THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

BWLPG.OL - Q3 2017 BW LPG Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 23, 2017 / 9:00AM GMT

## CORPORATE PARTICIPANTS

**Martin Ackermann** *BW LPG Ltd - CEO*

**Elaine Ong** *BW LPG Ltd - CFO*

## CONFERENCE CALL PARTICIPANTS

**Eirik Haavaldsen** *Pareto Securities - Analyst*

**Peder Jarlsby** *Fearnley Securities - Analyst*

**Anders Karlsen** *Danske Bank - Analyst*

**Lukas Daul** *ABG Sundal Collier - Analyst*

## PRESENTATION

**Martin Ackermann** *- BW LPG Ltd - CEO*

Welcome everyone to the presentation of BW LPG's results for the third quarter of 2017, the financial period ending 30 September. I'm as always joined by our CFO, Elaine Ong. We appreciate your interest in our results and encourage your queries at the end of the call.

Third quarter of 2017 was the most challenging quarter since 2009 as VLGC rates averaged $7,600 per day, or $22 per ton on the benchmark Baltic route. Against this weak market backdrop, BW LPG generated daily earnings of $10,790 per day on its spot fleet and fleet-wide time charter equivalent earnings of $15,200 per day.

Freight rates have improved in the fourth quarter and currently stand at $30 per ton, driven by the emergence of workable arbitrage economics on the back of rising crude oil prices and very strong Indian LPG demand.

Turning to slide 4, we review the financial highlights of the third quarter. The Company recorded a loss due to falling spot rates and weaker fleet utilization. We generated net revenue of $70 million based on daily rates of $15,200 for the VLGC segment and $13,600 from our LGCs, with total contract coverage of 26%.

EBITDA came in at $18 million, 55% lower quarter on quarter. We generated a net loss of $27 million, or $0.19 a share.

Our book value leverage remained stable at 55% and below the upper bound of our 40% to 60% target.

In October we established our joint venture with Global United in India. The two VLGCs owned by the JV will both be converted to Indian flag by the end of the year to secure Indian employment.

In November we signed a term sheet for a new $150 million five-year senior secured terminal, with a view to refinancing our existing $150 million unsecured facility which is coming due in March 2018. Elaine will speak more on this later on in the presentation.

I'll now turn to slide 5 for an overview of our commercial performance in the third quarter. TCE rates on our VLGC fleet averaged $16,200 per day in Q3 basis available days with a contract coverage of 26%. Our LGC fleet generated TCE rates of $14,300 per day for the quarter based on available days.

Focusing on our VLGC chartering performance, our COA portfolio accounted for 7% of VLGC revenue days and generated TCE rates of $34,560 per day.

Our COA coverage was slightly lower this quarter relative to our previous guidance due to the Hurricane Harvey, but we expect COA coverage to bounce back to roughly 500 days in the fourth quarter. We do not have any fixed rate COA coverage heading into 2018.

Our time charter portfolio accounted for 19% of the VLGC revenue days with a blended time charter rate of $31,270 per day because of some short-term charters and expiring legacy contracts.

Our spot fleet generated $10,790 per day based on a utilization rate of 82% and calculated as revenue days divided by calendar days. This utilization figure also takes into account slow steaming to provide our investors with the most accurate depiction of the true utilization of our fleet. In other words, 88% commercial utilization, which includes 7% waiting and 5% slow steaming up to the 100.

Switching to LGCS, we operated roughly 55% of our ships on time charter and the remainder on the spot market. Our total coverage for 2018 stands at 12% for the entire fleet.

Now switching to slide 6, we see the global fleet of VLGCs stands at 259 vessels, after growing by 7 vessels in third quarter and by 19 year to date. No vessels were scrapped during the quarter and options for two additional new buildings under a previously announced order were exercised. A further two vessels are set for delivery in 2017 with 10 delivering in 2018 and 14 vessels in 2019. Our VLGC market share is 18.1%. Including LGCs and new buildings, our total fleet comprises 53 vessels with an average age of seven years.

On slide 7 we provide an overview of seaborne LPG trade in the third quarter. Seaborne LPG trade expanded by 5% year on year in Q3 as strong Indian and North Asian import growth more than outweighed declines in Latin American and European imports. US seaborne LPG export volumes were 24% higher year on year, reaching 6.7 million tons, while Middle Eastern LPG export volumes continued their decline, falling 9% year on year to 9.6 million tons.

