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BWLPG.OL - Q4 2015 BW LPG Ltd Earnings Call

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PRESENTATION

Operator

Welcome to the BW LPG's fourth quarter 2015 financial results presentation. We apologize for the late start of today's call. You will be brought through the presentation by Martin Ackermann, CEO and Elaine Ong, CFO of BW LPG. They will be pleased to address any questions raised after the presentation. We will begin the presentation now.

Martin Ackermann - BW LPG Limited - CEO

Thank you very much. Welcome, everyone, to the presentation of BW LPG's results for the fourth quarter of 2015, the financial period ending December 31. I am joined here by our CFO, Elaine Ong. We appreciate your interest in our results and encourage your queries at the end of the call.

The fourth quarter of 2015 was strong by historical standards, yet VLGC freight rates on a per-tonne basis were 20% lower year-on-year, stemming from an enlarged fleet, less than average winter heating demand in Asia and Europe, and more competition from naphtha and steam crackers. The VLGC market has retreated further through Q1, in line with seasonal patterns, but still remains firmly above cash flow generative levels.

Turning to slide 4, we review the highlights of 2015. We achieved record revenue and profit levels as well as total shareholder returns in excess of 70%. Net revenue was $626 million and EBITDA was $430 million, 16% and 27% above 2014 respectively. This resulted in profit after tax of $326 million, 28% higher than 2014.

The Board has recommended a final 2015 dividend of $0.68 per share to be paid in the second quarter of 2016. This represents a payout of 50% of net profit after tax for the period and a return to our stated dividend policy of 50% profit after tax.

In December 2015 we acquired a 15% stake in Aurora LPG, a VLGC shipowner with three vessels on the water and six 2016 newbuildings using a mix of cash and shares previously held in treasury.

The BW Orion was delivered to us on October 15, and the remaining two Hyundai newbuildings are to be delivered in second quarter 2016, on time and on budget. Three DSME newbuildings are set to be delivered in Q4 2016, and the last in January 2017.

Turning now to slide 5. Here we provide financial highlights for the fourth quarter of 2015. Net revenue was $160 million, an increase of 15% relative to fourth quarter 2014. This growth was driven by high exposure to a spot market that was stronger than our contracted rates and a bigger operating fleet. Our EBITDA was $111 million, 27% higher year-on-year, and our net profit was $82 million, a 26% increase year-on-year.

BW LPG continues to deliver value to our shareholders, mainly illustrated by two factors, full year 2015 earnings per share of $2.44, which is around NOK21 at today's rate, equating to an annualized earnings yield of 29% on the year-end share price, and our annualized return on equity of 28% despite leverage of only 43%.

Now I'll turn to slide 6 for an overview of the LPG market. On slide 6 we see a snapshot of the EIA's outlook for LPG balances in the US. Following the dramatic decline in oil prices, concerns have been raised over the ability of the US to maintain the pace of LPG production growth that has led to it becoming the world's largest LPG exporter.

In the absence of excess LPG production over domestic consumption needs, the US will need to drawdown from its LPG inventory stockpile in order to export sufficient LPG to keep the VLGC market at healthy rate levels. Despite the fall in hydrocarbon prices, the EIA forecast LPG production of 75.3 million tonnes in 2016, which is a 2% increase year-on-year and consistent with a 2.4% increase in propane production year-to-date. The EIA also forecast a 2.5% decline in domestic consumption to 51.8 million tonnes.

The EIA's forecast of 25.2 million tonnes of net exports in 2016 would thus require an inventory drawdown of 1.7 million tonnes down to 10.1 million tonnes. If we were instead to assume that LPG production would decline by 1% this year, this will require an inventory drawdown of 3.9 million tonnes, taking inventories well below the five-year average level of 9.2 million tonnes.

Propane inventories have declined by 32% in the first two months of the year, slightly more than the five-year average drawdown of 29%. With a warmer than average winter and corresponding lower heating demand, the accelerated pace of drawdowns is likely evidence that inventories have been called down for exports.

Now turning to slide 7. On slide 7 we provide an overview of the seaborne LPG trade in 2015. Total LPG trade increased by 10% last year to 85 million tonnes, and factoring in an increase in [long-haul] trade, VLGC tonne-mile demand grew by roughly 20% in 2015, outpacing volume growth by a factor of 2.

The 3% export growth in the Middle East was driven mainly by increases in UAE and Iranian volumes, bringing total exports to 35.6 million tonnes.

Seaborne US LPG exports grew by 49% year-on-year to 20.5 million tonnes. This was driven by increases from Enterprise, Targa and Sunoco as well as the startup of the Nederland terminal at the beginning of last year. North African and European export volumes remain stable at roughly 8 million tonnes.

