Navigator Holdings Ltd.
Form 6-K
August 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2018

Commission File Number 001-36202

NAVIGATOR HOLDINGS LTD.

(Translation of registrant s name into English)

c/o NGT Services (UK) Ltd

10 Bressenden Place

London, SW1E 5DH

United Kingdom

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1). Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7). Yes No

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NAVIGATOR HOLDINGS LTD.

REPORT ON FORM 6-K FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

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Management s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, all references in this report to Navigator Holdings, our, we, us and the Company refer to Navigator Holdings Ltd., a Marshall Islands corporation. All references in this report to our wholly-owned subsidiary Navigator Gas L.L.C. refer to Navigator Gas L.L.C., a Marshall Islands limited liability company. As used in this report, unless the context indicates or otherwise requires, references to our fleet or our vessels refers to the 38 vessels we owned and operated as of June 30, 2018.

This section should be read in conjunction with the interim financial statements and notes thereto presented elsewhere in this report, as well as the audited historical consolidated financial statements and notes thereto of Navigator Holdings Ltd. included in our Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission, or the SEC, on March 5, 2018 (the 2017 Annual Report). Among other things, those financial statements include more detailed information regarding the basis of presentation for the following information. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and are presented in U.S. Dollars unless otherwise indicated.

Overview

We are the owner and operator of the world s largest fleet of handysize liquefied gas carriers. We provide international and regional seaborne transportation services of petrochemical gases, liquefied petroleum gas, or LPG, and ammonia for energy companies, industrial users and commodity traders. These gases are transported in liquefied form, by applying cooling and/or pressure, reducing volume by up to 900 times depending on the cargo, making their transportation more efficient and economical. Vessels in our fleet are capable of loading, discharging and carrying cargoes across a range of temperatures from ambient to minus 104° Celsius and pressures from 1 bar to 6.4 bar.

Our fleet consists of 38 vessels. We have 33 semi- or fully-refrigerated handysize liquefied gas carriers, of which ten are ethylene/ethane capable. We define handysize liquefied gas carriers as those liquefied gas carriers with capabilities between 15,000 and 24,999 cubic meters, or cbm. Our handysize liquefied gas carriers can accommodate medium- and long-haul routes that may be uneconomical for smaller vessels and can call at ports that are unable to support larger vessels due to limited onshore capacity, absence of fully-refrigerated loading infrastructure and/or vessel size restrictions.

In addition, we have four midsize 37,300 cbm ethylene/ethane-capable semi-refrigerated liquefied gas carriers. Our midsize ethylene/ethane-capable semi-refrigerated gas carriers enable long-haul transportation of ethylene/ethane that may be uneconomical for smaller vessels.

We have one 38,000 cbm fully-refrigerated gas carrier which trades predominately from North West Europe and the Mediterranean to Morocco, carrying ammonia.

In addition, in January 2018, we entered into a 50/50 joint venture (the Export Terminal Joint Venture) to construct and operate an ethylene export marine terminal at Morgan s Point, Texas (the Marine Export Terminal). The Marine Export Terminal is expected to begin commercial operations in the fourth quarter of 2019 and will have the capacity to export approximately one million tons of ethylene annually.

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Our Fleet

The following table sets forth our vessels as of August 6, 2018:

