Capital Link US

Moderator: David Butters
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OPERATOR: This is Conference # 5818146.

Operator: Thank you for standing by, ladies and gentlemen, and welcome to the Navigator Holdings Conference Call on the Second Quarter 2020 Financial Results.

We 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. After the presentation you may ask a question by pressing star and one on your telephone keypad. Please wait for your name to be announced.

I must also advise you the conference is being recorded.

I'd now like to pass the floor to your first speaker today, Mr. Butters. Please go ahead, sir.

David J. Butters: Thank you very much, and good morning, everyone, and welcome to Navigator's second quarter earnings call.

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 a financial and an operational perspective. These forward-looking statements are based on management's assumptions, forecasts and expectations as of today's date and are as such, subject to material risks and uncertainties. Actual results may differ significantly from our forward-looking information and financial forecasts. Additional information about these factors and assumptions are included in our annual and quarter reports filed with the Securities and Exchange Commission.

This morning's speakers will include Harry Deans shortly, our Chief Executive Officer. That will be followed by Niall Nolan and Oeyvind Lindeman. So Harry why don't you pick up the phone from here?

Henry Deans: Perfect. Thank you, David, and good morning to everyone on the call. I hope you're all well and keeping safe. It's now over 21 weeks since we took the decision to close our offices and to start running our business remotely from our home offices across the globe.

Through necessity, we have become very proficient in virtual team working with town halls, meetings and one-on-one catch-ups all taking place over the Internet. Although we all miss the face-to-face interactions, we have become adept at sharing information via the many platforms at our disposal, while making sure we didn't lose the human touch. There has been a lot of laughter along the way with numerous unscripted funny moments, unwittingly captured on the video and audio conferences, which has helped keep morale high.

Frankly, the technology has worked exceptionally well, exceeding even the expectations of the least tech-savvy employees. I want to pay tribute to the dedication, the dogged determination and the boundless enthusiasm of our onshore team. Their hard work and never-say-never attitude has enabled our business to literally keep the lights on and to seamlessly ensure business as usual, much to the relief of our customers, our suppliers and our seafarers.

As a company, we're now about to immerse in this phase of the COVID-19 lockdown and to start to return to our company offices. In line with the prevailing government advice, we will, therefore, be reopening our offices from the 1st of September. Of course, these offices have been adapted to ensure adequate social distancing, and we have also implemented numerous hygiene measures to keep our colleagues safe.

Our return will be a phased one with a team A, team B basis with staggered working hours to both reduce risk and also to maintain social distancing. Frankly, our key stakeholders wouldn't even notice the change as our technology will ensure our teams continue to interact seamlessly with each other, our customers and our vessels.

The economic reboot following the COVID-19 lockdowns, although fragile, and prudent to some local setbacks, gained momentum in the quarter. Improved sentiment and business activity has continued into July and August, with the North American and European economies following the lead of China and Southeast Asia by relaxing their lockdowns in an attempt to kick start demand and with it manufacturing. All things being equal, this will provide a much needed stimulus for the global economy.

Both ethylene and propane arbitrage to Asia remain firmly open in the quarter with healthy pricing differentials, which has encouraged trade. Excess butadiene has also continued to move from Europe to Asia as producers attempt to export surplus material to maintain high cracker utilization rates.

I am very pleased to report the business returned to profit in Q2, albeit with some favorable tailwinds on foreign exchange and the near-breakeven performance of our terminal over the quarter. The Q2 net income of $3 million was our strongest performance since Q4 2016 and was the first profitable quarter for over 18 months. It was also a pleasant turnaround from the Q1 2020 results, where albeit with considerable headwinds, we posted a loss of $8.2 million.

Our underlying vessel performance also improved from Q1 to Q2 by $2.5 million, resulting in a net income of $700,000 for our shipping business. As you will see in the supplementary presentation, both our Q2 net revenue and EBITDA has improved, giving us the best second quarter results for a good number of years.

Turning now to crew release. You may recall that on the Q1 call, I intimated that we had managed to relieve almost three dozen crews. Thankfully, that number has risen substantially in the last few months. And we've been able to refresh over 75 percent or 380 of our overdue crew members, and we've been able to get them safely home.

We continue to work hard to reduce the backlog and to ensure all our seafarers get the leave they deserve and are reunited with their friends and family as quickly as is humanly possible. The other change in local regulations, together with new or reimposed travel restrictions and the constant threat of flight cancellations make this a bit of a herculean task, but we are now making real inroads into the backlog.

Throughout all of this uncertainty, our offices and crew have continued to traverse the globe, delivering much needed cargoes and thus keeping the global economy turning. We continue to work hand in glove with the flag states and classification societies as together, we resolve the many practical inspection and dry docking challenges that have been caused by the pandemic.

