INVESTORCOMMS BW LPG

Event	BW LPG Q4 and FY 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 Fourth Quarter and Full Year 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.

Chief Executive Officer (Anders Onarheim)

Thank you, Iver. Welcome to our Q4 and FY 2021 results presentation for the financial period ended 31st December 2021. As always, I am joined today by our CFO, Elaine Ong; EVP Commercial, Niels Rigault; and our EVP Technical and Operations, Pontus Berg.

2021 was certainly an eventful year. VLGC rates ranged from USD 100,000 per day to USD 6,000, and we experienced new varieties of Covid appearing, leading to continued difficulties on the crewing side. Just as we were starting to see light at the end of the tunnel and a more normalised world, the situation in the Ukraine has created significant geo-political turmoil. While it is still too early to conclude what the effects will be for VLGC shipping, the uncertainty has dramatically increased.

Still, my colleagues and I believe that there are several reasons to be optimistic for our shipping business over the medium and longer term. LPG is one of the cleanest and most versatile energy sources currently available, and we see continued strong demand both in the Far East, India and Europe. Healthy production is expected both in the US and Middle East, so need for shipping will prevail. One of the less negative effects of Covid is that shipping as a whole has accelerated change and adopted a number of new technologies. We are also quite proud of the steps BW LPG has taken as we move closer to a zero-carbon future.

We published our 2021 Annual Report and Sustainability Report earlier today, with the theme “Ship Smarter with LPG”. Behind the great presentation of data are hours of hard work by colleagues. The reports are now available for download on our website, and we hope investors and analysts will find them insightful. When reading the reports, you will find that: we can ship smarter because we have 2000 talented and dedicated professionals. We can ship smarter because we actively use new technology to reduce our carbon footprint and make our operations more efficient. We can ship smarter because we remain agile and make active decisions to optimise our assets through the cycles. With these initiatives and more, we have stayed the course in a challenging year. Let me next give some key highlights.

In the fourth quarter, we reported USD 31,000 per day for our VLGC fleet per calendar day, with 4% technical off-hire. Commercially, we achieved USD 32,400 per available day with a consistently high commercial utilisation of 97%. This performance translated to a net profit after tax of USD 63 million and an earnings per share of USD 0.45. For the fourth quarter we will be distributing a dividend of USD 0.18 per share, amounting to a total of USD 25 million.

Moving on to the highlights for the quarter. We now report the highest available liquidity to date, at USD 453 million and a further decline in net leverage ratio to 35%. We have retrofitted a further two vessels with LPG dual-fuel propulsion, which brings the total up to 12 vessels on the water, with a combined run-time of 16,000 hours on LPG. We concluded the sale and delivery of BW Sakura in December and BW Niigata in February; the sales generated USD 72 million in liquidity and a net book gain of USD 14 million. Our existing USD 221 million facility was upsized with a USD 40 million sustainability-linked loan to finance the retrofit of four dual-fuel LPG propulsion vessels. In addition, USD 70 million under this term loan facility was converted to a revolving credit facility. After the end of the fourth quarter, Maas Capital subscribed to USD 50 million of new shares in BW LPG India. We are very excited to welcome Maas as a shareholder, and we look forward to working together going forward. BW LPG now holds approximately 67% of the equity in BW India.

Switching gears to our market outlook, it’s difficult to not recognise that the situation in Ukraine can continue to have a dramatic impact on energy markets, energy flows and shipping. For the moment, this geopolitical uncertainty greatly obscures any near-term market outlook, as unforeseen events such as shocks to the bunker price, rapid changes in trading patterns or unexpected LPG inventory management can trigger intense volatility in spot rates. For 2023 and onwards, we find the outlook to be healthy despite uncertainties both from a heavy newbuilding orderbook and implementation of IMO EEXI regulations. Niels will talk more about this.

The VLGC market firmed up somewhat during 4Q compared to the preceding quarter. We generated an annualised return on equity of 19% with an annualised return on capital employed of 13%. For the full year of 2021 we delivered a return on equity of 14% and a 10% return on capital employed. Our operational and free cash flows were USD 20 million and USD 47 million respectively for the quarter, maintaining our flexibility and enabling us to continue to return cash to our shareholders. Finally, as previously highlighted, our net leverage ratio continued down from 36% at the end of the third quarter, to now 35% at the end of Q4.

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

Executive Vice President, Commercial (Niels Rigault)

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

On slide 8, we share our view of the market. As Anders mentioned, the outlook for near term spot rates is highly uncertain. This uncertainty is already visible in the current spot market, as market participants are sitting on the fence and awaiting more clarity, before making any big decisions. Seasonally speaking, VLGC rates are already under pressure, in part due to increased bunker costs, which is pushing spot rates down towards opex level.