In terms of imports, China surpassed Japan as the world's largest LPG importer in 2015, with growth of 62% led by increased PDH and retail demand. Indian and Indonesian imports grew by 21% and 9% respectively, led entirely by retail demand. Japanese and Korean imports declined due to demand substitution from LPG to piped gas in Japan, and less price-sensitive cracker feedstocks switching demand in Korea as naphtha prices fell in line with crude oil.

Now turning to slide 8. On slide 8 we can see that the biggest component of LPG consumption is the retail sector, representing 44% of total demand, while Asia is the most important region, accounting for 36% of total consumption. We expect LPG demand to increase in the chemical sector, offset by a moderate decline in auto gas demand.

LPG for use in power generation could experience a slight uptick in the tariffs [and] Southeast Asia for projects less than 250 megawatts, but will face competition from natural gas in larger-scale applications.

Focusing now on the composition of LPG demand, in the top five importing countries we see that retail accounts for 62% of the total consumption and is most prevalent in Indonesia, India and China, our three hydro countries. The composition of demand is more balanced in Japan and Korea.

We expect long-term LPG imports to decline steadily in Japan, due to demand displacement from increased city gas consumption, offset by some retail growth and LPG spiking to increase the calorific value of imported LNG. Korean demand will increase slightly due to the startup of SK Gas' 600,000 tonne PDH plant in Ulsan, offset by lower cracker feedstock switching as long as naphtha prices remain low.

On slide 9 we see the fleet of VLGCs on the water currently stands at 205 vessels, with seven VLGCs having been delivered year-to-date and a further 39 vessels expected in the remainder of this year. Our current fleet of 34 owned and operated VLGCs account for 17% of the total VLGC fleet. We expect a slight delay in the delivery of DSME newbuildings, with the last delivery now expected in January 2017.

At 35% of the fleet, the VLGC order book is shrinking as more vessels hit the water, but deliveries will still pressure rates in 2016 and 2017. No new orders have been placed this year and the current order book should result in net fleet growth of 23% and 9% in 2016 and 2017 respectively.

On slide 10 we will focus on our commercial performance for the quarter. TCE rates across our fleet of 35 VLGCs averaged $43,500 per day in the fourth quarter and $46,000 per day throughout 2015. On our LGC fleet, TCE rates improved to $44,100 per day for the quarter and $38,600 per day for the full year.

Focusing on our VLGC chartering performance, we recorded 1500 total CoA days or 48% of VLGC revenue days in line with the probable minimum guidance we provided to you in our last quarterly presentation. Our CoA TCE rate of $41,900 per day was slightly less than our guidance of $43,000 per day due to lower than expected realized rates on the floating element on some of our CoAs.

Time charter days came in at 856, or 27% of VLGC revenue days, as we increased period cover during the quarter. Our blended time charter rate of $37,900 per day was higher than our previous guidance of $37,400 per day as we were able to enter into time charters at rates that exceeded those of our existing charters.

Our spot fee generated a daily rate of $55,600 per day and accounted for 25% of our VLGC revenue days. The delta relative to the Baltic is mainly attributable to having locked into longer voyages in anticipation of continued weakness in the markets during mid-November, only for spot rates to stabilize and recover somewhat towards the end of the quarter. Overall, VLGC revenue days for the quarter were lower than previous guidance due to increased [off-hire] and a slight delay in the delivery of the BW Orion.

Switching focus to the LGC fleet, we recorded 256 time charter days as we increased our period exposure during the quarter. Our spot LGC fleet accounted for 39% of revenue days and generated a robust daily rate of $57,400 per day, driven largely by capturing the value of the ability to transit the Panama Canal early in the quarter before the arbitrage window closed.

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

Elaine Ong - BW LPG Limited - CFO

Thanks, Martin. Looking at our income statement on slide 11, our TCE income for the quarter was $160 million, compared to $139 million in the same quarter last year.

Charter hire expenses for the quarter decreased due to the redelivery of one vessel. Operating expenses increased to $30 million, consistent with the increase in fleet size.

We generated EBITDA of $111 million in the quarter, which is 26% higher than the $88 million achieved in the same quarter last year. Finance expenses are higher at $5 million due to the drawdown of debt from the revolving credit and ECA facilities related to the delivery of our newbuildings. Net profit for the quarter was $82 million, 30% more than the $63 million (sic - see slide 11, "$65 million") in the comparable quarter last year.

Slide 12 provides a snapshot of our balance sheet and cash flow position. We have a strong balance sheet with a leverage ratio of 43% and an asset base that exceeds $2 billion, with the delivery of one vessel during the quarter. $103 million in progress payments were made on our newbuilding program with Hyundai and DSME.

Operating cash flow decreased in the quarter to $128 million from $131 million in the same quarter last year. Cash and cash equivalents at the end of the quarter was $94 million.

