

Event BW LPG Q2 2024 Earnings Presentation

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Hosts Kristian Sørensen, CEO
Samantha Xu, CFO

OPENING

Welcome to BW LPG's Second Quarter 2024 Financial Results Presentation. Bringing you through the presentation today are CEO Kristian Sørensen and CFO Samantha Xu.

We are pleased to answer questions at the end of the presentation. Should you have any, please type them into the Q&A function 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

Thank you, Lisa, and hi, everyone, and welcome to our 2024 Q2 presentation. Thank you for taking the time to join us today as we present our financial results and recent events. It's been an eventful period for our company. Let's turn to Slide Four.

Before we talk about the more recent events, let's focus on the Q2 numbers where we are pleased to report another good quarter for our fleet, with time charter equivalent in line with our guiding of US\$49,000



per day. We're also happy to report another profitable quarter for our trading activity in Product Services, with a net accounting profit of just below US\$16 million. As you will see from Slide 16, with our usual waterfall illustration of Product Services' performance, there was a US\$29 million profit from realised positions, which was offset against an unrealised net loss from physical and paper hedging positions. Following our good results, our Board declared a dividend of US\$0.58 per share, which corresponds to 100% payout of our shipping Net Profit After Tax (NPAT) of US\$0.48 plus US\$0.10 top up from Product Services.

The biggest news is the subsequent event of last week, where we announced the acquisition of 12 Avance Gas VLGCs for a total transaction price of US\$1.05 billion. This transaction is a major milestone and shows our capacity to strike transactions with big scale and strategic significance. It also propels BW LPG forward as a leading VLGC shipping and LPG value chain player. On the next slide, we will look at the highlights of the transaction, which was enabled by our successful listing on the New York Stock Exchange, which has boosted the liquidity and robustness in our share.

Looking at the market outlook, we are currently in a market which is on its way back from the summer doldrums, where the spot rates bottomed out around US\$30,000 per day from the U.S. Gulf because of disruptions in the terminal's lifting program after Hurricane Beryl. The demand side in the consuming markets East of Suez continues to show robust growth, and the FFA market is pricing December liftings at around US\$50,000 per day. More about the market developments later in the presentation. Let's turn to Page 5 for a repeat of last week's announcement.



For us as a company, we have historically had a clear preference for growing our fleet with vessels on the water without adding capacity to the global fleet. We did so when we acquired the Maersk VLGC fleet in 2013, as well as the Aurora LPG fleet three years later. So for us, this transaction was of the same scale and strategic magnitude, where we overnight created a much bigger footprint commercially, and a much larger company for the capital market to invest in. Through the transaction, a larger fleet will give us commercial advantages of scale, more flexibility, and market power.

Moreover, the acquired 12 vessels will contribute to the renewal of our fleet, and we will own and operate 53 VLGCs by the start of 2025, where 22 are dual fuel. However, to do this transaction at this point in the cycle, it was essential for us to use our shares as currency in a way which is accretive to our shareholders. Out of the total purchase price of US\$1.05 billion, of which US\$ 500 million is in debt, we will effectively fund 60% of the net asset value by issuing 19.282 million new shares at US\$17.25, equaling US\$ 333 million.

Avance Gas will have a 40-calendar day lockout period of the shares received when the vessels are delivered ship-by-ship in the fourth quarter. Consequently, we are increasing our total shares outstanding by 15%, while adding more than 40% earnings power through the expansion of our own fleet. The balance of the net asset value in the transaction is to be financed by cash at hand, and the drawdown of our current revolvers.



The transaction is fully funded and financed with BW Group providing us with a revolving unsecured shareholder loan of up to US\$350 million, allowing us to comfortably take over the 10 Avance Gas vessels with bank loans and swiftly refinance. The sale-leaseback facility currently financing two of the vessels will be novated soon.

On a like-for-like basis post-transaction, our liquidity will remain at a healthy level of US\$343 million before any refinancing effect to optimise the liquidity position. Net leverage ratio is expected to increase to 30-35%, a healthy and more optimal level than the 7-12% range we have reported for the last two quarters. Basis our positive market view, this illustrates the attractiveness and the accretiveness in this fleet acquisition, which expands our market-leading business platform while we maintain a robust balance sheet. Let's turn to the next slide to look at the latest market developments.