Finally, it appears that the vital contribution of seafarers during this pandemic is slowly starting to be recognized by governments across the globe. I'm very pleased to announce that our Morgan's Point joint venture ethylene terminal has now exported over 200,000 tons, with at least another 60,000 tons expected to be moved in August.

June was a record month with a phenomenal volume of around 80,000 tons being exported from the terminal. This is all the more remarkable when you consider that this has been achieved without the aid of our 60,000-cubic meter tank, which is currently under construction. It goes without saying, but these volumes could not have been achieved without the close cooperation between Navigator Gas and our joint venture partners, Enterprise.

Working closely together, we're able to optimize the throughput whilst assuring that there were enough vessels at the right time, in the right place to maximize the ethylene cargoes. With increasing throughput, has come improving margins, and I'm very pleased to announce that the terminal was profitable in June. It is really great to see the results of all our hard work now finally beginning to filter down to the bottom line.

And I wanted to first – our midsized vessel, the Navigator Eclipse also loaded a world record quantity of 20,000 tons of ethylene from the terminal for delivery to Asia. The terminal complex is working very well. And as you can see from the photographs in the supplemental information pack, construction of the ethylene tank is progressing safely, on time and on budget with start-up expected in Q4 this year. The June throughput of around 80,000 tons, which was achieved prior to the commissioning of the tank has only added to our belief that our terminal will exceed the nameplate capacity with ease in the future.

Turning now to our Luna Pool. The pool with Greater Bay gas and Pacific Gas is now fully up and running. Live operations began in the second quarter, with all 14 vessels joining the pool by the end of July. The pool has been formed just at the right time to enable the partners to capitalize on the growing volumes of ethylene for export from our Morgan's Point Terminal.

Utilization rates, which we're running at mid-80 percent levels in February, March and April, climbed in May and June to around the 90 percent mark. This utilization rate has been maintained in July, no doubt, thanks to the Morgan's Point volumes, the healthy ethylene arbitrage and a general increase in economic activity.

Once again, handysize TCE rates continue to be dramatically less volatile than other sectors and have been pretty resilient with only a marginal 5 percent reduction in rates within the quarter. The company continues to be prudent, reducing discretionary spend, deferring expenditure where possible whilst minimizing working capital and CapEx to preserve cash and liquidity. This can be seen in our operating expenses, which are down in Q2, 3.5 percent year-on-year. Some of these gains, of course, will be unwind over time as the increased cost of relieving the crew starts to filter through.

Niall, in his prepared remarks, will give you an update of our refinancing progress as we seek to further increase our liquidity and strengthen our balance sheet.

All in all, Q2 was a satisfying quarter for the company on many fronts, with improving utilization and profitability. Navigator's leadership and the niche handysize shipping segment, coupled with the versatility and flexibility of our fleet has ensured that our business has to date been able to successfully navigate the choppy conditions caused by the COVID-19 pandemic.

Our segment has not been subject to the world swings in rates, which we have observed in other sectors. And as expected, the start-up of the world's largest ethylene terminal has had an immediate impact, stimulating new pull-through ethylene export volumes, which is a real win-win for Navigator Gas.

The onset of the terminal take-or-pay contracts in June together with incremental spot business should ensure the terminal remains profitable going forward. That combined with our shipping business, which is also in great shape, will ensure the company is well placed to capitalize from increasing economic activity when the uptick occurs.

With those few remarks, I'd like to hand you over to our CFO, Niall Nolan. Niall?

Niall Nolan: Thank you, Harry, and good morning. The company generated profits, as Harry mentioned, of $3 million for the second quarter, which is a significant turnaround from the $8.2 million loss incurred during the first quarter of this year and the $7.7 million loss for the comparative second quarter of 2019. This $3 million quarterly profit or net income includes a $2.5 million gain on foreign currency translations as both the Norwegian kroner and the Indonesian rupiah strengthened relative to the U.S. dollar during the quarter, reversing some of the COVID-related exchange losses incurred in the first quarter of this year.

In addition, the marine export ethylene terminal at Morgan's Point in Houston generated a loss of – for the quarter of $200,000, being our share of the results of the export terminal joint venture. However, with the commencement of the long-term take-or-pay contracts at the beginning of June, the terminal had a throughput during that month of approximately 80,000 tons and consequently generated a profit, although, not sufficient to overcome the losses of the prior two months.

It is anticipated, however, that the terminal will remain profitable for the remainder of this year. This then resulted in a profit relating to our vessels for the second quarter 2020 of $700,000, again, which is a marked improvement from the $1.8 million loss generated during the first quarter. The operating revenue from the vessels was $79.9 million for the three months, an increase of $6.3 million from the $73.6 million generated during the second quarter of 2019.

