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BW LPG Ltd. (BWLPG.NO)

Q1 2019 Earnings Call

CORPORATE PARTICIPANTS

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Operator

Welcome to the BW LPG's First Quarter 2019 Financial Results Presentation. We will begin shortly. You will be brought through the presentation by BW LPG 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
Chief Executive Officer, BW LPG Ltd.

Thank you very much. Welcome to the presentation of BW LPG's results for the first quarter of 2019, the financial period ending 31st of March. I'm joined by our CFO, Elaine Ong, as always. And we appreciate your interest. And we will take the questions at the end of the call as we always do.

On earnings, the Baltic Index for VLGCs went down 13% in the first quarter of 2019 compared to the previous quarter averaging at $29.8 per ton or $15,000 per day. The weakening of the Baltic VLGC freight rate in Q1 was mainly due to the narrowing geographical LPG price arbitrage between the U.S. and the Far East. The underlying reason was that the U.S. seasonally consumes a higher portion of its LPG production for winter heating and gasoline blending in the winter season and hence puts upward pressure on U.S. LPG prices. In January, geographical arbitrage narrowed to $65 per metric ton from an average of $85 in December per metric ton. And in February, the VLGC market further fell below OPEX levels at $8,000 per day.

Turning to slide 4, we review the highlights of the first quarter. In the first quarter, we generated net revenue of

$60 million based on daily rates of $15,100 for the VLGC segment with VLGC contract coverage of 14% and total contract coverage of 14%. EBITDA came in the $21 million and margin of 35%. Net loss for the quarter was $24 million.

Earnings per share showed a loss of $0.17 per share and leverage ratio increased by 4.4% to 59.1% mainly due to the adoption of IFRS 16 which resulted in the capitalization of $167 million of our chartering expenses as a lease liability on the balance sheet.

Note that I stated in the Q4 2018 earnings presentation the adjusted equity ratio covenant for all our loan facilities was reduced from 35% to 25% in anticipation of the adoption of IFRS 16. I would also like to highlight the following events that occurred in the first quarter. On 21st January 2019, BW Helios was delivered for recycling in full compliance with the Hong Kong Convention and generating $7 million in liquidity and a net book gain of $2 million.

On 25th February 2019, BW LPG established the new Product Services Division to support its core shipping business. We have now completed our first transactions with Product Services and we are on track to improve our commercial utilization.

Let me now turn to slide 5 for an overview of our commercial performance. In the first quarter, we had no technical [indiscernible] (04:21), making our VLGC fleet available 100% of the calendar days. TCE rates on our VLGC fleet averaged at $15,100 per day on both calendar and available days. The commercial utilization was 91%, reflecting a 9% waiting time for the fleet. Excluding waiting time, our VLGC spot earnings came in at
$15,300 per day, compared to the Baltic spot market index of $15,000 per day. Including waiting time, our VLGC spot earnings came in at $13,700.

Turning to slide 6, we summarized our outlook on the VLGC market. Despite disappointing VLGC freight market in the first quarter, rates started to recover significantly towards the end of March. Towards the end of the first quarter, U.S. consumption reverted to seasonally lower levels, which pushed U.S. LPG prices down and widened the geographical arbitrage between the U.S. and the Far East. The recovery in VLGC freight rates was further strengthened by two occasions of fog and a temporary closure of the Houston Ship Channel due to fire and chemical spills.

For 2019, we were optimistic that average VLGC rates will improve from the 2018 average of $17,300 per day to a level above our cash breakeven levels. This is supported by sustained U.S. LPG export growth and incremental volumes from key loading areas such as Australia, Canada, U.S. East, and Gulf Coast. The growth in LPG exports is well supported by strong demand for imports mostly driven by the petrochemical sector from the Far East and the retail sector from emerging markets in Asia such as India and Indonesia. As such, we expect the ton mile demand for VLGCs to increase in 2019. However increased demand will be in part offset by a high level of newbuild deliveries. As of 30th, of April 2019 15 more VLGCs are estimated to be delivered in the remainder of 2019 and the current order book to fleet ratio stands at 14% of total VLGC fleet of 269. And for the year-to-date five new VLGC new building orders has been placed.

