INVESTORCOMMS BW LPG

Event	BW LPG Q3 2023 Earnings Presentation
Date	14 November, 1pm Oslo/ 8pm Singapore/ 7am New York
Hosts	Kristian Sørensen, CEO Samantha Xu, CFO Niels Rigault, EVP (Commercial)

OPENING

Welcome to BW LPG's Third Quarter Financial Results Presentation. Bringing you through the presentation today are CEO Kristian Sørensen, CFO Samantha Xu, and EVP Commercial Niels Rigault.

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 on the current slide. This presentation, held on Zoom, is also recorded. I now turn the call over to Kristian.

CEO – KRISTIAN SØRENSEN

Hello, everyone, and welcome to our Q3 earnings release. My name is Kristian Sørensen, and I am happy to be joined today by our CFO Samantha and our Head of Commercial Niels.

To start off with the highlights, we are pleased to report our highest historical daily TCE at an average of USD 63,100 per available day. We report a net profit after tax of USD 122 million, equivalent to earnings per share of USD 0.85. This is after a downward IFRS adjustment of USD 24 million. For the third quarter, we are also pleased to announce a dividend of USD 0.80 per share, which translates into an annualized yield of 22%

Due to requirements in connection with our US listing process, we can no longer refer to non-IFRS terms like “Trading Profit” for Product Services’ results or in our dividend policy, and a revision of the dividend policy was necessary since last quarter. The revised dividend policy will still be based on our shipping performance and the net profit after tax generated by the shipping segment, while also adjusting for Product Services performance, cash and capital requirements. We are happy to answer any questions after the presentation regarding the dividend policy. For the third quarter, 100% dividend payout is sourced from shipping earnings, with an upward adjustment of USD 0.02.

Moving over to subsequent events for the quarter, BW Kyoto is delivered to BW LPG this month after exercising an attractive purchase option earlier this year. The vessel will be on a six-year time charter starting in Q1 2024, securing a return on capital employed of ~18% over the time charter period. In addition, we are pleased to announce that we have entered into an agreement to sell BW Princess with delivery in Q1 next year. The sale is expected to generate approximately USD 64 million in liquidity and a net book gain of USD 20 million. Further, we are also increasing our operated VLGC fleet, which will expand to 45 vessels, as Sinogas is joining the pool in the fourth quarter by adding one LPG dual-fuel vessel.

Looking at our market outlook, we reiterate our positive view for 2023 and 2024, although high volatility remains. Key reasons for this include:

- Energy prices that are conducive to continued strong US exports and steady export growth from the Middle East;
- New PDH plants are coming on stream in China, supporting the demand side of the market and we see continued growth in the residential market in the developing world.
- Delivery of VLGC new buildings will slow down after 2024, and shipyards are booked until the first half of 2027
- And of course the much talked about disruptions in the Panama Canal that will continue to absorb capacity from the VLGC fleet. We have recently experienced how ongoing challenges related to low water levels and persistent drought conditions lead to further restrictions on canal transits. As mentioned in the earlier presentations, VLGCs have lower priority than LNG carriers and container vessels, forcing them to sail alternative longer voyages from the US to Asia via Suez or South Africa. These longer hauls extend the sailing days by up to 50%.

While the factors mentioned above paint a positive picture for the VLGC shipping market, it’s also important to remind ourselves that things can change quickly. We are watchful of the current uncertain macroeconomic environment and how much this can impact the current strong market environment. Those are the highlights. Next slide, please.

Under the current market conditions, the VLGC sector is generating a dividend potential which is unprecedented for the segment. Depending on your view of the market, we have simulated and illustrated the dividend yield potential in this slide. We are also pleased to have returned more than 70% of our earnings in dividends since the IPO 10 years ago. Based on the current share price we have a 28% annual return to our investors if you had reinvested the dividends in the share during the same period. With that, I will hand it over to Niels to cover the commercial slides.

EVP (COMMERCIAL) – NIELS RIGAULT

Thank you, Kristian, and hello to everyone listening. I'd like to turn our focus to Slide 8 in our presentation. Predicting the future is always complex, particularly when macroeconomics, geopolitics, and climate issues arise simultaneously, shadowing any fact-based logical forecast as we have experienced this year. Contrary to our forecast model, 2023 has proven surprisingly robust for the VLGC market, marking a historic high. In the third quarter alone, we witnessed a remarkable 30% increase across all rate indexes, largely driven by sustained high import volumes to China, despite rising LPG prices and the widening arbitrage between the US and Far East has also encouraged active trading between these regions.

A major point of discussion is the Panama Canal. We've observed significant impacts on spot rates due to operational disruptions. At the end of the second quarter, the main reservoir of the Canal experienced critically low water levels. Subsequent lack of seasonal rainfall led the Canal Authority to limit transits, preserving water resources. This limitation on VLGC transits could result in a 50% increase in sailing days for the fleet trading between the US and the East, subsequently pushing up rates. However, it’s crucial to note that the inefficiencies leading to high rates also translate into increased costs for owners and traders, a burden not easily passed onto end-users.

Looking forward, our supply-demand models suggest a positive outlook for the shipping market. Of the 43 VLGC newbuildings scheduled for delivery in 2023, 75% have already been delivered. We anticipate further growth in LPG exports from North America and the Middle East. However, it is important to recognize that several unpredictable factors can significantly influence rate fluctuations, as seen in 2023.

