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Q4 2019 BW LPG Ltd Earnings Call

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## CORPORATE PARTICIPANTS

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**Anders Redigh Karlsen** *Danske Bank Markets Equity Research - Analyst*

**Dennis Anghelopoulos**

**Eirik Haavaldsen** *Pareto Securities, Research Division - Head of Research*

## PRESENTATION

### Operator

Ladies and gentlemen, welcome to BW LPG's Fourth Quarter 2019 Financial Results Presentation. We will begin shortly. You will be brought through the presentation by BW LPG CEO, Anders Onarheim; CFO, Elaine Ong; and Executive Vice President, Commercial, Niels Rigault. 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 CEO, Anders Onarheim. Please go ahead, sir.

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### **Anders Onarheim** *BW LPG Limited - CEO*

Thank you and good afternoon and welcome to the presentation of our results for the fourth quarter of 2019. As the Operator said, I'm joined here by our CFO, Elaine Ong, and our Executive Vice President of Commercial, Niels Rigault. Thank you for taking the time to listen in a hectic day, and we'll take questions after the call.

So if I can direct you in the presentation to Slide #4, the highlights. So the fourth quarter TCE rates on our VLGC fleet averaged \$50,600 per day, with spot earnings of \$56,000 per day. The strong results were underpinned by our outstanding commercial performance but also a strong underlying VLGC market.

Earnings per share was \$1.11 for Q4 and \$1.97 for the full year 2019.

The VLGC assets, their values have improved on the back of the freight rate improvement. So that's resulting in a \$38 million write-back of our previous vessel impairment, and this is based on the broker-based fleet valuation.

So adjusted for the \$38 million write-back, earnings per share was \$0.83 for Q4 and \$1.73 for the full year 2019.

With our strong financial performance in the fourth quarter we're able to once again return cash to our shareholders. The board has declared for Q4 2019 a cash dividend of \$0.42 per share, amounting to \$58 million. This brings the total dividends declared for 2019 to \$0.85, amounting to \$118 million in total.

As previously announced, 2 LGCs were sold in Q4 2019: one has been delivered, in December 2019, while the other is expected to be delivered in March this year.

Our strong financial performance has generated a return on equity of 55% for the fourth quarter and 25% for 2019.

And with our low cash breakeven and a strong cash flow from our operating activities we're able to return cash to our shareholders, at



the same time pay down our debts. Our leverage ratio has decreased from 59% in the first quarter of 2019 to 52% at the end of 2019.

I would also like to highlight some of the important subsequent events that's happened. We exercised options for the retrofit of 8 additional LPG dual-fuel engines in February 2020. With this, we have committed to retrofit 12 vessels with pioneering propulsion technology. This is very exciting for us.

The delivery of the last LGC is expected to generate \$15 million in liquidity and a net gain of \$5 million. As we said, it's expected to be delivered in March 2020.

On 13 February this year we took delivery of a time charter-in VLGC. We now own and operate 47 VLGCs. The average age of our fleet, excluding the [India] (corrected by the company after the call) joint venture and the storage vessel, is 8 years.

On 20 February 2020, we signed a supplemental agreement to amend our existing \$458 million senior secured facility to convert \$100 million of term loan to revolving credit, with all of the terms remaining the same. This will provide us with greater financial flexibility, going forward.

Thus far the impact of the COVID-19 outbreak on LPG freight rates has been limited. However, the very unpredictable development of this outbreak has increased uncertainties on the near term, both supply side and demand for LPG.

If we turn to Slide 5, I'll just go through a few of the key financials before turning it over. So in the fourth quarter we generated total TCE income of \$192 million, based on the daily rate, as I mentioned, of \$50,600, with a contract coverage of 13%.

EBITDA increased to \$154 million for Q4, representing a strong EBITDA margin of 80%.

Including the \$38 million write-back of vessel impairment charges, profit after tax was \$154 million for the quarter, or \$1.11 per share. And excluding the write-back, Q4 profit after tax would be \$116 million, or \$0.83 per share.

Again, this gives us a strong annualized earnings yield of 53% and return on equity of 55% for the quarter.

So with this, I would like to hand it over to Niels Rigault, who will then take us through the commercial part of the presentation.

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**Niels Rigault *BW LPG Limited - Executive Vice President, Commercial***

Thank you, Anders. So in Q4, TCE rates on our VLGC fleets average of \$51,100 per day, excluding offhire. We achieved high commercial utilization, of 97%. Excluding waiting time, our VLGC spot earnings came in at \$56,000 per day.