After a slow couple of months over the summer, U.S. exports have picked up from the delays caused by Hurricane Beryl, and the export volumes from Enterprise and Targa terminals in the U.S. Gulf are catching up with the backlog. The most recent report from Gibson Shipbrokers shows an uptick of 10 VLGC export cargoes from July to August, meaning the number of VLGC loadings in the U.S., including the East Coast, will arrive at 104 for the month of August.

The price differential between the U.S. and the Far East is currently around US\$ 230 per ton, giving room for higher freight rates on the back of tighter availability of ships, as we have seen over the last weeks. Heading into the winter season, the forward market is pricing the Houston-



Chiba benchmark leg at around US\$50,000 per day, and this is without any Panama Canal delays for VLGCs, indicating an upside on the rates should the Canal become more congested. If we look further out on the horizon, there are firm expansion plans from the three big terminals on the U.S. Gulf Coast, starting second half of next year, and we view these billion-dollar investments as positive for shipping demand when coupled with continued demand growth in the Asian markets.

In the Middle East, the annual export volumes are pretty much stable with seasonal reduction in export volumes over the summer due to maintenance and higher domestic consumption. According to Gibsons, the number of VLGC cargoes has fluctuated between 55 to 60 per month since May. What is interesting is that around 50% of these volumes end up in the increasingly important Indian market, which leaves the import markets further east in Asia more dependent on cargoes from the U.S., which in turn is supporting shipping.

For a period of time, there have been mixed signals from the overall Chinese economy, but the Chinese import demand for LPG, and in particular propane, continues to grow on the back of scheduled PDH plant expansions. As a final comment on the status of the LPG market, there's a lot of focus on the demand growth in China and the Indian subcontinent while the rise of the Southeast Asian market is overlooked by many observers. This region, with growing population and prosperity, imported around 13 million tons of LPG last year and is surfacing as a considerable consumer of LPG, which also sources significant volumes from the U.S.



Looking at the supply side of the VLGC market, we have entered a period of modest fleet growth for the next 18 months. In addition, if you look at the fleet profile for vessels 15 years and younger, there are 35 VLGCs going into drydock this year, while the number increases to 65 next year, which under normal circumstances will reduce the global fleet capacity. And with that, I leave the floor to you, Samantha.

CFO – SAMANTHA XU

Thank you, Kristian. And hello, everyone. Let's have a closer look at the shipping performance. For the second quarter of 2024, we delivered a timecharter equivalent (TCE) of US\$48,000 per calendar day and US\$49,700 per available day - a continued solid performance on shipping.

We have healthy coverage through our time charter and FFA portfolio, which represents about 39% of our shipping exposure. For the third quarter, we have fixed 86% of the available days at about US\$43,300 per day. For 2024, our time charter out fleet generates a profit of around US\$27 million over the time charter in fleet. The remaining of our fixed time charter out portfolio is estimated to generate US\$68 million for 2024.

Coming to Product Services, we're pleased to share that it delivered another quarter of strong performance. In Q2, Product Services yielded a net profit of US\$16 million, contributed by a gross profit of US\$25 million after netting off G&A and tax provisions. After deducting share capital returns concluded in Q2, the net asset value ended in June at US\$69 million. The gross profit of US\$25 million includes a realised gain of US\$29 million, as mentioned, offset by US\$5 million of unrealised cargo and derivative loss.



Due to increased fiscal forward volume from the new multi-year term contract with Enterprise Products Partners being phased in and included in the 12-month rolling market valuation, we may see larger movements in unrealised positions in the future quarter as cargo price fluctuates. The reported net profit does not include the US\$31 million unrealised fiscal shipping position based on our internal valuation. For Q2, we reported an average Value-At-Risk (VAR) of US\$5 million on a well-balanced trading book, including cargoes, shipping, and derivatives.

Going on to our financial highlights. On the back of good performance from both Shipping and Product Services segments, we reported a Net Profit After Tax of US\$85 million in Q2, including a profit of US\$12 million from BW LPG India and US\$16 million from Product Services. Profit attributable to equity holders of the company was US\$77 million for the quarter, which translated to earnings per share of US\$0.58. This means an annualised earnings yield of 12% when compared against our share price at the end of June.