Seaborne volumes remained steady quarter on quarter, but cargo calculations and disruptions to planned exports out of the US Gulf Coast due to Hurricane Harvey adversely impacted trade.

Turning to slide 8. We have altered how we illustrate the US LPG supply/demand balance due to recent changes to EIA's reporting on hydrocarbon gas liquids. We now only show production, consumption and seaborne exports to provide a clear view of each. For historical statistics up to 2016, we present data from the Argus Statistical Review for production and consumption and from Waterborne LPG for seaborne exports.

In 2017 we expect total seaborne US LPG exports of 28.8 million tons, or growth of 14% year on year. By 2018, we model LPG production growth of 7% and domestic consumption growth of 1%. We thus expect seaborne US LPG exports to grow by 7.5% to 31 million tons.

We also expect that the US market will require a higher overall level of LPG stocks through 2018 to avoid repeating what happened in 2017 when domestic US LPG prices strengthened too much, rendering US LPG uncompetitive for placement in international markets and leading to cargo cancellations.

Given our incremental US LPG export growth forecast of 2.2 million tons next year, we believe that this can generate demand of roughly 10 VLGC equivalents, which would match gross VLGC fleet growth next year. Our export forecast may increase, should the US LPG market require a smaller inventory build than what we model and will be dependent on actual domestic production and consumption growth rates.

With that let me turn you over to CFO Elaine Ong, who will walk you through the financial position and our results.

---

**Elaine Ong** - *BW LPG Ltd - CFO*

Thanks Martin. Starting with our income statement on slide nine, our net revenue for the quarter was $70 million compared to $80 million in the same quarter last year, despite a larger fleet. This is mostly due to lower spot rates and lower fleet utilization.

Charter hire expenses for the quarter decreased as we operated one less charter in the VLGC. Chartering expenses will decrease in 2018 as we will deliver three VLGCs to their owners through the year.

Operating expenses were approximately $6 million higher year on year, reflecting nine more vessels in our own fleet. This was partially offset by reductions from our ongoing cost saving initiative.

We generated EBITDA of $18 million in the quarter compared to $33 million in the same quarter last year.

Finance expenses were higher by $4.5 million due to incremental interest-bearing debt of $401 million year on year.

We recorded a loss of $27 million, or $0.19 per share in Q3.

Turning to slide 10, we provide a snapshot of our balance sheet and cash flow position. We continue to maintain a strong balance sheet with a steady book leverage ratio of 55%, the same through the year, while still generating positive cash flow from operations in a very challenging market environment. We ended the third quarter with cash and cash equivalents of $56 million.

On slide 11 you'll see our net debt position at $1.3 billion at the end of the quarter. Total liquidity, consisting of available cash and undrawn facilities was $311 million at the end of the quarter. We currently have five debt facilities. The first is the $800 million facility with $363 million outstanding and $240 million of undrawn credit.

Second, we have the $400 million ECA facility with $352 million outstanding. Next, we have the $221 million ECA facility with $196 million outstanding.

Our third ECA financing is the $290 million facility with $275 million outstanding. Last, we have the $150 million unsecured revolving credit facility coming due in March 2018 that we're working on refinancing. This facility has $135 million outstanding today and $15 million of undrawn credit.

We signed a committed term sheet for a new $150 million five-year senior unsecured -- sorry, senior secured term loan on 8 November and are currently in the documentation stage with our potential lenders. The facility will be secured by five vessels. We expect the cost for this financing to be Libor plus 150 basis points with an eight-year amortization profile, and we will provide an official update on the status of this refinancing in the coming months.

With that, I'd like to hand it back to Martin to conclude our presentation.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Thank you very much Elaine. So if you'll please turn to slide 12, I will summarize the presentation and then we can open up for questions.

We generated a loss per share of $0.19 in the third quarter on net revenue of $70 million and EBITDA of $18 million.

We time chartered in a VLGC new building for two years and extended the time charter in agreement of the VLGC for one year at a reduced rate. We established our India joint venture and expect both VLGCs to be Indian flagged by the end of the year.

We're close to refinancing our March 2018 facility at the attractive cost of Libor plus 150 basis points. With this refinancing we will have no further debt maturities until November 2020.

Looking ahead, we expect total contract coverage of between 32% to 39% for the remainder of the year and 12% for 2018.

With domestic inventories building back up to near the five-year average and weekly data pointing to a normalization of LPG production after Hurricane Harvey, the US LPG market's focus will now shift to winter heating demand as well as evidence of continued LPG production growth.

