Capital Link US

Moderator: David Butters
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OPERATOR: This is Conference # 9485211.

Operator: Ladies and gentlemen, thank you for standing by. Welcome to today's Navigator Holdings Conference Call on the Fourth Quarter and Year-end 2019 Financial Results. I have with us Mr. David Butters, Executive Chairman; Mr. Harry Deans, Chief Executive Officer; Mr. Niall Nolan, Chief Financial Officer; Mr. Oeyvind Lindeman, Chief Commercial Officer.

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 you will need to press star one on your telephone keypad and wait for your name to be announced.

I must advise you that this conference is being recorded today, Friday, the 3rd of April 2020.

And I would now like to pass the floor to one of your speakers, Mr. Butters. Please go ahead, sir.

David J. Butters: Thank you, (Kaz), and good morning everyone, and welcome to Navigator's fourth quarter earnings conference call. I hope everyone is healthy, safe and secure.

But before we actually begin our formal remarks, I would like to point out as we conduct today's conference call, we will be making various forward-looking statements. These statements include, but not limited to, future expectations, plans and prospects from both the financial and operational perspective. These forward-looking statements are based upon management's assumptions, forecasts and expectations as of today's date, and as such, are subject to material risks and uncertainties. Actual results may differ significantly from forward-looking information and financial forecast. Additional information about those factors and assumptions are included in our annual and quarterly reports filed with the Securities and Exchange Commission.

So first, let me apologize for the late reporting of our results. I know this may have caused some concern. The nature of the delay stems from the decision made almost two years ago to change our auditors from KPMG to E&Y. We made this decision based upon good corporate governance and its practice and our continued search to improve our accounting platform. We fully understood that in doing so, it would likely result in a two or possibly three week delay in getting our year-end audit complete. That is exactly what happened. But unfortunately this delay pushed us into a quarantine shutdown in our London office and forced everyone, including the auditors, to work at home. Naturally, the consequence of everyone working from home resulting in a much delayed audit process. So today, our speakers will include Harry Deans, our President and CEO; Niall Nolan, Navigator's Chief Financial Officer; and our Chief Commercial Officer, Oeyvind Lindeman.

So let me pass the call over to Harry who wants to make introductory comments. Harry?

Henry Deans: Thank you, David, and good morning to everyone in the call. I hope you're all well and keeping safe. The world – well, it's a completely different place today compared to when we last had our Q3 call in November 2019. Since then, the COVID-19 pandemic has swept the globe with its far-reaching consequences for human health, social interaction and the world economy. The first economic effects were felt in China before spreading to the rest of Asia and now to Europe, the Americas and beyond. All markets are experiencing huge volatility and unprecedented turbulence with considerable headwinds in many sectors. However, amongst all the doom, there are some glimmers of hope with China slowly and purposefully starting to return to some degree of normality, with both manufacturing and demand gradually starting to recover.

As we speak, several Navigator vessels are on route to China and Southeast Asia with LPG and petrochemical cargoes. At Navigator Gas, the safety, security and welfare of all our colleagues is paramount, whether that be on land or at sea. We successfully retested our business resilience procedures last month. And following government advice in both the U.K. and Poland, we decided on the 18th of March to temporarily close all our offices and to run our business remotely.

For just over 2.5 weeks now, we've been running our business operations remotely without disruption. I'm very pleased all our business continuity preparations have enabled the seamless transition. Through the use of technology, we have increased the level and frequency of our communications with and between our onshore and fleet staff. Of course, our shore-based activities are only part of the equation. Our seafarers continue to crew and safely operate our 38 vessels which, as we speak, are plying the seas, delivering their vital cargoes of gases to our customers across oceans and between continents, and by so doing, are keeping the global economy moving. This is no mean feat, as we, like many companies, have experienced considerable operational challenges brought on by the pandemic.

On both the vessels, we have stepped up our infection protection and control precautions. We've implemented increased hygiene measures and increased both health screening and medical supplies. Given the numerous travel restrictions, the company and our third-party managers have temporarily suspended all crew changes until it is both safe and feasible to resume them.

I would like to say thank you and pay tribute to our hardworking, dedicated and professional seafarers, who are currently separated from their families for extended periods at this difficult time. We have therefore increased the level of support and advice for all our employees to protect their overall well-being and mental health, while providing increased Internet access and capacity to allow crew members to keep in contact with their loved ones.