I will now turn to Slide 7 for an overview of our 2019 full year commercial performance. In 2019, the VLGC market had a strong recovery, starting from end of Q1. This was supported by sustained U.S. export growth.

As a result, our TCE earnings have also improved from 2018. Full year 2019 TCE rates on our VLGC fleet averaged \$35,400 per day, excluding offhire. Our 2019 spot earnings came in at \$39,100 per day, excluding waiting time, compared to \$19,400 per day in 2018.

Turning to Slide 8, we provide an overview of waterborne LPG trade in the fourth quarter of '19. In 2019, global LPG seaborne trade increased 13% from 2018 due to the strong export growth in North America.

Over 38% of the LPG seaborne trade went to the Far East. Chinese LPG imports increased by 2% in Q4. Total 2019 Chinese imports increased by an impressive 11% from 2018. Q4 imports both Japan and South Korea increased by 10% and 38% year-over-year.

In the fourth quarter, Indian LPG imports increased by 10%. Retail demand in Indian remained firm, and total 2019 Indian imports increased by 12%.

Southeast Asian LPG imports decreased by 13% in Q4. However, total 2019 southeast Asian imports increased by 21% from 2018, due to high imports in Q1 and Q3 2019.

On the export side, in the fourth quarter Middle Eastern waterborne LPG exports were down by 8%. Q4 exports from Saudi Arabia fell by 18% year-over-year, following the drone attacks on Saudi Aramco's processing facilities in September 2019.

The decrease in the Middle Eastern volumes were more than offset by the growth in North American exports. In the fourth quarter, North American exports increased by 26% year-over-year.

Turning to Slide 9, we provide an update snapshot of EIA's outlook for LPG balances in the U.S. EIA has revised its 2020 forecast U.S. LPG net exports upwards, with exports expected to grow by 26%, to 47 million tons, up 3 million tons from the estimate we presented in our Q3 presentation. At the same time, they reduced its 2021 U.S. LPG net export forecast due to decreased production and increased domestic consumption. The U.S. LPG export is estimated to decline back to 44 million tons in 2021.

The U.S. LPG export market is hard to predict, and with the current order book vessel owners should take a second look at the numbers before placing newbuild orders.

Turning to Slide 10, 4 VLGC newbuilds were delivered in Q4 '19, and 4 more were delivered so far this year. None were recycled during this period. The global fleets of VLGC stands at 286 vessels as of February 2020, and the order book stands at 14% of the total VLGC fleets.

Turning to Slide 11, for us we have taken a diversified approach towards the new IMO 2020 regulations. To begin with, we are investing in our current fleet, rather than increasing the fleet supply. A total of 12 VLGCs will be retrofitted with dual-fuel LPG propulsion engines in 2020 and 2021, making us the first mover in LPG propulsion. 6 of our vessels will be installed with exhaust gas cleaning systems, and we have also secured spreads between gas oil and high sulfur with financial hedges to mitigate our exposure to the uncertainties in compliant fuel prices.

With that, let me turn over to Elaine, who will walk through the financial numbers.

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**Elaine Ong *BW LPG Limited - CFO***

Thanks, Niels. Starting with the financial highlights on Slide 12. In 2019, we have a cumulative net profits of \$274 million, following the strong recovery in the VLGC market.

Our EBITDA was consistently positive through the cycle, despite the very challenging market in the last 2 years. EBITDA came in at \$399 million for the full year 2019, representing a strong margin of 73%.

With the cash flows from our operating activities, we have consciously started to deleverage our balance sheet. Our leverage ratio has decreased from 59% at the end of the first quarter this year to 52% at the end of 2019.

Since Q2 2019 we have also started to pay quarterly dividends and have declared a Q4 2019 dividend of \$0.42 per share.

Turning to Page 13, we provide an overview of our income statement. Our TCE income for the quarter was \$192 million, driven mainly by the strong spot rates and high fleet utilization of over 97%. EBITDA came in at \$154 million, representing an EBITDA margin of over 80%.

Following the IFRS accounting standards, our charter-in contracts with more than 12 months duration have been capitalized on our balance sheet, while our charter-in contracts that expire within the next 12 months will continue to be reported as charter hire expenses. As such, our charter hire expenses for the quarter declined to \$2.2 million.