Recent data suggests that shale productivity could be levelling out in the short term and that any further efficiency gains will be offset by the increase in marginal cost to achieve them. This is evidenced by the drop in the number of horizontal rigs in service and the flattening of production from new wells per rig in most major shale formations.

While domestic US production of crude oil, natural gas and thus LPG is expected to continue growing, US E&P companies have only hit roughly a third of their 2018 production and stand ready to scale back drilling activity should oil prices retreat to unprofitable levels.

Over the next two years, we forecast the VLGC freight market to find fundamental support from roughly 3% net fleet growth and continued mid-single-digit demand growth per year as well as arbitrage trade support from recovering oil prices owing to OPEC's willingness to extend their production cuts and shale producers' discipline in the short term.

This concludes our results update for the third quarter of 2017 and we appreciate your interest in our market updates. With that, we'll open up the line for questions. Thank you very much.

---

## QUESTIONS AND ANSWERS

**Operator**

We will now begin our Q&A session. (Operator instructions). We'll pause for just one moment to allow everyone an opportunity.

We will take our first question from Eirik Haavaldsen from Pareto Securities. Please go ahead.

---

**Eirik Haavaldsen** - *Pareto Securities - Analyst*

Hi, good morning. Just a quick one on your time charter coverage for 2018 or COA coverage for 2018 which obviously there's no development there since the past quarter. There have been some rumors recently about the one-year time charters. Can you give any indication or comment on what has happened on that front after Q3?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Good morning Eirik and thanks for calling in, as always. There has been -- we have seen some longer-term time charters concluded recently but the levels that we have seen leave some upside on the table in the later years, and with that I mean specifically on optionality that owners would have to give. So on those specific deals we have not wished to participate.

Most contract discussions today still revolve around floating rate structures, so spot market like exposure, except with the difference that in the spot market we'd have no scheduling risk or risk that our ships ultimately end up competing against us as relets, as well as waiting time ahead of the charter. So we haven't felt an urge to secure any coverage in that direction.

We look at floating rate structures with a premium to help contain our scheduling risk and risk premium over the East of Suez market, but there aren't many of those contracts out there at this point in time. I can also possibly say that we can also -- go ahead.

---

**Eirik Haavaldsen** - *Pareto Securities - Analyst*

So that means that if we see one-year time charters now in the market -- I think there have been some perhaps odd fixtures then of around $20,000 or so or even a bit more for one-year time charters, would that not be interesting to you at this point?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

I think that's probably at a level where it starts to becoming interesting and for various reasons the ones that have been concluded, we have not participated in those. But those levels are starting to sound interesting if it's only a 12-month contract and with no optionality attached to it.

---

**Eirik Haavaldsen** - *Pareto Securities - Analyst*

Thank you and just quickly Elaine, could you please repeat the margin on the refinanced or the one you expect to complete shortly? I didn't quite catch it.

---

**Elaine Ong** - *BW LPG Ltd - CFO*

It's Libor plus 150 basis points.

---

**Eirik Haavaldsen** - *Pareto Securities - Analyst*

Fantastic. Thank you very much guys.

---

**Elaine Ong** - *BW LPG Ltd - CFO*

You're welcome.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Thanks for making us repeat the Libor margin again.

---

**Eirik Haavaldsen** - *Pareto Securities - Analyst*

Thanks guys.

---

**Operator**

We will now take our next question from Peder Jarlsby from Fearnley Securities. Please go ahead.

---

**Peder Jarlsby** - *Fearnley Securities - Analyst*

Good morning Elaine and Martin. I was just going to follow up a bit on Eirik's question. In terms of we've seen the rate, particularly in the Western market, have quite solid rates, just to make sure I understood you correctly, you haven't seen any more constructive talks following the rate hike than you did in the third quarter. So there's still nothing out there of interest for you guys?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

I think -- well first of all good morning Peder and thanks for calling in. We don't want to go into details on specific discussions, but we are of course speaking to a number of our current contract partners who we've been working with for many years. So there's definitely a will on both sides to continue contracting, but right now up until recently the gap between let's say bid and ask has been too wide. So discussions are ongoing, but currently it seems like, as I said just before, most contract discussions revolve around the floating rate structures.

**Peder Jarlsby** - *Fearnley Securities - Analyst*

Okay, so there's no change in the mentality from the charterists' point of view, even though rates have been above cash breakeven levels?

