

# **Dorian LPG Ltd. (LPG) Q4 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 22, 2024 Wednesday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 4112 words

**Byline:** SA Transcripts

**Body**

Dorian LPG Ltd. (LPG)

Q4 2024 Results Conference Call

May 22, 2024 10:00 AM ET

Company Participants

Ted Young - Chief Financial Officer

John Hadjipateras - Chairman, President & Chief Executive Officer

John Lycouris - Head of Energy Transition and Chief Executive Officer-USA

Tim Hansen - Chief Commercial Officer

Conference Call Participants

Omar Nokta - Jefferies

Climent Molins - Value Investor's Edge

Presentation

Operator

Good morning, and welcome to the Dorian LPG Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. Additionally, a live audio webcast of today's conference call is available on Dorian LPG's website, which is www.dorianlpg.com .

I'd now like to turn the conference over to Ted Young, Chief Financial Officer. Thank you, Mr. Young. Please go ahead.

Ted Young

Thank you, Kevin. Good morning, everyone, and thank you all for joining us for our fourth quarter 2024 results conference call. With me today are John Hadjipateras, Chairman, President and CEO of Dorian LPG Limited; John Lycouris, Head of Energy Transition and Chief Executive Officer of Dorian LPG USA, as well as Tim Hansen, our Chief Commercial Officer. As a reminder, this conference call webcast and a replay of this call will be available through May 29, 2024.

Many of our remarks today contain forward-looking statements based on current expectations. These statements may often be identified with words such as expect, anticipate, believe or similar indications of future expectations. Although, we believe that such forward-looking statements are reasonable, we cannot assure you that any forward-looking statements will prove to be correct.

These forward-looking statements are subject to known and unknown risks and uncertainties and other factors as well as general economic conditions. Should one or more of these risks or uncertainties materialize or should underlying assumptions or estimates prove to be incorrect, actual results may vary materially from those we express today. Additionally, let me refer you to our unaudited results for the period ended March 31, 2024 that were filed this morning on Form 8-K.

In addition, please refer to our previous filings on Forms 10-K and 10-Q, where you'll find risk factors that could cause our actual results to differ materially from those forward-looking statements. Also, you may find it useful to refer to the slides we posted this morning as we will make our remarks during this call. Finally, please note that we expect to file our full 10-K no later than May 30, 2024.

With that, I'll turn over the call to John Hadjipateras.

John Hadjipateras

Thank you for joining John, Ted, Kim and me today. We're happy to report that our financial year 2024 was a record year with our highest ever net income and more than 30% return on book equity. Returns to shareholders since our IPO will total 730 million after payment of our eighth consecutive irregular quarterly dividend of dollar per share declared at the end of last month.

Even though these payments appear regular, I want to emphasize as Ted has consistently done in our past earning calls that they will continue to be contingent on the Company's results of operations, financial condition, prospects and capital funding needs.

Post-COVID, the LPG market benefiting from increasing product demand as well as geopolitical events and climate change has for the most part remained resilient and has generated strong earnings. The wars in Ukraine and Gaza as well as a deficit of rain in Panama significantly changed trading patterns adding ton-miles helping our sector absorb a very large order book in 2023.

Our management with the support of our Board, while often navigating extreme spot market volatility and dealing with extraordinary issues caused by the pandemic, supply chain disruptions and the wars, played a critical role in our success by maintaining the right levels of debt and liquidity and by the diligent commercial and technical management of our ships. In the last 12 months, we expanded our fleet with one owned and three chartered in dual fuel newbuilding VLGCs. It's a good time to be a ship-owner.

Subscribe to Seeking Alpha for more content like this

Dorian's task now is to build on our success by continuing the careful allocation of capital and by sensibly expanding and renewing our fleet to meet the needs of the LPG market, while we also keep an eye out for market opportunities. We are optimistic for VLGCs for LPG transportation and for the emerging ammonia trade. We are confident in our team's skills to manage through cycles and we are resolute in pursuit of our duty to our investors to create value, maintain our strong balance sheet, and continue returns by way of dividends and or buybacks as appropriate.