The net impact of adopting the new IFRS on leases was an increase of \$7.6 million in EBITDA for 2019 Q4 and a decrease in profit of \$1.6 million for the same quarter.

As previously announced, 2 LGCs were sold in Q4 '19: 1 has been delivered in December, generating a net gain of \$5.2 million; the last LGC is expected to be delivered in March 2020.

In addition, fleet impairment charge of \$38 million was written back, as broker-based fleet valuation has increased significantly following the recovery in the VLGC freight market.

Taking all this into consideration, our profit after tax this quarter was \$154 million, or \$1.11 per share.

Effective 1 January 2020, we have also amended the vessel useful life, from 30 years to 25 years.

Turning to [Slide 14] (corrected by the company after the call) we provide a snapshot of our balance sheet and cash flow statement. We generated \$124 million of net cash from operating activities during the quarter. \$42 million of net cash from our investing activities came mainly from the proceeds of the sale of 1 LGC in December. Net cash used for our financing activities this quarter was \$120 million, which includes \$46 million in dividends paid. Cash and cash equivalents amounted to \$94 million as at the end of December.

Slide 15 provides an overview of our liquidity and debt position. At the end of December, our net debt position was at \$1.2 billion. Our all-in cost of debt across all our 5 loan facilities average a very competitive margin of LIBOR plus 177 basis points. We have consistently maintained over \$200 million in liquidity through the down cycle and ended the [fourth] (corrected by the company after the call) quarter with \$294 million in available liquidity. Our next debt maturity is a \$47 million balloon payment on a \$150 million term loan, which only comes due in 2023.

With this, I would like to turn it back to Anders to conclude our presentation.

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**Anders Onarheim BW LPG Limited - CEO**

Thank you, Elaine. If you go to the Slide 16, I'll try to summarize our outlook for the market, going forward.

For 2020 we expect the VLGC exports from North America to continue increasing, with strong U.S. production growth in 2020. 2021 U.S. exports is more uncertain, as reflected in the EIA's February forecast, where we see they took down their forecast quite a bit.

We see little potential for growth in Middle Eastern exports in 2020 due to the uncertainties of whether OPEC+ production cuts will be extended and also heightened geopolitical tensions in the region.

The growth in LPG exports is well supported by the strong demand for imports, mostly driven by the petrochemical sector in Asia as well as the retail sector.

As such, we expect the ton-mile demand for VLGCs will increase, giving a positive rate outlook for 2020. However, the increased demand will, in part, be offset by a high level of newbuild deliveries.

So in conclusion, we continue to have a positive freight outlook for 2020, and this is supported by sustained U.S. LPG exports.

So far, the impact of the virus outbreak on LPG freight rates has been limited. However, as I stated previously, the unpredictable development of this outbreak has increased uncertainties, with potential near-term impact on LPG imports into China, particularly. And it also could have a longer-term impact on LPG production following the decline in oil and gas prices.

We expect the scheduled terminal expansion by Targa in the latter half of 2020 and gradual ramp up of Enterprise's second terminal expansion which was recently delayed to 2020, combined with an increasingly likely easing of the U.S.-China trade war, to support the strong U.S. export growth.

On 15 January 2020, China and U.S. signed the Phase 1 trade deal, where China has pledged to increase U.S. exports of energy products

by \$52.4 billion over a 2-year period. And on the 17 of February this year, the Chinese government announced that it would accept applications for firms seeking exemptions on the additional tariffs on U.S. products from 2 March 2020, and onwards. The exemptions include LPG products.

So to conclude, in the longer term we maintain our view that sustained U.S. LPG production growth and no further newbuild orders remains the key to a balanced VLGC market.

So with that, I would like to open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. (Operator Instructions) We have the first question from the line of Dennis Anghelopoulos, from EABG.

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### Dennis Anghelopoulos

First question, about remaining CapEx. In Note 7b, you guys stipulate that there's around \$16 million remaining in capital commitments. But now with another 8 retrofits declared, how should we think about the capital commitments, going forward?

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### Elaine Ong *BW LPG Limited - CFO*

Dennis, if we look at the 8 LPG retrofit options we've just declared, I think you can add another approximately \$70 million of CapEx for 2021.

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### Dennis Anghelopoulos

Thank you. And then one question on these lease in trust receipts. I see that they've gone from \$172 million in the previous quarter up to \$250 million. But then when I look at the cash flow I only see a plus \$22 million delta, whereas the presentation showed plus \$78 million. Is there something I'm missing here?