So far for Q1, we have fixed approximately 79% of our available fleet days at an average rate of USD 42,000 per day on a discharge-to-discharge basis. For the medium term, our view is that we are facing healthy fundamentals. Yes, the current orderbook is significant, but it is also likely that a high oil price over time will stimulate oil and gas production, and by extension, seaborne export volumes. In the years ahead, we are also seeing growth in demand for LPG, especially from the retail and petrochemical sectors. We furthermore expect eight PDH plants to come onstream in China during 2023.

Turning to slide 9, the seaborne LPG trade in 2021 saw several encouraging developments. Most notably, North American seaborne LPG exports continued to grow and increased 13% to 52.9 MT for the full year, helped by optimisation of natural gas liquids production, and reductions in drilled but uncompleted wells.

Middle East LPG exports grew marginally in 2021 to 36.1 MT. This included a significant export recovery from Iran, which grew 53% to 5.3MT. On the import side, the strongest growth came in China and India. Chinese imports grew 23% to 23.3 MT for 2021. This was supported by new PDH plants and the start-up of LPG-fed steam crackers; a trend we expect to continue into 2022. For 2023, eight PDH plants are scheduled to come on stream in China in 2023. Indian import growth of 11% was encouraged by growing retail demand and new investments in infrastructure allowing for volumes to be received.

On slide 10 you see EIA’s short-term energy outlook released in February this year. The agency expects that US LPG exports will grow by 4.0% in 2022, driven for the most part by higher US production but also marginally lower domestic consumption compared to 2021. For 2023, the agency expects this trend to continue, with even higher production and lower domestic demand, resulting in a net export growth forecast of 11.2%.

As can be seen on slide 11, the current VLGC orderbook holds 70 vessels, equating to 22% of the existing fleet. This orderbook is down slightly from our previous quarterly update, as the number of delivered vessels is higher than the number of vessels being put on order.

We still expect 42 VLGCs to be delivered in 2023. For 2024 however, we expect nine VLGC deliveries, which is one more than we expected in our last quarterly update. We reiterate that we have no newbuild orders but will have the largest fleet of LPG propulsion vessels ready by Q1 this year. The BW LPG fleet now counts 40 vessels after the delivery of BW Niigata, of which 32 are owned, compared to 34 owned vessels one quarter ago. Please skip ahead to slide number 15.

Our time charter out revenues for 2022 now stands at USD 99 million with the average TC out rate of USD 32,900 per day. Our TC in cost remains low at USD 26,100 per day. We have 28 VLGCs serving the spot market. A position we are very confident with as we need the critical mass to optimize the spot earnings and help our clients with today’s inefficiencies

That’s it for me. Next, our EVP Technical and Operations, Pontus Berg will take you through the technical and operations update.

Executive Vice President, Technical and Operations (Pontus Berg)

Thank you, Niels. Turning to Slide 16.

From the Technical and Operational perspective, it has been another good year of supporting the business with smart shipping. We continue our investments in technology, remaining focused on digitalising our vessels, harnessing data and automating workflows, while augmenting these new tools with solid operational experience. And this approach is bearing fruit.

We have invested over USD 92 million in fleet upgrades during 2021, to maximise the value of our assets and enable smarter operations. This includes retrofitting another eight vessels with LPG dual-fuel propulsion technology and another eight vessels with SMARTShip technology amongst other initiatives.

With LPG propulsion technology onboard 12 VLGCs, we can power these ships with cleaner-burning LPG. Available data points to a promising potential 15-20 percent reduction in CO_2 emissions. As mentioned by Anders, with over 16,000 hours in operation, we have proved that retrofitting vessels with this pioneering technology works, and we encourage our fellow LPG ship owners to do the same instead of ordering newbuilds.

We complement the use of new technologies with deep operational experience and innovative thinking. In total, we saved about USD 10 million and reduced greenhouse gas emissions fleet-wide by about 12% in 2021. For example, with Alpha Ori SMARTShip and total voyage management, we reduced fuel consumption by about 2700 MT fleet-wide in 2021. This translated to about USD 1.5 million in savings and a reduction of 8000 MT in CO2 emissions.

Our team closely manages neo-Panama Canal transits, secure Suez Canal rebates and handled over 1,100 port calls safely in 2021. Our innovative use of established ship-to-ship transfer practices for LPG bunker and coolant, pre and post drydock, has reduced turnaround time, increased commercial availability, minimised emissions from gas-freeing, and allowed us stricter control over product origin compliance, which is increasingly important.

We will continue to invest in R&D and position the company well for new technologies that are on the horizon. Plans for our next-generation VLGC is in full swing, and we appreciate the support and collaboration with market-leading partners and top-tier suppliers.

All this will not be possible without good people. Covid-19 continued to loom large through the year. The pandemic has driven up operating costs and it has been hard on our seafaring colleagues, where rotations on and off ships have been affected. The good news is that over 99% of our crew onboard are vaccinated and only a small number have been onboard significantly beyond their designated sign-off date.