Operating Vessel	Year Built	Vessel Size (CBM)	Employment Status	Charter Expiration Date
Ethylene/ethane capable semi-refrigerated				
Navigator Orion (formerly known as Navigator Mars)	2000	22,085	Time charter	October 2020
Navigator Neptune	2000	22,085	Contract of affreightment	December 2018
Navigator Pluto	2000	22,085	Time charter	June 2019
Navigator Saturn	2000	22,085	Spot market	
Navigator Venus	2000	22,085	Time charter	September 2018
Navigator Atlas	2014	21,000	Contract of affreightment	December 2018
Navigator Europa	2014	21,000	Contract of affreightment	December 2018
Navigator Oberon	2014	21,000	Spot Market	
Navigator Triton	2015	21,000	Contract of affreightment	December 2018
Navigator Umbrio	2015	21,000	Spot market	
Navigator Aurora	2016	37,300	Time charter	December 2026
Navigator Eclipse	2016	37,300	Time charter	November 2020
Navigator Nova	2017	37,300	Time charter	February 2019
Navigator Prominence	2017	37,300	Spot market	
Semi-refrigerated				
Navigator Magellan	1998	20,700	Time charter	November 2018
Navigator Aries	2008	20,750	Time charter	April 2020
Navigator Capricorn	2008	20,750	Contract of affreightment	December 2018
Navigator Gemini	2009	20,750	Time charter	September 2018
Navigator Pegasus	2009	22,200	Time charter	August 2018
Navigator Phoenix	2009	22,200	Spot market	
Navigator Scorpio	2009	20,750	Time charter	September 2018
Navigator Taurus	2009	20,750	Time charter	June 2019
Navigator Virgo	2009	20,750	Time charter	June 2019
Navigator Leo	2011	20,600	Time charter	December 2023
Navigator Libra	2012	20,600	Time charter	December 2023
Navigator Centauri	2015	21,000	Spot market	
Navigator Ceres	2015	21,000	Spot market	
Navigator Ceto	2016	21,000	Spot market	
Navigator Copernico	2016	21,000	Spot market	
Navigator Luga	2017	22,000	Time charter	February 2022
Navigator Yauza	2017	22,000	Time charter	April 2022
Fully-refrigerated				
Navigator Glory	2010	22,500	Time charter	March 2019
Navigator Grace	2010	22,500	Spot market	
Navigator Galaxy	2011	22,500	Time charter	March 2019
Navigator Genesis	2011	22,500	Spot market	

Navigator Global	2011	22,500	Time charter	November 2018
Navigator Gusto	2011	22,500	Time charter	September 2018
Navigator Jorf	2017	38,000	Time charter	August 2027

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Recent Developments

Ethylene Marine Export Terminal

On May 29, 2018 the Company announced that construction is now under way on the Export Terminal Joint Venture to construct the Marine Export Terminal which will be located at Morgan s Point, Texas facility on the Houston Ship Channel that will have the capacity to export approximately one million tons of ethylene per year. Refrigerated storage for 30,000 tons of ethylene will be constructed on-site and will provide the capability to load ethylene at rates of 1,000 tons per hour. The project is supported by long-term contracts with customers that include ethylene producer Flint Hills Resources and a major polymer trading company. Commercial operations are expected to begin in the fourth quarter of 2019, one quarter earlier than previously announced.

As of August 6, 2018 we have contributed $25.0 million of our expected $155.0 million share of the capital cost of the Marine Export Terminal construction from the Company s available cash resources. We are in the process of negotiating two debt facilities to fund our remaining expected investment.

Financial Covenants

During the second quarter of 2018, the Company sought, and obtained approval to amend one of the covenants in each of its bank loan facilities. The covenant, requiring the ratio of Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) to be at least two and a half or three times interest has been amended to a requirement of two times interest, up to and including September 30, 2020. In addition, the definition of interest under these facilities now excludes interest due or payable relating to debt financing expected to be obtained by the Company in relation to its obligations associated with the construction of the Export Marine Terminal.

Under the terms of these amendments, the payment of dividends by the Company are prohibited until on or after December 31, 2020.

These amendments were made as a consequence of the prolonged downturn in the LPG markets, the recent significant increases in U.S. LIBOR, as well as the additional interest that is expected to be incurred on the incremental debt associated with the Marine Export Terminal, prior to it becoming commercially operational.

Trends and Outlook

Fleet utilization was 90.3% during the second quarter of 2018, up from the 86.2% achieved during the second quarter of 2017, but slightly down on the 91.7% achieved during the first quarter of 2018. Petrochemical activity, particularly long-haul carriage of petrochemicals (butadiene, crude C4 and butene-1) from Europe to the US Gulf of Mexico and Brazil to the Far East have been the primary factor behind this increase in utilization. Two handysize and two midsize vessels have been fully employed transporting ethane for the majority of the second quarter of 2018, trading from the U.S. to Central and South America as well as North West Europe. All five midsized gas carriers (MGCs) in the fleet are now contracted to operate under time charters for the remainder of 2018.