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### Elaine Ong *BW LPG Limited - CFO*

Well I think it has to do with the timing of the cargo trading activities. 2 of our cargoes actually crossed over into the new year. So I think we see that kind of factoring into the balance sheet. But we will be able to actually walk through that offline with you later on if you want to give me a call, Dennis, the details of that.

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### Operator

We have the next question from the line of Eirik Haavaldsen, from Pareto Securities.

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### Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research*

I was actually just going to ask you on those latest upgrades. So these 8 ships, we should think about them as all being done then in 2021, right?

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### Elaine Ong *BW LPG Limited - CFO*

That's right.

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### Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research*

And do you have an update on now where we are for the ones in 2020?

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### Elaine Ong *BW LPG Limited - CFO*

So Eirik, just to make sure we're clear here, we had 4 for 2020. We declared another 4 for 2020. That brings it up to 8 in 2020. And then in 2021 we'll have 4 more ships. That brings the total to 12.

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### Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research*

Okay. And then the total CapEx, you said \$17 million or \$70 million earlier?



**Elaine Ong *BW LPG Limited - CFO***

\$70 million for the 8 ships. So I would expect that half of that will be absorbed in 2020 and the other half in 2021.

**Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research***

All right. Perfect. And taking a step back now, the market from basically everything shipping related has felt like there's no tomorrow and then VLGC rates are holding and they're holding quite well, even though they're sliding and it's quiet now. But can you give a little bit, can you update us a little bit on where you've been fixing ships for the past 2 weeks? Maybe if you have anything to say in terms of coverage for Q1 on the spot days? That will be helpful I think in this environment.

**Anders Onarheim *BW LPG Limited - CEO***

Niels, do you want to take that?

**Niels Rigault *BW LPG Limited - Executive Vice President, Commercial***

Yes. Basically, we have seen lately this week that has been a bigger impact maybe on the rate than just 2 weeks ago. I would say that so far in Q1 the TCE has been approximately the same number as it was in December.

**Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research***

Okay. Perfect. And also, on the ships that you now have on time charter, can you just tell me which ships that are rolling off this year and 2021, please?

**Niels Rigault *BW LPG Limited - Executive Vice President, Commercial***

You mean the 3 ships we...?

**Eirik Haavaldsen *Pareto Securities, Research Division - Head of Research***

There is 1 expiring this year and 3 next year, right? There's 1 expiring this year and 3 in 2021.

**Niels Rigault *BW LPG Limited - Executive Vice President, Commercial***

So we have 1 expiring in Q3 this year, and then the rest will be 1 in Q1 '21 and then Q3 '21.

**Operator**

(Operator Instructions) We have our next question from the line of Anders Karlsen, from Danske Bank.

**Anders Redigh Karlsen *Danske Bank Markets Equity Research - Analyst***

Just most of my questions have been answered really, but I was thinking about you changed the depreciation period to 25 years. Is that a reflection of your expectations that ships won't be lasting any more than 25 years, going forward? Or is it just a precautionary measure? What can we read into that?

**Elaine Ong *BW LPG Limited - CFO***

Anders, I think it's going to be a combination of both. We're just trying to align the depreciation towards what is more commonly seen in the market. But also with the developments on the regulatory side, I think it is prudent to actually bring it forward to 25 years.

**Anders Redigh Karlsen *Danske Bank Markets Equity Research - Analyst***

Okay. Given where the market is strong today. So you would expect very little scrapping. But if you look in the past, ships have been scrapped at a pretty significant age. Pushing that forward to 25 years looks interesting. But what are your expectations, [given] what you said in the report today, near term the forward scrapping age is going to be? And when do you think you'll see that ships are being scrapped at 25?

**Anders Onarheim *BW LPG Limited - CEO***

I would say that with the current strong market we haven't seen anyone sending any ship for demolition. So far, there are (inaudible) which pay a premium to the demolition prices. So I don't know if those premiums are there, we don't expect any demolition. But

obviously, with all the ESG focus and so forth and new technologies coming, I'm sure that that picture might be quite different a year from now.

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**Operator**

(Operator Instructions)

We have come to the end of today's presentation. Thank you for attending BW LPG's fourth quarter 2019 financial results presentation. More information on BW LPG is available online, at [www.bwlpg.com](http://www.bwlpg.com). Goodbye.

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**Anders Onarheim *BW LPG Limited* - CEO**

Thank you very much from our side also.

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