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BW LPG

Event	BW LPG Q1 2021 Earnings Presentation
Date	18 May 2021, 2pm Oslo/ 8pm Singapore/ 8am New York
Hosts	Anders Onarheim, CEO Elaine Ong, CFO Niels Rigault, EVP (Commercial) Pontus Berg, EVP (Technical and Operations)

Presentation

Opening

Welcome to BW LPG's First 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 first quarter results presentation for the financial period ended 31st March 2021. I am joined today by our CFO, Elaine Ong; EVP Commercial, Niels Rigault; and our EVP Technical and Operations, Pontus Berg.

Before we begin, I speak on behalf of BW LPG to express our deep concern for the COVID-19 situation globally, and especially in India. Crew changes have been challenging due to global travel restrictions. We continue to support our seafarers with initiatives to protect their safety, support their mental health, and offer financial assistance where needed.

The first quarter of 2021 was eventful on several fronts. VLGC freight rates experienced a record drop from over USD 100,000 per day to OPEX levels within one month. As we navigated through the extreme volatilities and challenging market conditions, we have expanded our presence in India, secured financing at attractive terms, and kept our LPG retrofitting program on track.

Our program to retrofit 15 VLGCs with LPG propulsion technology continues, on budget and with zero safety incidents. This translates to a commitment of over USD 130 million, the sector's largest investment towards decarbonization. We are proud to act on our promise to decarbonize, and transition towards cleaner fuels for a cleaner environment.

To-date, we have four vessels on the water with LPG propulsion, and four additional ships are being retrofitted at Yiu Lian dockyard. Once all 15 VLGCs are retrofitted, we will have saved one million tons in CO2 emissions; a significant contribution compared to the current VLGC orderbook that will add 4.4 million tons of CO2 emissions.

Retrofitting makes both environmental and economic sense. Retrofitting has an environmental payback of six months, versus 15 years for a newbuilding. Retrofitting costs USD 8 to 9 million, while it costs 10 times more at USD 80 million to order a newbuild with the same technology. This is also aligned with our asset management strategy as we maximize the value of our current assets on water while considering the best way forward in our journey towards a zero-carbon future. Looking at the whole maritime industry, there is enormous potential in retrofit. More than half of the current VLGC fleet and 7,500 merchant vessels can be retrofitted with LPG propulsion. We are therefore eager to share our expertise and technology to further grow LPG as a clean marine fuel alternative.

During the first quarter, reported TCE rates for our VLGC fleet averaged USD 43,300 per calendar day. Commercially, we achieved USD 44,400 per available day with a high commercial utilization of 97%. This performance translates into net profit after tax of USD 71 million and an earnings per share of USD 0.51. For the first quarter we will distribute a dividend of USD 0.18 per share, amounting to a total of USD 25 million paid out to our shareholders.

We concluded the sale and delivery of BW Empress, which generated USD 40 million in liquidity and a net gain of USD 10 million for us.

We are also happy to announce that we have increased our ownership in the Indian joint venture from 50% to 85%. I want to add one comment on this transaction. Over the past five years, the Indian government has expanded LPG access to hundreds of millions of people, and this access to LPG, a cleaner fuel, is making a huge difference to the quality of life, especially when indoor air pollution is a major health concern. India is also an exciting market for us, and the growth and potential we see in India is significant. Our Indian subsidiary has secured a five-year term loan for up to USD 198 million from a syndication of seven banks at an all-in cost of LIBOR plus 1.98%.

Niels will talk more about the market, but we remain positive for the 2021 VLGC market. This is supported by a recovery in US LPG exports after a cold winter, and supply-side elements such as dry docking and Panama Canal transit delays. Overall demand for LPG continues to be very strong, especially supported by retail usages and growing petrochemical demand. Looking into next year and 2023, we are still optimistic about the market, but newbuild orders will likely put downwards pressure on freight rate, especially for 2023.

We continued our track record to deliver best in class returns with 22% annualized return on equity and 14% annualized return on capital employed. We begin 2021 with continued focus on strengthening and deleveraging our balance sheet. With a strong cash flow from operation, we can both return cash to our shareholders while also paying down debt. Our net leverage ratio continues to trend down, from 44% in the fourth quarter of 2020, to 42% at the end of Q1, the lowest level in five years.

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

Niels Rigault, EVP (Commercial)

Thank you, Anders. And good afternoon / morning to all of you.

