet profile. As of 10th of February '21, the new build order book stands at 14% of the current fleet of 305 units. Given the uncertainties of how technology will develop to meet the 2030 IMO targets, we see no benefits from ordering new vessels today.

Our focus is to make sure we will have the right technology for the future. Over 80% of the order book is the LPG propulsion. From an environmental and economic perspective, we want to continue to stress that there is no reason to order new ships to make the fleet more efficient. 50% of the current fleet can be retrofitted with the same technology for about \$8 million instead of \$80 million-plus for new build.

In Slide 12, we talk about inefficiencies, which continues to reduce fleet supply. In December 2020, long waiting days in Panama Canal transits has been one of the key drivers for the strong VLGC freight rates. The congestion in Panama Canal was mainly due to seasonally high number of LNG and container carrier transits and delays due to COVID-19.

Since 1st of January '21, Panama Canal Authority has implemented the new prebooking rules for Neopanamax transit, which will affect the VLGCs. We expect the new booking rule with the recent increase in Panama Canal transiting will lead to continued delays in transit and potential change in sail routes via the Cape of Good Hope.

Voyage rate from Houston to Chiba via the Cape is over 60% lower than from Houston to Chiba via the Panama, which, of course, would have a positive impact on freight rates.

Other inefficiencies have been the dry docks. 25% of the fleet are due for dry dock in '21, and this will offset the growth in fleet and support VLGC freight.

Slide 14 and 15 is our commercial performance in numbers. In the fourth quarter, we have maintained constantly high commercial utilization of 97%, which led to a strong spot performance of \$43,400 per day. However, we had a high number of off-hire days in Q4 due to the dry docking, and we expect this to continue in the coming quarters, in line with our announced LPG retrofit program.

In 2020, despite the volatilities and uncertainties in the market, we managed to achieve a very strong commercial result. This translates into high operational cash flows of \$398 million and enable us to return cash to shareholders, strengthens our balance sheet and at the same time, invest in LPG propulsion technology.

Let's turn to Slide 16, about our time charter portfolio overview. Our '21 time charter-out coverage stands at 24%, with an average income of \$31,200 per day. Our time charter-in coverage stands at 15% with an average cost of \$26,300. Hence, we have a positive net position of \$43 million for our time charter portfolio.

Most of our TCE contracts will expire in '21 and a few in '22, and we are comfortable at the coverage level for now.

That's it for me, and I will hand over to our Technical & Operation Head, Pontus Berg.

Pontus Berg *BW LPG Limited - EVP of Technical & Operations*

Thank you very much, Niels. Turning to Page 18. We continued to deliver strong technical and operational performance in the quarter with market-leading OpEx despite the unprecedented global challenges. We have, in last week, reached 600 days without any serious injuries or accidents on our in-house fleet. This is an achievement we are proud of, and it also showcase our seriousness towards safety and our zero harm initiative, which, in all fairness, is our ticket to trade.

In Q4, the crew changing situation looked very promising with high numbers of crew movements. Unfortunately, the situation has worsened since due to increased number of COVID-19 cases and its mutated versions globally. During the pandemic time in 2020, we managed over 1,500 crew movements with 0 positive cases on board, all due to very strict pretravel and quarantine procedures. In fact, we spent somewhat over 10,000 man days of quarantine in 2020.

We have managed to save over 5,300 metric tonnes of bunker fuel in 2020. This is due to our usage of smart voyage routing and that equates to about \$2.5 million in direct savings. By the end of '21, we will have approximately 22 vessels fully connected to our AlphaOri and SMARTship solution for even more accurate real-time monitoring and support to the crews.

Our LPG dry docks and retrofits remain on track and the first 4 LPG propulsion retrofits have been successfully completed on budget and with 0 safety incidents. And as Anders mentioned, they are all out sailing, serving our customers.

11 retrofits remain with 8 scheduled for '21 and the final 3 likely in '22. The 5th one, BW Balder, will enter the yard mid-March.

In response to the recent softening in the VLGC freight market, we are advancing 6 to 7 of our planned dry dockings and LGIP conversions for commencement in Q1 or Q2. We have also chartered a pressurized LPG vessel from our sister company, Epic Gas, for storage of our LPG heel coolant during the dockings. This strategic alliance help us reduce potential delays, high cost and dependence on terminals scheduled for gas up and LPG bunkering after dry dockings. We expect the saving per docking of about [\$200,000] (corrected by company after the call) by doing this as well. This will also ensure that we maximize the number of available vessels for our commercial team when the market condition recoils.