Our teams have been working with the flag states, the classification societies, the various inspection institutions and, of course, our charterers to postpone or alter mandatory drydocking and inspections as they become due. This pragmatic approach, coupled with the additional measures our ports have called and put in place, has ensured our operations continue without any major disruptions and at comparable levels to 2019.

In late December last year and early January this year, the initial phase of our Morgan's Point joint venture ethylene terminal was started up. With the first cargo of ethylene leaving on the Navigator Europa bound for China on the 8th of January. Commissioning of Phase 1 is now virtually complete, with Phase 2, namely the construction of the storage tank proceeding safely, on time and on budget. We expect the tank to be operational by the end of November this year. This tank is really taking shape, as you can see in the slide in the supplemental information pack. However, the key to full operational effectiveness of our export terminal is dependent on the completion of the underground ethylene storage cavern currently being built by Enterprise at Mont Belvieu. This upstream cavern will commingle ethylene from a variety of producers and direct it down to a joint terminal in an orderly manner.

As is common in these types of infrastructure investments, the conditioning and commissioning by Enterprise of the cavern has taken a little longer than expected. We currently understand that these works will now be completed in the next few days or at most few weeks, with notice given to initiate the terminal take-or-pay contracts, we set shortly thereafter. That being the case, these contracts should take effect at the latest by the end of Q2. Therefore, the terminal will have a limited throughput until these contracts are effective. A few weeks ago, we were very excited to announce the Luna Pool with Greater Bay Gas and Pacific Gas, which will provide customers with increased flexibility and improved access to ethylene-ready vessels. The pool is expected to be operational in the second quarter of 2020.

Our vessel utilization rates in January at 97.3 percent, continued where Q4 left off. However, since the scale of the COVID-19 pandemic and its economic impacts became apparent, our utilization rates have subsequently dropped and are running – now running at mid-80 percent levels. Levels last seen in mid-

2019, which will impact our results in Q1 and probably Q2. Thankfully, TCE rates have been pretty resilient so far and has held up better than expected in the face of the economic slowdown. How long this will continue remains to be seen given the current unprecedented economic turbulence. Rest assured, the management team at Navigator Gas are taking all necessary steps to reduce discretionary spend while minimizing working capital and CapEx, and thus preserving cash and liquidity.

A summary of these interventions are outlined in the supplemental information pack. I'm confident that given our scale, our geographical spread, coupled with our product flexibility and our fantastic counterparty relationships that Navigator Gas is well placed to weather the current economic turbulence to manage the uncertainties and will come out of this stronger.

With these few remarks, I would like to hand over to our CFO, Niall Nolan. Niall?

Niall Nolan: Thank you, Harry, and good morning all. Revenue for the fourth quarter was $76.1 million, an increase of $0.5 million from the $75.6 million generated during last quarter, Q3 2019, but down 2.8 percent or $2.2 million from the fourth quarter of 2018. Revenue for the 12 months ended December 31 was $301.4 million, also a reduction of 2.8 percent from the $310 million generated during 2018. Net revenue, that is revenue after deducting pass-through voyage expenses, was $63.9 million for the fourth quarter, an increase from both the $62.2 million generated last quarter and the $62.8 million generated a year ago.

Utilization increased significantly from 86.3 percent a year ago to 92.7 percent during the fourth quarter, generating $4.3 million of additional revenue. December, in particular, saw utilization at 96.3 percent, and this higher utilization continued, as Harry mentioned, into January 2020 with utilization of 97.3 percent, before falling away in February and March to levels around 85 percent, largely as a result of the impact of COVID-19. For the full year of 2019, utilization was 86.8 percent against 89 percent for the 12 months of '18. Although utilization increased during the fourth quarter, average charter rates reduced slightly from Q3 to an average of $20,204 per day or $614,500 per month in the fourth quarter compared to $20,920 per day for the fourth quarter of 2018. Average charter rates for the 12 months of '19 were $20,831, an increase from the average rate of $20,284 achieved for the full year of 2018.

