INVESTORCOMMS BW LPG

Event	BW LPG Q2 2022 Earnings Presentation
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Hosts	Anders Onarheim, CEO Elaine Ong, CFO Niels Rigault, EVP (Commercial) Pontus Berg, EVP (Technical and Operations)

Opening

Welcome to BW LPG's Second Quarter 2022 Financial Results Presentation. Bringing you through the presentation today are CEO Anders Onarheim, CFO Elaine Ong, EVP Commercial Niels Rigault, and EVP Technical and Operations Pontus Berg.

We are pleased to answer questions at the end of the presentation. Should you have any, please type them into the chat box in your Zoom panel. You may also use the "raise hand" option. Before we begin, we wish to highlight the legal disclaimers shown in the current slide. This presentation, held on Zoom, is also recorded. I now turn the call over to BW LPG CEO Anders Onarheim.

Chief Executive Officer (Anders Onarheim)

Thank you, Lisa. Let me start by welcoming Kristian Sørensen to BW LPG and Kristian needs no introduction in our community, having been in the LPG shipping industry for over 20 years. He joins us this week and we look forward to his contributions. I am sure he will hit the ground running right away.

It has been a busy quarter for the team at BW LPG. We concluded the sale and delivery of BW Liberty, completed a second tranche sale of our India subsidiary, which takes our ownership to 52%. And we entered into an agreement to acquire the LPG trading operations from Vilma Oil to expand our Product Services division. The acquisition is still subject to regulatory approvals. My thanks to all colleagues who worked hard to cross the finishing line. More on this later. I am also pleased to announce that all 15 are retrofits and now successfully back on water and capable of running LPG too.

The world is facing great geopolitical instability. And this is having a significant impact on the energy and shipping markets. Energy security is a growing concern, and we want to play our part. Let me show you how LPG can contribute to the energy solution. LPG is versatile as it is imported via ships from global suppliers and provides additional and attractive energy security compared to solutions that require costly investments in infrastructure and pipelines. LPG as a fuel is cleaner than most other alternatives. These attributes support further investments and growth in LPG exports, imports and thus transportation. On the right side, we can see that LPG continues to be highly competitive from a price perspective. And it can be a convenient substitute in industrial processes given the current elevated prices on natural gas. At the moment, natural gas is actually six times more expensive than LPG in Europe. Given the increasing importance of LPG as an energy source, we are committed to investing further in the LPG value chain. As part of this strategy, we were happy to announce the expansion of our Product Services through the acquisition of LPG trading operations from Vilma.

Please turn to Slide 5. Again, we entered into the agreement on August 1 to acquire the LPG trading operations from Vilma Oil. Vilma has a strong track record and credible reputation in the LPG community. We are very excited to have a highly experienced team coming on board. The transaction is in line with our strategy and enables us to expand our Product Services division. The combined team trades over four million tons of physical LPG last year and we had the capacity to grow further. The transaction also adds five additional time-charter in Very Large Gas Carriers (VLGCs), including one newbuild into our fleet. This also means we are expanding our coverage from user centric to global presence supported by teams in both Europe and Asia and thus widening our service offering to our customer. The acquisition brings increased agility and important insight into this volatile market, further enhancing our core shipping business. We also see tremendous growth opportunities ahead along the LPG value chain allowing us to generate even greater value for our shareholders. As I mentioned, the acquisition is subject to approval from the Spanish regulated authorities, and we expect the transaction to close by the end of Q4 this year.

Turning to Slide 6. Moving on to the highlights for the quarter, we want to leave you with some key messages. We will continue to deliver on our stated strategy of **fleet renewal and further expansion into the LPG value chain**. We continue to have **ample available liquidity** of US$360 million and a record low net leverage of 25%. Against the uncertainties in global energy market and concerning order book, we **remain optimistic for 2023**, but we are also prepared for continued volatility.

In addition to the Vilma transaction, we also sold the BW Loyalty during the second quarter. In terms of outlook, we want to remind everyone that LPG which mainly comes as the byproduct of upstream production is highly dependent on the oil and gas outlook. If oil and gas prices are sustained high levels, we are well positioned to benefit from another strong and reduced cycle ahead. If the global economy experiences further turbulence and commodity price retreat, however, our balanced fleet and trading portfolio, ample liquidity and strong balance sheet, we are prepared to maneuver through those challenges also. And finally on dividends, for this quarter, with net leverage at 25%, we will return to shareholders a dividend pay-out that is 75% of Net Profit After Tax, or 20 cents per share. This amounts to a total of US$27 million.