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

Elaine Ong *BW LPG Limited - CFO*

Thanks, Pontus. Here on Page 20 is an overview of our income statement. Our TCE income was \$138 million for the quarter and \$551 million for full year 2020. Included in our TCE income for the quarter is a negative \$13 million impact related to the effects of IFRS 15, where spot voyages that straddled the quarter end have to be accounted for on a low-to-discharge basis.

Vessel operating expenses came in at \$8,500 per day for the quarter and \$7,700 per day for full year 2020. This includes additional crew costs due to the impact of COVID-19.

Excluding these one-off unexpected costs, our operating expenses are in line with our expected run rate for 2020. Starting this quarter, we have also presented separately on the income statement, the vessel OpEx component relating to our time charter in contracts due to the requirements of IFRS 16 on leases.

Doing so, we believe, will more clearly segregate the actual vessel operating expenses of our managed fleet from the effects of IFRS 16.

EBITDA came in at \$107 million for the quarter and \$414 million for full year 2020, representing a strong EBITDA margin of 78% and 75%, respectively. As previously highlighted at the start of 2020, we revised our vessel's useful life from 30 years to 25 years. This added \$6 million to our quarterly depreciation or \$24 million for full year 2020.

We also recorded a mark-to-market gain of \$8.3 million relating to our investment in the equity shares of Avance Gas based on the closing price as of the 31st of December 2020. Despite the recent correction in the VLGC freight market, VLGC asset values did improve towards the end of 2020.

As such, we recorded a write-back on previous impairment charges of about \$12 million as broker-based fleet valuation has increased. Our net profit after tax for this quarter was \$77 million or \$0.55 per share. If we adjust for the \$12 million write-back of impairment charges this quarter, our earnings per share would have been \$0.46 for Q4 2020. For full year, our net profit after tax was \$244 million or \$1.76 per share yielding a return of equity of 20%.

Turning to Page 21, we provide a snapshot of our balance sheet and cash flow statement. Our vessels book values supported by broker valuations stood at \$1.8 billion at the end of the quarter after the delivery of BW Birch and BW Cedar to our Indian joint venture.

BW Birch was delivered to a new owner in November, and BW Cedar was delivered in December. Shareholders' equity was \$1.3 billion or \$9.06 per share. During the quarter, we continued to generate positive cash flows from our operating activities and ended the quarter with \$56 million of cash.

In the fourth quarter, we drew down \$70 million of our revolving credit facility, mainly for the early repayment of our \$150 million term loan, equity investments and capital expenditures related to our LPG propulsion retrofits. We have \$230 million of undrawn revolving credit facility, which gives us \$286 million of available liquidity at quarter end.

Looking at our cash position for the full year 2020, we have generated a strong cash flow from operations of \$398 million. Throughout the year 2020, we have paid approximately \$66 million in total CapEx, of which \$54 million relates to LPG propulsion retrofits, \$6 million for scrubber installations and \$6 million in regular maintenance CapEx. This leaves us with \$331 million of free cash flow for the year, reflecting our strong operating cash -- strong operating activities and commercial performance, prudent capital spending and disciplined operational execution. Our free cash flow has allowed us to pay down our debt and return cash to our shareholders. For full year 2020, we have declared a total of \$116 million in dividends, equivalent to \$0.84 per share.

As you can see here on Page 22, over the last 12 months, we repaid \$236 million of our debt, thereby reducing our leverage significantly from 50% at the end of 2019 to 44% at the end of 2020. Our all-in cash breakeven for 2021 is \$28,000 per day, which is the average TCE needed in 2021 to cover all our cash costs.

The higher all-in cash breakeven in 2021 is mainly due to the equity portion of our expected 2021 LPG propulsion retrofit spend. Our operating cash breakeven remained low at \$21,900 per day. Our net debt position at the end of the quarter was \$990 million. Of this, \$188 million relates to lease liabilities arising from our time charter in vessels, while \$34 million relates to borrowings from our trade finance facilities.

In October 2020, we fully repaid our \$150 million term loan, which leaves us with approximately \$830 million in debt outstanding that is related to our remaining for term loans and RCF. And we will have no major balloon payments due in the next 5 years.

On this note, I would like to hand the time back to Anders to conclude our presentation.

Anders Onarheim *BW LPG Limited - CEO & Director*

Thank you, Elaine. So at Page 25, I'll try to summarize this presentation. So as we'll see, despite a challenging 2020, we ended the year on a strong note and generated earnings per share of \$0.55 in the quarter and \$1.76 for the full year 2020.