Turning now to slide 7. Here provide an updated snapshot of the EIA's outlook for LPG balances in the U.S. because of increased production and flat domestic consumption 2019 U.S. LPG net export remains strong and is expected to grow by 13.6% to 35 million tons up from 31 million tons in 2018. For 2020

U.S. LPG production is expected to further growth by 4.9%, while domestic consumption is expected to decline by 1.4% resulting in a net export growth of 17.4%. Net export is hence estimated to reach ton 41 million tons in 2020.

On slide 8, we provide an overview of seaborne LPG trade in the first quarter of 2019. Global total seaborne LPG trade grew by 15% year-over-year driven by strong exports from North America supported by increased demand from India, Southeast Asia, South Korea and Japan.

Chinese imports fell slightly by 2% in the first quarter year-over-year. As the U.S.-China trade negotiation continues, a growing share of North American exports to China were rerouted to Japan and South Korea. Retail

demand from India remained strong in the first quarter with imports increasing by 26% year-over-year. India, for the first time, started importing LPG from the U.S. with five LPG cargoes – with five VLGC cargoes in March.

On the exports side, North American exports grew by 22% to 9.1 million tons year-over-year. However, exports fell by 4% compared to Q4 2018 quarter-over-quarter largely due to increased domestic consumption during the exceptionally cold winter season and temporary factors such as heavy winter fog and closures of the Houston Ship Channel due to fire and chemical spills in March.

Iranian exports fell drastically by 68% year-over-year because of the tightened sanctions. However, total Middle Eastern exports were up marginally by 1% year-over-year due to increased exports from Qatar, Saudi Arabia and Kuwait.

On slide 9, we see that the global fleet of VLGC stands at 269 vessels as of 30th of April 2019 after four ships were delivered in the first quarter. The current order book to fleet ratio stands at 14% with 15 more expected to deliver in the remainder of 2019, 18 in 2020 and 5 in 2021. We have identified 13 VLGCs recycling candidates from 2019 to 2021 which will leave the net growth number in number of vessels to 9.3%, assuming no more newbuild orders. The recycling candidates are identified based on historical recycling age of the VLGCs which is 28-years-old. The nature of the ownership and contract commitment of the vessels. With that let me turn you over to our CFO, Elaine Ong who will walk you through the financial position and our results.

Elaine Ong

Chief Financial Officer, BW LPG Ltd.

Thanks, Martin. Starting with our income statement on slide 10. In the first quarter, our revenue was flat while voyage revenues went up to $58 million due to high bunker prices and high fleet utilization. Our net revenue and TCE income for the quarter was $60 million compared to $73 million in Q1, 2018. This is mainly due to weaker VLGC freight earnings.

Our EBITDA margin came in at 35% for the first quarter, 2019. As Mark mentioned earlier, we adopted the new IFRS 16 on leases with effect from 1st January, 2019. With this, our five charter in contracts with more than 12 months duration has been capitalized on our balance sheet while our three charter in contracts which expire within the next 12 months will continue to be reported as charter hire expenses.

As such, our charter high expense for the quarter declined by $12 million to $4 million. The expenses related to the other five charter contracts with greater than 12 months expiry are now reported under other operating cost, depreciation and interest expenses. Other operating costs increased by $3 million. Depreciation increased by $8 million and interest expense increased by $2 million.

The net impact relating to the capitalization of these longer term charter contracts is $800,000 more in expenses compared to when these contracts were accounted for as charter hire expenses. This is due to the front-end loading effect from the amortization of lease liabilities. Taking all this into consideration, our net loss in the quarter was $24 million or a loss of $0.17 per share.

Turning to slide 11, we provide a snapshot of our balance sheet and cash flow position. The adoption of IFRS 16 resulted in leases with greater than 12-month expiry being capitalized on to the balance sheet. The impact on the balance sheet was that right-of-use assets as part of total noncurrent assets increased by $165 million, and total noncurrent liabilities and total current liabilities increased by $136 million and $30 million, respectively.

Our leverage ratio, defined as total liabilities over total liabilities plus equity, increased 59% from 55%, mainly due to the increase in liabilities following the adoption of IFRS 16 and the loss in the quarter. As I mentioned in our Q4 2018 earnings presentation, our adjusted equity ratio covenant for all our loan facilities was reduced from 35% to 25% at the end of 2018 in anticipation of this adoption of IFRS 16. Net cash provided by investing activities was

$8 million as the BW Helios was delivered for recycling on 21st January this year. And we ended the quarter with cash and cash of equivalents of $38 million.