During 2019, the company undertook a total of nine drydockings, taking an aggregate of 262 days to complete, which includes the time taken to sail to the respective yards and costing approximately $11.5 million. Three of these dockings were completed during the fourth quarter, taking a total of 80 days. We are scheduled to drydock 10 vessels during 2020 at a provision cost of approximately $12.2 million. Although, as we have mentioned, there are certain challenges in drydocking vessels at the moment as a result of COVID-19, including the inability of service engineers and technical super attendants attending such dockings. However, we believe that although some dockings may be delayed with the consent of the flag state and classification societies, we do not believe the cost of such dockings will be materially higher than anticipated.

Vessel operating expenses were $27.7 million for the three months of the fourth quarter, an increase of just 2.4 percent from the comparative quarter of 2018. OpEx for the full year of 2019 was $111.5 million or $8,037 per day compared to $106.7 million or $7,694 per day for 2018. The compound annual growth in OpEx over the past 10 years has been just 1.04 percent.

General and administrative costs increased by 10.3 percent year-on-year, principally as the number of employees increased to enable additional vessels to be taken into in-house technical management. We now technically manage a total of 17 of our 38 vessels in-house.

Interest costs for the fourth quarter were $12.2 million, which was similar to the $12 million incurred during the fourth quarter of 2018. The total interest expense increased from $44.9 million during 2018 to $49 million in 2019 primarily as a result of interest on the NOK bonds issued in November 2018.

In addition, we capitalized interest in 2019 of $4.8 million associated with the capital contributions made for the construction of the ethylene Marine Export Terminal. As Harry mentioned, the terminal commenced loading its inaugural cargo on Navigator Europa in December. The terminal accounted for a book loss of $900,000 during the fourth quarter, resulting in a charge of $1.1 million for the full year, being Navigator's 50 percent share of that loss. We are not anticipating a profit from the terminal until volumes from the throughput agreements ramp-up in the second quarter of this year.

We reported a net loss for the fourth quarter of $2.8 million or a loss of $0.05 per share, including the $900,000 relating to the terminal, marginally better than the loss generated during the third quarter and better than the $3.9 million loss made during the fourth quarter of 2018. The full loss for the year of 2019 was $16.7 million compared to a loss of $5.7 million for the 12 months of 2018.

With respect to the balance sheet, cash stood at $66.1 million at December 31 against the maximum required liquidity covenant from bank loans and bonds of $44.5 million. The company was in compliance with all financial covenants and all its facilities at December 31, 2019, and we do not currently foresee any covenant breaches in the near term. However, the company does provide cash collateral security against unrealized losses on its cross-currency interest rate swap and in the event that the Norwegian kroner weakens further against the U.S. dollar, additional cash security will need to be placed into the collateral account, thus providing less headroom on our liquidity maintenance covenant.

During the fourth quarter, we contributed a total of $12.5 million towards the construction of the ethylene Marine Export Terminal, taking total contributions to date to $125.5 million against the anticipated total cost of $150 million. As mentioned, the ethylene refrigeration units and ancillary piping loading arms, et cetera, are now complete and operational and the construction of the 30,000 ton ethylene storage tank is expected to be completed later this year. The terminal loan facility for a maximum of $75 million remains fully undrawn, some of which will be drawn to fund the remaining capital contributions of approximately $24.5 million. The amounts available for drawdown are dependent on the level of throughput agreements in place. And currently, the banks have agreed availability of $36 million based on the first three offtake agreements with compliance requirements ongoing to increase this available amount to $52 million as a result of the fourth offtake agreement signed late last year.

As discussed on the last earnings call at the end of October, we undertook the refinancing of one of our vessels, Navigator Aurora, through a sale-leaseback transaction. The sale price of $77.5 million provided cash of $69.75 million after a seller's credit of 10 percent, $44.5 million of which was used to repay the prior loan on the vessel and the remaining $25.25 million available for corporate purposes and to further strengthen our balance sheet. Simultaneously, with the sale, the company entered into a bareboat charter for the vessel for up to 13 years with the company having a break clauses at years 5, 7 and 10.

At December 31, total debt stood at $889.5 million, which incorporates five bank loan facilities, the unsecured $100 million Norwegian bond and the 600 million NOK denominated Norwegian bond, which equates to approximately $71.7 million. Whilst headline gross debt-to-equity ratio was 48.6 percent at December 31, if we were to separate out the debt associated with the Marine Export Terminal, which is 100 percent debt financed, the ratio relating to the business – shipping business reduces to 44.8 percent. We pay approximately $70 million or 8 percent of total debt per year in regular quarterly repayments, so debt to equity would reduce below 40 percent at the end of 2020, all other things being equal.

