Navigator Holdings Ltd.
Form 6-K
November 13, 2018

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 September 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 NINE MONTHS ENDED SEPTEMBER 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 September 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 the Caribbean 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 November 13, 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	Spot market	
Navigator Pluto	2000	22,085	Time charter	June 2019
Navigator Saturn	2000	22,085	Spot market	
Navigator Venus	2000	22,085	Spot market	
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	Spot market	
Navigator Umbrio	2015	21,000	Contract of affreightment	December 2018
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	Time charter	February 2020
Navigator Gemini	2009	20,750	Spot market	
Navigator Pegasus	2009	22,200	Time charter	June 2019
Navigator Phoenix	2009	22,200	Time charter	January 2019
Navigator Scorpio	2009	20,750	Spot market	
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	Contract of affreightment	December 2018
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	October 2019
Navigator Jorf	2017	38,000	Time charter	August 2027

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Recent Developments

2018 Senior Secured Bonds

On November 2, 2018, the Company issued senior secured bonds in an aggregate principal amount of 600 million Norwegian Kroner (NOK) (approximately $72.0 million) with Norsk Tillitsmann ASA as the bond trustee (the 2018 Bonds). The net proceeds will be used to partially finance our portion of the capital cost of construction of the Export Terminal Joint Venture. The 2018 Bonds are secured by four of the Company s ethylene capable vessels. The 2018 Bonds are governed by Norwegian law and are expected to be listed on the Nordic ABM which is operated and organized by Oslo Børs ASA.

Interest on the 2018 Bonds is payable quarterly at 3 month NIBOR plus 6.0% per annum, calculated on a 360-day year basis. The 2018 Bonds will mature in full on November 2, 2023.

Ethylene Marine Export Terminal

On May 29, 2018 the Company announced the beginning of construction on the Export Terminal Joint Venture to construct the Marine Export Terminal to 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 initially supported by two long-term contracts with ethylene producer Flint Hills Resources and a major Japanese trading company with further contracts expected over the next quarter. Commercial operations are scheduled to begin in the fourth quarter of 2019, with the refrigerated storage expected to be completed later in 2020.

As of September 30, 2018, the Company had 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. In November 2018, we contributed a further $11.0 million to the Export Terminal Joint Venture of our expected share of the capital cost using the proceeds of the 2018 Bonds. We expect to contribute a further $5.0 million before the end of the year and approximately $70.0 million during 2019.

Trends and Outlook

During the third quarter of 2018, we entered into two new time charters for niche LPG trade along the west coasts of South America and Africa respectively. Additionally, we undertook a new charter for the transportation of two west coast Australia LPG cargoes to South East Asia as well as a renewal of a one-year time charter with Algeria s state oil company at around a 30% increase in charter hire compared to the expiring rate. These additional time charter commitments indicate a firming in utilization in the near term as the market tightens and sentiment improves.

Long haul spot activity across the petrochemical segment (butadiene, crude C4, raffinate and butene-1) continued into the third quarter, with cargoes emanating from North West Europe, the Eastern Mediterranean and from Brazil, into the U.S. Gulf markets with an increasing frequency. There were also long haul voyages to both the Middle East and to Far East Asia concluded from North Europe during this third quarter.

Long haul ethylene activity continued, though this was tempered by the shutdown for maintenance of the only existing US export terminal at Targa, Houston, for the month of September. This shortfall was taken up, however, by ethylene tons moving from North West Europe, the Mediterranean, the Red Sea and the Middle East. Petrochemical voyages achieved charter rates of up to approximately $22,000 per day during the third quarter, whereas rates for standard LPG transportation remained at approximately $15,000 per day. The majority of the assessed earnings estimates from third party brokers are improving across the entire gas carrier industry and the sentiment is positive going forward on the back of a reducing orderbook and incremental volume from infrastructure projects such as the Mariner East II pipeline system on the U.S. East Coast which is expected to become operational in December of this year followed by AltaGas Canada West Coast export terminal during the first quarter of 2019.

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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 nine months of 2017, we took delivery of four vessels; *Navigator Nova* and *Navigator Luga* in January 2017; *Navigator Yauza* in April 2017 and *Navigator Jorf* in August 2017 giving a weighted average fleet size of 35.8 vessels for the nine months ended September 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 nine months ended September 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. We have also issued new senior secured bonds. Please read Liquidity and Capital Resources Secured Term Loan Facilities and Revolving Credit Facilities and 2017 Senior Unsecured Bonds and 2018 Senior Secured 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 nine months ended September 30, 2017 have not been adjusted.

