INVESTORCOMMS BW LPG

Event	BW LPG Q3 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 Third 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 third quarter results presentation for the financial period ended 30th September 2021. As always, I am joined today by our CFO, Elaine Ong; EVP Commercial, Niels Rigault; and our EVP Technical and Operations, Pontus Berg.

Finally, the Leadership team and I are on the road this quarter. We speak to you from various corners of the world – me from Oslo; Elaine from Frankfurt; and Niels and Pontus from Singapore. We look forward to meeting our investors, and business and bank partners face to face very soon. While we see gradual easing of Covid-related restrictions around the world, operations remain challenged. We also continue to insist on strict measures to protect crew and staff from Covid-19.

On the business and commercial fronts, the third quarter allowed us to again deliver decent returns and we remain optimistic that 2021 will be another year with good returns from BW LPG.

The shipping industry is really at a crossroads, and shipowners must plan the next steps carefully. Our decisions can not only cater to short-term market and investor demands but must also accommodate long-term developments in technology and regulations. At BW LPG, we strive to maximise the return on our assets and one important way we are doing so, is through focusing on technology. Pioneering LPG propulsion technology now powers 10 of our VLGCs. This is the world's largest fleet of lower-emission VLGCs.

LPG has the lowest GHG emissions profile of any carbon-based fuel. With LPG, we benefit from a 17% decline in CO2 emissions versus MGO. And by retrofitting, we save over one million tons in CO2 emissions versus ordering newbuilds. With ten vessels on water, two at yard and over 10,000 hours in operation, we have proved that the LPG propulsion technology works. Our program to retrofit 15 of our VLGCs with this technology will be completed in the first half of 2022.

We also continue to invest in digitalization. SMARTship technology onboard our ships enables real-time data transfers between ship and shore. Together with other initiatives such as smart weather routing, we reduce fuel consumption which not only means lesser emissions, but also greater savings.

In the third quarter, we reported USD 27,800 per day for our VLGC fleet per calendar days. Importantly, to note, we had 8% planned off-hire on our fleet, driven by our LPG dual fuel retrofit program. Commercially, we achieved USD 30,100 per available day with a consistently high commercial utilisation of 98%.

This performance translated to a net profit after tax of USD 29 million and an earnings per share of USD 0.20. For the third quarter we will be distributing a dividend of USD 0.10 per share, amounting to a total of USD 14 million.

Before we move on to the highlight of the quarter, I would like to again stress that our focus is to ensure the best long term returns for our shareholders. This strategy includes optimising the returns on our assets, through LPG propulsion retrofits, buying and selling vessels opportunistically, having a strong balance sheet, and utilising technology to optimise voyage returns.

And we do walk the talk. We have been strengthening our financial position and de-leveraging our balance sheet since 2020. Including USD 256 million of undrawn revolving credit facility and USD 127 million cash, our available liquidity is at USD 383 million with the lowest net leverage ratio in seven years at 36%. This strong balance sheet prepares us for all kinds of market conditions and allows us to participate in sizable and attractive investments in the LPG value chain.

Our LPG retrofit program remains on track. We have retrofitted further two vessels this quarter with LPG dual-fuel propulsion, bringing the total to ten vessels on water. We continue to embrace technology in shipping and have fitted three more vessels with SMARTship technology, bringing the total to 20 vessels. This technology, together with active weather routing, has given us fleet-wide fuel savings of approximately USD 1.5 million so far this year.

Since 2020, we have been divesting our less economic and efficient vessels at very attractive levels and well above new-build equivalent prices. During the quarter, we have concluded the sale and delivery of BW Confidence in July, and BW Boss and BW Energy in August, generating USD 81 million in liquidity and a net gain of USD 9 million.

Lastly, we have exercised the purchase option on Yuricosmos in August, now named BW Niigata. This transaction has generated an expected 8% ROCE and a gain on right of use asset of USD 3 million.

These asset transactions are an integral part of our strategy. In order to provide healthy returns over the cycle, we need to deliver steady operations and sound commercial decisions. Thus we find it highly rational to sell our least favourable assets at prices at or above NAV while the stock market is valuing these assets at more than 40% discount.

Looking at the market, we expect healthy TCE rates for Q4 2021, comfortably above cash break-even. This is supported by continued growth in US exports, recovering volumes out of the Middle East, strong and stable end user demand, as well as increasing shipping inefficiencies, primarily in the Panama Canal.