We thank the relevant port authorities and shore offices who have provided support. Vaccinating our crew go a long way to protect the livelihoods of our seafarers and our continued ability to deliver energy to world markets. Together with stringent pre-boarding and onboard management procedures, we have managed to keep cases of Covid-19 onboard low. Our Zero Harm approach guides how we protect the health and safety of our crew. Safety is a top priority for Management, and a non-negotiable expectation for all. Where we saw trends in reported incidents, we ran specific initiatives to address them.

Finally, our 2021 Opex per day was USD 8,000, of which nearly 5% or USD 380 dollars went towards Covid-19 management measures. We continue to maintain market leading OPEX trends for our fleet. We see this as an important priority and business practice.

We are monitoring the situation and assisting our crew members from both Ukraine and Russia, in these difficult times. We and our local manning offices have been and are in contact with crew onboard as well as at home.

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.

Chief Financial Officer (Elaine Ong)

Thanks Pontus and a very good day to all of you. Let me begin with a few comments on the capital spend table here on slide 16.

In 2021, we spent a total of USD 92 million on fleet upgrades – of this, USD 85 million was on retrofitting our vessels with dual fuel propulsion engines and approximately USD 7 million on Smartship technology and ballast water treatment systems. To date, we have 12 LPG-powered VLGCs on the water, with three more on the way. 19 VLGCs are equipped with Smartship technology. We plan to spend a further USD 31 million on fleet upgrades this year, most of which relate to the retrofitting of our remaining three vessels. The financing for these is already in place with the upsizing of our existing USD 221 million facility which Anders mentioned earlier.

These last three conversions will mark the completion of our multi-year, USD 130 million investment to retrofit 15 of our vessels with LPG dual-fuel propulsion technology. These retrofitted vessels are an important and tangible step forward in our journey towards a zero-carbon future.

Let me now provide some colour on our reported financial results. Net profit for the quarter was USD 63 million, bringing our full year NPAT to USD 186 million. Included in our fourth quarter NPAT of USD 63 million are two non-recurring items that I would like to highlight:

The first stems from a USD 2.7 million gain realised from our disposal of the BW Sakura for further trading. The second relates to a USD 32 million write-back of vessel impairment previously taken on our vessels back in 2016. Over the past few years, we have seen broker-based valuations strengthened, hence, we are now able to recover most of the vessel impairments previously taken. If we exclude the non-recurring items, our net profit for the fourth quarter would be USD 28 million.

Let me comment briefly on our EBITDA. EBITDA for the fourth quarter came in at USD 79 million, bringing our full year EBITDA to USD 312 million. This translates into a strong EBITDA margin of 68% for the quarter and 67% for the full year 2021. Our fourth quarter of EBITDA of USD 79 million stems from USD 117 million of TCE income, net of a USD 5 million impact related to the effects of IFRS 15. This was largely driven by higher fleet utilisation for the quarter at 96%, with fewer vessels at the yard undergoing retrofitting despite the lower VLGC spot rates earned during the quarter. This is partially offset by higher-than-expected vessel operating expenses during the quarter, at USD 7,700 per day, reflecting increased crewing costs associated with the lingering pandemic.

Let me now highlight a few things on our balance sheet. At the end of December, our available liquidity, at USD 453 million, was at the highest level since our listing back in 2013. And our net leverage ratio at 35% is at the lowest level in seven years. In 2021, we generated USD 307 million in operating cash flows and USD 330 million in free cash flows. Our strong cashflow has allowed us to aggressively pay down our debt while continuing to return cash to our shareholders. Including the USD 0.18 per share of dividends just declared for the fourth quarter, we will have paid a total of USD 77 million in dividends for 2021, equivalent to USD 0.56 per share. This translates to a pay-out ratio of 51% of NPAT, excluding the non-cash write-back of impairments. Looking forward into 2022, we expect our operating cash breakeven for our total fleet (including our chartered-in vessels) to be at USD 21,000 per day this year.

A quick update on our financing structure and debt repayment profile. Our net debt position at the end of the quarter was at USD 745 million and we will have no major balloon payments due in the next five years. In December, we upsized our existing USD 221 million facility with a USD 40 million sustainability-linked loan to finance the retrofitting of four dual-fuel LPG propulsion engines. This is our first sustainability-linked facility aligned with Poseidon principles, and demonstrates BW LPG's continued access to highly competitive funding and commitment to decarbonise shipping. At the same time, we also converted USD 70 million of this same term loan facility to a revolving credit facility. This gives us financial flexibility in allowing us to accelerate the repayment of our debt with our strong free cash-flows while still maintaining a liquidity line should we need to draw on it in the future.

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 Fourth 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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