Net revenue, revenue after deducting pass-through voyage costs was $65.1 million for the second quarter versus $63.7 million for the first quarter of this year and $57.1 million for the second quarter of 2019. This increase was, in part, as a result of average charter rates, increasing to $21,600 per day up from $20,855 per day for the first quarter of this year and $19,940 per day during the comparative second quarter of 2019.

As we mentioned on the last earnings call associated with the first quarter's results, vessel utilization was increasing during the second quarter, with April still in the mid-80 percent levels, largely as a consequence of COVID-19, but with the subsequent months of May and June, increasing to around the 90 percent levels. Consequently, the average for the three months of the second quarter was 88.3 percent, an increase over the 85.2 percent achieved during the second quarter of 2019.

You may have noticed a new item on our income statement this quarter with references to pool collaborative arrangements in both operating revenue of $2.6 million and voyage costs of $2.9 million. This is the GAAP-required accounting treatment for reflecting the sharing of pool revenue based on pool points. The net effect of this during the second quarter, following the commencement of the pool on April 1 is that our vessels contributed $300,000 to the other participants in the Luna Pool during the quarter.

During the first six months, the company undertook only three dry dockings, principally as a result of yard closures associated with the impact of COVID-19. However, many dry dock yards have now reopened, and we have undertaken a further three dry dockings since the end of the second quarter, with the third, Navigator Grace currently in dry dock.

That leaves a final four vessels requiring dry dock prior to the end of this year. These dry dockings, including the fitting of ballast water treatment systems, where necessary, are estimated to cost approximately $12 million in aggregate, as previously budgeted. So no anticipated increase as a result of yard closures or other effects of COVID-19.

Vessel operating expenses were $26.5 million for the second quarter or $7,661 per vessel per day, a decrease of 3.5 percent from the $27.4 million or $7,938 per day incurred in the comparative second quarter of 2019. This is a result of stringent control of costs during these challenging times, but also as a consequence of some costs being deferred until later in the year. Such as costs associated with crew changes due to the difficulty in arranging international flights as a result of COVID-19.

General and admin costs decreased by 13 percent to $4.5 million during the three months ended June 30, 2020. This decrease largely relates to the reversal of foreign exchange losses on the revaluation of an Indonesian rupiah bank account that we incurred during the first quarter.

Interest costs for the second quarter were $11.1 million, an 8.9 percent decrease or $1 million decrease from the $12.2 million incurred in the second quarter of 2019 and also a decrease from the interest cost of $11.5 million incurred during the first quarter. This is as a result of reductions to U.S. LIBOR, which has now fallen from approximately 2.38 percent a year ago to just 0.26 percent in June this year.

The share of results of equity accounted joint venture, also known as the results from the ethylene terminal, generated, as I mentioned, a small loss of $200,000 and as I mentioned at the outset with the profit in June, almost fully offsetting those losses of April and May.

I also mentioned a couple of moments ago that during the quarter, $2.5 million of the $3.7 million of COVID-related foreign exchange losses incurred during the first quarter were reversed in the second quarter. And net income for the second quarter was, therefore, $3 million, and as Harry mentioned, the first quarterly profit since the third quarter of 2018 and the largest profit for over three years.

At June 30, the cash stood at $53.1 million against our maximum liquidity covenant of $43.1 million. We had a further $8.2 million as restricted cash supporting a cross-currency interest rate swap relating to our Norwegian kroner bond. Although since the quarter end, as a result of further strengthening of the Norwegian kroner versus the U.S. dollar, this restricted cash has reduced to $1.1 million as of this morning.

Since the quarter end, we've entered into an agreement to amend the terminal credit facility to allow an early true-up of $34 million, enabling those funds to be immediately drawn for general corporate purposes. This followed a capital contribution of $7.5 million to the export terminal joint venture during the second quarter and a further $7.5 million since the quarter end, both fully funded by drawdowns from the credit facility.

The total amount available on the credit facility based on the offtake agreements is now agreed at $69 million and with $49 million drawn or currently available to be drawn, this leaves $20 million available to cover the remaining capital commitment to the export terminal joint venture, which we believe to be less than $10 million. Once the storage tank is completed and in service by the end of this year, any remaining undrawn portion of that loan will be released for general corporate purposes, and thereafter, the loan will convert from a construction loan to a five-year term loan.

We are also in the process of refinancing one of our vessel loan facilities, which is anticipated to provide an additional cash draw of approximately $30 million. This amount, coupled with the $34 million immediately available from the terminal facility and the further release of restricted cash, will provide increased liquidity headroom of approximately $70 million in addition to the $10 million headroom at June 30, and we expect the vessel loan facility to be in place by the end of this third quarter.

At June 30, total debt stood at approximately $860 million. As previously stated, the company does not have any debt facilities maturing until 2022, except for our $100 million Norwegian bond maturing in February of next year. We are currently assessing the capital markets for a potential refinance of this bond and are in the process of engaging financial advisers to investigate such opportunities as well as considering alternatives in the event that the capital markets are not available or not receptive.