Back to Ted.

Ted Young

Thanks. My comments today will focus on our unaudited fourth quarter results and financial position, capital allocation and liquidity. At March 31, 2024, we reported $282.5 million of free cash and available for sale of debt securities of $11.5 million giving us total available liquidity, which is not a GAAP term of $294 million. As of Tuesday, May 21, 2024, our free cash balance stood at $270 million, which does not reflect the $40.6 million dividend that we paid out to shareholders on May 30th.

With a debt balance at quarter end of $610.5 million our debt to total book capitalization stood at 37.4%, down from 43.2% a year ago, and net debt to net total capitalization at 20.1% versus 33.5% a year ago. The improvement in these ratios is important and we are pleased that we are able to achieve those levels while still rewarding shareholders with over $160 million in dividends over the same period.

Again, we have no refinancings until 2026, ample free cash and undrawn $50 million revolver and one debt free vessel. Thus, we have a significant measure of financial flexibility. We expect our cash cost per day, OpEx, G&A, time charter and expense, interest and principal for the coming year to be approximately 25,000 to 26,000 per calendar day.

For the discussion of our fourth quarter results, you may also find it useful to refer to the investor highlights slides posted this morning on our website. I'd also remind you that my remarks will include a number of terms such as TCE, operating days, available days and adjusted EBITDA. Please refer to our filings for the definitions of these terms.

Turning to our fourth quarter trending results, we achieved a total utilization of 87.7% for the quarter and reported a daily TCE of $72,202 per operating day, nearing a utilization adjusted TCE or TCE revenue per available day of about 63,290.

As our entire spot trading programs conducted through the Helios Pool, its spot results reported are the best measure for our spot chartering performance. For the March 31 quarter, Helios earned a TCE of 7,822 for its spot and CLA voyages and 64,900 roughly for all voyages including time charters in the pool.

On Page 4 of our investor highlights material, you can see that we have five Dorian vessels on time charter within the pool, plus 1 MOL Energia vessel indicating spot exposure about 80% for the 30 vessels in the Helios Pool.

Turning to the quarter ending June 30, 2024, we currently have over 75% of the available days in the Helios Pool booked. Given the difficulty in predicting loading dates for the remainder of the quarter, which obviously have a huge effect on revenue recognition, we felt it more appropriate to share TCE revenue over all available days in the pool for the quarter, which suggests a TCE in excess of $40,000 per day on a load to discharge basis, which is in accordance with U.S. GAAP. This rate includes both spot fixtures and time charters in the Helios Pool only.

Daily OpEx for the quarter was 10,047 excluding drydocking related OpEx. It was 10,699 per day including those amounts. Sequentially, our OpEx excluding drydocking was up only 1.4% or virtually flat, which was a good performance. Our time charter in expense for the four TCN vessels, was 12.7 million. We expect that amount to return to the $10.5 million range going forward, which is and has been the actual quarterly cash outlay.

Subscribe to Seeking Alpha for more content like this

Total G&A for the quarter was $8.5 million and cash G&A hat is G&A excluding non-cash compensation expense was about $6.6 million. This amount is up sequentially from the prior quarter, but most of the increase is due to statutory non-cash accruals that we make for employee leave and retirement during the first calendar quarter fourth fiscal quarter every year. Reported EBITDA -- adjusted EBITDA for the quarter was $105 million, which is the second highest quarterly EBITDA in our corporate history.

For the year, our EBITDA was $417 million also a corporate record, which is up nearly 54% from last year's $271 million of EBITDA. We continue to benefit from our hedging policy and the favorable pricing of our Japanese financings, leaving us with a current interest cost fixed hedge and a small floating piece of 4.7%, which yielded a quarterly cash interest expense of $7.3 million.

As a reminder, we calculate cash interest expense on our debt as the sum of interest expense excluding deferred financing fees and other loan expenses and realized gain loss on interest rate swap derivatives, as those numbers are reported on our income statement. Although, we currently hold a roughly 83% economic interest in Helios, we do not consolidate its P&L or balance sheet, which has the effect of understanding our cash and working capital somewhat.