We reported a net leverage ratio of 12% in Q2, an increase from 7% reported at the end of March, mainly driven by our cash position changes. As we progressively take delivery of the newly acquired 12 VLGCs, which mostly estimate to be in Q4, we expect that our net leverage ratio will gradually increase to an approximation of 30-35% range, as we slowly draw down on our revolving credit facilities. For Q2, the Board declared a dividend of \$0.58 per share, a 100% payout of the company NPAT or 121% of shipping NPAT.



This reassures that our continuous commitment to return value to our shareholders, as we deliver growth to our business. The balance sheet ended the quarter with a shareholder equity of US\$1.6 billion, and our annualised Q2 return on equity (ROE) and on capital employed (ROCE) were 21% and 17% respectively. Year-to-date OPEX per day arrived at US\$ 8,600, a slight reduction than last quarter.

For 2024, we expect our own fleet's operating cash breakeven to be about US\$17,800 and US\$22,300 for the whole fleet, including the time charters. As you can see, we continue to have a healthy repayment profile with outstanding shipping loan at US\$ 230 million, of which BW LPG India term loan of US\$127 million is only due to be refinanced in 2026 - a very manageable position.

On the liquidity side, we ended Q2 with a strong position of US\$578 million, which paved the way for the announced Avance Gas fleet acquisition. Vessel deliveries will be carried out from 15 September to the end of December. When all the vessels have been delivered, our liquidity is expected to remain healthy at a level of US\$343 million, with the estimate that US\$235 million is drawn from our current revolvers. We also expect to gradually draw down the revolving shareholder loan of US\$350 million, in part or in full, to fund the vessels' deliveries.

The shareholder loan makes sure the transaction can progress swiftly and that we can refinance with an improved term post vessel delivery. We expect the new fleet refinancing to be initiated as soon as possible, while we are working on other refinancing projects to optimise the balance



sheet. We're confident of maintaining a healthy leverage and financing structure, as well as a sustainable repayment profile with a grown fleet.

On the Product Services side, trade finance drawn stood at a moderate level of US\$159 million, or 20% of our available credit line, leaving healthy headroom for growth. With that, I'd like to conclude my updates. And back to you, Lisa.

Q&A

Host: Thank you, Samantha. We will open the floor for questions now. Should you have questions, please type them into the Q&A channel. You can also click the raise hand button to ask your question verbally. Please note that participants have been automatically muted. Please press unmute before speaking. [...] We have some questions. [Participant 1], please go ahead.

[Participant 1]: In terms of the cost side of taking over those 12 VLGCs, could you give some specific guiding on just how we should model that going into Q3 and further into Q4, potentially also impact in Q1? In terms of doing inspections and so forth, I would assume that the handover would take longer than what the normal turnaround would be. And if there are any planned non-revenue making days needed for the transaction to go along?

Kristian Sørensen: The transaction is done on standard sale form terms in shipping, where you conduct an underwater inspection and have the vessel delivered at the same time as you pay for the ships. And then the



ship is in our hands. So, there is no difference from a regular sale and purchase transaction in that respect.

[Participant 1]: I understand. But in terms of the revenue days in this time period, are you able to fix prior to the inspection and the delivery, and effectively not having lost revenue days when taking over the ships?

Kristian Sørensen: Well, the cost of the ships is on Avance until we have taken delivery. They can deliver the ship, typically in Asia, and then we ballast the ship into the Middle East and load, or go back to the U.S. Gulf. So it depends on the position of the ship, but all the cost for the vessel up until delivery to BW LPG is as per normal sale and purchase transactions for the sellers, at the seller's expense. Of course, the inspection and procedure around that is at our cost. But this is nothing material to be thought about from our side.

[Participant 1]: And if I just follow up on a quick one on the market outlook. This time you talk about the future growth for the next three years, which is at least in what I can read longer than what you normally have guided for. Could you shed some light on what sort of considerations you have been making to make statements now going into 2026, and perhaps also shed some light on why you think the U.S. LPG export growth is going to be in the high single-digit territory also in the coming few years?

Kristian Sørensen: We usually have a view two to three years out based on our own data collection. We see how the big terminals and the big players in the U.S. Gulf are gearing up and investing in adding capacity, how they are guiding on their volumes ... these, on top of our own data gathering, supports our views. So, we get our data from various sources.