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

Oeyvind Lindeman: Thank you, Niall, and good morning, everyone. The second quarter highlights role associated to petrochemical demand. As we mentioned during last earnings call, the COVID lockdowns around the world continued from March into April with utilization hovering around the mid-80 percent level. However, with Asian countries beginning to ease regulations starting from May onwards, we did experience a pickup in demand.

European petrochemical producers were still running their naphtha crackers during the same period, resulting in excess products such as butadiene which were then subsequently shipped long-haul on handysize semi-refrigerated ships all the way to Asia to satisfy the pickup in demand. The same fundamentals were seen for propylene with excess production in North America finding a home across the Pacific, resulting in employment of handysize tonnage for deep sea voyages.

At the same time, with demand picking up primarily in China, Korea, Taiwan and Indonesia, the ethylene landed price in this region went from an all-time low of $300 a ton in April to a more normalized level, around $800 a ton going from May into June, a huge upswing. The U.S. domestic ethylene prices remained at a competitive price point ranging between $250 to $300 a ton during the same period and, therefore, enabling arbitrage opportunities for ethylene exports.

Exports of ethylene and meaningful volume could only be facilitated with new terminal capacity. This new capacity came in the form of our Marine Export Terminal, started ramping up throughout from mid-may onwards and beat, as you have heard, everyone's expectations when it enabled exports of approximately 80,000 tons during the month of June.

Sixty percent of all ethylene shipped from United States of America during the month of June, including from the target terminal were lifted on Navigator-controlled tonnage. During the same month, our medium-sized ethylene vessel Navigator Eclipse safely and successfully loaded and carried to date, the largest single cargo of ethylene of 20,000 tons from our terminal to receivers in Taiwan.

Now the knock-on effect of the ramping up of the marine export terminal should not be ignored. Handysize ethylene vessels, which we're trading in LPG or propylene or butadiene in the past, are now generally employed in the ethylene trade, thereby reducing available tonnage capacity from the semi-refrigerated part of the handysize fleet. Therefore, despite huge uncertainties and fluctuations across the world economy brought about by the pandemic, the handysize quoted 12-month charter rates, as you've heard from Harry, only reduced by 5 percent during the period to around $625,000 a month, which is vastly different compared with, for example, very large gas carriers, having their quotations fallen by more than 50 percent during the same time frame.

The resilience in the handysize rates can be attributed to one simple fundamental reason, and that is flexibility across all the gas cargoes, being LPG, petrochemicals and ammonia. The Luna Pool swung into action during the ramping up of the terminal and is a contributing factor to our increasing market share of American ethylene exports. The pool better enables us to be in the right place at the right time, offering flexibility and reliability to our customers, utilizing the pool platform of 14 vessels.

Ethane has still a role to play for Navigator. U.S. ethane remains price competitive to other feedstocks in the production of ethylene. This is due to continued robust natural gas liquids production in North America. We reported two of our four medium-sized ethane, ethylene carriers have contracted additional ethane employment, meaning that ethane, as part of our earnings portfolio, is set to increase.

Having additional vessels in ethane trade has similar positive knock-on effect to the nonethylene-capable segments in that the tonnage supply for LPG and other petrochemicals is reduced. For example, when one of our medium-sized ethylene carriers are carrying ethane instead of ethylene, it means that the 20,000 tons of ethylene cargo will have to be shipped on two handysize vessels, which, in turn, has positive impact to utilization and earnings for that segment.

Going forward, we are relatively comfortable with the outlook for ethylene considering the performance of the marine export terminal during the pre-tank phase, prevailing arbitrage for U.S. ethylene, majority of demand fall stems from Asia, which means deep-sea voyages, and our rising market share of ethylene exports from America made possible through additional pool vessels.

A home run would be possible when the LPG steps into the handysize pitch. What will make a real difference is the anticipated effect from project-specific additional LPG demand from Repauno and Pembina rail to ship export terminals as outlined as part of the earnings call information pack.

Incremental handysize LPG demand should have a meaningful impact on utilization and earnings to the segment in addition to what we are seeing today in the ethylene markets.

And with that, I will hand over to David.

David J. Butters: Thank you, Oeyvind. Harry and Niall. So (Ellie), why don't you open up the call now to Q&A, please?

Operator: Thank you. Once again ladies and gentlemen, if you would like to ask a question you can press star and one on your telephone keypad and you just need to wait to hear your name announced. And if you’d like to cancel you can press star and zero. (That’s) star and one to ask a question.

And your first question comes from the line of Ben Nolan from Stifel.