Towards the latter half of January, the extreme cold weather in the US has narrowed the LPG price arbitrage between the US and the Far East from over USD 200 per metric tons to below USD 100. Falling LPG exports from both the US and the Middle East have led to one of the quickest and most pronounced corrections in VLGC freight rates in history.

Today, VLGC freight market has recovered from the bottom, it seems like the worst is behind us with rate stabilizing at above USD 40,000 per day. We reiterate our positive market outlook for the second half of 2021. The is supported by recovery in LPG exports from both the US and the Middle East, reduced fleet supplies due to dry docks and shipping inefficiencies.

In Q2, we have fixed approximately 80% of our available days at an average rate around USD 28,000 per day, on a discharge-to-discharge basis. During the quarter, we have witnessed a flurry of newbuild orders. The orderbook now stands at 20% with heavy delivery schedule in 2023.

We maintain our positive view for medium term VLGC freight market at current orderbook. But more newbuild orders will certainly put downward pressure on freight rates, especially in 2023.

In the first quarter, LPG import into China has recovered and has increased by 18% year over year. This is supported by recovering retail demand and ramping up productions from the newly commissioned PDH plants and crackers. Retail demand into India continues to grow. India LPG imports have increased by 15% year over year, the highest quarterly import in history. As mentioned by Anders, we are proud to take part in the Indian growth story and we see enormous potential in the country. We are now the number one operator of Indian flagged LPG vessels and are exploring areas for further growth in India, both within LPG vessels and within LPG infrastructures.

At slide 10 you will see EIA's Short-Term Energy Outlook released in May. EIA estimates the US LPG exports to remain high levels for both 2021 and 2022. 23 newbuild orders have been placed since February. That was just two-month time, and the number is still growing. The newbuild orderbook now stands at 20% of the current fleet at 308, with a considerably heavy delivery schedule for 2023. From an environmental perspective, the 62 newbuild orders add 4.4 million tons CO2 emissions, most of which could have been saved by retrofitting the existing fleet. Our 15-vessel retrofitting program saves one million ton of emissions versus the newbuild alternative with the same technology.

From an economic perspective, the longer-term LPG export growth is looking to normalize, meaning the newbuild ordering activity needs to slow down to keep the freight market balanced. Majority of the newbuild orders are backed by TC contracts at high USD 20,000 per day. Furthermore, it is still uncertain how technology will develop to meet the IMO 2030 targets, and the vessels ordered today is still based on existing design and technology, which could very well be obsolete in a few years' time. With the current large order book, we emphasize that vessels owners should take a second look at the numbers before placing newbuild order.

Newbuild prices have increased, and a Korean newbuild with LPG propulsion now costs more than USD 80 million with 2024 delivery. In the VLGC second-hand market, we are seeing increasing interests for vessels 15 years and older, at prices above newbuild equivalent.

We achieved a strong commercial result at USD 44,400 per day with 97% commercial utilization. This translates into high operational cash flows of USD 156 million, allowing us to return cash to shareholders, reducing our cash breakeven by paying down our debt and making us more competitive. Due to the fall in LPG price arbitrage, our trading operations recorded a net loss of USD 2.4 million.

Our goal for Product Services is to better serve our customers and achieve a higher utilization of our fleet. Its success has been reflected in our consistently high commercial utilization even during the weak market.

As we increased our ownership in the Indian joint venture from 50% to 85%, the time charter contracts on vessels in BW LPG India will be added back to our time charter portfolio from Q2 onwards. Our 2021 time charter out coverage stands at 34% with an average income of USD 33,700 per day. Our time charter in coverage stands at 14% with an average cost of USD 26,300 per day, resulting in a positive net position of USD 107 million for 2021.

We are comfortable at the coverage level for now and will continue to evaluate the opportunities for 2022 at the right levels. We see a lot of inquiries for one- and two-years' time charter contracts at around USD 38,000 per day, in-line with the current FFA market.

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 page 15.

We continue our strong technical and operational performance from previous quarters, with market leading OPEX and safety stats despite the again, increasing global challenges from COVID-19. I begin with an update of our LPG propulsion retrofitting program. Progress remains on track and we now have four vessels at the conversion yard simultaneously.

BW Gemini, the world's first LGIP, sailed continuously for over six months without the need to stop for Bunkers. This saves considerable voyage time and increases her commercial availability, just as planned.