As referred to in the 6-K published last night, the company does not have any debt facilities maturing during 2020 and has only one debt instrument maturing in 2021, the $100 million Norwegian bond that matures in February 2021. The company had considered refinancing this bond with a like-for-like bond prior to the outbreak of COVID-19, but due to the current disruption in the capital markets, the company is now also considering alternatives in the event that the effects of the virus last longer than anticipated. Such considerations include seeking an extension to the maturity of the bond, seeking to raise capital to repay the bond by means of further sale leaseback for a number of the company's vessels, or alternatively raising alternative debt using available unsecured vessels.

And with that, I'll hand you over to Oeyvind.

Oeyvind Lindeman: Thank you, Niall, and good morning all. The Clarksons 12-month time charter assessment for handysize semi-refrigerated gas carriers increased by 20 percent during the fourth quarter from $540,000 a month at the beginning to $645,000 a month at the end of December. As one would expect in a rising market, our utilization across the fleet span similarly rose from an average of 85 percent during third quarter to an average of 92.7 percent during fourth quarter. The increased utilization was generally due to an uplift in the transportation need of LPG during the first winter months. LPG, as a proportion of earnings base rose by 4 percent to 2,104 days during the quarter compared to the previous quarter amounting to 2/3 of our total fleet earning days.

Deep sea petrochemical voyages similarly picked up in demand and reverted back to the more traditional trading weeks. Ethylene from U.S. to Asia and butadiene from Europe to Asia, bringing additional ton miles to the handysize segment. The Chinese petrochemical manufacturing demand rose during this period in order to replenish inventory levels prior Chinese Lunar New Year. This resulted in our petrochemical earning days during the quarter to rise by 26 percent to 877 days compared to the previous quarter.

As you heard earlier in the call, Navigator Europa went all past alongside Morgan's Point terminal during the Christmas period to commence the inaugural ethylene commissioning cargo for the Enterprise-Navigator ethylene joint venture. We successfully completed loading operations of 11,500 tons of ethylene, or in American speak, 25 million pounds of ethylene and delivered on specification ethylene to Taiwan on the 10th of February. Since then, the terminal has loaded four additional vessels.

In the run-up to our expectation of full utilization of the ethylene terminal and in a move to create a larger and broader platform of handysize ethylene vessels, we announced the formation of the Luna Pool last month. Pool enables us to provide a better service to our customers in the form of flexibility in the deep-sea petrochemical trades, the critical mass matters. The pool will have 14 handysize ethylene vessels at its disposal to service various existing and new potential contracts and customers.

The beginning of 2020 started off on a good note with healthy utilization and employment across the fleet. However, as you've heard and experiencing with the manifestation of COVID-19 virus and its global impact, we started seeing a dampening effect on shipping demand from February onwards. Manufacturing demand decreased alongside consumer demand, resulting in high feedstock and raw material inventories and price volatility.

Many market participants chose not to move cargoes or could not move cargoes during the month of February and March, meaning less demand for seaborne transportation, which in turn, not surprisingly, has impacted our utilization rates. This impact is manifesting itself more in the petrochemical segment due to its association with GDP as opposed to LPG where handysize cargoes are generally associated with domestic consumption for heating and cooking, and thus should be less impacted by effects of the virus.

Somewhat surprisingly though, Argus reported earlier this week that petrochemical crackers globally have yet to reduce operating rates as a result of demand or margin reasons. And despite price fall for the finished products, Argus is reporting that producers are still making a reasonable margin. With the cracker operating rate holding firm in Europe and U.S., in a weak domestic demand environment, products such as ethylene and butadiene are being exported to Asia, as we speak. As an example, Europe exported nearly 50,000 tons of ethylene during the month of March and for East destinations.

