Epic Gas Ltd.
Results for Full Year End, 2016

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Speaker Name(s)

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Operator: Ladies and gentlemen, thank you for standing by and welcome to the earnings release FY 2016 conference call. At this time, all participants are in listen-only mode. There will presentation followed by question and answer session at which time if you wish to ask a question, you will need to press '*1' on your telephone keypad. Please note that this call is being recorded today, 9th of February 2017. I would now like to turn over to the first speaker today Mr. Charles Maltby, please go ahead Sir.

Charles Maltby: Thank you. Hello and welcome to today's call to discuss our results for full year end 2016. My name is Charles Maltby, Chairman and CEO of Epic Gas Ltd. I'm joined today by our Chief Financial Officer Uta Urbaniak-Sage.

2016 was a year of further evolution and growth for Epic Gas, with 5 larger new build vessels of 7,500 and 11,000 cubic meter added to the 3 deliveries in 2015 and 6 in 2014, all from high quality Japanese yards. We have also sold two smaller vessels and redelivered a third, with a net impact being a 2% increase in vessel calendar days, driving the company to revenues of 129 Million.

The pressurized LPG sector experienced continued weakness last year, driven by net pressurized fleet capacity growth of 6.4% and exacerbated by closed arbitrage opportunities in commodity markets. While Q3 was particularly weak, it appears to us that it was the bottom. Beginning in Q4 and through January this year, there have been sustained rate increases on the 3,500 and 5,000 cubic meter sizes, and the beginnings of a recovery on the 7,500 and 11,000 cubic meter vessels.

As a team, we are focused on maximizing utilization on our fleet while improving the efficiency of our business to ensure we continue to deliver a strong business, ready for a recovery in market rates. Despite rapid fleet growth and weaker charter markets, we achieved 93.4% operational utilization during the year, down 2.6% from 2015.

The strategic decision to focus capital on larger more efficient tonnage enabled Epic Gas to mitigate some of the impact of the weaker markets, and post time charter equivalent earning of 8,102$ per day, only a 6.7% decrease year over year.

Our evolving fleet profile has resulted in a 11.5% increase in average vessel size to 6,300 cubic meter per vessel, with 41.9% of vessel calendar days coming from vessels over 5,000 cubic meter, as compared to only 34.9% during 2015. We have also reduced our average fleet age by 6.2%, ending the year with 38 vessels on the water and the new build program of 3 vessels at an industry leading average fleet age of 7.6 years.

We are committed to fine tune our fleet to deliver a high quality, long term, low cost asset base, especially in the larger segments of the pressurized sector where we have already taken delivery of a further 2 vessels of 7,500 and 11,000 cubic meter respectively in January 2017, with our last 11,000 cubic meter vessel due within the balance of Q1. We therefore anticipate a market share of about 16% by mid 2017, based on our aggregate carrying capacity.

Turning to the market in demand, the good news is that despite at times both volatile and closed commodity markets, the global LPG trade has never been stronger, increasing by 8.7% year on year to over 87 million tonnes last year, whilst petrochemical trades have also shown export demand growth from countries such as the USA, South Korea, Brazil and Iran.

China had a great, great year, with LPG and Propylene imports up 34% and 5% respectively and for propylene showing particular strength in the last quarter. As domestic propane dehydrogenation capacity for propylene production increased by 25% during the year, these imports volumes suggest strong downstream demand for plastics. The knock-on impact is that the year ended with a tightening market and upward movement in rates for the 3,500 and 5000 cubic meter vessels, which are the preferred sizes in these trades.

Following closely on the back of China's growth is India where LPG imports were up 13% year on year to 10 million tonnes. Indian LPG imports hit a new monthly record in December of 1.11

million tonnes, up by 41% from a year earlier, with consumption during the month also 8% higher than a year ago.

Likewise, growing long haul imports of LPG into South-East Asia have resulted in a significant increase for trans-shipment operations from VLGCs. Epic’s trans-shipment operations increased 93% year on year with most of occurring near Singapore, alongside growing STS operations off Male, Indian Ocean, for delivery typically into Bangladesh and Sri Lanka.

In the Middle East, we have seen an increased demand for pressurized vessels. In Iran this is primarily for petrochemical trades, whilst in Iraq for LPG export. Assuming a steady state for sanctions, we would expect both markets to grow further in the years ahead, driven by the low cost of gas and petrochemical production and the growing regional demand.

Epic’s continued allocation of resources to markets west of Suez, where at the year-end we were trading 22 out of the 38 vessels, has allowed us to minimize the impact of some very poor net rates currently being realized by owners in Asia. Our spot earnings in the West remain higher than our spot earnings in the East, driven by better markets, cargo combinations, critical mass and larger vessels.