Thus, we believe it's useful to provide some additional insight in order to give a more complete picture. As of Tuesday, May 21, 2024, the pool had roughly $40 million of cash on hand, which will decrease when the monthly distribution is paid out in the next few days.

Net income for the year was $307.4 million again a corporate record and with average shareholders' equity of $948.7 million over the year, we generated a return on equity of 32.4%, which is a testament to both great earnings and prudent balance sheet management.

Turning to capital allocation with the payment of another $1 regular dividend, which again we remind you and as John also mentioned, our irregular dividend subject to our Board's evaluation of the business, prospective market conditions, capital needs and other items John outlined. We've now paid dividends in 11 of the last 12 quarters, totaling $12.50 per share or over $500 million in aggregate.

Coupled with a $113.5 mm self-tender offer and $116.5 million of open market repurchases, we've now returned nearly $735 million to our shareholders since our IPO. The significant dividend payments in the last quarter underscore our Board's commitment to a sensible capital allocation policy that balances market outlook, operating capital needs of the business and an appropriate level of risk tolerance given the volatility of shipping. We remain cautiously optimistic about our cash flow generation over the coming months, but we will be vigilant for changes in the global macroeconomic and energy market outlook.

With that, I'll pass it over to Tim Hansen.

Tim Hansen

Yes. Thank you, Ted, and good day, everyone. So, the quarter ending March 31 saw steep declines in the freight market in January and a gradual upwards correction during February March. The fall in freight rates in January were particularly steep after coming off the hikes in December 2023 and highlighted how significant imbalances in the market can occur, but the recovery, even gradual, reaffirmed that there are further fundamentals in the VLGC market.

The factors for the declining freight rates in January were the narrowing of the West East arbitrage almost and almost one-third of expected 2024 newbuildings delivering in a short window and a drastic reduction of the congestion in the Panama Canal. The narrowing of the arbitrage between January and February is a seasonal occurrence, reflective of the reduced demand as the weather warms in most importing countries.

The North American code snap in January of this year excavated the situation as domestic consumption increased and LVT prices in the U.S. rose. The newbuilding deliveries amidst an uncongested Panama Canal created a temporary oversupply in the U.S. Gulf, which impacted the market with astonishing force.

Subscribe to Seeking Alpha for more content like this

A reduction in container traffic after the holiday season rush was expected, but the decrease the degree of the reduced container traffic was unexpected. Lastly, the fact that there were zero transits in the neo-Panama Canal by dry cargo vessels was unprecedented.

Ultimately, LPG production and exports from North America, in particular, are increasing and demand in the Far East remains robust. Furthermore, the Panama Canal was capped at the maximum number of transits to reduce the waiting time for those trying to take advantage of the of an open Panama Canal. And vessels sailing to Asia, the Eastern route were forced to sail the longer route via Cape of Good Hope with Suez Canal being inactive or inaccessible, sorry.

After the initial shock of the imbalance in January was suggested by the market corrected upwards in February and March to better reflect the firm fundamentals of the VLGC markets. In the short to medium term, we see the market characterized by potential upside. Only about nine more VLGCs are scheduled to deliver this year at regular intervals. Propane is the preferred feedstock for steam cracking, and seven more PDH plant in China are scheduled to start before the summer. North American exports are forecast to grow on the back of increased production.

The Panama Canal is scheduled to increase transits capacity to over 30 transits per day before this summer, but we consider it likely that the congestion levels will revert to that what was seen before October 2023 when the transit capacity was reduced. Furthermore, the sizable delivery schedule of LNG vessels and new Panamax container vessels will risk increasing the congestion. Thus, we do remain positive about the medium- to long-term prospects for our business.

With that, I'll pass you over to John Lycouris.

John Lycouris

Thank you, Tim. Last July, the IMO's MEPC-80 agreed to change the net zero emission standard for shipping to a 2050 target date instead of 2100. As a result, the industry's decarbonization pathway has been challenged to deliver significant improvements in energy efficiency in clean fuels, emissions, reduction and offer viable green market dynamics.