Ethylene FOB pricing in Europe and U.S. is currently about $275 a ton and $200 a ton, respectively. With Asian buying demand hovering about at $450 to $500 per ton range. Within this range, it still makes possible to justify deep-sea petrochemical shipments between the continents, albeit the margins have narrowed considerably over the last two months, making it slightly more challenging. The slightly positive news is that China is reopening manufacturing sites and lifting travel bans, allowing workers to return to their jobs. China manufacturing PMI rose to 52 in March, up from a record low of 35.7 in February. This should stimulate some form of petrochemical demand in the near future. However, it is slightly too early to see the effect of this yet.

And now I will hand you back to David.

David J. Butters: We can open the call up for the Q&A, (Kaz), if that's OK with you.

Operator: Thank you. Ladies and gentlemen if you'd like to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star and two. Once again please press star and one if you wish to ask a question. First question comes from the line of Randy Giveans from Jefferies.

Randy Giveans: All right. So starting on the shipping side, your press release stated the company has not experienced any significant decrease in charter earnings thus far, but utilization has fallen from 97 percent in January to the mid-80 percent range. So a couple questions, what kind of charter rate levels are you seeing for the spot of propane and/or ethylene ships? And then what was the average utilization for 1Q '20? Should we just maybe take the midpoint of the 97 percent, mid-80 percent, so around 90 percent?

Oeyvind Lindeman: Randy, so you have the utilization rate for the quarter in the press release there. But I think at backend of January, the quoted time charter earnings from Clarksons were at its peak at $695,000 a month, so that was at end of January. End of last week, it was quoted at $665,000, so down as a tad bit. But we are not seeing a drop off the cliff, if that was the question. So it's a slight reduction from its peak at the end of January to what we're seeing today. It's smaller – so the rates are impacted less so, but this utilization, as you picked up on, which is somewhat lower than what we had in December and January because of just dampening effect from – on the demand side.

Randy Giveans: Sure. All right. And then a question for Niall. Looking at the sale-leaseback debt transaction freed up around, I don't know, $30 million in liquidity net of the debt repayment. Any specific use for those proceeds, is that just kind of staying on the balance sheet? And then two other questions. What is the effective interest rate on that transactions and/or additional sale-leasebacks kind of as an available option, is that market still open to possibly repay that $100 million next February?

Niall Nolan: Yes. So the existing sale-leaseback transaction first, this is with Ocean Yield, a Norwegian entity. The rate was 4.3 percent plus LIBOR. And we have $25.25 million, as I mentioned, of surplus cash. That's really just strengthening the balance sheet, providing additional liquidity that we did in – so that transaction was closed in October last year, October 28 of last year. With respect to any future sale leaseback that we're considering to pay off the $100 million bond in the event that the market stays closed or the capital markets stay closed. We're looking at alternatives. The market, certainly the Japanese leasing market is very much open, which has remained open throughout, and the rates would probably be less than the 4.3 percent that I mentioned relating to the existing leaseback.

Randy Giveans: Perfect. All right. And then one more little topic to cover here for the ethylene export terminal, I know there's still kind of commercial acceptance and those things are hopefully coming, say, in the next few days, if not weeks. With that, what is kind of the expected maybe EBITDA guidance update for the second quarter or just the full year 2020 and then kind of on a full run for the full year 2021? And then can you remind us of the total debt Navigator has on its books for the terminal?

Niall Nolan: I'm happy to start off on that. The debt that that we have is $125 million so far which is all debt. We expect to pay the other $24.5 million generally throughout 2020 this year. Those payments will principally relate to the tank, which, as Harry mentioned, is due to come on in November of this year. I did mention that we are not expecting to be profitable from that terminal until the throughput agreements ramp up or come into play after which we would expect to be. We've given guidance before, about the full operations of the terminal in mid-teens or around the $22 million, $23 million EBITDA level. That's based on the full million ton capacity of the terminal when the tank comes into play.

Randy Giveans: Excellent. Well, good, so just making sure that that range is still intact. And I guess you mentioned it there. So last question for me. Any updates on that remaining 25 percent capacity in terms of contracts?

Henry Deans: I was waiting for Oeyvind, but he might have dropped off. Yes, we're still – it's still work in progress, Randy. We're still trying to get – as you remember, Phase 1 is already sold out, and it's Phase 2 we're talking about once the tank comes onstream. We're – Oeyvind and the team and the people in Enterprise are in lots of discussions, and those discussions are being a bit halted, to be honest, given the COVID-19 situation. But we're still hopeful that we'll get the terminal sold out imminently.