In what will be another world's first, we will conduct a ship-to-ship LPG bunkering, between BW Balder and BW Epic St. Martin in just few days' time. With this STS, we will demonstrate that the industry has the infrastructure and technical know-how for LPG to be a mainstream marine fuel. As we have said on many occasions, we are ready for LPG as shipping fuel. Currently, we are enjoying savings of approximately USD 4,500 a day by running on LPG versus Very Low Sulphur fuel oil. Another compelling reason to use LPG as fuel.

Next, safety. Zero Harm is a non-negotiable expectation from all crew and colleagues, and a BW initiative we have been working hard on for years to ensure the best-in-class safety for our crew, cargo and the environment. I am pleased to share that our joint efforts are paying dividend, for nearly two years, we have not had any serious Injury for our managed fleet. This means that our crew get to go home safely to their loved ones, and we deliver energy to the world markets, safely and reliably.

We have seen limited impacts on operations from COVID-19. Crew change remains a difficult challenge and has the full focus of our crewing teams, who managed to complete about 600 crew movements during the quarter. We continue to provide emotional and financial support to our crew and their families.

Next, Operations. Our crew continues to handle our cargo operations flawlessly. In Q1, we saw over 310 port calls and canal transits. Active voyage management and close follow up of the ships performances through AlphaOri SMARTship have enabled us to save approximately USD 300,000 in fuel cost in the quarter.

Our strategic alliance with BW Epic Kosan for coolant storage and LPG fueling reduces the potential delays, costs, and dependence on terminal schedules for vessels undergoing retrofitting, translating to a saving of approximately USD 200,000 per vessel.

Finally, on OPEX. We continue to maintain consistent, market leading OPEX trends for our fleet. We see this as an important priority and business practice, despite unprecedented global challenges to operations. We expect our projected fleet CAPEX to peak this year and taper off in 2022 with the completion of our LPG propulsion retrofitting program.

Let me now turn over to our CFO, Elaine Ong, who will walk you through the 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 150 million for the quarter. This also includes a positive USD 18 million impact related to the effects of IFRS 15. Vessels operating expenses came in at USD 7,800 per day, this includes incremental manning costs incurred due to the pandemic. We have recorded gains of USD 2.8 million in the quarter relating to our investment in the shares of Avance Gas. EBITDA came in at USD 113 million for the quarter, representing a continued high EBITDA margin of 75%.

We sold the BW Elm during the quarter realizing a net gain of USD 1.6 million. The vessel was delivered to our Indian joint venture in February for continued trading.

Our net profit after tax for this quarter was USD 71 million, or USD 0.51 per share, yielding a return on equity of 22%. Page 17 provides a snapshot of our balance sheet and cash flow statement.

Our vessels' book values, supported by broker valuations, stood at USD 1.7 billion at the end of the quarter after the delivery of BW Elm, and the reclassification of BW Empress into Asset held for sale. We delivered BW Empress to her new owner in April, and this will be reflected in our Q2 report.

Shareholder's equity was USD 1.3 billion, or USD 9.04 per share. As mentioned earlier, we have increased our ownership in our Indian joint venture from 50% to 85%.

Our investment in India will now be accounted for as our subsidiary and its results will be consolidated from next quarter. Had this happened with effect from 31 March, the impact on our balance sheet would have been as follows: approximately USD 200 million increase in vessel values, relating to the five joint venture vessels; USD 80 million increase in cash; USD 180 million reduction in loan receivable from the JV; leaving a USD 100 million increase in total assets; and a USD 80 million increase in total liabilities.

Looking at our cash position, we continue to generate positive cash flows from our operating activities and ended the quarter with USD 70 million of cash. We have USD 260 million of undrawn revolving credit facility which gives us USD 330 million of available liquidity at quarter-end. Our free cash flow has allowed us to invest in our LPG retrofit program, return cash to our shareholders and pay down our debt.

At the end of March, our net leverage ratio has come down to its lowest level in five years at 42% with the highest available liquidity to date of USD 330 million. Our all-in cash breakeven for 2021 is USD 28,000 per day, which is the average TCE needed in 2021 to cover all our cash costs, including capital spend. The higher all-in cash breakeven in 2021 is mainly due to our investment in LPG propulsion retrofits.

Our operating cash breakeven is at USD 22,300 per day. Our net debt position at the end of the quarter was USD 930 million. Gross debt was USD 1 billion. Of which, USD 176 million relates to lease liabilities arising from our time charter in vessels, while USD 24 million relates to borrowings from our trade finance facilities. This leaves us with approximately USD 800 million in debt outstanding which relates to our remaining four term loans and revolving credit facility.

In April, the outstanding revolving credit facility of USD 40 million was fully paid. 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 First 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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