Shipping throughout history has proven its ability to adopt to new circumstances and challenges. Shipping its value to the world markets is based on its ability to move resources efficiently around the world. Ships have been built to achieve economies of scale and to optimize operations and logistics. The shipbuilding challenges today are in building the right ship for the purpose aiming to achieve the task at hand.

What we require right now are newly designed vessels built to cope with the world's current and future environmental changes, while achieving the main purpose of moving resources efficiently around the world. Shipping's energy transition and transformation has commenced. At Dorian LPG, we firmly believe that we should be part of and provide long-term solutions to the world to globalization objectives and goals. We have found these initiatives to be both ecological as well as economical.

Our scrubber vessel savings for the first quarter of 2024 amounted to $3.8 million net of all scrubber operating expenses or about $3,480 per day per each ship. Fuel differentials between high sulfur fuel oil and very low sulfur fuel oil averaged $184 per metric ton, while the pricing differential for LPG versus very low sulfur fuel oil stood at about $197 per metric ton, a fact that was helpful for the dual fuel engine vessels when operating with LPG.

The total number of vessels fitted with scrubber units in our fleet are 14 and we plan to retrofit another vessel in the next calendar quarter during the regular dry docking of that vessel. The installation of energy saving devices and silicon hot coatings to our vessels will continue as we provide -- as they provide significant performance improvements in fuel savings, reduction of the fleet CO2 emissions, and improved CII ratings.

The sell your vessel Captain John NP, which was originally built as a VLGC, VLAC and a 93,000 newbuilding VLGC, VLAC vessel at Hanwha Ocean. We are able to upgrade and outfit some of our vessels for ammonia's cargo. Green hydrogen's future economy will depend on the transportation of large quantities of ammonia, most likely in VLGC vessels, and we are ensuring that the Dorian LPG fleet can be ready to handle this cargo at the earliest possible time without adding more newbuilding tonnage.

Subscribe to Seeking Alpha for more content like this

In continuation of Dorian's commitment to sustainability, we strive to improve on energy efficiency on board our vessels with a focus on vessel operational performance while continuing to follow technological innovations as they mature and become commercially viable in the future for the marine sector.

And now, I would like to pass it over to John Hadjipateras for his closing remarks. Thank you.

John Hadjipateras

Thank you, John. Kevin, we're ready to take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question today is coming from Omar Nokta from Jefferies. Your line is now live.

Omar Nokta

Couple of questions for me regarding the market. And obviously, and you were just touching on this in the opening comments. The markets clearly lifted quite a bit here since the bottom in late January, early February. Rates have been climbing and that's coming despite the fact that the Panama Canal restrictions are being lifted. More ships are going through than we've seen in the past several months, yet spot rates are at a four-month high. Just kind of from your perspective, what's driving the strength we're seeing in spot rates despite the fact that you've got loosening in the canal?

John Hadjipateras

In short, I'll give you a short answer and then I'll give you Tim who can expand on it a bit. But my short answer is that the positive fundamentals and the supply demand equilibrium is what has made the market bounce back in a healthy way. But Tim can give you a little more color or a lot more color maybe. Tim?

Tim Hansen

Yes. I mean, you're right that the lowest point was partly, as we mentioned also in the last call, due to the huge drop in the congestion in the Panama Canal. It has come back to some extent the delays as we also projected, and we still do see a lot of the owners balancing the long way around, especially when the market was a bit lower, the risk of facing high auction fees to go through the canal was still there and still is.

So, the auction fees have gone up to around $2 million again. So, the congestion has come back in the Panama Canal. So, I think as John says, it's still also as we expected that the fundamentals would be strong coming into this year and that's really what we see now. Part of that is, of course, that a lot of ships is going via the cape of.

Omar Nokta

And then just in terms of kind of market averages thus far or what you've been able to achieve? I know Ted in the past you have given sometimes an indication and I can't remember, if you maybe I missed it in your opening comments. Is there any color you can give on how the quarter is shaping up thus far, the current quarter?

