1st Quarter Earnings Release Call

Thursday, 11th May 2017

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Operator: Ladies and gentlemen, thank you for standing by and welcome to the 1st Quarter Earnings Release Call. At this time, all participants are in a listen-only mode. We will be taking questions at the later stage of the call, at which time you will need to press *1 to ask a question. Now, I would like to hand the conference over to your speaker for the day, Mr Charles Maltby. Please go ahead, sir.

Charles Maltby: Thank you. Good morning and afternoon and welcome to today's call to discuss our results for the first quarter of 2017. My name is Charles Maltby, Chairman and CEO of Epic Gas. I'm joined today by our CFO, Uta Urbaniak-Sage. The first quarter of 2017 was highlighted by the delivery of our final three new build vessels, two owned and one bareboat. Consequently, the fleet calendar days are up by 7% year over year to 3,569 days, and up 180% since we commenced our current growth programme in Q1 2013. Our adjusted EBITDA of $8 million, up 13% year over year, reflects the hard work by the team to manage costs and to drive utilisation in an ongoing weak market, where revenue of $33.9 million is also up 5% year over year.

The pressurised LPG market sector has continued to build on the recovery evident during the latter part of 2016. Beginning in the fourth quarter, and through the first quarter of this year, there has a been a sustained increase in market levels for the 3,500 and 5,000 cubic metre sizes, and the beginnings of a recovery on the 7,500 and 11,000 cubic metre. On the supply side, we have seen a further easing of new builds from the shrinking order book, with a total of three vessels, equivalent to 29,500 cubic metres or 1.8% of the fleet deliver. The delivery schedule for 2017 is front-end loaded, with 40% of the order book having delivered in the first quarter. At the same time, two smaller vessels totalling 0.4% of the fleet have been scrapped.

Pressurised ship owners such as Epic Gas also benefit from the scrapping of vessels from the small semi-ref fleet. Year to date, we have seen record small semi-ref scrapping, with six vessels totalling just over 32,000 cubic metres sent to the shipyards, equivalent to 6.3%. It is important to note the relatively high average age of 26 to 29 years for both the pressure and the semi-ref vessels sent to scrap in recent years, highlighting the longer than average life expectancy for these vessels.

The scrapping pool for the pressurised sector continues to increase due to the legacy build cycles and age profile of the fleet; currently 25 vessels, equalling 6% of the fleet capacity, over 25 years of age, alongside a similar number of semi-ref vessels. Therefore, it is highly probable there will be further scrapping in the near future driven by routine fifth or sixth special surveys, along with incremental capital investment such as ballast water treatment systems and higher operating expenses.

The pressurised fleet order book consists, all in, of nine ships and 71,500 cubic metre of capacity, representing a modest 4% of the global fleet. And for the smaller semi-ref fleet, a total of three ships and 22,700 cbm. If we combine the new builds with the scrapping and the order book, we anticipate a modest net fleet growth, for the pressure fleet in 2017, of between 2% to 4%, offset by negative fleet growth in the small semi-ref fleet. The lower returns in the market, combined with the limited yard and tank manufacturing capacity, has led to just one new build order during the period and shows that we're heading towards a more balanced market.

We took delivery of three vessels during the quarter; the 7,500 cubic metre Epic Baluan and two 11,000 cubic metre vessels. Whilst this marks the end of our planned new build programme, we continue to look for opportunities to refine our fleet. Last month we entered into an agreement to acquire a second-hand 7,500 cubic metre pressurised vessel built in 2009 in Japan. The vessel will be delivered to us by the end of June. During the quarter, the average size of our vessels increased 4% to 6,559 cubic metres and is anticipated to increase to 6,581 cubic metres after we take delivery of the second-hand ship in Q2, thus leading to greater exposure to the larger pressurised LPG market. Our 7,500 cubic metre and larger-sized vessels now contribute 60% of total earnings, compared to 50% a year ago.

On the demand side, the overall global LPG seaborne trade in 2016 grew by approximately 8.7%, to reach a record high of 87.2 million tonnes. We see ongoing demand growth and upwards revisions in forecasts, with demand in 2017 expected to grow in excess of 4%, exceeding 90 million tonnes. Looking at our business by region, Epic Gas currently operates 41 vessels on the water; the largest pressurised fleet by cubic capacity, with an industry-leading average age of eight years old. We trade these vessels in a geographically diverse nature across a mix of over 300 ports annually, with 23 ships trading west of Suez and 18 ships trading east of Suez. In addition, we have diversity in the carriage of cargo moves, with 78% of the cargoes lifted being LPG and the balance of 22% being petrochemicals.

A good indication of the growing and evolving trade we are involved in is provided by our six 11,000 cubic metre vessels. A year ago, we had taken delivery of our second vessel and our activity was limited to the Atlantic Basin. One year later, we have six vessels on the water with a global footprint, operating in the Americas, Europe, Mediterranean, Red Sea, Middle East and Asia. The Middle East has seen a surge in activity, with increasing export volumes of LPG and petrochemicals from Iran and Iraq, on pressurised ships, to destinations such as the Indian subcontinent and Asia. China remains a key player in the petrochemical trade, which keeps a large part of the 3,500 and 5,000 cubic metre pressure vessels busy in the East. Chinese propylene imports have remained strong, despite an increase in domestic production capacity at purpose-built propane dehydrogenation plants, indicating a strong domestic derivatives and plastic industry.