We continue to be optimistic for next year. As we look towards 2023, we reiterate that sustained export growth of US LPG and no further newbuilds are key to bring about a balanced market.

The VLGC market held relatively steady during 3Q compared to the preceding quarter. We generated an annualised return on equity of 9% and our annualised return on capital employed came in at 7%. Year to date 2021, we have delivered a return on equity of 13% and a 9% return on capital employed.

Our operational and free cash flows remain healthy, at USD 63 million and USD 106 million respectively for the quarter, giving us good flexibility and enabling us to continue to return cash to our shareholders. As highlighted earlier, our net leverage ratio continued down from 40% at the end of the second quarter, to now 36% at the end of Q3; the lowest in seven 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.

In slide 8 we are sharing our view of the market. Currently the market is robust, and we expect rates to continue to firm up. This is driven by strong fundamentals, such as winter heating demand in Asia and increasing shipping inefficiencies especially at the Panama Canal.

Last done fixture we did for December lifting out of the US to discharge into Asia gives a round voyage rate above USD 40,000 per day. We have fixed approximately 80% of our Q4 available fleet days at an average rate of USD 32,000 on a discharge-to-discharge basis.

We continue to be optimistic for next year. The current high oil and gas prices will support stronger production growth out of both US and Middle East. The shipping inefficiencies will continue to support the ton-mile demand, offset vessel supplies and add market volatilities.

Today, we have seen Panama Canal waiting days increase to more than one month for both legs, and we believe the congestion in Panama will become a new norm. As a result, we expect more traffic around Cape of Good Hope for the US product to Asia.

Driven by high oil and gas prices, we continue to see recovery in US upstream activities. North American LPG exports have increased by 16% year over year.

The strong exports despite the high LPG prices, continue to illustrate the strengths of the LPG import demand. Despite falling petrochemical margins, China LPG imports recovered strongly by 30%. China is set to drive the most meaningful LPG demand growth moving forward. There are 21 PDH developments scheduled from 2021 till 2024 in China. Those plants will generate over 12 million tons of incremental import demand per year.

Retail demand into India continued to grow and LPG imports have increased by 20%. Significant infrastructure investments have taken place in India to encourage high levels of imports such as new pipelines, port expansions and storage facilities. Furthermore, the country is expanding into the petrochemical segment, with investments in PDH plants. This will unlock tremendous potential import demand growth for the petrochemical sectors in India.

At slide 10 you see EIA's short-term energy outlook released in November. EIA forecasts that US LPG exports will remain high for 2022, production will grow by 6.0% in 2022 compared to 4.1% in 2021.

Seven more vessels are expected to be delivered from 2023 to 2024 compared to last quarterly update. This includes 19 in 2022, 42 in 2023 and another eight in 2024. We have no newbuild orders but will have the largest fleet of LPG propulsion vessels ready by Q1 next year.

We continue to offload some of our non-LPG propulsion ladies at good premium to book values and in line with brokers' valuations. These transactions crystallize the values for our shareholders as our current share price is trading at more than 40% discount to our book value at USD 9.40 per share.

Despite a 15% increase in bunker costs compare to a 4.5% increase in freight, we achieved a commercial result of USD 30,100 per available day with a strong commercial utilisation of 98%. This is approximately 20% above the average Baltic Ras Tanura to Chiba rates in Q3. Our TCE per calendar day came in at USD 27,800 per day and the result was mainly impacted by having 8% off hire due to dry dock.

We decided to bring forward our dry docks LPG conversion so we can enjoy more available sailing days next year when we anticipate a stronger market.

During the quarter, we have renewed three Time Charter contracts in our Indian subsidiary for two years at an average gross TCE of mid USD 30,000 per day. Our Time charter out revenues for 2022 now stands at USD 75 million with the average TC out rate of USD 33,100 per day. Our TC in cost remains low at USD 26,100 per day. As of today, we are happy with our spot exposure for next year.

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.

To-date, we have eleven LPG-powered VLGCs serving customers with the lowest greenhouse gas emissions profile in the sector on water. BW Freyja is currently undergoing sea trial following her conversion. She is expected to be redelivered to Commercial by the end of next week and she will thus be number 12.

