Epic Gas Investor Call

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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Epic Gas Investor 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 first speaker today, Mr Charles Maltby. Please go ahead, sir.

Charles Maltby: Thank you very much. Good morning and afternoon and welcome to today's call to discuss our results for the second quarter of 2016. My name is Charles Maltby, Chairman and CEO of Epic Gas. And I'm joined today by our Chief Financial Officer, Uta Urbaniak-Sage.

In 2013, Epic Gas commenced a journey to grow from being a regional participant with 16 pressurised LPG carriers on the water, primarily in Asia, to become a global player with a leading low cost, high quality fleet regarded as a partner of choice by customers. We are working hard to deliver to this plan. Through our consolidation, new-build orders and multiple single vessel transactions, we today, have 38 high quality modern vessels on the water and a remaining five, fully financed, new built vessels due before March next year. The second quarter of 2016 highlights this evolving young fleet as we absorbed to further new-build 11,000 cubic metre vessel and redelivered a smaller, older 3,500 cubic metre chartered-in vessel.

The net impact is that our fleet calendar days in Q2 2016 are up 3% year-over-year to 3,468 days and an increase of 7.6% in our average vessel size to just over 6,000 cubic metres. As the balance of vessels deliver, the average vessel size is scheduled to increase to over 6,450 cubic metre with greater than 50% of our earnings generated from the 7,500 vessels or larger by this time next year.

Our adjusted EBTIDA of 7.5 million, up 6% from the first quarter and down 1% year-over-year, reflects our ongoing commitment to tight cost management, a clear focus on utilisation, all during a period of on-going market weakness. Meaning, we have been able to achieve a broadly flat revenue of $32.6 million.

The pressurised LPG sector is showing some mixed sentiment. On the supply side, we are now entering a period of marked slowdown in sector-wide deliveries. After delivery of our vessels, there are only nine incremental vessels on order and deliveries in the past quarter are already down by 45% year-on-year and no new-build orders have been placed, highlighting the underlying market correction at work. We anticipate full-year growth in cubic metre capacity of about 5% after scrapping, compared to 9.1% last year. In addition, the smaller semi-ref fleet is anticipated to see fleet shrinkage during the same period, providing incremental demand growth opportunities for the pressure fleet.

In regards to scrapping, year-to-date, we are so far seeing two vessels from the international fleet, two from the Korean domestic fleet and, very reasonably, one from a Russian owner scrapped. There remain 21 pressure vessels and 22 semi-ref vessels aged over 20 years, trading in a market where the rate environment would suggest it is reasonable to assume further scrapping as the year progresses.

On the demand side, we continue to believe in the long-term growth in LPG consumption, driven by evolving energy fundamentals and increasing commodity supply. Whilst we are currently working through the difficult market created by the legacy supply, we anticipate overall global LPG seaborne trade growth of over 5% in 2016. Plus, we are a market heading into balance.

In North Asia, China has shown significant downstream demand for propylene during the quarter with record imports in particular from South Korea as new PDH plants come online, and irrespective also of the ongoing strong imports of propane on VLGC. This has helped to provide near-term utilisation for the smaller pressurised fleet in the region and if sustained, will lead to a localised rate recovery.

In South Asia, Southeast Asia and Indian Ocean, our volumes loaded under transhipment from larger VLGC tonnage into the smaller regional ports for last mile delivery remain strong, with the addition of an incremental transhipment location in Male, assisting to drive a year-on-year shipment growth of 270%.

Further to our reference at the end of Q1 to the return of Iran to open international exports of LPG, it is good to note significant year-to-date growth, export growth, of just under 20%. Whilst we presently have no vessels loading from Iran, it is a growth market for the future for Epic. Iran has the world's second largest gas reserves and presently accounts for about 6% of global LPG trade. With further significant investment planned, it is anticipated that Iranian exports will double in the years ahead with our vessels being well-suited for these regional trades.

Ongoing volatility and commodity pricing have had an impact on rates. Especially in the Atlantic where the Transatlantic Arbitrage for product ex the USA has been closed during the quarter, removing significant demand for larger pressurised vessels on this route. We see the reduction in US propane exports on longer haul routes on pressurised vessels as a market normalisation with the underlying demand for butane exports, primarily intra US Gulf and

Caribbean through to the Central Americas where volumes are robust today, remaining a longer term core trade.