Turn to Slide 7 please on the key financials in the second quarter. We reported day rate of US$35,400 for a VLGC fleet per calendar day. Daily OPEX was US$8,800. The increase was largely due to escalation and cost of lubrication oils and rise in insurance premiums. This is something we are all facing at the moment. We generated a net profit after tax of US$39 million, with an earnings per share of US$0.26. This translates into an annualised return on equity of 10% with an annualised return on capital employed of 9%. Next up is Niels who will take you through the market review and commercial update.

Executive Vice President, Commercial (Niels Rigault)

Thank you, Anders. Good morning and afternoon to all of you. On Slide 9, we share our view of the market. As Anders mentioned, we remain positive for the rest of 2022 and next year. There are several encouraging developments. The two main export hubs continue to increase their exports with U.S. leading the way with record LPG export. Middle East export is up significantly in line with OPEC+ phasing out its existing oil production cuts.

For the coming winter, we expect strong winter heating demand and retail demand to switch more to the clean and cheap LPG compared to expensive natural gas and oil. Today, LNG cost is about US$500 in oil price equivalent and oil price is today around US$100. LPG is trading at 20% discount to oil. So, LPG cost is only US$80 in oil price equivalent. In other words, and as Anders also mentioned, LPG is about six times cheaper than LNG. So far in Q3, we have fixed approximately 84% of our available fleet days at an average rate of approximately US$36,000 per day on a discharge-to-discharge basis. Hence Q3 is in line or slightly weaker than Q2.

Looking into 2023, we maintain a more positive outlook despite the VLGC newbuild order book. The U.S. midstream operators have announced plans to expand fractionation capacity, which will increase LPG production. We also expect the Middle East to continue their export growth, with Iran being a great upside potential, should sanctions be lifted. Iran alone can give employment to about 150 VLGCs per year. On the demand side, we have been concerned over the current lockdown in China. However, statistics show that LPG imports have been relatively stable compared to Q2 last year. Hence, this could be another great upside potential when China opens up again with a number of PDH plants which are still scheduled to come on stream.

Let's turn to Slide 10. The two charts on this slide reflect the current energy situation well. Compared to same period in 2021, North America and Middle East exports have grown 6% and 16% respectively. For the same period, European exports were down 13% and Russia exports declined substantially by 33%. Looking at the chart on the right-hand side, I want to draw your attention to the strong growth in Indian imports, up 16% year-over-year, which is very positive for our BW LPG India business. As mentioned, China remains the biggest importer of seaborne LPG and imports were stable. European imports were also up by a significant 15% - again, reflecting the energy situation for the region.

Let's turn to Slide 11. U.S. LPG exports are fundamental to a well-balanced LPG shipping market. With Europe looking to become less dependent on Russian gas, seaborne LPG export from the U.S. plays an important part in bridging that gap. Since our last earnings presentation, EIA had revised up its expectation for 2022 that results in net export growth of 10%, the previous growth forecast was 5.4%. The forecast for 2023 is unchanged with an 8.8% growth.

Let's turn to Slide 12. The current VLGC outlook stands at 65 vessels and only two ships were ordered during Q2. We see a clear tendency in the market – that with current record high prices and long delivery time, the appetite for ordering has diminished. Due to our return focus, we have no immediate plans of ordering vessels, despite our positive market outlook. We remain comfortable with our current fleet profile, which should allow us to maneuver through all kinds of market conditions ahead. Our 15 upgraded LPG propulsion are currently enjoying huge savings by burning LPG instead of less environmentally friendly fuel oil. Today the savings are about US$8,000 per day while sailing on LPG. Please skip ahead to slide number 15.

We have fixed 16% of our fleet for 2023 at an average TCE of US$33,900 per day or US$15 million revenue locked in for our TC book. Most of our TC out is for our BW India business. We are confident with our spot open positions that we will be able to capture positive market fluctuations ahead, and serve the expansion of Product Services, through the acquisition of Vilma LPG trading. The expansion enables us to offer clients all over the world delivery of LPG directly from the world's exporters. In addition to servicing our clients, Product Services has contributed to high fleet utilisation, increased market information, additional revenues, and growth opportunities. That's it for me. Next, Pontus Berg will take you through the technical and operations update.