John Hadjipateras

So, Omar, we've historically given it, the percentage of fixed days and the wait for those days, but we're going to, what would, we're modifying that a little bit. So, the relevant statistics, the team has booked 75% of the available days in the pool for the quarter ending June 30th. And on that basis, those days as the denominator the TC for those vessels or those voyages is in excess of $40,000 a day on a load to discharge basis.

Omar Nokta

So, 75% of the pool days, including the pool TCOs, is that just over 40?

John Hadjipateras

Correct. It's somewhat over 40. And just the reason we're doing that is just to the revenue recognition gets awfully tricky with these things. So anyway, thank you.

Subscribe to Seeking Alpha for more content like this

Omar Nokta

And maybe just a final one. Maybe you mentioned the order book for VLGCs and last year was a big delivery year. It starts to it's been abating this year and next. But I noticed you've kind of separated the order book for VLGCs from the VLACs fees and VLEC. Is that how we should think about this market in the future? Do you think the way this ammonia opportunity is developing -- do you think that -- do you think a VLAC becomes more of like a project-based asset similar to the VLEC and not necessarily impactful to the broader VLGC trade? What do you think of that in the future?

John Hadjipateras

Omar, the true answer is that the VLAC should be looked at as a VLGC and the ammonia trade the expansion of the ammonia trade hopefully is going to absorb the VLACs. But now, the timing of it and the extent of it is still kind of in play. And the ships that are on order, when I look at it, I look at VLGC and the VLACs, nearly 90 ships on order, I think. I look at them as that's the fleet on order.

And then when we're still like I said, we're quite optimistic in spite of the fact that this large order book, it's as you know, the '25 and '26 is pretty much restricted deliveries. And hopefully, we will be ramping up with the ammonia trade, which we are hopeful and optimistic on beyond that.

Operator

Next question is coming from Climent Molins from Value Investor's Edge. Your line is now live.

Climent Molins

I wanted to start by asking about your financial profile. I mean, leverage is sitting at very manageable levels, even pro forma for the recent newbuild order. Could you provide some color on where you see the sweet spot? And secondly, do you plan to continue to organically de-lever going forward?

John Hadjipateras

I think if you're talking about the sweet spot, I imagine you're asking about the leverage ratio and I would say that it's a moving target in our business. You cannot say that you want to have 50% or more than 50% or less, but because it depends on the at the spot, at the point where you are in the market for that. So, I can't really tell you that we have a sweet spot. What happened with where we are right now?

Climent Molins

You own a modern fleet and I mean almost the whole fleet is eco, but is there maybe any appetite to go out and pursue additional fleet renewal? And additionally, some color in your overall view on underlying asset values would also be helpful. And finally, in conjunction with this, this is more of a medium-term question, but is CO2 transport something that could or would be considered?

John Hadjipateras

I'll let John Lycouris talk to you about CO2 transport. Regarding additional ships, we don't think we need to add newbuildings to the order book. So, we are in the process of as you said, we have a modern fleet and we have, but we do have to consider fleet renewal. So, depending on opportunities going forward, maybe newbuildings, but could also be purchases in the secondhand market. But on the question of CO2 transport, which is a great question, John may have a few interesting remarks to make on that.

John Lycouris

What we like CO2 transport because it may have to do something with the future of shipping, meaning carbon capture on vessels and CO2 would be part and parcel of carbon capture because you may need to transport CO2 to debunkering location or to another purpose-built vessel. So, we think that CO2 will be the next items to be looked at either on existing ships with adding special tanks that can carry CO2 or with vessels that would be able to transport CO2 to the location where it's going to be sequestered or stored.

Operator

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Subscribe to Seeking Alpha for more content like this

John Hadjipateras

Well, thank you very much for joining us everybody and for your interesting questions and wish you a happy summer and we look forward to talking with you all again at the end of our next quarter.

Thank you. Bye-bye.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

**Load-Date:** May 22, 2024

**End of Document**