Moderator: Charles Maltby
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3:00 p.m. GMT

Operator: This is Conference # 1786956

Operator: Thank you for standing by, ladies and gentlemen and welcome to the EPIC Gas conference call on the Fourth Quarter, 2018 Financial Results.

We have with us Mr. Charles Maltby, Chairman and Chief Executive Officer and Ms. Uta Urbaniak-Sage, Chief Financial Officer of the company.

At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session, at which time, if you wish to ask a question, please press star1 on your telephone keypad and wait for the automated message advising your line is open, please and state your first and last name before you ask your question.

I must advise you that your conference is being recorded today, Thursday the 14th of February, 2019. And I would now like to pass the floor to your speaker today, Charles Maltby.

Please go ahead, sir.

Charles Maltby: Thank you, Cass. Hello, and welcome to today's call to discuss our results for full yearend 2018. My name is Charles Maltby, Chairman and CEO Epic Gas, and I'm joined by our Chief Financial Officer, Uta Urbaniak-Sage.

Moving straight into slide three, our fiscal year 2018 highlights. 2018 was a busy year for us as we continued to focus on building out our scale, with an efficient and cost-effective platform, concluding with 38 vessels on the water. At year-end 2018, we earned record revenue of $155.5 million, up by 11%

from 2017. The fleet's Time charter equivalent revenues of $9,541 per vessel calendar day increased by 16% whilst our Operating Expenses of $4,122 per vessel calendar day reduced by 1%, year over year. Adjusted EBITDA amounted to $44.5 million, an exceptional 51% improvement over 2017. Overall, Q4 was our second sequential profitable quarter, with a Net Profit of $0.9m, leading to a cumulative full year end Net Loss of $2.7 million, a year over year improvement of $28.1m, or 91%.

Slide four, supply, In 2018, 6 newbuild pressure vessels totalling 36,500cbm delivered, and five pressure vessels totalling 17,100cbm and average age of 27.6 years, were scrapped - a net increase of approximately 19,400cbm equivalent to 1.1% of existing cubic capacity and 0.3% of the 329 non-Chinese flagged vessels sized over 3,000cbm on the water today.

During the final quarter in 2018, three pressure vessels delivered – a 4,000cbm and two 5,000cbm vessels, whilst two small-sized semi-ref vessels totalling 11,400cbm were scrapped. Effectively, a very marginal net increase in capacity, and all concentrated in the smaller pressure vessel segment as opposed to the 7000cbm plus sector in which we have focused our recent investment.

There are currently 5 newbuild pressure vessels to be delivered in 2019 and 5 in 2020, also all smaller vessels, representing a 1.4% increase in existing fleet capacity, which we believe remains the lowest supply growth in any bulk commodity shipping sector.

The smaller-sized semi-ref fleet, that on occasion can compete or overlap on certain trades with the pressure vessels has an order book of 6 vessels, which includes 2 of the more expensive ethylene vessels. This newbuild capacity of 53,300cbm equates to an annual semi-ref fleet growth of approximately 3.5%.

However, this newbuild capacity must also be seen in the context of the potential scrapping pool. In 2018, in addition to the 5 pressure vessels scrapped, we saw 13 small semi-ref vessels scrapped - average age 32 years. The pressurised fleet has benefited from their removal with incremental demand growth. Today, there are 16 pressure and 15 semi-ref vessels that are aged 28 years and over in the international fleet. We expect that higher operating costs and relatively high capital investments required by new legislation, such as ballast water treatment systems, will compel owners to consider scrapping these units.

Slide five, demand, global seaborne LPG volumes saw continued growth in 2018 reaching 96.4 million tonnes, 2.6% higher than the 94 million tonnes shipped in 2017. The USA continued to ramp up LPG exports which reached record levels in the second half of 2018 and achieved an overall 14% growth level compared to 2017. In Asia, imports by China and India in 2018 have grown by 5.4% and 8.1% respectively compared to a year ago. Our fleet remains actively engaged as a "last tonne-mile distributor" of LPG and stands to gain from strong underlying demand growth in long-term LPG consumption driven by evolving energy fundamentals and increasing supplies, highlighted by our growth in ship to ship operations.

