INVESTORCOMMS BW LPG

Event	BW LPG Q1 2022 Earnings Presentation
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Hosts	Anders Onarheim, CEO Elaine Ong, CFO Niels Rigault, EVP (Commercial) Pontus Berg, EVP (Technical and Operations)

Opening

Welcome to BW LPG's First Quarter 2022 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, Lisa. Welcome to our Q4 and FY 2021 results presentation for the financial period ended 31st March 2022. As always, I am joined today by our CFO, Elaine Ong; EVP Commercial, Niels Rigault; and our EVP Technical and Operations, Pontus Berg.

The year started with a good level of activity in the VLGC market, demonstrating the importance of our business in a context marked by global geopolitical and economic uncertainties.

I take the opportunity to congratulate colleagues on the completion of our ambitious LPG retrofitting program. I would also like to thank all our partners and suppliers for their support. It has been a long journey, from contract signing in 2018, to the redelivery of our 15th retrofitted VLGC earlier this month.

Even with complications from Covid-related restrictions, where our site team spent the equivalent of 1.5 years in quarantine, the team managed to complete the program ahead of schedule and within budget, and with zero major safety incidents.

We now own and operate the world's only fleet of retrofitted LPG-powered vessels, and the world's largest fleet to be powered by LPG. This is part of our strategy for smarter shipping – we decarbonise operations, deliver strong financial performance, and invest in innovation and technology. Let me talk about the key business highlights and market outlook. Please turn to Slide 4.

In the first quarter, we reported USD 36,900 per day for our VLGC fleet per calendar day, with 9% technical off-hire. Commercially, we achieved strong TCE of USD 40,400 per available day with a high commercial utilisation of 96%. We generated a net profit after tax of USD 58 million and an earnings per share of USD 0.41.

Moving on to the highlights for the quarter, we now report the highest available liquidity to-date, at USD 651 million and a record low net leverage ratio of 25%.

We want to leave you with three key messages. **Firstly**, we now have a more optimistic view of 2023; **secondly**, our leverage ratio is at record low levels; and **thirdly**, our dividend policy is updated to target a 75% dividend pay-out ratio when net leverage is below 30%, on a quarterly basis going forward.

Our more optimistic outlook is driven by higher energy prices and growing political support for LPG as a transitional fuel, we believe the market fundamentals in 2023 are supported despite uncertainties from heavy newbuilding delivery schedule. Niels will talk more about this.

For this quarter, with net leverage at 25%, we will return to shareholders a dividend pay-out that is 75% of NPAT, or USD 0.31 per share. This amounts to a total of USD 42 million. Continuing our focus on generating returns for our shareholders, we have sold the BW Liberty in the second quarter.

We currently have no capex commitments other than regular maintenance. However, we continue to evaluate investment opportunities along the LPG value chain. Like with the LPG retrofit program, there are opportunities that are smarter, less capital intensive and allow us to further strengthen our position in the LPG value chain without ordering new vessels.

LPG is part of the solution toward a sustainable future, and as a member of the LPG industry, we must continue to communicate this strongly. On that note, we are honoured to be selected to form part of the OBX ESG index that comprises 40 blue-chip companies listed in Norway that demonstrate good ESG practices. There is no doubt in my mind that LPG is a sustainable transition fuel and can power a cleaner energy future.

We generated an annualised return on equity of 16% with an annualised return on capital employed of 12%. Our operational and free cash flows were USD 164 million and USD 249 million respectively for the quarter, maintaining our flexibility, allowing us to evaluate sizable investment opportunities and enabling us to continue to return cash to our shareholders.

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. Turning to Slide 7. On slide 7, we share our view of the market. We upgrade our market outlook for 2023, driven by expected increases in LPG productions following the rapid increase in oil and gas prices.

Of course, the orderbook is concerning, however our analysis suggests that tightening emission regulations, and increased congestions in the Panama Canal, combined with higher LPG production should partly offset the freight pressure from new vessels deliveries. So far for in Q2, we have fixed approximately 74% of our available fleet days at an average rate of USD 36,000 per day on a discharge-to-discharge basis.