However, the increase in utilization has been tempered by a continued low charter rate environment, compounded by an approximate 30% increase in bunker prices across the second quarter of 2018 as crude prices rise, translating to further reductions in charter rates achieved. Ethylene handysize vessels have returned to charter rates of approximately $25,000 per day during the second quarter, although rates for standard LPG transportation remained at approximately $15,000 per day. Energy Transfer Partners Marcus Hook export facility remained offline for nearly all of the second quarter, which caused much disruption to the Atlantic s time charter business operators that rely on this facility.

Technical Management

During the six months ended June 30, 2018, we took two vessels, *Navigator Eclipse* and *Navigator Glory*, from third party technical management into in-house technical management. We now provide in-house technical management for ten of our 38 vessels. We expect to take two further vessels into in-house technical management during the second half of 2018. We do not anticipate that taking vessels into in-house technical management will have a material financial impact on our earnings, but we expect that it will assist us in continuing to maintain our vessels to high standards.

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Factors Affecting Comparability

You should consider the following factors when evaluating our historical financial performance and assessing our prospects:

We have been increasing our fleet size. Our historical financial performance has been significantly impacted by the increasing size of our fleet.

During the first six months of 2017, we took delivery of three vessels; *Navigator Nova* and *Navigator Luga* in January 2017 and *Navigator Yauza* in April 2017 giving a weighted average fleet size of 35.3 for the six months ended June 30, 2017. Following the completion of our newbuilding program in November 2017 with the delivery of *Navigator Prominence*, our fleet size was 38.0 vessels throughout the six months ended June 30, 2018.

Given the increase in the number of operating vessels in our fleet, our historical financial statements reflect significantly different levels of ownership and operating days as well as different levels of voyage expenses, vessel operating expenses, interest expense and other related costs.

We will have different financing arrangements. We have entered into secured term loan facilities and revolving credit facilities and have issued senior unsecured bonds to finance the acquisitions of vessels and the construction of all the vessels in our newbuilding program (completed in November 2017), and to refinance certain debt maturities. Please read Liquidity and Capital Resources- Secured Term Loan Facilities and Revolving Credit Facilities and Liquidity and Capital Resources 2017 Senior Unsecured Bonds.

Changes in Accounting Standards. On January 1, 2018 we adopted the new accounting standard described below. Please read Note 1 (Basis of Presentation) to our unaudited condensed consolidated financial statements attached hereto for more information regarding this standard and other recently adopted new accounting standards.

Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). We have adopted the new accounting standard on revenue recognition using the modified retrospective method to incorporate the cumulative effect at the date of initial application for reporting periods presented beginning January 1, 2018. By using the modified retrospective method approach, we have made an adjustment to the consolidated statement of shareholders equity which represents the amount of net revenue that would not have been recognized in retained earnings for the year ended December 31, 2017 under ASU 2014-09. Consequently, the comparable amounts for the three and six months ended June 30, 2017 have not been adjusted.

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Results of Operations for the Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2018

The following table compares our operating results for the three months ended June 30, 2017 and 2018:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Percentage Change
	(in thousands, except percentages)		
Operating revenue	$ 74,381	$ 73,163	(1.6%)
Operating expenses:			
Brokerage Commissions	1,389	1,219	(12.2%)
Voyage expenses	13,516	13,930	3.1%
Vessel operating expenses	25,001	26,040	4.2%
Depreciation and amortization	18,304	19,029	4.0%
General and administrative costs	3,578	3,818	6.7%
Other corporate expenses	329	994	202.1%
Total operating expenses	$ 62,117	$ 65,030	4.7%
Operating income	$ 12,264	$ 8,133	(33.7%)
Interest expense	(9,372)	(11,353)	21.1%
Write off of deferred financing costs	(627)		
Interest income	119	207	73.9%
Income/(loss) before income taxes	$ 2,384	$ (3,013)	(226.4%)
Income taxes	(130)	(146)	12.3%
Net income/(loss)	$ 2,254	$ (3,159)	(240.2%)

