

THOMSON REUTERS STRETEVENTS

# EDITED TRANSCRIPT

BWLPG.OL - Q3 2015 BW LPG Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 19, 2015 / 01:00PM GMT



## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Michael Webber** *Wells Fargo - Analyst*

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

## PRESENTATION

---

### Operator

Welcome to the BW LPG third quarter 2015 financial results presentation. We will begin shortly.

You will be brought through the presentation by Martin Ackermann, CEO and Elaine Ong, CFO of BW LPG. They'll be pleased to address any questions raised after the presentation.

(Operator Instructions) or type your question into the chat box on the website. You will receive further instructions as required.

We will begin the presentation now.

---

### Martin Ackermann - BW LPG Ltd - CEO

Thank you very much. Welcome everyone to the presentation of BW LPGs results for the third quarter of 2015, the financial period ending 30th of September.

I'm joined here by our CFO, Elaine Wong. We appreciate your interest in our results and encourage you to raise any queries at the end of the call.

The third quarter of 2015 was the strongest quarter on record for BW LPG building on the momentum from second quarter. Middle eastern and US LPG export growth in excess of 10% as well as continuing growth in Asian import demand were the main contributors of strength in the VLGC market in the past quarter.

Turning to slide four, we're pleased with our performance in third quarter 2015. We achieved record profits levels and generated strong operating cash flows. We have a market leading fleet growing to 45 owned and operated vessels with full delivery by the end of 2016.

One VLGC, the BW Libra was delivered in third quarter and subsequent quarter end, the BW Orion was delivered to us on the 15th of October and the remaining two, Hyundai newbuildings are to be delivered in second quarter of 2016 on time and on budget.

The 4 DSME newbuildings are set to be delivered in the second half of 2016. Lastly, BW LPG entered into a \$100 million one-year revolving credit facility with OCBC which Elaine will discuss with you later.

Turning now to slide five. We provide financial highlights for the third quarter of 2015. Time chart equivalent earnings were \$182 million, an increase of 14% relative to third quarter 2014. This growth was driven by favorable market conditions and a bigger operating fleet.

Our EBIDTA was \$133 million, 22% higher year on year. Net profit was \$106 million at 21% increase year on year. BW LPG continues to deliver value to shareholders and this is illustrated by a rolling 12 month earnings per share of \$2.30 which is around 20 NOKs at today's rate equating to an annualized earnings yield of 37% of the quarter end share price.

Annualized return on equity of 29% despite leverage of only 46%. We're very pleased to have achieved record profitability and spot TCE rates of 104 thousand per day on our VLGC fleet.



I'll now turn to slide 6 for an overview of the LPG market. On slide six we see the US propane production is set to decrease year on year for the first time in fourth quarter of 2015. While key LPG producing regions such as the Permian, Marcellus and Utica have been resilient to lower oil and gas prices, others such as the Eagle Fort have experienced a meaningful decline in production.

Mont Belvieu propane prices have remained elevated, underpinned by the slowdown in production, increase in exports and lower than average inventory builds and an anticipated pickup in domestic heating and crop drying demand. However, inventories continue to increase and have now surpassed 100 million barrels.

Lower than expected domestic consumption during winter will leave the US with too much propane in storage that will need to be exported in the absence of alternative uses. As such, we expect the Enterprise expansion hitting full flow in early Q1 2016 and the P66 terminal coming online in the second half of 2016 to eliminate any export constraints.

Turning to US production and exports forecast with slide seven. Consensus 2016 US LPG production growth forecast have decreased to 2% while export forecast was settled in the mid 20 million ton range.

US LPG exports and incremental volumes to Asia will be the main drivers of the VLGC market in 2016. Year to date, approximately 35% of US LPG exports have gone East, 20% were placed in the European markets and the remaining 45% destined for Latin America and the Caribs.

Basis the consensus export forecast 25 million tons and our internal forecast of the percent share that will head East in 2016, we estimate that 2016 US exports will generate demand for approximately 90 VLGCs.

This equates to 3.6 VLLGs per million tons of 2016 US LPG exports and also reflects 10% Panama Canal transit in 2016, an increasing share of European exports ex-Marcus Hook and a small percentage of US West Coast exports to Asia.

Factoring in modest, additional growth in Middle Eastern and West African exports, as well as poor congestions and weather delays, we expect VLGC fleet utilization to decline to the mid 80% levels during 2016.