The world needs LPG, and this is perfectly demonstrated in today's energy situation. Since the start of 2022, WTI has increased by 40%, Natural gas has more than doubled and European Naphtha has jumped by 24%. While LPG prices have increased by only 8%, making it more competitively priced for both industrial and retail uses.

A good thing about LPG is that you do not need expensive infrastructure compared to other gases such as LNG. It is a viable, quick, and cost competitive solution to provide energy safety to both established and developing markets.

Almost 50% of the world LPG demand goes into retail. Retail demand is continuing to grow strongly, well supported by progressive governments in emerging economies seeing the benefits from a clean an affordable source of energy.

We also see strong demand from the petrochemical segment. Taking April as an example, seaborne LPG imports into Northwest Europe from the US rose by 22% from the previous month due to favourable propane-naphtha spreads. Countries such as China and Vietnam are ramping up their PDH and cracker projects, adding significant incremental demand for LPG.

What I am trying to emphasise is that, until the world finds a green energy solution to completely replace fossil fuel, LPG is helping the world meet its energy demand in a flexible manner that can integrate well with renewable energy production.

US is the main driver for global VLGC seaborne trade, and it will continue to be. With Europe looking to reduce their dependence on Russian gas, more seaborne LPG will be part of the solution. US shale producers have the capacity and capability to ramp up production, and under today’s USD 100 oil price environment and an industry that is quick to react, we expect LPG production to increase.

EIA expects the US LPG exports to grow by almost 15% in 2023 and in addition we have also seen Midstream companies re-evaluating or planning for new NGL infrastructures investments. This has certainly given us more confidence in facing the high newbuild orders next year.

The current VLGC orderbook holds 65 vessels, or 20% of the existing fleet. If we look from a percentage perspective, the fleet is expected to grow by 13% next year. While as I just mentioned in the last slide, EIA expects the US LPG exports to grow by 15% in 2023. We have not talked about Middle East, which is also progressively adding back productions.

Our investment in the 15 dual-fuel upgrades is the largest commitment towards decarbonisation in the sector. We believe that LPG as fuel is both clean and economical. Looking at the price between compliant fuel and LPG for 2023, LPG is priced over USD 100 cheaper, representing a TCE premium of USD 4,500 per day compared to conventional vessels.

We have for the last five years been active to sell our vintage vessels, totaling 23 ships. For the last 12 months we have sold seven VLGC at prices above book values. These transactions have generated a total net gain of USD 35 million, or USD 0.26 per share for our shareholders.

We are now comfortable with our current fleet profile, which will allow us to manoeuvre through all kinds of market conditions ahead. We have no vessels orders and no immediate plan of ordering vessels, despite our more positive market outlook. Please skip ahead to slide number 13 and our Time charter overview.

We have fixed 16% of our open days in 2023 at an average TCE of USD 33,800 per day, mostly are for our BW India business. We have good spot open positions to capture the strong market ahead, and we will continue to focus on the US to Far East voyages.

I am confident and comfortable with our current portfolio. We have the critical mass which is the key 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. The year has gone off to a good start for the Technical and Operations team. As Anders mentioned earlier, we have completed our ambitious project to retrofit 15 VLGCs with LPG dual-fuel technology.

And we have done so during what is possibly the most challenging times in recent history, the global, well, possibly more so the local Covid-related restrictions and lock downs which have meant supply chain disruptions, we have nevertheless managed to complete the project ahead of time and within budget.

This massive achievement is possible only with an excellent team on site, supported by dedicated shore personnel and external partners. I take this opportunity to thank Isle of Man flag, DNV, Yiu Lian Dockyard, Wartsila, MAN ES, WLPGA and last but not least our own Teams for their support, from idea to realisation of this pioneering project.

With close to 25,000 hours on LPG, we are accumulating some very valuable learnings. Of course, as with all pioneering technology, there are some teething challenges, but our dedicated team is working hard alongside trusted suppliers for solutions.