David J. Butters: Yes. And I think the best answer for that, Randy, would be what Jim Teague at Enterprise had said in his conference call that they work very close to signing the last documents that would result in that terminal being sold out completely. Now since the conference call they had 1.5 month ago, there have been a lot of changes in the world. I think knowing the background of those comments, I would suggest that, that interest in that potential signature on the documents will be coming, but I think no one is in a rush to put their name on the document right now. So I think it's coming. There's a lot of confidence that, that will be signed, but it's not signed yet.

Operator: Your next question comes from the line of Sean Morgan from Evercore.

Sean Morgan: Yes, Sean Morgan. So the unrealized loss on the cross-currency for the interest rate swap, you guys had to cash collateralize that. What was the total amount that had to be posted? And is there sort of like an upward limit that we need to be posted and how much liquidity headroom do you have sort of taken that into account?

Niall Nolan: So the the unrealized loss at the end of December was $6.3 million, and the hedge provider bears the first $5 million, so we had to put up the $1.3 million into a collateral account. And there isn't a cap on that.

Sean Morgan: OK. So it's sort of like a dollar-for-dollar that you have to match to the unrealized loss. So if we go up another $5 million, you’d have to post another $5 million effectively?

Niall Nolan: Correct. Yes.

Sean Morgan: OK. And then you talked a little bit about the sort of spotty demand you're seeing around the world and maybe a little bit of improvement in China. With India, I think, I read that they're now planning to do subsidies for Indian retail consumers for cooking gas. Is that going to be able, in your opinion, to be able to offset some of the lost demand from the industrial sector in India? Or – so I guess to make – are you sort of thinking this is going to be a negative for a while in India or possibly improving demand there?

Oeyvind Lindeman: Sean, it's a good question. It's a complicated question. So the LPG in India, at least what is subsidized, is for marginally economic people in India. So they use LPG for domestic, for heating – not so much heating perhaps, but for cooking. So the demand is still there, but it's unchanged. It's just that it gets subsidized. Another impact of India is that their petrochemical industry or their downstream demand in India is lower. So the Indian production has to find an outlet elsewhere in Asia and has some knock-on effect on other trades. But for LPG in India, obviously, there's a security of supply on a national interest, which is important.

So what we've seen over the last couple of weeks at the national oil companies in India have gone out to secure larger stems of LPG for the security of supply to the various ports. So they won't get caught short in this corona lockdown. So I think for handysize net effect is neutral, and there's not that much handysize LPG business in between the Middle East and India. There's a couple of ships, but those will be unaffected. And the more impact is that there are new petrochemical cargoes being quoted from India that will go to Asia, which has a positive effect, albeit the smaller volume. So I think net-net is mostly neutral, Sean. So not too big impact on cost (minus).

Operator: Next question comes from the line of Omar Nokta from Clarksons Platou.

Omar Nokta: You guys have given a very good overview. I thought, obviously, in the comment (inaudible).

Operator: Sorry, questioner. Can you ask your question again? It appears your line is – has dropped off. Please press star one again. Thank you.

David J. Butters: (Kaz), maybe you can take the next one. And if Omar can hear us, he'll call back with his question.

Operator: We'll ask Omar to continue with his question.

Omar Nokta: Can you hear me?

David J. Butters: Yes, now we can. Thank you.

Omar Nokta: OK. Yes, sorry about that. I'm not sure what happened. I just wanted to – just a couple of...

David J. Butters: It's the bug.

Omar Nokta: It is. It's going around. David, maybe just first off, you talked about the operational challenges and this is definitely something that's industry-wide the shipping – everyone's facing and that is the crew changes and needing to delay that. When you guys think about it, how long do you think it's feasible? Because you guys have specialized vessels and very sophisticated equipment on board. How long do you think it's feasible to keep the crews on board without making a change, is this a week – a number of weeks type things? Or can this go on for months, you think?

Henry Deans: Omar, it's Harry. I'll take that one. Omar, in many respects, the safest place to be at the moment is on one of our vessels, to be honest. And to answer your question, yes, it can go on indefinitely. But as countries start to open up and as flight start moving again, then we'll try and do is seek to refresh the crews as quickly as possible.