Executive Vice President, Technical and Operations (Pontus Berg)

Thank you, Niels. Thank you everybody for dialing in and listening to us. This quarter has been about capturing value for us. On the technical front, with the world's largest fleet of LPG-powered VLGCs on water, we have been systematically scaling up our intake of LPG as fuel, to maximise earnings by reducing the cost for fuel. Our engineers are also honing their expertise in dual fuel engine management.

On the operational front, in Q2 we conducted close to 200 port calls and Panama Canal transits, and the team targets "just-in-time" arrivals to save bunkers and reduce emissions. A global network of select port agents helps minimise turnaround times and maximise commercial availability. With all 15 LPG-powered VLGCs now on water, we have been reaping the rewards from our ambitious retrofitting project. We supplied close to 10,000 metric tons of LPG as fuel, saving about US$5.3 million in fuel costs for the fleet. We have also reduced carbon emissions by just over 15% by using LPG as fuel. Our LPG deck tanks complement existing fuel oil bunker capacities and provide us with full fuel and cargo flexibility during operations. We have set up LPG bunker fuel contracts with new and existing partners in major loading ports.

Being able to lean on decades of operational experience has helped to reduce the impact of inflationary pressures on OPEX. For example, we are currently experiencing a 50% escalation in cost on lube oils and almost 40% increase in insurance premiums and consumables. As Anders earlier mentioned, we are in uncertain times and prices of raw materials are soaring due widespread restrictions in movement of goods from major producing countries, due to the war in Europe and Covid-related lockdowns remaining in Asia. All of this is reflected in the current increase seen on our OPEX. We will continue to do our outmost to keep the OPEX on market leading levels, without compromising on the well-being and safety of our crew, and the reliability of operations. We have ensured that all our crew are fully vaccinated which not only protect themselves but also their onboard-colleagues, terminal employees and surveyors and allow for minimal quarantine requirements during crew relief. Let me now turn over to our CFO, Elaine Ong, who will walk you through our financial position and results.

Chief Financial Officer (Elaine Ong)

Thank you, Pontus. Let me walk you through some financial highlights from our second quarter. Net profit for the quarter was US$39 million with an EBITDA of US$83 million. This translates to an EBITDA margin of 68% for the quarter. At the end of June, our available liquidity was US$360 million, with a continued low net leverage ratio of 25%. Our solid financial position will allow us to withstand any short to medium term volatility, and to invest in the right opportunities for future growth.

Some key figures to highlight on our balance sheet. This quarter, net outflow from operations was US$15 million, largely due to changes in working capital that amounted to US$96 million. In brief, US$68 million was due to the settlement timing for two LPG cargoes that straddled the quarter end, and US$19 million was a result of higher bunker prices for inventory.

We report a positive free cash flow of US$21 million. This includes US$45 million in proceeds from the sale of the BW Liberty in Q2, and US$9 million in capex spent for our LGP propulsion retrofitting program which was completed in May. As previously announced, we received an additional US$30 million in new equity from Maas Capital in June for their further stake in BW LPG India. From 1 June onwards, BW LPG owns 52% of our India subsidiary and will continue to consolidate our India results.

During the quarter, we also prepaid US$268 million of debt and returned US$42 million in dividends to our shareholders. With a net leverage ratio of 25% at the end of Q2, we have declared an interim dividend of US$0.20 per share for the second quarter which translates to a pay-out ratio of 75% of NPAT. For 2022, we expect our operating cash breakeven for our total fleet, including our chartered-in vessels, to be at US$22,300 per day.

Here on Slide 18 is an update on our financing structure and debt repayment profile. After the voluntary prepayment of US$268 million of debt during the quarter, our outstanding bank debt was US$490 million at the end of June.

Our gross debt currently stands at US$653 million. This includes US$61 million in advances drawn from our trade finance lines, and US$107 million in lease liabilities from our time-chartered in vessels. With a cash balance of US$166 million, and US$194 million in undrawn revolving credit facilities, we ended the quarter with US$360 million of available liquidity and a net debt of US$487 million. On this note, let me open the floor for questions. Back to you, Lisa

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Conclusion

We have come to the end of today's presentation. Thank you for attending BW LPG's Second Quarter 2022 Financial Results presentation. More information on BW LPG is available on our website. Have a good day and good night.

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