The final three vessels in the retrofitting program are planned for conversion during Q1 next year. Furthermore, we have five vessels due for normal dry dock, where the majority are scheduled for the second half of 2022. In total, we estimate 290 days of planned off-hire due to scheduled dry docks in 2022.

As we progress our retrofitting program, we also continue to invest resources to answer the question of "what's next". Our engineering and innovation team are busy working on the task and in an uncertain future, our next-generation VLGCs must comply with long-term trends in emissions regulations, and yet make business sense in the short term.

We remain convinced that LPG propulsion is part of the solution, as we wait for technology to progress and for alternative fuel supplies to mature and reach the scale needed to make economic sense. In the meantime, we are exploring hydrogen, batteries, rotor sails and ammonia as alternative fuel sources. We continue to optimize our assets and operations by looking at how we can improve hardware, systems, and designs. We are also exploring the feasibility of carbon capture onboard for future compliance requirements.

As we explore what is next in terms of technology and design, we are also making good progress with digitalization of our fleet. Over 50% of our ships are now connected to our Alpha-Ori SmartShip system, sharing real-time data with our offices. This allows for better and more efficient support for our teams at sea. With better data, we provide better support and improve our operational performance. This translates to real savings for our business. For example, we have saved nearly 2,500 metric tons of fuel since January by usage of active weather and voyage routing.

Now on our crew. We continue to navigate operational challenges from COVID-19. To mitigate complexities in embarking and disembarking crew, as well as with port calls, we will focus on getting our crew vaccinated. Having a fully vaccinated crew onboard reduces time spent in quarantine, minimizes vessel delays, and helps protect our team members both at sea and on shore. We now have 12 fully vaccinated ships and approximately 85% of the total crew pool are vaccinated.

Finally, on OPEX. We continue to maintain market leading OPEX trends for our fleet. We see this as an important priority and business practice, despite unprecedented global challenges to operations. However, our vessels operating expenses came in higher than normal this quarter at USD 8,400 per day, this was due to incremental manning and logistics costs incurred due to the pandemic.

Let me now turn over to our CFO, Elaine Ong, who will walk you through the projected fleet capex and our financial position and results.

Elaine Ong, BW LPG CFO

Thanks Pontus.

Let me begin with a few comments on the projected fleet capital expenditures table on this slide. Thus far this year, we have spent USD 89 million on fleet upgrades. This relates to the retrofitting of nine dual fuel propulsion engines, as well as installations of Ballast Water Treatment Systems and Smartship technology onto our vessels.

We plan to spend a further USD 31 million on these fleet upgrades in 2022, of which the remaining three retrofits will be financed by new debt. The remaining capital expenditures relate to the regular scheduled maintenance on our vessels.

Let me now provide a few highlights on our income statement here where we reported USD 29 million in net profit this quarter. Our TCE income was USD 105 million for the quarter. Similar to the previous quarter, we have a higher than usual planned off hire with four of our vessels at the yard undergoing LPG propulsion retrofits. The TCE number includes a net positive impact of USD 1 million related to the effects of IFRS 15, which is an adjustment to the guided TCE that we provided earlier on a discharge-to-discharge basis.

Vessels opex was USD 8,400 per day which was explained earlier by Pontus.

We concluded the sales of three vessels during the quarter, realizing a net gain of USD 8.7 million. The vessels were delivered to their new owners for further trading in July and August. We also exercised the purchase option for the Yuricosmos in August. We reported a USD 2.5 million gain which represents the difference between lease asset and lease liability on our balance sheet.

Page 17 provides a snapshot of our balance sheet and cash flow statement. On our balance sheet, we ended the quarter with USD 127 million of cash and USD 1.8 billion in vessel book values. We also had USD 1.3 billion in shareholders' equity at the end of the quarter, which translates to USD 9.35 per share.

Our operating cash breakeven for 2021 is at USD 22,200 per day. At the end of September, our available liquidity is at USD 383 million, with our net leverage ratio at its lowest level in seven years, at 36%.

Our net debt position at the end of the quarter was USD 765 million. And, we will have no major balloon payments due in the next five years.

Lastly, let me provide a quick update on our financing. We are in the documentation stage for the financing of the remaining LPG retrofits which we expect to close by year-end.

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 Third 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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