Benjamin Joel Nolan: This is Ben. I have a couple of, could have more, but I'll try to not overstay my welcome here. The – my first question – congratulations on the terminal. Obviously, it's going probably better even than it was supposed to. It's good news for the cash flows, it's good news for the ships, it's good news for everything.

At this point, it sounds like almost all the CapEx is done, maybe there'll be an expansion and requirement for a little bit more CapEx. But my question really is, bigger picture, now that's kind of out of the way, the debt refinancing looks like it should be pretty well in hand. And I know that the stated objective for you guys has been to look to marry up more of these infrastructure-related projects or developments with your shipping expertise.

I'm curious, fundamentally, and I guess, right now, with everything being wrapped up, it's the perfect time to start looking at some of those longer-dated development opportunities, how do you think about that? How do you – what's your, sort of, pitch? What's your angle? Where are you in terms of being able to really bring something to bear and further projects like this going forward?

Henry Deans: Ben, I know you said that the terminal is all wrapped up. I wish it was so. We've got a tank still to build, as you saw. It's making great progress, and it's all in time and on budget, has been done safely. And equally, as we saw from the June numbers, we've actually been able to sweat the assets better than we thought. So for me, the best debottleneck is a free debottleneck.

So we really don't know what this terminal is actually capable of until we get that tank fully up and running. But all the signs are pointing in, like, the right direction, given the throughput that we managed to squeeze through without the tank. So a debottleneck on a tank like that is a win-win for everybody because you dilute your fixed costs, and the money just drops to the bottom line.

So our focus at the moment is to make sure that we complete the job that we've got in hand, which is the tank and that we deliver it safely, on time and on budget. And we see what's under the hood in that tank. And I think there's a lot more there to give as we've proven in June.

So I think that's the first thing. But in terms of the rest of the business, it's sort of steady as she goes at the moment. Niall talked about, we've got a dry docking schedule. It's pretty heavy in the second half of the year.

We know there's a lot of tailwinds or potential tailwinds that could be there. We just – no one knows what's going to happen with COVID, is it going to resurface again. But there's a lot of tailwinds for us as well because, as Oeyvind said, these terminals are starting to open, and that should be a real opportunity for us going forward.

Now in terms of new opportunities, we'll assess them in light of the other options that we have available to us, and we'll do the things that give us the best bang for our buck going forward.

Benjamin Joel Nolan: OK. But it doesn't sound like there – we should be expecting there to be any major new, completely out of the blue developments any time in, I am guessing?

David J. Butters: I think that that's right.

Henry Deans: That that's right, Ben. We're working hard. It's like a swan. We're peddling hard underneath the surface and looking at lots of different opportunities. But at the moment, we're focused on what's in hand.

David J. Butters: But you're absolutely right to raise that question, Ben, because this terminal that we have in joint venture with Enterprise isn't the end. I mean it's just an integral part of a greater hub system of exporting the important and inexpensive petrochemical hydrocarbons being generated in the United States as a result of low gas prices. This is just a small piece of that. And we have tried to partner with the people who control a lot of that hub at the moment.

That is Enterprise, particularly. And then global network – well, their network within the United States, connected by every – almost every petrochemical plant, especially ethylene plants. And that is just the beginning.

Their hub is being built up gradually, but inevitably to create a greater flow of hydrocarbons, particularly petrochemical gases to the international markets. This is a whole new thing that has never really gotten off the ground in the past. But it is in its beginning phase.

Our terminal is just a small part, but it will be – our participation will grow as that grows. But we have to clear through this pandemic and understand what this fog of virus is and understand where the economies of the world are going and where to place the ultimate hydrocarbon. So it's there, it's delicious. It's ours to have. And we will get it eventually. But we have nothing at the moment that is worthy of discussion at today's conference call.

Benjamin Joel Nolan: OK. Now switching topics a little bit maybe for Oeyvind. Obviously, you'd laid out the ethylene arbitrage, although I did notice that ethane prices are increasing.

I believe that there is a new ethane export terminal scheduled to come online pretty soon in Texas. If ethane prices were to – well, first of all, do you think that there's a risk that ethane prices were to rise materially in the United States as more is being exported? And how does that play into the dynamic for ethylene exports out of the United States you think?

Oeyvind Lindeman: Yes. It's a good question, Ben. All the forecasts and the experts on liquid gas production natural gas liquid production in the U.S. are predicting, forecasting excess production on that even during this time and also going forward. They have a lot of rejections going on, whereby they're putting the ethane back into the natural gas stream.

So there's a lot of excess ethane in the system. And even with this new orbit terminal being constructed and completed, that is, Q4, I think, of this year in Netherlands by Energy Transfer partners. There's a hell of a lot of remaining excess ethane.

So if prices – the price forecast even after Q4 remains low. And if the market – the local domestic market thought or were thinking that the ethane price is going to go rise because of the ethane exports and you've probably seen effects of that today because it's a known quantity and it's a known infrastructure project. So we are pretty comfortable in that ethane will remain competitive.