Operating Revenue. Operating revenue, net of address commission, decreased by $1.2 million or 1.6% to $73.2 million for the three months ended June 30, 2018, from $74.4 million for the three months ended June 30, 2017. This decrease was principally due to:

an increase in operating revenue of approximately $3.1 million attributable to an increase in the weighted average number of vessels from 36.0 for the three months ended June 30, 2017 to 38.0 for the three months ended June 30, 2018, and a corresponding increase in vessel ownership days by 186 days, or 5.7 %, for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017;

a decrease in operating revenue of approximately $7.4 million attributable to a decrease in average charter rates, which reduced to an average of approximately $580,673 per vessel per calendar month ($19,089 per day) for the three months ended June 30, 2018 compared to an average of approximately $657,018 per vessel per calendar month ($21,601 per day) for the three months ended June 30, 2017. This decrease was primarily as a result of the continuing weak LPG markets which accounted for $6.0 million, and the adoption of ASU 2014-09, the new accounting standard that requires revenue for voyage charters to be recognized between load port and discharge port only, rather than the previous method of recognizing revenue between the prior discharge port to the following discharge port, accounting for $1.4 million;

an increase in operating revenue of approximately $2.7 million attributable to an increase in fleet utilization from 86.2% during the three months ended June 30, 2017 to 90.3% during the three months ended June 30, 2018; and

an increase in operating revenue of approximately $0.4 million, primarily attributable to an increase in pass through voyage costs, as the number and duration of voyage charters during the three months ended June 30, 2018 increased, as compared to the three months ended June 30, 2017.

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The following table presents selected operating data for the three months ended June 30, 2017 and 2018, which we believe are useful in understanding the basis for movement in our operating revenue.

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018
Fleet Data:		
Weighted average number of vessels	36.0	38.0
Ownership days	3,272	3,458
Available days	3,269	3,434
Operating days	2,818	3,103
Fleet utilization	86.2%	90.3%
Average daily time charter equivalent rate (*)	$ 21,601	$ 19,089

* **Non-GAAP Financial Measure -Time charter equivalent:** Time charter equivalent (TCE) rate is a measure of the average daily revenue performance of a vessel. TCE is not calculated in accordance with U.S. GAAP. For all charters, we calculate TCE by dividing total operating revenues, less any voyage expenses, by the number of operating days for the relevant period. Under a time charter, the charterer pays substantially all of the vessel voyage related expenses, whereas for voyage charters, also known as spot market charters, we pay all voyage expenses. TCE rate is a standard shipping industry performance measure used primarily to compare period-to-period changes in a company s performance despite changes in the mix of charter types (i.e., spot charters, time charters and contracts of affreightment) under which the vessels may be employed between the periods. We include average daily TCE rate, as we believe it provides additional meaningful information in conjunction with net operating revenues, because it assists our management in making decisions regarding the deployment and use of our vessels and in evaluating their financial performance. Our calculation of TCE rate may not be comparable to that reported by other companies.

Reconciliation of Operating Revenue to TCE rate

The following table represents a reconciliation of operating revenue to TCE rate. Operating revenue is the most directly comparable financial measure calculated in accordance with U.S. GAAP for the periods presented.

(in thousands, except operating days and average daily time charter equivalent rate)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018
Fleet Data:		
Operating revenue	$ 74,381	$ 73,163
Voyage expenses	13,516	13,930
Operating revenue less Voyage expenses*	60,865	59,233
Operating days	2,818	3,103

Average daily time charter equivalent rate	$	21,601	$	19,089

* We have adopted the new accounting standard ASU 2014-09 for revenue recognition using the modified retrospective method, which incorporates the cumulative effect of prior years in January 1, 2018. Consequently, the three months ended June 30, 2017 has not been adjusted.

Brokerage Commissions. Brokerage commissions, which typically vary between 1.25% and 5% of operating revenue, decreased by 12.2% to $1.2 million for the three months ended June 30, 2018, from $1.4 million for the three months ended June 30, 2017. This was primarily related to the decrease in broker commission rates across the fleet as well as a decrease in the amount of revenue on which the commissions are based.

Voyage Expenses. Voyage expenses increased by 3.1% to $13.9 million for the three months ended June 30, 2018, from $13.5 million for the three months ended June 30, 2017. This was primarily due to an increase in the costs associated with voyage charters, which are pass through costs, compensated for by increased revenue of the same amount.