**Martin Ackermann** - *BW LPG Ltd - CEO*

I think generally the sentiment for 2018 is more positive than 2017, but of course third quarter has been a tough quarter and that may have caused some uncertainty overall, which is maybe creating a little bit of short-term nervousness right now.

**Peder Jarlsby** - *Fearnley Securities - Analyst*

Okay. A final one on the senior secured. I think you said that you have collateral in five vessels. Do you -- could you give -- talk a bit about -- is this the last unencumbered vessels you have in your fleet, or are there more in there?

Elaine Ong: There's a couple more in there but this facility is going to be financed with five of the younger ships that are unencumbered in our existing pool.

**Peder Jarlsby** - *Fearnley Securities - Analyst*

Okay, and when you say younger, what are we talking about?

**Elaine Ong** - *BW LPG Ltd - CFO*

Well we have a pool of a combination of vessels that are in the 2007 and onwards. I don't have all the details right now, but that's what we can give you.

**Peder Jarlsby** - *Fearnley Securities - Analyst*

Okay, thanks very much. That's all from me.

**Martin Ackermann** - *BW LPG Ltd - CEO*

You're welcome. Thank you very much Peder.

**Operator**

(Operator instructions). We'll pause for just one more moment. We will take our next question from Anders Karlsen from Danske Bank. Please go ahead.

**Anders Karlsen** - *Danske Bank - Analyst*

Good morning. Just wondering, you said you had taken one ship on a two-year charter during the quarter and I was wondering could you say a little bit about the rate structure on that. Is that floating rate or is it a fixed rate?

**Martin Ackermann** - *BW LPG Ltd - CEO*

Good morning Anders. No I -- the short answer to that is no I can't give you any details on the specifics of our time charter rates. But it's generally part of our chartered in fleet renewal and we did see an opportunity to take in a new building from a high-quality yard -- this was from HSI -- at a rate that worked for both parties. As a general comment, we prefer for the ships to be under our control rather than competing against us in the market.

So the same rationale applies to the Berge Ningbo, a ship that has been in our fleet for more than 10 years, and we felt that we could operate the vessel profitably for another year at a new reduced time charter in rate.

---

**Anders Karlsen** - *Danske Bank - Analyst*

Is the new rate on Ningbo plus the redelivery of the Yuyo Spirits the reason for the downtick in charter expenses?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

That's probably getting a touch too detailed on the commentary but we're very pleased with the rates that we have on both Berge Ningbo and Oriental King.

---

**Anders Karlsen** - *Danske Bank - Analyst*

Okay. When did you take on the Oriental King?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

We took her straight out of yard, off the top of my head. It was early October. I'm not exactly sure of the date. But it's accounted for in the days in the back of our presentation.

---

**Anders Karlsen** - *Danske Bank - Analyst*

Okay.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

You can just look at those if you use it in your --

---

**Anders Karlsen** - *Danske Bank - Analyst*

That's fine. Thank you.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

No problem. Thanks for asking.

---

**Operator**

Our next question comes from Lukas Daul from ABG. Please go ahead.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Thank you. Good morning Martin and Elaine. Martin, could you just repeat what you said about the utilization of the fleet, I didn't catch it?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

So I think we are -- we're very detailed on the utilization. So on that we're looking at slide five of our presentation where we say that we have total fleet utilization rate of 82% on the VLGCs and 91% on the LGCs. That number is a combination of fleet availability and commercial utilization. So the comment we made when we talk about utilization is that our commercial utilization figure it also takes into account both slow steaming of 5% this quarter as well as waiting time of 7% this quarter. That gives you a total of 88% commercial utilization for the fleet.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Okay.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Does that make sense?