Moving on to slide six Regional Trades. From the USA, export volumes on pressurised and on small sized semi-ref vessels this quarter amounted to approximately 162,000 tonnes, the highest in the year and a 37% increase from the previous quarter, with increased deliveries to Central and South America. Epic Gas remains involved with new projects in the region.

Growing LPG consumption for domestic use and developing infrastructure in countries like Bangladesh, Indonesia, Philippines, Vietnam and in sub-Saharan Africa are expected to drive LPG imports and the pressurised LPG vessel trade. For instance, Facts Global Energy has reported that Bangladesh imported approximately 800,000 tonnes in 2018, a 33% increase from a year ago, and up from only 200,000 tonnes in 2015, remarkable growth.

In the petrochemical trade, Chinese Propylene imports remain an important driver in the 3,500cbm and 5,000cbm pressure vessel trade in Asia. A robust and much larger underlying market for associated derivative products continues to positively impact domestic demand for propylene.

Slide seven, the 12 month Time Charter Market. The rebalancing between supply and demand has led to very encouraging signals from the freight market, with the 3,500cbm and 5,000cbm vessels continuing their positive run and the larger sized ships gaining traction as distinct demand growth slowly absorbs marginal over supply, amidst occasional competition from larger vessels in some markets.

In the fourth quarter of 2018, freight levels were similar to the stronger levels seen in the third quarter, whilst the larger 7,500cbm sized vessels benefitted from a modest gain of about 2%. Compared to fourth quarter of 2017, average rates have increased 12% for the 3,500cbm, 6% for the 5,000cbm and 7,500cbm vessels, and 2% for the 11,000cbm vessels.

Slide eight, in 2018 Epic Gas loaded 3.1 million tons, an 11 percent increase on the tons loaded in 2017, and we were involved in 2,716 cargo operations across 216 different ports. LPG cargoes made up 76 percent of the cargoes lifted with the balance of 24 percent being petrochemical cargoes, compared to the 80 percent, 20 percent split the year before.

This diversity in geography and commodity provides options for our fleet and relative stability in our earnings floor.

Our business continues to be a global one. During 2018, on average, 12 percent of our operations were in the Americas, 35 percent in Europe, 7 percent in Africa, 4 percent in the Middle East, and 42 percent in Asia. We anticipate we will continue to build on our global presence in a similar pattern, with future enquiry from existing and new customers, for both LPG and petrochemical trade on a worldwide basis.

Slide nine, Epic Gas Operations, the global LPG trade has grown markedly in the past three years, with significant incremental demand prevailing for all ship sizes and further growth forecast for 2019.

As a recognised provider of quality tonnage for the “last tonne mile delivery”, we also benefit from the increased demand for larger vessels such as VLGC and handysize and we have seen our operations in the LPG break bulk trade grow significantly in recent years. This trade requires our vessels to make a more complicated manoeuvre and go alongside larger LPG vessels, either stationary at anchorage or at sea, or whilst the vessel continues to make way. Our vessels carried out 95 such ship-to-ship (STS) operations during the last quarter of 2018, and a total of 358 during the year in 12 different countries, with increased operations off East Africa and in South East Asia.

Slide 10, our operating metrics. We ended the year with a fleet size of 38 vessels with a total capacity of 259,900 cbm and an average size and age of 6,839cbm and 7.9 years respectively, a 2.7% increase in average size whilst maintaining the average fleet age below 8 years. The youngest and largest fleet by capacity.