On slide 13 you will see our net debt position was $793 million at the end of the quarter. Available cash and undrawn facilities was $237 million. We currently have three debt facilities, the first is the newly upsized $800 million facility under with $507 million were outstanding at quarter-end. Secondly, we have the $400 million ECA facility under which $330 million was drawn down at quarter-end.

Lastly, we have the $100 million unsecured one-year revolving credit facility under which $[50] million was outstanding at quarter-end. We are currently in the documentation phase for the financing of our remaining five uncommitted newbuildings which will be completed by the end of Q2 this year.

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

Martin Ackermann - BW LPG Limited - CEO

Thank you, Elaine. If you would please turn to slide 14, I will then summarize the presentation after which we will open for questions.

We generated earnings per share of $2.44 in 2015 and the Board has recommended a final dividend of $0.68 per share, equating to a full-year payout of $1.46 per share and marking a return to our stated dividend policy of 50% of profits after tax. This decision was based on increased uncertainty around the growth prospects of the global economy in the context of a depressed commodity environment, the normalization of the freight market and to be well positioned to pursue accretive growth opportunities across the LPG value chain.

We expect total contract coverage of between 50% and 60% in 2016, depending on our CoA uptake.

LPG for use in the petrochemical sector and increased retail demand were the drivers of 10% global growth -- global import growth, in 2015 and we expect these factors to drive imports in 2016 as well.

Lower oil and gas prices will decelerate the pace of US LPG production growth, but we expect the EIA's forecast of 25 million tonnes of net exports to materialize in 2016, which assumes a 1.7 million tonne drawdown from inventories.

To conclude, a few brief comments on our outlook. The two main drivers of the VLGC market for this year will be the level of LPG exports out of the US and the proportion of those exports that will be shipped to markets in the east. In 2015, 38% of US seaborne LPG exports were shipped to Asia, with 23% of that amount transiting the Panama Canal bound mainly for Japan. We expect a higher share of US LPG exports to head east in 2016 although that internal forecast of that percentage share has been decreasing due to the narrowing of international LPG price spreads and increased competitiveness of naphtha.

We also reiterate our forecast of heightened volatility this year and will look to exploit trading opportunities that arise from a choppier market.

This concludes our results update for the fourth quarter of 2015. We appreciate your interest in our market updates. We also have released our annual report today which is available now on our website and we hope you find it interesting.

I'd like to open the lines for questions now. Thank you very much.

QUESTION AND ANSWER

Operator

Thank you. We will begin our Q&A session now. We will take questions from the conference first. We shall take our first question from Erik Stavseth from Arctic Securities. Your line is open, please go ahead.

Erik Stavseth - Arctic Securities - Analyst

Good morning guys. A few quick ones from me. I'll start with it seems that you've done a little bit more time charter contracts based on what you have reported from Q3. Could you give us an indication of the durations of those contracts and also the direction of the time charter levels you see in the market right now?

Martin Ackermann - BW LPG Limited - CEO

It's difficult for us to guide you very concretely on the contracts, but I think it's suffice to say that the recent contracts we have entered have been at quite healthy levels and probably the market has softened a little bit since that.

Erik Stavseth - Arctic Securities - Analyst

Okay. Also then turning to the market. I mean you mentioned that you see a stock draw this year, but you also highlight that the stock draw could be bigger if production in the US were to decline. Do you guys have any view on the profitability of how US NGL production is right now?

Martin Ackermann - BW LPG Limited - CEO

Sorry, can you guide me on that question one more time.

Erik Stavseth - Arctic Securities - Analyst

Sure. I'm just saying -- I mean if you assume that there will be a stock draw based on the fact that you're drawing down -- production is not sufficiently high to keep the inventories level, i.e. they're falling, but you also say that if production were to decline by 1% you're actually drawing down nearly 40% -- almost 50% of the inventories which would imply the prices are going to go up a lot. So, my point is with shale oil rolling over and shale gas about to roll over into Q2, is it -- is growth in the US NGL production your base case or are you prone to see downside to the NGL production?

Martin Ackermann - BW LPG Limited - CEO

Well, I think our base case as we also said in the commentary and also the presentation is that we -- we're sticking to the EIA forecast of LPG production growth of 2% for next year. What we're saying is that it's come down from 6% growth as recently as three months ago and growth right now is definitely trending downwards. So, I think the message we're putting across is basically that the trend is to the downside right now and there is some risk to that point.

Erik Stavseth - Arctic Securities - Analyst

Okay.

Martin Ackermann - BW LPG Limited - CEO

What we say is the year-to-date propane production is up by 2.4% on the production and when we look at the LPG consumption as expected by the EIA, that is expected to fall by 2.5% across the year. But --

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Erik Stavseth - Arctic Securities - Analyst

Yes, thanks.