Omar Nokta: Yes. OK. And then just as a point of tension of (inaudible) mentioned the utilization being down into the mid-80s at this point. Would you say that that's a blended average across the spot and time charter? Or is that just the spot market utilization?

Niall Nolan: That is a blended utilization for all the fleet, which we always quote, our utilization numbers basis.

Omar Nokta: OK. And then just one other thing I wanted to ask. And Niall, clearly, the sale leaseback, you unlocked a good amount of cash. And as I just think about it and looking at the way it classifies in the balance sheet, I may have missed it, but is there a reason why – it appears to me that it looks like it's a related party transaction. Is that the case with this?

Niall Nolan: Yes. This, unfortunately, is a consequence of U.S. GAAP because the vessel is owned by a company, which has no equity involvement by Navigator, but Navigator is the sole beneficiary of that company because we've got buy back options at the end of various years, 5, 7 and 10. We are required to consolidate that subsidiary into our books. And therefore, on the balance sheet, it's called a related party. And on the income statement, there is an amount of net income attributable to the noncontrolling interest, which is, again, the sale and leaseback. So it's the most bizarre accounting treatment that that we've come across to date. It's not how IFRS accounts for sale and leaseback transactions, but it's a requirement of U.S GAAP. But you're right, the noncontrolling interest does relate to the sale and leaseback.

Omar Nokta: OK. Yes. All right. So – but effectively, just from a big picture, obviously, Ocean Yield and Navigator, there's no...[ownership interest]

Niall Nolan: No. There is absolutely zero commonality or Navigator equity participation in that subsidiary. Correct. And effectively, from the balance sheet perspective, look on the balance sheet amount as the amount of the outstanding loan.

Omar Nokta: Yes. OK. I'll do that. And I know I'm bouncing around, but I just wanted to ask one more. And Oeyvind, I think you gave a good overview. Despite the drop-off in oil prices, there's still is a fairly decent gap between ethylene or petrochemical prices in the U.S., Europe and in Asia. The – from what you're seeing right now in the market, everything is changing and it's dynamic. But based off of that spread, and the assets come in, are you still seeing a good amount of movements? Or has that – or has sort of the overall pandemic really started to impact the movement based off of this pricing?

Oeyvind Lindeman: Yes. I mean the downstream demand in Far East is not helping because obviously it can't come off big time in February and March, although March is looking slightly better than February. But to the point was that they we're filling up stage. Far Eastern companies were filling up their storages before the Chinese lunar year commenced. So they were already – their inventories were already full. So – and then you have February, March come in, downstream demand was low because workers were at home and so forth, nobody were consuming.

So that had an impact on the inventory management on the availability where you could place cargoes. And at the same time, we have Europeans and the Americans still running their crackers at the high rate. So they're producing their domestic situation is similar to in China. So they're ramping up inventory. So as soon as we see storage being available in Asia, the cargoes will move and they have been moving, albeit a little bit on reduced scale.

As I mentioned, there was 50,000 tons of ethylene going from Europe to Asia in March and that is quite unprecedented. So – but the pricing – the narrowing of the arm is also a challenge. So on paper, it works today, but producers and end users and traders, they have to then find storage, so where can we drop-off 12,000 tons of ethylene, which is a big cargo. Can they go to one place? Or do we have to mix up and go to two or three locations? And what does the pricing do in the meantime because the voyages are quite long, it take from your load till you get to the destination is 30, 40 days. So you have a lot of complexities in those trades, but they haven't stopped. But of course, the corona situation doesn't make it easier.

Omar Nokta: Yes. Just to that end, is floating storage any sort of – is that a viable option in these trade? Or is it...

Oeyvind Lindeman: And we haven't seen that yet. Now we have some larger ships being available on the spot market that could take 20,000 tons and that might come. So – but we haven't seen those market calls yet. I think floating storage situation is more applicable in purely commodities, or if it's propane or crude or something like this. When you come to petrochemicals, it's a refined product, so there's less of a scope to – for floating storage.

Operator: In the interest of time, I'd now like to hand the conference back to you for your closing statements.

David J. Butters: Well, great. Troubling and difficult times. Even making this conference call has been a challenge. So I hope we're being forgiven for that as well. Look forward to our next quarterly call, which I hope is not as delayed as this year-end call. I want to thank you for joining us.

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

END