Our in-house technical and operations teams manage complex multi-million-dollar projects such as newbuildings, upgrades and life extension. In the past decade, the team has reduced OPEX by a noteworthy 20%, and this while improving safety performance to be best in class and reducing technical off-hire. Hence lower OPEX, less incidents and higher commercial availability.

When required, we can leverage on colleagues across functions and the larger BW Group. We are ready to support our core shipping business and pool partners with deep experience and expertise, from offices that cover all time zones.

Looking ahead, the team will continue to ensure our owned and chartered-in fleets are managed to market leading operational levels and that they all are future proof and in compliance with coming environmental requirements. Our LPG-powered vessels will fully comply with CII and EEXI requirements that will come into force January 2023, meaning no need for power reductions and lower speed for compliance. That is the reality for any VLGC with a scrubber or on compliant fuel. Our entire fleet will benefit from current digitalisation and smart voyage routing initiatives to optimise fuel consumption.

Our Alpha Ori SMARTship technology is helping us to monitor our emissions performance and we are now piloting its ability to automate data flow for compliance with the International Maritime Organisations' data collection and reporting requirements. We will also continue to explore new technologies as we develop our next generation VLGC.

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

Chief Financial Officer (Elaine Ong)

Thanks Pontus. And greetings.

Let me provide some colour on our first quarter financial results. Net profit for the quarter was USD 58 million with an EBITDA of USD 93 million. This translates to an EBITDA margin of 72% for the quarter. As at the end of March, our available liquidity of USD 651 million and net leverage ratio of 25% are our highest and lowest since listing. We are therefore in a solid financial position to withstand any short to medium term volatility, and to invest in the right opportunities for future growth.

Let me now highlight a few things on our balance sheet. In Q1, we generated USD 164 million in operating cash flows and USD 249 million in free cash flows. This includes USD 94 million in sales proceeds from the sale of the *BW Trader* and *BW Niigata* during the quarter. As previously announced, we have received the USD 50 million in new equity from Maas Capital for their investment into our India subsidiary. And just earlier this week, Maas Capital confirmed a further increase in their capital investment. When this transaction is concluded, BW LPG will own 52% in our India subsidiary.

Our strong cashflow has allowed us to return value to our shareholders in several ways. **First**, it has allowed us to aggressively pay down our debt. We will voluntarily prepay USD 268 million of debt by the end of Q2. I'll elaborate more on this in a bit.

Second, as earlier mentioned by Anders, we have enhanced our dividend policy to target a quarterly pay-out ratio of 75% of NPAT when our net leverage ratio is below 30%. With a net leverage ratio at 25% this quarter, we have declared an interim dividend of USD 0.31 per share which translates to a pay-out ratio of 75% of NPAT.

And third, we announced our share buy-back program in December last year and as of the end of Q1, we have purchased 3.8 million shares amounting to approximately USD 21 million. We plan to complete the program in due course.

Finally, for FY 2022, we expect our operating cash breakeven for our total fleet (including our chartered-in vessels) to be at USD 21,300 per day.

Here on Slide 16 is an update on our financing structure and debt repayment profile. Our gross debt was 843 million, which included USD 728 million in debt outstanding from our four term loans. The rest relates to lease liabilities arising from the time-chartered in vessels under IFRS 16. Our trade finance facilities of USD 280 million remain unutilised during the quarter.

We ended the first quarter with USD 353 million in cash. This, together with 298 million in available revolving credit facilities, put our available liquidity at USD 651 million and a 25% net debt of USD 490 million. As mentioned earlier, given our strong liquidity, minimal committed CAPEX, and with no major balloon payments due in the next five years, we have voluntarily prepaid USD 73 million of debt in April. And we plan to prepay another USD 195 million in June. These prepayments will be reflected in our results next quarter. With this, we will have eight unencumbered vessels worth over USD 600 million available for financing when needed.

On this note, let me open the floor for questions. Back to you, Lisa.

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Conclusion

We have come to the end of today's presentation. Thank you for attending BW LPG's First Quarter 2022 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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