During the fourth quarter, the fleet experienced 38 technical off-hire days, which included one scheduled dry-docking. This resulted in fleet availability of 98.9% with operational utilisation of 96.0%, an improvement over the 98.7% and 94.4% achieved in Q4 2017. The fleet traded under time charter for 76.6% of total voyage days during the final quarter compared to an average of 73.7% for the full year.

In respect to our forward cover, we ended the year with 38% in place for the year 2019 at an average daily TCE rate of $10,061.

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

Uta Urbaniak-Sage: Thank you, Charles. Moving on to slide 11, looking at 2018, we generated revenues of 155.5 million, compared to the 139.5 million we recorded in 2017, reflecting the improved market.

Our TCE earnings per calendar days were $9,541 for the full year 2018, 16 percent higher than the $8,210 we achieved in 2017. Our TCE per calendar day in Q4 was $9,971, an increase by 18 percent year over year. Vessel operating expenses decreased from $62.4 million in 2017 to $58.6 million in 2018.

We actively managed our operating expenses, always looking for efficiencies, and achieved a reduction on a per calendar day basis from $4,176 in 2017 to $4,122 in 2018.

Charter-in costs decreased from $16 million to $14.9 million year over year due to the redelivery of two older 4,100 cubic meter bareboat vessels in February and September 2018, leaving us up with six ships on traditional inward bareboat charter. Subsequent to the year end, we chartered in a modern 7,500 cubic meter vessel on the time charter basis for one plus one years with purchase options.

The SG&A expenses per calendar days increased by 11 percent to $1,129, reflecting some exchange rate movement on our Singapore overheads, one-off legal costs related to the refinancing and project work, as well as our operation of a smaller average fleet of 39 vessels during 2018, as compared to 40.9 vessels in 2017.

Our platform costs include the cost of commercial and technical management of our fleet as well as all corporate level expenses.

No fees are paid for services to any outside or affiliated entities.

Finance expenses decreased from $17.2 million to $16.6 million year over year, due to the reduction of our debt by $21 million and our refinancing work over the period. Interest rates are hedged for $144 million of our debt at a weighted average interest rate of 2.04 percent.

The company reported an adjusted EBITDA of $44.5 million, up 51 percent year over year. We finished Q4, 2018 with a profit of $900,000, leading to a net loss of $2.7 million for the full year, compared to a net loss of $30.8 million in 2017, an improvement by 91 percent.

Slide 12, our balance sheet, the book value of the fleet of $497 million is below broker valuations as of 31st December 2018. Last year, we refinanced 10 vessels with a total loan amount of $80 million. All refinances led to lower financing costs and more favorable repayment profiles.

Our total debt as of 31st of December '18 was $275 million, down from $297 million in 2017. Other than normal amortization, we don't have any loan expiries until mid 2022.

Our cash position at the end of 2018 was $28.2 million, up from the $20.5 million at the end of 2017.

I would like to hand back the call to Charles for a summary and outlook.

Charles Maltby: Thanks, Uta. We'd like to conclude our presentation by sharing our outlook on the LPG market. Whilst there is undoubtedly some volatility in commodity prices and noise around the macro environment of global trade, we are -- we are optimistic.

We have now reported two profitable sequential quarters. We continue to see improvement in freight rates, due to lack of incremental capacity, a low order book, ongoing demand growth and ongoing potential scrapping in the pressurized and semi ref LPG sectors.

We can also see distinct opportunities for growth within our sector, including through time charter vessels, such as the 7.500 cubic meter charter that delivered in January. As of today, Epic Gas operates 39 vessels on the water, with a leading sector capacity of 267,400 cubic meters at an average size of 6,856 cubic meter.

Epic Gas has access to diversified earnings, by nature of our access to a mix of commodities in both the LPG and petrochemical markets through our fungible fleet, our flexible customer offering and by the dispersion of our fleet globally, with six operating in the Americas, 19 in Europe, Middle East, Africa, and 14 in Asia.