Whilst the USA also had a great year, with total LPG exports picking up after a slow Q3 to a new high in Q4, and ending the year with a 25% increase over 2015, LPG exports on pressurized vessels have been mixed. Exports on longer haul routes to ports in the Mediterranean and West Africa in particular have declined, whilst the regional trade into Latin America and the Caribbean has remained robust. Indeed, overall US exports have again pushed ahead in January 2017 with a further increase over 20% month on month.

In the Mediterranean, trades have also evolved, with further demand growth for instance in the larger countries, such as Turkey up 2.9%, Egypt up 6.7%, Morocco up 5.3% and Spain 20%.

On the supply side, the current new build cycle winds down significantly into 2017 and 2018. We presently anticipate 8 vessels to deliver in 2017, a total capacity of 74,500 cubic meter, and equivalent to 4.6% fleet growth before scrapping. One pressure vessel has already been scrapped this year and we anticipate further scrapping ahead as owners are forced to reconcile another year of below average earnings, with the routine expenses of dry dockings and surveys, combined with new legislation requiring ballast water treatment systems upgrades, typically costing about 400,000$ per vessel in our segment, and also the latest fuel emission control equipment. If we apply the same scrapping levels as 2016, we would expect to see a net pressurized fleet growth of about 3.7% in the year ahead.

Our proactive approach to chartering has enabled Epic to secure 43 million in forward revenue as of the 31st December 2016 and a further 5.3 million since the new year began. Most of our forward cover is focused on smaller size segments, allowing us to retain upside exposure on the larger vessels.

We are keen to work closely with our customers on their evolving trades, providing a range of time charters, COA and voyage contract solutions, over any duration of time, with either fixed or floating rates. Our COA days have increased from 3.6% of voyage days in 2015 to 6.2% in 2016. We anticipate additional COA activity over the long term as we are better able to capitalize on our leading market presence. I would now like to hand the call to Uta to step through our financial results.

Uta Urbaniak-Sage: Thank you Charles. Looking at 2016, our TCE earnings decreased 7% to 8,102$ per calendar day, reflecting a weaker market, particularly in Q3 during the summer months. Rates started to recover in Q4, during which we realized rates of 8,206$ per calendar day. December has been the second-best month of the year in terms of realized TCE.

Vessel operating expenses per calendar day increased only 2% to 4,233$, despite a 12% increase in average ships size to 6300 cubic meters.

As of 31st of December, we had 7 ships on bareboat charter, after redelivery of one 3,500 cubic meter vessel upon bareboat expiry in May 2016. Charter in costs therefore decreased by 2.2 million to 13.4 million year on year.

Tight cost management resulted in the further reduction of our SG&A by 5% to 14.2 million dollars in 2016 and by 8% to 1,029$ on a per calendar day basis. The remaining 3 new buildings with delivery in Q1 2017 will be managed with limited incremental expense. Except for one ship managed by a third party, we do not pay any fees for services to any outside or affiliated entities.

The company reported an adjusted EBITDA of 25.6 million dollars, down by 5 million dollars or 15% year on year. We finished the year with a net loss of 13.4 million dollars before an impairment charge and loss on sale of a vessel of 9.9 million in total. The impairment charge is a result of continued challenging market conditions for vessels older than 15 years. There are no impairment indicators for the modern ships in our fleet.

In 2016 we had Capex of 99 million dollars for our new buildings, largely funded by a Term Loan facility from ABN Amro Bank, Crédit Agricole and NIBC at 95 million dollars. Under this facility, we entered into a 5-year interest swap for an amount of 30 million dollars. We will increase our hedge ratio over the next few weeks. We refinanced one ship, the Epic Shikoku, by entering into a sale and bareboat charter back transaction for 7 years with the Japanese financial services company.

For our last remaining new build, due to be delivered in March 2017, the capital expenditure of 19 million will be financed with a combination of debt of 18 million and equity of 1 million dollars. The company's cash balance as of 31st December 2016 was 22 million dollars and includes net cash proceeds of 9 million from the sale of 2 ships in the 4th quarter of 2016. We have now reached the end of our presentation. Thank you for joining the call today. We will now take any questions you may have. Operator, please open the line.

Operator: Thank you Mam. 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 keypad and wait for your name to be announced. Thank you. 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, thank you. There are no questions at this moment, please continue, thank you.

Charles Maltby: Thank you very much operator. Well, thank you to everybody who joined us today, we look forward to catching up again in May, if you have any questions, please do reach out to Uta, directly through email. Thank you.

Operator: Thank you. Ladies and Gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect. Thank you.