Vessel Operating Expenses. Vessel operating expenses increased by 4.2% to $26.0 million for the three months ended June 30, 2018, from $25.0 million for the three months ended June 30, 2017, as the average number of vessels in our fleet increased by 5.6%, from an average of 36.0 vessels in the fleet during the three months ended June 30, 2017 to 38.0 vessels during the three months ended

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June 30, 2018. Average daily vessel operating expenses decreased by $111 per day to $7,530 per vessel per day for the three months ended June 30, 2018, compared to $7,641 per vessel per day for the three months ended June 30, 2017. During the three months ended June 30, 2018, we received insurance payments from claims on a number of our vessels relating to costs that had previously been expensed in prior years. These funds which are equivalent to $168 per vessel per day have been credited back to vessel operating expenses for the three months ended June 30, 2018.

Depreciation and Amortization. Depreciation and amortization increased by 4.0% to $19.0 million for the three months ended June 30, 2018, from $18.3 million for the three months ended June 30, 2017. This was primarily due to an increase in our weighted average fleet size of 5.6% from an average of 36.0 for the three months ended June 30, 2017, to 38.0 for the three months ended June 30, 2018. Depreciation and amortization includes amortization of capitalized drydocking costs of $2.0 million for the three months ended June 30, 2018, compared to the $2.4 million for the three months ended June 30, 2017.

Other Operating Results

General and Administrative Costs. General and administrative costs increased by 6.7%, or $0.2 million, to $3.8 million for the three months ended June 30, 2018, from $3.6 million for the three months ended June 30, 2017. The increase in general and administrative costs was primarily due to an increase in the number of employees in the Company during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, to enable us to provide in-house technical management for an increasing number of our vessels.

Other Corporate Expenses. Other corporate expenses increased by 202.1%, or $0.7 million, to $1.0 million for the three months ended June 30, 2018, from $0.3 million for the three months ended June 30, 2017. The increase was primarily due to the foreign exchange movement on non-U.S. Dollar bank accounts within the Company as the U.S Dollar has strengthened against those currencies.

Interest Expense. Interest expense increased by 21.1%, or $2.0 million, to $11.4 million for the three months ended June 30, 2018, from $9.4 million for the three months ended June 30, 2017. The increase was primarily due to an increase in U.S. LIBOR which accounted for the additional $2.0 million, as well as interest on an additional $119.5 million borrowed under our loan facilities since June 30, 2017, associated with the delivery of two newbuilding vessels and for general corporate purposes and partially offset by the decrease in the bank margin on the refinancing of a bank loan in June 2017. Interest capitalized on newbuilding installment payments for the three months ended June 30, 2017 was $0.5 million, but as our newbuilding program was completed in November 2017 no interest was capitalized in the three months ended June 30, 2018.

Write off of deferred financing costs. The write off of deferred financing costs of $0.6 million for the three months ended June 30, 2017 related to the remaining unamortized deferred financing costs on the February 2013 Secured Term Loan Facility which was refinanced on June 30, 2017 and repaid in full on July 5, 2017. There were no refinancing transactions in the three months ended June 30, 2018.

Income Taxes. Income tax related to taxes on our subsidiaries incorporated in the United Kingdom, Poland and Singapore. Our United Kingdom and Polish subsidiaries earn management and other fees from affiliates, and our Singaporean subsidiary earns interest from loans to our variable interest entity in Indonesia. The main corporate tax rates are 19%, 19% and 17% in the United Kingdom, Poland and Singapore, respectively. For the three months ended June 30, 2018, we had a tax charge of $146,330, compared to taxes of $130,273 for the three months ended June 30, 2017.

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Results of Operations for the Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2018

The following table compares our operating results for the six months ended June 30, 2017 and 2018:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Percentage Change
	(in thousands, except percentages)		
Operating revenue	$ 151,700	$ 150,970	(0.5%)
Operating expenses:			
Brokerage Commissions	2,914	2,360	(19.0%)
Voyage expenses	28,515	28,908	1.4%
Vessel operating expenses	48,906	52,751	7.9%
Depreciation and amortization	35,938	38,410	6.9%
General and administrative costs	6,330	8,049	27.2%
Other corporate expenses	952	1,209	27.0%
Total operating expenses	$ 123,555	$ 131,687	6.6%
Operating income	$ 28,145	$ 19,283	(31.5%)
Interest expense	(18,298)	(21,877)	19.6%
Write off of deferred financing costs	(1,281)		
Write off of call premium and redemption charges on 9% unsecured bond	(3,517)		
Interest income	232	359	54.7%
Income/(loss) before income taxes			