On slide eight you can see that across the fleet of 35 LGCs, we achieved TCE rates of \$52,600 per day for the third quarter compared with \$53,600 per day for the same quarter last year. On our LGC fleet TC rates improved significantly to \$44,200 per day for the quarter compared to \$24,800 per day for the same quarter last year. EBITDA continues to trend well above 2013 and 2014 levels.

On slide nine we see the fleet of the VLGCs on water currently stands at 193 with 30 VLGCs having been delivered year to date and a further six are expected in the remainder of the year.

Our fleet continues to grow with six newbuildings delivering from Hyundai and DSME over the next 12 months, bringing us to a fleet size of 45 vessels by the end of 2016, maintaining our market leading position.

As 42% of the fleet, the VLGC order books remains formidable. We have also seen a notable uptick in newbuild ordering. The ordering has been driven by three factors: speculation on a continued strong market, the desire of charterers to ensure capability to transit the Panama Canal and new entrance into the sector both from a ship owner and yard perspective.

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

---

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

Thanks, Martin. Looking at our income statement on slide 10, our TCE income for the quarter was \$182 million dollars compared to \$159 million dollars in the same quarter last year.

Charterhigher expenses for the quarter decreased due to the redelivery of two chartered in vessels. Operating expenses increased to \$31 million consistent with the increase in fleet size.

We generated EBITA of \$133 million in the quarter, which is 22% higher than the \$109 million dollars achieved in the same quarter last year. Finance expenses are higher at \$5 million dollars due to the drawdown of debt from the revolving and ECA facilities related to the delivery of our newbuildings.



Net profit for the quarter is \$106 million dollars compared with \$88 million dollars in the comparable quarter of last year. Slide 11 provides a snapshot of our balance sheet and cashflow position. We have a strong balance sheet with a leverage ratio of 46% and assets that have grown to \$2 billion dollars with the delivery of the BW Libra during the quarter as well as a \$57 million dollar progress payment made on our newbuilding program with Hyundai and DSME.

Operating cash flow increased in the quarter to \$129 million dollars compared to \$125 million dollars in the same quarter last year. Net cash available at the end of the quarter was \$83 million dollars.

On slide 12, you will see our net debt position was \$800 million at the end of the quarter. Available cash and undrawn facilities were \$91 million.

We currently have three debt facilities. The first is the \$700 million facility consisting of the \$200 million revolver and the \$500 million term loan under which \$605 million was outstanding at quarter end.

Secondly, we have the \$400 million ECA facility under which \$285 million was drawn down at quarter end. Lastly, we entered into a \$100 million unsecured 1 year revolving credit facility with OCBC in October at an all in cost of 150 basis points.

We constantly seek to optimize our capital structure and will thus raise cost effective debt financing when available. We will not hold unnecessary large sums of cash on our balance sheet and view this revolver as a great source of capital for our operating model.

We are currently evaluating a number of attractive financing options for our remaining five uncommitted newbuildings and will announce our final financing decision by Q2 next year.

With that I would like to hand it back to Martin to conclude our presentation.

---

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

Thank you, Elaine. If you please turn then, to slide 13 I will summarize the presentation after which we will open for questions.

The LPG export market continued to grow in third quarter 2015 led by Middle East volumes to Asia. US volumes were predominately placed in Europe and Latin America.

We expect the main drivers of demand to be petro chemical consumption and retail usage. PDH capacity will expand in China and Korea while Korea and China will drive price-sensitive feedstock switching demand. Retail demand growth will be driven by China, India, and Indonesia. In India and Indonesia specifically retail demand accounts for 90% of LPG consumption while Chinese retail imports should increase by a modest multiple of GDP growth.

The VLGC order form remains high at 42% of the delivered fleet with 18 orders announced in the last three months alone. This development will invariably lower the long term of the spectrum and we have already began feeling the effects of accelerated newbuildings celebrated in Q4, in the form of discount to Baltic for maintenance yard voyages and the general buildup in the targets later.

We paid a dividend of \$0.78 per share for first half 2015 in Q3, equating to an annualized dividend yield 25% on the quarter end share price. We generated earnings of \$0.79 per share for the third quarter 2015.

To conclude, a brief comment on our outlook. While we expect continuing market growth, we also anticipate heightened volatility in 2016 due to the combined effects of a heavier vessel delivery schedule, sharp growth and export capacity and the more pronounced inter relationship of energy prices, production and demand growth.