And of course, we also look at what the big infrastructure players in the U.S. Gulf are planning for, because this will obviously have a big impact on capacity and what they see as the potential for exports going forward.

[Participant 1]: Okay, thank you.

Host: Thank you. [Participant 2] you're next, please go ahead.

[Participant 2]: You've taken some coverage recently, but obviously now with another 12 vessels, you're kind of "naked" going into 2025, 2026, at least on a percentage basis. As you are increasing your financial leverage, should we expect you to also then be a bit more aggressive on time charters now going into peak season, or will you be happy with 15% coverage with a much bigger fleet?

Kristian Sørensen: Without promising or guaranteeing anything, as previously guided, we are quite happy with the coverage that we've had over the last years, which has been in the range of 35% or a little bit higher. For us, we like to have exposure to the market, but we also want to, and have always had a certain downside protection being somewhere in the 30-40% range of our fleet capacity. This is what I can say at the moment, if that answers your question.

[Participant 2]: That's good. And just to follow up on the cost question, but more so on your efficient G&A. Should we expect, with the addition of Avance vessels, will it do a lot to your organisation, or is it just something you'll swallow with the team you have now?



Kristian Sørensen: We're able to absorb that basically with the team we have now, so there are no plans to increase the number of people or the G&A in any way.

[Participant 2]: Excellent. Thank you very much.

Host: We have another question from [Participant 3]. Please go ahead.

[Participant 3]: I'm curious to know how BW sees the new announcement from Panama Canal for long-term slot reservation. I would like to understand how BW thinks that will impact the market and how it will, if it's interested in securing some slots as well.

Kristian Sørensen: We have actually spent quite a bit of time trying to decipher this and what it means for us. And the conclusion is that I don't think we will bid for this tender. I think it's designed more for containerships and the like, which are shuttling back and forth.

[Participant 3]: Because that is going to use up about 40% of the slots that go for auctions. So can we expect that to be included in some, there will be less vessels or less slots around for auctions. So is that a factor at play here?

Kristian Sørensen: The Panama Canal is basically designed for containerships and you can say LNG carriers ... are also prioritised above VLGCs. So ... the Panama Canal is a big black box and a wild card in our market. So what's happening there will have a big impact on the dynamics in the market, but it's hard for us to also justify going in on a tender where you book slots. This is because we are in a market where you have the charterer's option to discharge in Europe or go to Asia or



other parts of the world after loading in the U.S. So I think for us, as it looks now at least, better off to play the spot market, so to say, in the Panama Canal.

[Participant 3]: Okay, thank you.

Host: [Participant 4], please go ahead.

[Participant 4]: Yes, thank you. A question related to the Product Services division. Do you plan to ramp up the activity now as you grow the VLGC fleet to such a big scale as you're doing?

Kristian Sørensen: We announced an extension of the Enterprise contract last quarter. There are no plans to further expand on a contract basis more than we already have announced.

Host: We will now move on to questions from the Q&A channel. We have one question asking if you could elaborate on how much additional free cash flow earnings you expect to generate from the larger fleet post-acquisition and the long-run dividend per share, assuming TCE remains approximately at the current levels?

Samantha Xu: Adding 12 vessels to the fleet is definitely increasing the revenue generation potential. We expect this fleet to perform at a level similar to our existing fleet, and on the cost front as well. So I think that that would likely give you very good guidance, based on our cash breakeven and the market where is trending, our guidance on the coverage, et cetera. These will probably give you a very good idea where the free cash flow will likely land following the market fluctuations. And as from a dividend perspective, as we have shared many times, this is at the



Board's discretion, and we will largely follow the dividend policy while maintaining to distribute value back to the shareholders as much as possible.

Host: We'll go to the next question. In terms of terminal export capacity, is it pre-booked or do you pay spot for terminal pricing?

Kristian Sørensen: In general, if you enter a term contract with the export terminals in the US Gulf, you have a pricing mechanism, which is agreed on a case-by-case basis, depending on the negotiations with a terminal, which again, boils down to flexibility, volume, duration, and so on. And if you play the spot market, then of course, you are exposed to the supply and demand there and then, when you want to buy the cargo. So this is quite, as in any other market, I think, quite normal.

Host: Another question. What are the specific projects expansions you're looking at, which should increase LPG export capacity in the U.S. and Canada?