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Yes it does, so thanks for that. Then sort of extrapolating that utilization into what you are saying about 2018, you are basically saying that the increase in US exports is about to absorb the new VLGCs getting delivered in '18. So my question is what are your utilization projections for 2018 given where we are starting from?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Yes that's a good question. Of course we have that in our model. I prefer not to give that specifically, but it is moving towards higher utilization than what we had in 2017. That's probably as far as I would like to push it.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Okay, fair enough.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Of course, the key reason why we disclose the numbers as such is of course for investors to be -- and you as analysts to look at what is the true utilization and full potential of the fleet, which is of course why we both describe the waiting time and the slow steaming time. I'm not sure all shipping companies do that. I think the norm is probably only to take out the waiting time, but I think it's probably easier for you guys if you have 100 to start with and then you can take out slow steaming.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Yes exactly. That's a good point. So I don't know if you want to discuss where the delta would potentially be, because US exports, okay it's going to absorb the new capacity, and then where are we going to see a more positive development to lift the utilization curve? That I guess really is the question here.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Yes. We see net fleet growth of 3% over the next two years and demand growth of say 6% per year. So fundamental tightening of 2% to 3% per year through 2019 is probably the way to look at it.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Okay, good. Then on the COAs, a while back it seemed like the LPG shipping market cannot live without COAs, and here we are two years later and your COA's coverage is coming down and you are fine with that. Is somebody else bidding for what you used to have in COAs at different terms or is it just everything being absorbed in the spot market?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

I think yes and no. Most of our COAs are, as far as I'm aware, just expiring at the end of this year, and we will have to find new ways of servicing those existing contract partners.

Then there has been a development in the market where most discussions have been revolving around floating rate structures because there has been too wide a gap between bid and ask and floating rate structures have seemed to be the way to go about that.

But, as I mentioned before, what it provides us is more or less spot market exposure but added with risk of scheduling and risk of waiting and most important probably, leaving ourselves as relets in the market. We just haven't found real attraction to any of those arguments recently.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Okay. Finally, your LGC spot performance is better than your VLGC spot performance, looking at the daily earnings. Could you sort of elaborate a little bit on that?

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Yes, that's a good point. I think we have a very small LGC fleet so it's a much smaller market, so of course here it's been short-term time charters that's been converted into spot and I think the rates are mostly a reflection of that. This market is equally under pressure as the VLGC market, but of course it's with much less liquidity, so I think it's -- that's probably the reason why we see these differences.

---

**Lukas Daul** - *ABG Sundal Collier - Analyst*

Okay, thank you very much and have a good day.

---

**Martin Ackermann** - *BW LPG Ltd - CEO*

Thank you Lukas.

**Operator**

We will now take questions from the webcast.

**Elaine Ong** - *BW LPG Ltd - CFO*

The first question comes from Axel Styrman from Nordea Markets. What is your scrapping estimate for 2018?

**Martin Ackermann** - *BW LPG Ltd - CEO*

Hello Axel. Thanks for calling in, or thanks for asking us on our webcast. I think we have two to four -- two to four ships estimated for scrapping next year. I'm struggling to see if I can find it in my notes somewhere. I think I had it somewhere. Yes two to four ships. Was that the only question?

**Elaine Ong** - *BW LPG Ltd - CFO*

Another question from Gautam Khurana from Drewry UK -- Drewry Maritime Financial Research. You talk about an increased level of LPG arbitrage following the rise in crude oil prices. Could you provide some color on this?

**Martin Ackermann** - *BW LPG Ltd - CEO*

Well, rising Brent prices lifted the Asian propane price and that supported some arbitrage recently and I think that's probably the most color we can go into. Otherwise we should talk about our outlook based on production growth and then you're looking at the US production growth again where we're saying 7%, which is a little bit lower than EIA's recent numbers of 8.6%.

We think the main four factors driving that is the flattening and declining horizontal rig counts in the major basins and less productivity in terms of well drills per rig and cost inflation in the Permian. Of course most of the shale producers and E&P companies are emphasizing returns over growth now. So for these reasons we still see strong production growth next year but probably at a lower rate than what the EIA is forecasting.

If US production growth rising to 7% from 3% year on year, we don't exactly think that sounds pessimistic to us, and if our forecasts turn out to be too conservative, we have 90% of our VLGC revenue days on the spot market next year. So we do stand to benefit quite greatly from strong US production as do all VLGC owners. But a base case in which incremental US exports alone balance the order book seems to be just fine for us after a three-year strong fleet growth of 50%.

**Operator**

Thank you. There are no further questions.

**Martin Ackermann** - *BW LPG Ltd - CEO*

Yes, I think that's -- I know the question was mostly about [ER] but we've seen lately that the propane prices have come down a bit, but the back end of the curve is still holding up. So I think the market overall is taking a constructive view on Asian propane price.

**Operator**

As there are no other questions I would now like to hand the conference back to today's presenters. Please continue.

**Martin Ackermann** - *BW LPG Ltd - CEO*

Thank you very much. So this concludes our result update for the third quarter of 2017 and we appreciate your interest in our market updates as always and we'll speak to you next time. Thank you very much.