US export terminal fees and freight rates will need to adjust more frequently and thus, by definition, be more volatile than they have been recently in order to facilitate trade and accommodate the continuous flow of large incremental export volumes.

With shipping no longer being a constraint to the arbitrage trade, it would be reasonable to expect that shippers would capture smaller shares of the profit. We have seen signs of this development in Q4 as the West/East arb window has been firmly open since the beginning of November, yet fixtures have been concluded at levels that are lower than the implied Houston-Chiba Baltic equivalent.



We have completed a thorough review of our operations and formulated a five year strategy that is geared towards maintaining our market leading position in the VLGC segment and introducing market-led and cash flow targets in setting our charter portfolio allocations.

This concludes our results update for the third quarter of 2015. We appreciate your interest in our market updates and I'd like to open the line for questions now. Thank you.

## QUESTION AND ANSWER

---

### Operator

Thank you. We will begin our Q&A session. (Operator Instructions) or type out your question in the chat box on the website. We will take questions from the conference call first.

Your first question comes from the line of Mike Webber from Wells Fargo, your line is open, please go ahead.

---

### Michael Webber - Wells Fargo - Analyst

Hey guys, and congrats on the good quarter. Could you talk a bit more to the drop in utilization to the mid-80s you're expecting in 2017 relative to where you think utilization has been to date in 2015 and then the fourth quarter?

---

### Martin Ackermann - BW LPG Ltd - CEO

Thanks, Mike. Thank you for listening in.

Well I think we can go into the details on this offline but I think generally our - we make an internal modeling on this based on, of course, the supply side from the US reduction and of course all the ships being delivered both here towards the end of 2015 as well as the remaining orderbook for 2016.

The conclusion of that is the number in the mid-80s and it's difficult for me to go into further details at this point with our model but you know you can have a chat with John on this, offline.

---

### Michael Webber - Wells Fargo - Analyst

Got you. Thank you. And my next question is relative to your time charter exposure in 2016. In 2015, based on this exposure, there's been some under performance on your OTCs relative to some of your peers.

So what's your thought processes as earnings ease a bit in 2016 that under performance could end up reversing if we end up with a softer rate environment. Can you talk to what percentage of your fixed revenue days you have fixed out or just give some additional color on that time charter coverage?

---

### Martin Ackermann - BW LPG Ltd - CEO

You mentioned, specifically, time charter coverage but I'm assuming you're referring to contract coverage as a whole, both our COA and PC. We try to - yes - and then we provide guidance to that in the appendix of our presentation.

We have - I think the numbers are there already so there's no point in me reiterating it but we have, of course, looked closely at our contract portfolio during the quarter and then guided it as far as we have and we will continue to obtain more charter coverage when the rates are than to be able to do so.

---

### Michael Webber - Wells Fargo - Analyst

Okay, that's it for me, guys. Thank you.



---

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

Thanks, Mike.

---

**Operator**

Your next question comes from the line of Eirik Haavaldsen from Pareto Securities, your line is open, please go ahead.

---

**Eirik Haavaldsen - Pareto Securities - Analyst**

Yes, hi guys. Two questions, really, for me. One, on the spot rates, has there been any change in how you run your ships spot? I mean, it was a remarkable quarter and then secondly on your coverage, you haven't increased your fixed PCM, then I talk about your time charter coverage over the past couple of quarters really.

What's the reason behind that? Is this that you believe you can get charter at higher levels than what you have now or just because you feel it's more appropriate to have them open now?

---

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

I think, thanks, Eirik. And thank you for your positive comments on our results. On the spot performance improvement I think there are three main reasons for our performance this quarter.

Firstly, we concluded some very strong spot fixtures at the beginning of the quarter and where our vessels were quite well positioned to capture the value of the market and secondly, we also had a greater portion of our younger vessels operating in the spot market. So we were able to achieve the - somewhat better TCEs relative to market.

And lastly, starting in Q3 and going forward, we will neutralize the impact of our COA portfolio that it had on our spot performance reporting, find more accurately allocating costs to their appropriate barge type.

So, by doing that, we're also classifying certain repositioning barges performed in order to optimize our COA program under the COHR categories and the impact of this change going forward will be that less fight days and more COA days.