The cost curve for American ethylene producers will remain competitive towards other areas of the world. And therefore, ethylene should remain competitive.

But you're right, you will have these monthly price adjustments, as you're seeing right now on ethylene in the U.S. It's not so much about ethane. It's about some shut-ins, some maintenance, unforeseen maintenance on various crackers. So instead of having – you can buy ethylene at $300 a ton. It is now $380 a ton, which is still pretty competitive to Asian prices today at $760.

So we remain confident that ethane will be in excess, therefore, the gas price will be competitive, therefore, ethylene will be competitive. I don't know whether that's OK.

Benjamin Joel Nolan: No, that was perfect. And I appreciate it. And last one for me, real quickly, and I'll turn it over. The – we've seen a number of semi-refrigerated vessels that have capacity to do both ethylene, LPG, obviously, and then in some cases, LNG.

I don't know that you guys have any that can do LNG but have seen some of those ships move into the LNG trade as there's been a real proliferation of small-scale LNG. Could you maybe talk through how you see that playing out from a supply and demand perspective for the ships? And is that something that you guys would look potentially to become involved in?

Oeyvind Lindeman: It's always good to see ethylene-capable vessels that is also LNG capable going to the LNG trade because it reduces the pool of available ethylene ships or any handysize ships. But those – that number of vessels that can do natural gas as well, is very limited. There's a series of eight ships controlled by INEOS. And as far as I am aware, one or two of those vessels have entered into the LNG trade.

So for our, for Navigator's core business, that is a good thing. In terms of small-scale LNG that's been around for a long time, and you could probably go on small-scale LNG conferences every week of the year, and there's a lot of talk. Some projects are happening. Some have been implemented, it's probably going to be more of that going forward in terms of hub-and-spoke distribution for LNG to various islands and small ports.

We being gas experts and know all petrochemical gases, how to handle that and so forth. We think natural gas is pretty easy and straightforward. It's fully refrigerated. There's no changing of grade. It's really a bus service. So our expertise lends itself for that, but for the time being, we are very much focusing on more complex side of the gas shipping and maritime business and linking that with the shore infrastructure we have to focus on where the real growth is and the real potential, as David mentioned, in terms of being heavily involved in the emerging petrochemical processing in the U.S. and helping the export of processed derivatives to the world.

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

Sean Edmund Morgan: So the ethylene or the Morgan's Point Terminal, you guys were guiding towards, I think, 45,000 tons per month as of June, and you did 80,000. So previously, you talked to, I think, about 1 million tons per year. So at that run rate, that's without the refrigeration storage capacity you talked about. So are we now looking at potentially a higher eventual run rate for the capacity of this facility than what you previously talked about?

Oeyvind Lindeman: The tank – so the implementation of the tank increases, not the volume, but it increased the throughput, but it increases the loading pace. So the jet is – will be more efficient for instead of loading a handy size today, taking three to four days with the tank, you load handysize in less than a day. So it's easier to schedule for the schedulers on the jetties and the customers once you have the tank.

So again, the throughput volume won't change. But you're right that the performance at the terminal beat everybody's expectations. And I think that goes to what Harry has been mentioning the last two or three earnings calls is that we're not completely done with this terminal, and it's important to look under the hood and see what it's capable of. So no promises, but the first signs are very encouraging.

Sean Edmund Morgan: OK.

Henry Deans: Sean, it's Harry here. I think it's – the fact that we moved close to 80,000 tons is a great sign. We always – we've said in many calls that engineers often build an excess capacity into infrastructure. And it's our job to find the right tune to play in the infrastructure to make sure that we utilize that. But it is a good sign that we're going to exceed the 1 million tons capacity. And of course, you need things to go your way.

There's got to be – you've got to make sure there's no jetty congestion. You've got to make sure the temperature, ramping temperature's correct. But there's really positive signs that this terminal is going to have an increased capacity, which fills us all with hope.

Sean Edmund Morgan: OK. So if you were able to do 80,000 in June, then should we think with the efficiency of loading that this new storage tank that the 1 million tons per annum is somewhat conservative? And also, does that have an impact on profitability that we talked about in the past? I think the guidance is around $25 million. Does that potentially improve when you're hitting these volume levels kind of faster than you anticipated?

Henry Deans: Sean, yes, I like what you're doing, and I'd do the same calculation myself, but I think we have to wait until we get the tank up and running and just see what we can do because you don't do it just for one month. You've got to do it the end on an 88 – 98 percent reliability basis.

So there's great signs that this terminal we built put more volume through it. But let's wait until we get there and see what we can really do. And again, it's dependent on other things like a ramping temperature as well. But great signs so far that we'll really hit it out the park to use Oeyvind's analogy.