Kristian Sørensen: If you look at our slide, we mentioned Enterprise, Energy Transfer. We also know that there are plans, in Canada, to ramp up the exports on the West Coast. I think there is a fairly long list of expansion plans on the terminal infrastructure side in the U.S. and Canada for the next years. In the last monthly review from Argus, they had a long list of, and showed, the different expansion plans which are confirmed in the U.S. Gulf. The companies are quite open about this since they're also stock listed.



Host: We have a question asking, we see most shipowners in LPG are opting to order newbuild Very Large Ammonia Carriers. Does BW LPG also have any plans or intent to focus on VLACs or ammonia trades?

Kristian Sørensen: If you go back in time, we were one of the biggest shipping companies in the ammonia space. The last ship I think was sold in 2019. That was a Large Gas Carrier, which is one size below VLGCs. So we are not strangers to trading ammonia. At the moment, we do not have any ammonia lifting capacity on our ships except for in the Indian fleet, which are tied up in trading LPG from the Middle East to India. We are absolutely believers in the ammonia case going forward, but we do not have any VLACs on order at the moment. But let's see what the future brings. Like I said, we are no strangers to trading and lifting cargoes in ammonia space.

Host: Following up on that question, there are concerns for oversupply in LPG shipping, especially for VLGCs, with approximately 40 VLACs scheduled for delivery in 2026, 2027. Any thoughts of how it would impact the earnings?

Kristian Sørensen: Like in any other shipping market, if you have overcapacity in the fleet, of course, that will impact the rates negatively. It depends on how LPG volumes are expanding in the period from now up to 2026, 2027. And also, of course, how the much talked-about ammonia projects are materialising in the same period and towards the end of this decade. So this is, I would say, a million-dollar question. And like in any other shipping segment, overcapacity is a challenge if that occurs.



Host: Next question. The re-domiciliation to Singapore, tax-wise, will the company still be assumed to be outside the exemption method according to Norwegian tax legislation? And when will the new shares related to the Avance Gas transaction be issued?

Kristian Sørensen: I can reply to the second question and leave Samantha to reply to the first. Avance Gas will receive their shares when the ships are being delivered. Every ship has a pre-agreed portion of shares and cash to be paid before they are delivered to us. And then for the next question, I leave that to Samantha to reply.

Samantha Xu: [Participant], maybe I will ask you to elaborate a little bit on what you mean by the exemption methods about the Norwegian tax legislation. But basically, there's no change for investors residing in Norway, even after we have redomiciled to Singapore. There's no withholding tax applied for dividends paid from BW LPG to investors around the world. And as for either it's a dividend, or in the case of a share buyback, all the proceeds will be taxed based on the investors' tax status. I hope that answers your question.

Host: And we have another question asking about the fleet from Avance Gas. The vessels are younger than your current fleet and probably more fuel efficient. How will this impact on your average OPEX?

Kristian Sørensen: We hope that it will impact positively on our OPEX. Like you say, the fleet is a few years younger on average than our current fleet. That was also one of the parts we found attractive with this transaction. We hope that we can benefit from that, and also from the scale when adding 12 more ships to our fleet.



Host: We have another question. Will there be more analyst coverage in the USA?

Kristian Sørensen: We are working on it. We hope that more equity analysts in the States will take up coverage of our share and company, especially now that we are growing. So that's something we are working on.

Host: We have a question. How many shares of the company belong to owners, directors, and how many are traded on New York Stock Exchange and Oslo Stock Exchange?

Kristian Sørensen We report on this, and this is something you can find on our website. Please send an email to our Investor Relations team, and we can give you a reply.

Host: Next question. How has ETS impacted the market so far?

Kristian Sørensen: I would say that ETS has impacted the market in the sense that there is more focus on newer vessels. And of course, the fact that we now have 22 ships with dual fuel technology on the water by the end of the year is something which is to our advantage. So overall, it's shifting the focus and the preference in the market slowly towards more fuel efficient and environmentally friendly vessels with the latest technology.

Host: There are no more questions on the line.



Kristian Sørensen: Okay, everyone, then I'd like to thank you all for joining us today and thank you for your support and we will see you again next quarter.

CONCLUSION

We have come to the end of today's presentation. Thank you for attending BW LPG's First Quarter 2024 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.