We have a fleet operational utilization of 96 percent, a TCE of 9971 per calendar day. We have 38 percent cover in place for the rest of the year, and we're 62 percent open to anticipated improving fundamentals.

We have now reached the end of our presentation. Thank you for joining the call. And we will now take any questions you may have.

Operator, please open the line. Thank you.

Operator: Thank you.

Ladies and gentlemen, as a reminder, if you wish to ask a question, please press star 1 on your telephone keypad and wait for the automated message advising your line is open. Please then state your first and last name before you ask your question. If you wish to cancel your request, please press star 2.

Once again, please press star 1 if you'd like to ask a question.

We will now take your first question. Please go ahead. Your line is now open.

Mike Webber: Hey, guys, this is Mike Webber, Wells Fargo, how are you?

Charles Maltby: Hi, good, thank you and yourself?

Mike Webber: Good. Just regarding to your deck, I found slide eight pretty helpful and interesting and just kind of looking at the geographical footprint over time, it's a little surprising that the ramp in Europe (has been mirrored -- as it -- (inaudible) mirrored that of Asia).

I would have felt that would have been a bit more heavily weighted in terms of kind of the growth in -- the geographical growth to be a bit more heavily weighted towards Asia, just given the average kind of -- the kind of -- the difference in incremental parcel size and just the broader ramp there. Is that -- is that a function of just more -- many robust local European infrastructure? Or is that something that over time, you think you'll see -- kind of that growth ramp start to outpace what we've seen thus far in Europe?

Charles Maltby: Thank you, yes that’s a -- that’s a great question. And I think it's partly a legacy of our business if we're honest…

Mike Webber: OK.

Charles Maltby: … we are originally an Asia -- an Asia centric business and we've expanded our business globally in the last four years. So, in a way, we've grown as the market has grown, but we've also grown away out of just being in Asia. So, I think that’s probably a better representation of the change, if you see what I mean.

Mike Webber: OK…

Charles Maltby: What we do see though, is absolutely increasing demand in Asia. We've also seen a change in the profile of the tonnage that’s demanded. So, whereas four years ago, we were exclusively operating the 3,000 and 5,000 cubic meter vessels in Asia, as well as everybody else…

Mike Webber: Ok.

Charles Maltby: … we're now running the majority of our 11,000 cubic meter vessels, the largest ones, east of Suez. So, I think there's been a change and an upsizing in demand. And of course, Epic has the best vessels for that.

Mike Webber: Gotcha, OK. No that makes sense. And then, just wanted to add some (inaudible) kind of (get towards the back and started) looking through the balance sheet, the -- I think about your 2019 (inaudible). I think you guys -- you lay out the -- your loan profile -- so it looks like $33 million due in loans, it's -- only $26.6 is current, I'm assuming the rest -- the delta there is just going to be reduction in unused availability.

How does that spread out over the course of 2019? And I'm just thinking about it from an angle of you guys managing your liquidity just like (when I look at the - look at) what you guys have on deck for ’19 and ’20.

Uta Urbaniak-Sage: OK, yes you are absolutely right. Our amortization this year is about $33 million and that’s spread over the quarter -- over the four quarters. Our cash balance is $28 million as of December. And together with our operating cash flow, this year, our cash flow will be sufficient to cover the entire debt service.

Mike Webber: OK. OK, yes it was just -- it was unclear how that was spread, so if it's -- if it's evenly throughout the year, that makes sense. If it's -- if it's Q1, that’s a bigger issue, but that’s helpful. OK, great. Listen I appreciate your time, guys. Thanks.

Charles Maltby: Good. Thanks for the questions.

Operator: Thank you.

We'll now take your next question. Please go ahead. Your line is now open.

Randy Giveans: Hey, all, it's Randy Giveans at Jefferies, how are you?

Charles Maltby: Hi, Randy, very well. Thank you. Good morning, to you.