Sean Edmund Morgan: OK. And then I know on the Luna Pool you guys touched on in the presentation that it's really an accounting reason that you're not separating on the revenue and the voyage costs separately. And if it started ramping in

April and throughout the quarter to June, it just struck me as a little, I guess, optically weird that the voyage cost exceeded the allocation of revenue.

So can you just, maybe, help us understand how that will change when it's fully ramped? And also if that, like, accounting anomaly is going to persist?

Niall Nolan: Let me try and explain that. It's really dependent on what each of the ships are doing. And based on pool points which are not dissimilar across the fleet within the pool.

But on this – because the ships came in at different times during this second quarter, as the pool came into action, then you do have a bit of an anomaly coming on, whereby essentially the Navigator ships gave $330,000 to the other pool participants. But if the charter rates on the other pool participants ships were higher than the Navigator ships, then you would see that flow the other way.

So it can go one way or the other. It's really the net effect that is relevant, but it shouldn't be significantly different either way. But you will get quarter-by-quarter, slight shifts, one direction or the other.

Sean Edmund Morgan: OK. But that's in the pool that will eventually kind of work itself out and even out in the long run.

Niall Nolan: Yes, it's a pretty small number, in a volatile quarter, volatile in the sense that you had ships coming in at different times to start up the pool, a $330,000 imbalance is pretty negligible in the scheme of things. But you're right, it'll balance out to zero at the end of the day.

Henry Deans: And Sean, the other thing we had in the pool, so it was – we actually had a management fee that reduced that disparity even more, to be honest. But the best thing about the pool is that we've got access to more ethylene vessels so we can participate in the upside without putting a single cent into a new vessel or new steel into the shipyards or on the water. So we – it still allows us to participate in that upside for ethylene coming from our own joint venture terminal, which is sweet.

Sean Edmund Morgan: OK. So that was – in part, the thinking was you can kind of ramp up your ability to service your own terminal now that you knew that it was coming online. That makes sense.

Henry Deans: That's right.

Operator: And your next question comes from Omar Nokta from Clarksons Platou.

Omar Mostafa Nokta: I was actually going to just ask, maybe, about the Luna Pool, and you gave a pretty good overview. Is the idea really to use those 14 vessels on a sort of a line to work out of the ethylene terminal? Or will they be trading a bit more worldwide?

Oeyvind Lindeman: I'll start. The pool will go – the vessels of the pool will go where the money is. And right now, it's associated with ethylene and particularly with the terminal because – that suddenly, we have incremental supply of ethylene that needs tonnage. So the global footprint of the pool is there because the voyages we do in ethylene are quite long.

So most of them, I think, bar one are trading – or bar two are trading ethylene today. The other two are doing ethane. So all are doing C2-related trades, which you need this ethylene capability for, which is great. So they're not impinging on the same refrigerated ships, which we mentioned in the remarks. But it's a global pool. It just happens that most of the voyages stems U.S.

Omar Mostafa Nokta: Great. Yes, sorry. I – that's helpful. The – obviously, it's been a while since we've seen you guys enter into long-term charter and you entered into the three year TCE on one of your ethane ships. You've got another one for a year plus. They're both carrying ethane from your piling.

How do you think about potential employment opportunities for some of the other vessels? Do you see – I know you just got the three-year contract, but do you see opportunities for more along these lines?

Oeyvind Lindeman: I believe so because of the fact, I mean, it goes to Ben's question about the competitiveness of U.S. ethane, the production of ethane there. So at an ethane conference many years ago, the presenter was (aliking) ethane to a zombie, so it was neither dead nor alive. And that happens with ethane. In periods, it's very active and people commit to long-term contracts because ethane is a feedstock at the end of the day, lends itself to structure deals, not spots. And then it turns back to the dead form, and now it's back again.

And it's relating to also what Ben mentioned that there are infrastructure projects happening in the U.S. that are coming for commissioning. And suddenly, world petrochemical or global petrochemical producers can now start to eye or see more supply coming from the U.S. because there's more terminal capacity. So it ebbs and flows. There is not a spot market per se, structural moves, and that's how you see – you can see what happened now with the longer-term contract on one of our midsized ships.

Omar Mostafa Nokta: Got it. And then maybe just on the terminal, the ethylene terminal. Do you have a sense of what percentage of that will actually be ethylene versus ethane? Is it predominantly going to be ethylene? Is there any ethane that will be coming out of the terminal?

Oeyvind Lindeman: The ethane part of the terminal is not part of the joint venture. That is entirely 100 percent Enterprise. The particularities there is that there are two jetties. And they both – the both of the jetties can load ethane and ethylene. So it lends itself to a beautiful situation whereby ships can co-load at the same place ethylene and ethane if the ship is capable. But so far, at least for the Luna Pool, and the Navigator Eclipse, we have loaded four cargoes at ethylene, but co-loading is possible.