Turning to slide 12, our net debt position was at $1.3 billion dollars as of 31st March 2019. Total liquidity consisting of available cash and undrawn facilities was $203 million. Subject to final documentation, we have now secured a new facility to replace the existing $800 million facility which will mature in the fourth quarter of 2020.

More details of the refinancing are provided on the next slide.

The new seven-year $458 million senior secure facility consisting of a $258 million term loan and a $200 revolving credit facility is supported by eight banks. The new $458 million facility replaces the existing $800 million facility which had $322 million outstanding as of the end of the first quarter 2019. The refinancing was secure on favorable terms that will lower the company's cost of debt and cash breakeven levels.

The company plans to sign a new agreement and draw down from the facility by the end of May 2019. After this refinancing, we will have the following that facilities, a $400 million ECA facility with $320 million outstanding,

$221 million ECA facility with $179 million outstanding, a third ECA financing at $290 million with $252 million outstanding, a $150 million term loan facility with $131 million outstanding, and lastly our new $458 million facility, and we will have no other debt maturities before the $150 million term loan matures into 2020 – sorry, 2023.

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

Martin Ackermann
Chief Executive Officer, BW LPG Ltd.

Thank you, Elaine. So if you'll please turn to slide 14, I will summarize our earnings presentation. We generated a loss per share of $0.17 in the quarter on net revenues of $60 million and EBITDA of $21 million or an EBITDA margin of 35%.

During the quarter, BW Helios was delivered for recycling generating $7 million in liquidity and a net book gain of $2 million, and we established the product services division to support the core shipping business. We would also like to highlight an important subsequent event. Subject to the final documentation, BW LPG secured the new seven-year senior secured $458 million facility to replace our $800 million facility maturing in the fourth quarter of 2020. The company plans to sign the new facility and draw down from the facility by the end of May 2019. The refinancing was secured on favorable terms that will lower the company's cost of debt and cash breakeven levels. The company's next debt maturity is the $150 million facility maturing 2023.

For 2019 in the short term, we expect continued high U.S. LPG exports to support freight rates. For 2019, we are optimistic that average VLGC rates will improve from the 2018 average of $17,300 per day to level above our cash breakeven levels. This is supported by sustained U.S. LPG exports growth and incremental volumes from key loading areas from Australia, Canada, U.S. East Coast and the Gulf Coast.

However, we also expect that increased demand for VLGCs from growing exports will in part be offset by a high level of newbuild deliveries, and VLGC rates will also depend on the development of geographical LPG price arbitrage, positioning of vessels and U.S. terminal capacities and fees.

QUESTIONS AND ANSWERS

Operator

We will begin our Q&A session now. [Operator Instructions] There are no questions from the telephone line, so we will now take questions from the webcast.

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

Yes. Hello. Can you hear me? We have a question from [ph] Susan James (18:04) who asked if has product service has traded any LPG cargo since their launch in February?

Martin Ackermann, *BW LPG Limited - CEO*

Well, we can confirm that we have made our first transactions, but we do not comment specifically on all transactions neither on product services or on our shipping business.

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

Okay. Then there's – we just got one more question on the webcast from Axel Styrman from Nordea. Why did import of LPG to China decline?

Martin Ackermann, *BW LPG Limited - CEO*

Well, I'm in – hi, Axel and thanks for your interest. I think that the main the main answer to that is that the Chinese New Year's dampened the demand. And I think the propylene margins were under pressure during this period.

But otherwise, if I don't have any more info at hand right here on retail and chemical demand apart from those two reasons. But I think that's probably exactly where we find the explanation. We can take that offline again if you have – if we can – as you go look further into that question.

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

Okay. Then there looks like there's no further question on the webcast.

Martin Ackermann, *BW LPG Limited - CEO*

Okay.

All right. Well, then we will – then we come to the end of the presentation. Thank you very much for your interest as always in BW LPG and our presentations. And if you missed your questions at this time, do reach out to us through our Investor Relations center. We will be happy to engage. And otherwise, we see you at the next quarter. Thank you very much.

Operator

We have come to the end of today's presentation. Thank you for attending BW LPG's first quarter 2019 financial results presentation. More information on BW LPG is available online at www.bwlpg.com.

Goodbye.