Martin Ackermann - BW LPG Limited - CEO

But I think one main point to drive across still is that it's still profitable to drill in wet gas and production is further supported by a producer -- [term] processing contracts with the major midstream companies. Thanks Erik.

Operator

We will now take -- thank you. We will now take our next question from Nicolay Dyvik from DNB, please go ahead.

Nicolay Dyvik - DNB Markets - Analyst

Good morning. You have a 15% stake in Aurora and you lower the payout ratio in the second half despite last year being really strong. Your (inaudible) payout ratio is saying that this is likely to accumulate cash to take advantage of M&A opportunities in the second half. How should we read your lower payout ratio? Weak market ahead or deleverage to take advantage of opportunities?

Martin Ackermann - BW LPG Limited - CEO

Well, I would say there is nothing new to report on our 15% stake in Aurora at this time and of course we will report anything to the market if there is something to report. We continue to evaluate all options on how best to deploy capital -- to deploy growth capital. But as we've also said before, we only look at -- we only look at accretive levels for our shareholders when we deploy growth capital.

On the dividend side, let me hand that one over to Elaine.

Elaine Ong - BW LPG Limited - CFO

Sure, hi Nikolay. Basically, for this quarter we reverted to our stated policy of 50% of profits based on the following factors. Increased macroeconomic uncertainty in the context of a depressed commodity environment and the anticipated normalisation of freight rates. We also want to be in a position to accumulate to some dry powder and be well positioned to pursue accretive growth opportunities as they come.

Nicolay Dyvik - DNB Markets - Analyst

Okay, thank you.

Elaine Ong - BW LPG Limited - CFO

You're welcome.

Martin Ackermann - BW LPG Limited - CEO

Thank you, Nicolay.

Operator

We will now take our next question from Mike Webber from Wells. Please go ahead.

Donald McLee - Wells Fargo Securities - Analyst

Yes, this is Donald stepping in for Mike. I've just got a question on the current rate structure. We've seen VLGC rates decline from over $100,000 per day in Q3 to [closer to] $45,000 per day currently. What's your stance on how much of that decline is based in increase in VLGC supplies or how much of that decline could be based just on seasonal factors, and when would you expect positive seasonality to emerge in 2016?

Martin Ackermann - BW LPG Limited - CEO

It was -- the line was a little bad but I think I hear your question, Sir, being towards the forecast for Q1. What we're seeing right now is the spreads have been narrowing quite a lot, which makes trade somewhat difficult. We've also seen that the low Indian spot has been declining in first quarter. Just to be very clear on that, that's not the total activity in that market but just the spot activity.

Finally, of course, the seasonality impact. And as we said earlier, it's been falling somewhat more percentage wise than historically.

Donald McLee - Wells Fargo Securities - Analyst

Okay, and maybe just a quick follow-up on funding -- newbuild funding for 2016. What's your overall funding requirement?

Elaine Ong - BW LPG Limited - CFO

The newbuild payments expected in 2016 will be approximately $230 million and in 2017 will be $34 million.

Donald McLee - Wells Fargo Securities - Analyst

Is there a target leverage level for [bigger] spending?

Elaine Ong - BW LPG Limited - CFO

It will be fairly close to our existing target leverage levels.

Donald McLee - Wells Fargo Securities - Analyst

Thanks a lot. Right, that's it from me. Thank you.

Martin Ackermann - BW LPG Limited - CEO

Thank you very much. Good night.

Operator

There are no further questions over the telephone. We will now take questions from the webcast.

Operator

The first question from the webcast is from Hussain Ramthan from Platts. He says the Persian Gulf Japan is down more than 72% since mid-July 2015 and it could go down to low as 30,000 million tonnes as of this week and even lower. Is this a concern and what are shipowners' plans in the face of this?

Martin Ackermann - BW LPG Limited - CEO

I think we've defined the strategy as we have all along. We are keeping a balanced portfolio on our contract and as you saw, we had 75% total contract coverage for 2015. The guidance we gave for 2016 is between 50% and 60% and we continue to pursue coverage when it makes sense for us. When we look at this in the context of our dividend, this is why we have reverted to our policy of the 50% of profits, as Elaine just reiterated before.

Do we have any further questions?

Operator

There are no further questions.

Martin Ackermann - BW LPG Limited - CEO

Alright. in that case, thank you all very much for attending today's conference and thank you all for your attention and the ongoing support for BW LPG. We look forward to meeting with the analysts and investors in Europe and the US over the next two weeks. And we encourage you to reach out to our investor relations department should you have any additional questions involving our annual report or the results presentation here, or anything else for that matter. So thank you very much everyone.

Operator

We have come to the end of today's presentation. Thank you for attending BW LPG's fourth quarter 2015 financial results presentation. More information on BW LPG is available online at www.bwlpg.com. Goodbye.