Operator: And your next question comes from Randy Giveans from Jefferies.

Randall Giveans: Great to see the terminal ramping faster than expected. You said 80,000 in June. I heard you say 60,000 in August. So assuming somewhere in between July, I guess how frequent are you seeing loadings currently? And more importantly, following June's profitable months, what are your profit expectations for the terminal in the third quarter?

Oeyvind Lindeman: So I can answer the first question on ethylene loading. So we are working with enterprise every day, 24/7 to optimize those two jetties, and our – obviously, our interest is for ethylene. So to have a ship there at every single hour of the day 30 or 31 days of the month in order to maximize the throughput. So in between, in July and August, there's been some issues with lightning storms in Houston, which I'm sure, Randy, you are very familiar with.

Randall Giveans: Yes. Yes.

Oeyvind Lindeman: Which impacts (inaudible), which safety first. There's also conditioning and other things going on with the tank and various maintenance and so forth. So it's not – the volume during those two months isn't so much that we weren't able to have a ship on the dock, but it's relating to other factors.

Randall Giveans: And I'll let any of you answer the next part.

Henry Deans: Niall, do you want to take that?

Niall Nolan: Sorry, the profitability of the terminal going forward. I mean, I think it's going to be consistent with June. We're expecting throughput, notwithstanding what Oeyvind said – of about 70,000 tons per month of both July and August. September is unknown just yet. So we would expect a profit of above $1 million per month for Q3.

Randall Giveans: All right. And then I know Omar was mentioning some of the charters, which are, yes, good timing on the ethane side, any updates for charters out of the ethylene terminal?

Oeyvind Lindeman: On the ethylene side, we have some existing contracts. And if you read the earnings release that the terminal is topping up on spot cargoes. So there's a mix between term contracts that Navigator or the Luna Pool is engaged in. And also trying to follow the upside on the spot market, which, obviously, we're in a very good position to do because we have more ships through the pool. So there is a mix there.

Randall Giveans: Got it. OK. And then I guess last question, probably the biggest, about the $100 million bond due in 2021. You had the $34 million in the amended terminal facility that increased the liquidity there. You have an upcoming refinancing for, hopefully, another $30 million. So this $64 million in liquidity plus ideally some free cash over the next six months, do you think you'll have to refinance the entire $100 million senior unsecured bond? Or are you expecting, kind of, a partial refinancing of that note?

Niall Nolan: I think given the current circumstances or the uncertainty surrounding COVID, it would be wise to keep as much liquidity headroom as we possibly can. So preference would be to refinance the full amount, but it's – given the amount of headroom, and we could have $120 million of cash against a $40-odd million liquidity requirement. It is possible that we could have a lesser amount or refinance a lesser amount. But I think in the current climate, we would be wise to, at least in the first instance, to refinance the full amount.

David J. Butters: So we're approaching the 10:00 hour. So unless there's another question, we can wrap it up today?

Operator: We do have one more question. It comes from J. Mintzmyer from Value Investor's.

J. Mintzmyer: I'll make this one quick. So we had a good discussion just previous for Randy about the unsecured bond. We've seen in the pipeline in the energy infrastructure area, interest rate costs have just plummeted, right? We've seen a lot of MLPs and such, refinancing, 5 percent, 6 percent, 7 percent unsecured debt at like 1 percent or 2 percent debt.

Now I understand shipping always gets kind of discriminated against in the debt markets. But have you seen those costs coming down as of yet? And do you think you can secure a lower interest rate cost? Any idea what the current kind of spreads are?

Niall Nolan: I think the spreads are still on the slightly high side. So there is some potential cost saving, but it's not material from where this fund is currently at.

J. Mintzmyer: That's unfortunate. You have one of the most exciting infrastructure assets in the eastern seaboard. So hopefully, that'll start to gain some attention.

Final question. You've done a great job. You have 95 percent take-or-pay on the first phase. June performance was excellent. We're looking forward to that new tank. What does it take? Like how many more customers lining up does it take for you to step forward on to some sort of a Phase 2?

Henry Deans: That's a very good question, J. Again, we – today, we don't fully understand what we can do with that asset. And we believe there's lots of room there to squeeze more out of the asset and so we utilize it with 3D bottlenecks. So we're taking one day at a time, but I feel when they come and knock on our door, then, of course, we'll have a discussion with them.

J. Mintzmyer: All right. Hopefully, a 2021 topic.

Henry Deans: Thank you.

Niall Nolan: Thank you, Jay.

David J. Butters: Well, thank you all for joining us this morning, and we look forward to our third quarter conference call in a few months. Thank you again.

Operator: Thank you. That does conclude our conference. Thank you for joining. You may now disconnect.

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