Randy Giveans: Good morning. So, as you mentioned, you focused solely on the smaller, fully pressurized market suite (and I think) 38, maybe 39 now, LPG carriers.

Most of them are owned, but you also time charter in six of them, so how do you decide between buying vessels versus chartering in additional vessels?

Is that solely a balance sheet decision? Or is it also a trading decision for if and when time charter end rates are below your spot rate expectations?

Charles Maltby: I think you've almost answered the question for us. It's very much focused around the cost of the asset. And we're obviously coming out of a period where the rates and the earnings have been very low. And so, a third party (owner's_ expectations have been a bit lower, so we have been (inaudible) to expand through time charter (in) -- as well as through adding in (bare boat) vessels for the longer term and owned vessels.

So, in the last four years, we've added in, for instance, 27 transactions of which 17 have been new build and 10 second hand vessels. And just this -- recently, we've added one time charter, and we may add more. We're certainly looking at that as an option right now.

Randy Giveans: Makes sense. All right, and then there seems to be a pretty large geographical arbitrage opportunity as the US increases its production and exports of LPG, while OPEC production cuts will likely increase the LPG import demand, especially in the Middle East.

Also, some of -- kind of the larger LPG carrier operators have highlighted increased US exports, mainly as a result of the Mariner East 2 and 2X pipelines kind of coming online to the northeast. So, how might this impact Epic Gas' operations globally?

Charles Maltby: Well, obviously we can -- we can move our ships anywhere in the world and we do. We highlighted -- I think we called over 200 ports last year, there's around about 400 ports in the world we think we can fit into, so we do have good diversity and access to many different ports compared to other ship sizes.

But the growth, for instance in Mariner East, the new volume coming out of there, it's highly unlikely we'll load ourselves a cube of cargo out of Mariner East, but…

Randy Giveans: (Yes).

Charles Maltby: … very (likely) -- very likely that we'll be involved in (trans shipment) of that volume into end ports off the bigger ships that have loaded there. And what…

Randy Giveans: (Inaudible).

Charles Maltby: … Mariner are doing is creating incremental supply of LPG on the water. And what we've seen in the last three or four years is that incremental supply leads to incremental demand for our ships in (trans shipment) operations into (end user) ports. (There's -- there) is a direct correlation.

Randy Giveans: For sure, for sure. OK, and then just the last question from me, so Epic earned about $10,000 a day during 4Q18, so how does this compare to your average breakeven rate? And then what are your kind of base case or maybe even best case scenarios for day rates in 2019?

Uta Urbaniak- Sage: Our P&L breakeven levels are around -- $10,000, so we are there. And I mean as you can see from our last quarter results, we are slightly above breakeven levels. We -- I mean we usually don't give any forecasts, but I mean we started the year positively -- at about the same level.

It's usually -- January is usually a quiet period between -- (yes) New Year and Chinese New Year, but January was also good for us. So, yes we are very positive for the next few months.

Charles Maltby: If we look at the supply and demand and owned the fact that last year, net fleet growth was about 0, but 2.6 percent growth in demand, this year, the forecast demand growth is 6 percent.

Now -- and about the same on the supply side for new ships, at sort of 1 percent to 0, depending on the scrapping. Our rates increased by 10 to 15 percent last year. We would therefore expect to see a similar outcome this year, if not better.

Randy Giveans: Perfect. All right. Well, thanks again, and congrats on the solid quarter.

Charles Maltby: Thank you.

Operator: And ladies and gentlemen, if you'd like to ask a question, please press star 1 on your telephone and wait for your line to be opened.

We will now take your next question. Please go ahead. Your line is now open.

Oh, apologies, it looks like they've just withdrawn their question.

There are no further questions at the moment.

Charles Maltby: OK. Well, if there's no further questions, thanks (Cass).

Thank you, everyone for making the time to join and listen on Valentine's Day 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 May for our first quarter 2019 earnings report.

Thank you very much, everyone.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now all disconnect.

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