Looking at our business by region, Epic Gas currently have 24 ships trading West of Suez and 14 ships trading East. With the incremental delivery of our new builds combined with the recent delivery of the two smaller bareboat charter vessels in Asia, we anticipate we will continue to grow our presence in both regions with inquiry from existing and new customers for both LPG and petrochemical trades, on a global basis.

We continue to develop markets where our expertise, assets, and network density, allows to outperform the time charter market through a combination of contracts of affreightment and spot business. During the quarter, contracts accounted for 19% of our spot days compared to 16% in the same period in 2015. Whilst the vast majority of our business will remain time charter, we expect to see a continuing growth in our COA performance over the long term.

We have increased our full coverage during the last quarter, to 47% for the balance of 2016. Our increasing COA exposure, where our engagement with customers is on a voyage contract basis, accounts for over 8% of our forward contract covered today. The COA provides the customer with scheduling flexibility, whilst providing us with the ability to tightly schedule our fleet in the spot market and to keep up utilisation. As a team, we are focused on maximising utilisation on our fleet while improving the efficiency of our business. This quarter has been particularly challenging, with a need to position two new-build vessels from the Pacific to Atlantic markets, the redelivery of a bareboat charter vessel in Asia whilst also scheduling three dry dockings over a combined period of 80.5 days on our existing fleet. In addition, one of our vessels has had to enter dock for unplanned repair during the period.

Despite our evolving fleet and the need to position our new vessels, weaker charter markets, routine technical requirements, and exposure to the spot markets, we achieved a hard fought for 94.8% operational utilisation during the quarter and 95% year-to-date.

In summary, the combination of the weaker markets, our evolving fleet, combined with our net utilisation, means we post time charter equivalent earnings of 8,183 per day, down 6% year-over-year. We believe, with the significant reduction in net fleet growth alongside broad on-going demand growth, we are working our way through the supply induced lower rate environment. We will continue to fine-tune our fleet to deliver high quality, long-term, low cost asset base, especially in the larger segments of the pressurised sector where we take delivery over further five new-build vessels during the seven months ahead.

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

Uta Urbaniak-Sage: Thank you Charles. Looking at our second quarter results, we generated revenues of $32.6 million which is about the same level we recorded during the same period in 2015, meaning larger vessel sizes and an increased fleet partially off-set the lower utilisation and weak rate environment.

Vessel operating expenses decreased further year-on-year by 1% to $4,040 per vessel calendar days. The reduction was achieved irrespective of the 7.6% growth in our average vessel size over the period.

Charter-In costs decreased from $3.9 million to 3.4 million year-on-year, reflecting the redelivery of two bareboat vessels in the fourth quarter of last year and second quarter of this

year, respectively. That leaves us with seven ships on bareboat charter arrangements for the remainder of the year.

We managed our fleet growth without incremental SG&A expense. During the second quarter, the company achieved a 7% reduction year-on-year in the absolute level of SG&A expenses and a 10% reduction on a cost per calendar-day basis. Our platform costs which include the cost of commercial and technical management of our fleet, as well as all corporate level general and administrative expenses, currently stand at $1,099 per calendar day and should continue to improve with continued fleet growth and operational improvements.

Finance expenses increased marginally from $3.3 million in the second quarter of last year, to 3.4 million, reflecting the increased 3-month LIBOR. The company recorded an adjusted EBITDA of 7.5 million, down by 1% year-on-year but up by 6% from the first quarter of this year. We finished the quarter with a net loss of $0.9 million, an improvement by 52% compared to the second quarter of last year.

Moving on to our new building programme. During the quarter, we took delivery of the Epic Shikoku. She is an 11,000 cubic metre ship and is the third vessel in our series of new buildings. The remaining five new builds which are all built at high quality Japanese yards will be delivered by the first quarter of 2017. As of 30th June, the company had remaining capital expenditure of $65 million. We expect to draw down 63 million from our existing credit facility with the remaining 2 million to be funded from the company's cash balance which stood at 30.8 million as of 30th June. Epic Gas is therefore in a comfortable position to fund its remaining capital expenditure.

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

Operator: Thank you ma'am. 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 are no questions at this time. I would like to hand the conference back to the speakers. Please go ahead, sir.

Charles Maltby: Thank you, sir. Thank you everyone, for making the time to join and listen today. We appreciate your interest in our business. If you would like to discuss further, please do contact Uta or I, directly. But in the meantime, we look forward to updating in November. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect the lines now. Thank you.