On the back of these strong earnings and taking into consideration our balance sheet, liquidity, CapEx and updated market outlook, the Board has declared a cash dividend for second quarter -- for the final quarter of \$0.34 per share, amounting to \$47 million.

And again, this brings total dividends declared for full year 2020 to \$0.84 per share, amounting to \$116 million and translates to a payout ratio of 73% for the quarter and 50% for 2020.

Subsequent to the quarter end, we have taken over the ownership of BW Empress in January 2021. And we have delivered the BW Elm to our Indian joint venture, BW Global United LPG Private Limited in February 2021. The sale of BW Confidence was not completed as final agreement was not reached with the buyer. There are still interested parties -- there are several interested parties in the vessel, and there's no monetary loss for BW LPG on the cancellation of the sale.

Finally, I would like to just comment briefly on our outlook for the VLGC market. As Niels said, despite the recent correction in the VLGC freight rates, we continue to hold an optimistic market outlook for the second half of 2021.

Having said that, we expect the market to remain extremely volatile, and it's going to take a little bit of time before we again can see the good rates that we're looking forward to enjoying. So with that, I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Anders, I was just wondering, obviously, you are making 15 retrofits, it seems to be good economics in it for you. And it makes sort of perfect sense. But I -- we're talking to the investor base, I think there is a bit of a flip view on LPG in terms of its carbon footprint. So why don't you sort of share some of your thoughts of what your financiers are telling you when you are sort of undergoing this retrofitting program?

Anders Onarheim *BW LPG Limited - CEO & Director*

I can start, and I can also let Elaine give some details if you want. But I think, in general, we get a very positive response from all our financiers. And I think some of the, I call it, initial question marks, is that it's -- we -- this is sort of the first time it's being used. And I think -- and I'm sure the investors and others want to see a little bit over time how, in fact, how the operations are working. What are the financial or economic benefits also. So I think we are very encouraged by the feedback, and we also -- we think it's a good long-term investment also in our fleet.

So -- and while the prices will vary and so the economic benefit will vary, depending on what the spreads are between LPG and compliant fuel, we think it's over time is going to prove to be very beneficial.

And I think, again, we -- these days, when we talk so much about sustainability and ESG, I think for us, this is important to show that we're actually doing something. It's -- I've said before, it's not just a page in our -- glossy page in our annual report. We're actually making investments and showing that we will be part of driving the shipping industry towards 0 carbon.

So -- and I think for us also, it's clear that this is at least an important first step. And so again for us, it's doing the conversions rather than (technical difficulty) as Niels said, it makes a lot of sense, both the carbon footprint is much better, and we think economics are better also.

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

Okay. And you obviously made a strong case for people rather doing the retrofits than ordering new like builds. But -- I think Nigel (sic) [Niels] mentioned sort of an 80-plus figure in terms of what it costs to ordering a new build today. Is that -- did I catch it correctly Nigel (sic) Niels?

Niels Rigault *BW LPG Limited - EVP of Commercial*

Yes, it is.

Anders Onarheim BW LPG Limited - CEO & Director

I think, Niels said -- I think, yes, it's more than 80, yes.

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

Including the dual fuel?

Niels Rigault BW LPG Limited - EVP of Commercial

Yes.

Operator

(Operator Instructions)

Unidentified Company Representative

Okay. Operator, we have a question from the webcast from Anders Karlsen in Danske Bank Markets. He asks, can you quantify the estimated savings in fuel expenses from the initial phase of LPG propulsion experience.

Anders Onarheim BW LPG Limited - CEO & Director

Okay. I mean this very much depends on what the price spreads between LPG and compliant fuel. At the moment, it's -- given that LPG prices are quite high, given the cold streak we had in U.S., that spread is not going to be very large. But it's still -- at levels today, we're still saving more than \$2,000 per day. And of course, when we look going forward -- forward prices, it indicates a spread of somewhere around \$125 and that gives us savings of about \$6,000 per day.

Operator

(Operator Instructions)

Unidentified Company Representative

Okay. There is no further question on the webcast. I would just like to add a short detail to Lukas' question on the environmental benefits of LPG propulsion and highlight that we're also out with a new sustainability report that goes into details of the benefits of LPG propulsion. So we encourage everyone to take a look at that report.

If there's no further questions, I think we can close the call.

Operator

There are no further questions on the line.

Anders Onarheim BW LPG Limited - CEO & Director

Well, thank you very much, everybody, for attending, and have a great day.

Operator

We have come to the end of today's presentation. Thank you for attending BW LPG's fourth quarter 2020 financial results presentation. More information on BW LPG is available online at www.bwlpg.com. Goodbye.

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