Moving on to Slide 11, our fleet composition remains robust with 45 VLGCs despite active sales. As Kristian mentioned, we finalized the sale of another ship this quarter at record levels, scheduled for delivery at the end of the first quarter next year. In addition. We are delighted to welcome Sinogas to our pool, contributing their first ship in the fourth quarter of this year. Their addition underscores the benefits of scale in this volatile market.

Let’s move to slide 13. Our TCE performance for the third quarter was USD 63,100 per available day for the entire fleet. This figure includes fixed Time Charters and derivative hedges. The spot fleet achieved a TCE of USD 81,300 per day, excluding waiting days. Given the current market's unpredictability, we remain focused on optimally managing risks.

For the fourth quarter, around 79% of our available days are fixed at an average of USD 73,000 per day. Our spot rate currently stands at USD 104,000 per day, and we expect strong final earnings for Q4, reflecting the exceptionally hot spot market.

For 2024, 19% of our fleet is already fixed under TC, with an average daily rate of USD 41,300. We have balanced our TC in and out commitments for 2024, securing a USD 23 million profit. Additionally, 13% of our days are hedged with derivatives at an average of USD 59,000 per day.

Before handing over to Samantha for the financial overview, I'd like to provide a brief update on Product Services. In 2023, they have handled approximately seven million tonnes of physical LPG and about 20 million tonnes of derivatives. Next year, they anticipate a 30% increase in volumes. They have expanded into the mid-size space, securing two TC contracts which will allow us to tap into new markets beyond the VLGC segment. On FOB product contracts, they have not only renewed our US Gulf equity commitment but also secured a term contract in the Middle East, diversifying our exposure and mitigating Panama Canal risks.

Now, I'll pass the microphone to Samantha for a closer look at our financials.

CFO – SAMANTHA XU

Thank you, Niels, and let me continue to add some color to the Product Services' performance. The net asset value of Product Services increased by USD 12 million to USD 44 million at the end of September. This USD 12 million net profit comprises USD 34 million realized gains from trading operations and USD 22 million unrealized mark-to-market losses from cargo contracts and hedging derivatives.

This reported net profit does not include the unrealized mark-to-market valuation of our five TC-in vessels, as previously mentioned. Our internal valuation of these TC-in contracts at the end of September was USD 65 million. This positive value reflects the continued strong development in the 12-month forward freight market for VLGCs, which is the period we use to evaluate freight positions in Product Services.

As you can see, the Value at Risk (VAR) is relatively stable, and the portfolio is well-balanced between cargoes, shipping, and derivatives from a trading book perspective. We continue to see good collaboration and synergy between Product Services and our shipping business through improved information flow, optionality and enlarged footprint. While focusing on profit, Product Services are also progressing in expanding the physical presence in key markets as we aim to broaden the platform and trading portfolio. Next slide please.

Starting with the income statement. On a consolidated basis, for the third quarter, we reported a net profit after tax of USD 122 million. This includes USD 16 million in profit from BW LPG India and USD 12 million in profit from Product Services. The net profit also includes a downward adjustment of USD 24 million related to the effects of IFRS 15 for the quarter, as the TCE for the straddling voyages over the quarter-end is recognized on a load-to-discharge basis. We expect that IFRS 15 adjustments will increase in the future periods if freight rates continue to increase from the current level, and if the total voyage days increase as the Panama Canal restriction persists.

We reported an earnings per share of USD 0.85 this quarter, the majority of which was contributed by our core Shipping segment of approximately USD 0.78. We reported a net leverage ratio of 22% in Q3. This was due to a heightened working capital requirement from increased Product Services activities. The Board declared a Q3 dividend of USD 0.80 per share, which represents a 103% payout of Q3 and YTD Shipping NPAT.

Our Balance sheet ended the quarter with a shareholder’s equity of USD 1522 million. When adjusted for USD 480 million of excesses in broker values over book values, we reached an adjusted NAV per share of NOK 150, an uplift from book values of about USD 3 per share after adjusting for minority interest in BW India and Product Services. Our positive free cash flow of USD 75 million this quarter was derived mainly from our strong operating cash flows but offset by a build-up in working capital. Our return on equity and capital employed for Q3 2023 were 32% and 24% respectively.

Next, we move on to some key statistics on our shipping business. Our daily OPEX came in at USD 8,500 per day mainly due to higher maintenance and repair expenses. For 2023, we expect our operating cash breakeven for our owned fleet to be at about USD 18,600 per day. This is USD 500 per day lower than our Q2 report, driven by early repayment of debt.

Slide 16 provides a summary of our liquidity and financing structure. On a consolidated basis, we ended the quarter with close to half a billion in liquidity, including USD 190 million of available cash, after netting of USD 110 million held in broker margin accounts and USD 296 million in undrawn revolving credit facilities. As of end of September, ship financing debt outstanding was reduced to USD 326 million. This follows a USD 110 million repayment of a revolving credit facility after conversion from term loan. These initiatives align with our strategy to reduce debt costs and maintain funding flexibility.

On the trade financing side, USD 172 million or 26% of our current USD 660 million lines have been used, with USD 86 million related to advances drawn and another USD 86 million in Letter of Credit issuances. This leaves a healthy headroom for growth. We remain on track to expand our lending group further and upsize our trade financing lines to USD 800 million. For perspective, these limits would allow us to trade up to eight million tons of physical LPG per annum from the US to the Far East under current market conditions. 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 Third Quarter 2023 Financial Results presentation. More information on BW LPG and BW Product Services are available at www.bwlpg.com and www.bwproductservices.com respectively. Have a good day and good night.

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