Infrastructure development remains a focus in the region, and projects in Sri Lanka, Bangladesh and South Africa are ongoing. The extremely low LPG per capita consumption rate in many Sub-Sahara African and Asian countries offers a huge demand growth potential, which is especially pertinent to the pressurised sector owning to the restricted depth and width of access waterways to many of these ports. A case in point being the LPG Breakbulk trade, where Epic Gas is a key component in the last mile regional delivery. Our ships have carried out an increasing number of ship-to-ship (STS) operations off Singapore, the Indian Ocean, in the Caribbean and off Africa. A total of 98 operations in this quarter, equivalent to one a day, which is a 38% increase over the 71 operations carried out last quarter.

Q1 was a busy period in Europe. A few ships moved out of the region and the seasonal bad weather helped further tighten the shipping market and push rates up. Demand from Morocco and West Africa kept the larger coasters busy with cargoes from Europe and the Med. Pressurised exports from the USA have reduced as a lack of the trans-Atlantic arbitrage meant that no small ship stems were fixed across the Atlantic. However, the distribution within the Caribbean almost doubled from the previous quarter. Whilst two of our vessels remain involved in the US Virgin Islands propane power generation project, on St Croix and St Thomas, another milestone for Epic was the first delivery of a propane cargo to a new power plant off Honduras.

Our calendar days have increased by over 7% in the last 12 months due to our expanding fleet. However, we have strategically built up term cover, especially on the smaller sizes, and reduced our exposure to the spot market. Spot days, as a percentage of voyage days, stood at 23% at the end of Q1 2016 and was down to 20% at the end of Q1 2017. As of the 31st March 2017, the company is 46 – sorry, was 46% covered for the balance of 2017, equivalent to 5,197 days at an average daily TCE rate of $7,735. We have since covered further days, and are now 49% covered at an all-in higher TCE rate of $7,861 a day.

As a team, we are focused on maximising utilisation on our fleet while improving the efficiency of our business. Despite our heavy new build programme, weak charter markets and ongoing exposure to the spot sector, we achieved 93.2% operational utilisation during the quarter.

Whilst the supply/demand picture is evolving positively, we must expect a mixed few quarters ahead as the market absorbs the legacy new build supply along with normal seasonality and short-term pricing movement in commodity markets. We will continue to fine-tune our fleet to deliver a high-quality, long-term, low-cost asset base, especially in the larger segments of the pressurised sector. These assets are expected to be the workhorses of the future, servicing the growing trades in the Atlantic Basin whilst also fulfilling niche demand growth in Asia.

I would now like to hand the call over to Uta to step through our financial results.

Uta Urbaniak-Sage: Thank you, Charles. Our TC earnings per calendar day of $8,423 were lower than the $8,639 we achieved in the first quarter of 2016, but up by 3% from the fourth quarter of 2016, reflecting the improved rates for smaller vessel sizes. We took delivery of three new buildings during the quarter, for which earnings are typically discounted during the first few months whilst the vessels achieve wide oil major approval and are positioned into trades. Vessel operating expenses per calendar day decreased by 8% year over year to $4,081, despite the increase in our average ship size by 12%. Our charter-in costs increased by 9% to $3.8 million due to the delivery of an 11,000 cubic metre vessel in January 2017. Our charter-in costs are expected to remain flat for the remainder of 2017. In the first quarter, we had eight ships on bareboat charter, representing 696 calendar days.

Finance expenses increased from $3.2 million to $4 million year over year due to the company's increase in bank debt. Between Q1 2016 and Q1 2017, we took delivery of seven new buildings, for which we have drawn down bank debt of $112 million. We have also entered into five-year interest rate swaps at an average rate of 1.99% for 39% of our total bank debt. Our SG&A per calendar day decreased by 1% year over year to $987, despite a fleet expansion by 7% as measured by the number of fleet calendar days. The addition of a second-hand vessel in

Q2 will be managed without incremental headcount. The company reported an adjusted EBITDA of $8 million, an improvement by 8% year over year. We finished the quarter with a net loss of $3.4 million. During the period, we completed a private placement of 18.4 million shares at a price of NOK50 per share. The company received net cash proceeds of $32.3 million, which will be used for working capital and general corporate purposes.

In Q1, the company also announced the successful refinancing of 14 LPG carriers with a loan term of seven years. The facility amount of $90 million represents 55% of the fair market value of the vessels. Following completion of the refinancing, we don't have any refinancing requirements until 2019.

We have now reached the end of our presentation. Thank you all for joining the call today. We will now take any questions you may have. Operator, please open the line.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. Once again, if you wish to ask a question please press *1 on your telephone and wait for your name to be announced. There might be a short pause while the questions are collated.

Once again ladies and gentlemen, if you wish to ask a question please press *1 on your telephone and wait for your name to be announced.

Once again ladies and gentlemen, if you wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. There are no questions at this time. I would like to turn the conference back to the speakers. Please go ahead, sir.

Charles Maltby: Thank you. Thank you for everyone making the time to join and listen today, we appreciate your interest in Epic Gas. If you would like to discuss further, please do contact Uta or I directly. But in the meantime, we look forward to catching up in August for our Q2 update. Thank you, Shishir.

Operator: Thank you, sir. Thank you, Uta. Ladies and gentlemen, that does conclude our conference for today. Thank you all for your participation, you may all disconnect the lines now. Thank you.

[END OF TRANSCRIPT]