Whenever COAs repositioning voyages occur typically in a tight market. This should give you and our analysts a much clearer appreciation and be able to benchmark our apple to apple amongst our peers.

And our goal with these adjustments is to make it very easy and more straight forward to model the company and not to have to apply an arbitrary discount spot when forecasting our financials.

So that covers your spot question. So to answer your question on our optimal charter portfolio mix. I think we'll maintain - we'll always try to maintain a balance charter portfolio with blue chip customers and look into increasing fixed income exposure for periods where time categories exceed the internal spot rate estimates and of course for projects with high strategic value.

So that's one element and the most important driver of our charter portfolio would be our internal market view while also incorporating minimum cash flow targets. So our charter portfolio will vary over time and reflecting the cyclical nature of the market.

So we don't intent to send rigid allocation targets officially on this call and then we don't want to enter time charter contracts that disproportionately sacrifice too much near term smart market upside either in exchange for the long term medium raise.

So of course, we followed the marks closely and when we look into 2016 we will look to increase coverage at the right rate levels.

---

**Eirik Haavaldsen - Pareto Securities - Analyst**



Yes, if I may, I have one follow-up there, I mean the global LPG seaborne market is growing by quite a lot in the next year or two and has already grown a lot but do you feel you have the size of your fleet, you feel it's appropriate to handle the COA requests you getting now?

I mean you're COA there are increasing I imagine customers are on tier to increase over there coverage so you know you have six more newbuilds, is that going to be enough to cover your needs to service your clients as well as you would like to and have in the past?

---

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

Yes, I think I would say yes to that question and I think we have a good size now. With 45 ships by the end of next year, we are well positioned to increase our charter portfolio.

---

**Eirik Haavaldsen - Pareto Securities - Analyst**

OK. And then, so how do you think about your time charter investors that you - I believe you have a series of vessels that you have purchase options for, first half next year. Are you going to roll those options for as long as possible? Is that the way to think about it or are you going to declare them [as during the money].

---

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

Yes, I think we always very pragmatically look at the - our time charters and of course, follow the asset price cycle closely to see if they're in the money and we have now seven vessels with purchase option and five of those have slight dates middle of the year, next year.

But we don't have any plans, currently, to exercise any but of course, if we do, we'll communicate that to the market and rest assured that we are keeping a constant look on the right pricing, on our ships. Whether they're on TC [into us] or whether we own them directly. We constantly try to have a balance.

---

**Eirik Haavaldsen - Pareto Securities - Analyst**

Okay, one final for me, if I may. And this one is maybe for Elaine but there's been a slight change in terms of how you book your bunker cost and that's also contributed to the increase in COA rates.

Is there any risk that affect will be reversed or is that the you know floor, effectively, what you've provided now for your COA rates.

---

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

No, I don't think that's going to be an impact. I don't think there's been a change in the way we book our bunker costs.

---

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

What change are you referring to Eirik?

---

**Eirik Haavaldsen - Pareto Securities - Analyst**

That there's been some speculation, at least, I also parts of why your COA rates, your guidance going forward is higher is also due to a change in bunkers, at least is why this...

---

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

We have read one report from one analyst, they're speculating on this but this is you know something that stand on their own speculation. This is not something that we have said and this must - you have to speak to that analyst about these comments.



We have really not changed anything in the way we report. We have looked at contract portfolio very closely over the quarter and then we have looked at the voyage process. The voyage process is, of course, an element of that duration of the lengths of the - of each of these voyages. The expected uptake by our charters under the various contracts.

And all of this is reflected in the guidance table that we put in the appendix in the presentation but the bunker caused this - you have to speak to the people that speculate on this, it's not us.

---

**Eirik Haavaldsen - Pareto Securities - Analyst**

Okay, I thought I would speak to you. Thank you very much, thank you.

---

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

Thank you.

---

**Operator**

Thank you. 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 all again for your attention and for the ongoing support of BW LPG and we're very glad to continue to deliver our solid financial performance.

And if you have any further questions please notify our investor relations department by our email link or on our website or call any one of us and we're standing by for questions. We'll speak to you next quarter. Thank you very much.

---

**Operator**

We have come to the end of today's presentation. Thank you for attending BW LPGs third quarter 2015 financial report presentation. For more information on BW LPG is available online at [www.BWLPG.com](http://www.BWLPG.com). Goodbye.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2015 Thomson Reuters. All Rights Reserved.