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

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2018	Percentage Change
	(in thousands, except percentages)		
Operating revenue:	$ 70,211	$ 80,843	15.1%
Operating expenses:			
Brokerage Commissions	1,191	1,434	20.4%
Voyage expenses	12,246	17,251	40.9%
Vessel operating expenses	25,106	26,873	7.0%
Depreciation and amortization	18,787	18,846	0.3%
General and administrative costs	3,932	4,176	6.2%
Other corporate expenses	653	691	5.8%
Total operating expenses	$ 61,915	$ 69,271	11.9%
Operating income	$ 8,296	$ 11,572	39.5%
Interest expense	(9,426)	(11,014)	16.8%
Interest income	139	202	45.3%
(Loss)/Income before income taxes	$ (991)	$ 760	
Income taxes	(102)	(137)	34.3%
Net (loss)/income	$ (1,093)	$ 623	

Operating Revenue. Operating revenue, net of address commission, increased by $10.6 million or 15.1% to $80.8 million for the three months ended September 30, 2018, from $70.2 million for the three months ended September 30, 2017. This increase was principally due to:

- an increase in operating revenue of approximately $1.6 million attributable to an increase in the weighted average number of vessels from 36.8 for the three months ended September 30, 2017 to 38.0 for the three months ended September 30, 2018, and a corresponding increase in vessel ownership days by 112 days, or 3.3 %, for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017;

- an increase in operating revenue of approximately $2.2 million attributable to an increase in average charter rates, which increased to an average of approximately $638,446 per vessel per calendar month ($20,987 per day) for the three months ended September 30, 2018 compared to an average of approximately $615,195 per vessel per calendar month ($20,226 per day) for the three months ended September 30, 2017. This was primarily as a result of the continuing weak LPG markets which accounted for a decrease of $0.2 million, offset by 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 an increase of $2.4 million;

an increase in operating revenue of approximately $1.8 million attributable to an increase in fleet utilization from 85.0% during the three months ended September 30, 2017 to 87.5% during the three months ended September 30, 2018; and

an increase in operating revenue of approximately $5.0 million primarily attributable to an increase in pass through voyage costs.

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2018
Fleet Data:		
Weighted average number of vessels	36.8	38.0
Ownership days	3,384	3,496
Available days	3,371	3,464
Operating days	2,866	3,030
Fleet utilization	85.0%	87.5%
Average daily time charter equivalent rate (*)	$ 20,226	$ 20,987

* **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.

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2018
	(in thousands, except operating days and average daily time charter equivalent rate)	
Fleet Data:		
Operating revenue	$ 70,211	$ 80,843
Voyage expenses	12,246	17,251

Operating revenue less Voyage expenses*	57,965	63,592
Operating days	2,866	3,030
Average daily time charter equivalent rate	$ 20,226	$ 20,987

* 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 September 30, 2017 has not been adjusted.

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Brokerage Commissions. Brokerage commissions, which typically vary between 1.25% and 5% of operating revenue, increased to $1.4 million for the three months ended September 30, 2018, from $1.2 million for the three months ended September 30, 2017. This was primarily related to the increase in the amount of revenue on which the commissions are based.

Voyage Expenses. Voyage expenses increased by 40.9% to $17.3 million for the three months ended September 30, 2018, from $12.2 million for the three months ended September 30, 2017. This was primarily due to an increase in the cost of bunkers associated with voyage charters over the quarter as compared to the same quarter in 2017. These voyage costs are pass through costs, compensated for by increased revenue of the same amount.

Vessel Operating Expenses. Vessel operating expenses increased by 7.0% to $26.9 million for the three months ended September 30, 2018, from $25.1 million for the three months ended September 30, 2017, as the average number of vessels in our fleet increased by 3.3%, from an average of 36.8 vessels in the fleet during the three months ended September 30, 2017 to 38.0 vessels during the three months ended September 30, 2018. Average daily vessel operating expenses increased by $239 per day or 3.2% to $7,687 per vessel per day for the three months ended September 30, 2018, compared to $7,448 per vessel per day for the three months ended September 30, 2017.

Depreciation and Amortization. Depreciation and amortization increased by 0.3% to $18.9 million for the three months ended September 30, 2018, from $18.8 million for the three months ended September 30, 2017. This was primarily due to an increase in our weighted average fleet size of 3.3% from an average of 36.8 for the three months ended September 30, 2017, to 38.0 for the three months ended September 30, 2018 offset by amortization of capitalized drydocking costs which reduced to $1.8 million for the three months ended September 30, 2018, compared to $2.5 million for the three months ended September 30, 2017.

Other Operating Results

General and Administrative Costs. General and administrative costs increased by 6.2%, or $0.3 million, to $4.2 million for the three months ended September 30, 2018, from $3.9 million for the three months ended September 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 September 30, 2018, compared to the three months ended September 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 5.8%, to $0.7 million for the three months ended September 30, 2018, compared to $0.7 million for the three months ended September 30, 2017.

Interest Expense. Interest expense increased by 16.8%, or $1.6 million, to $11.0 million for the three months ended September 30, 2018, from $9.4 million for the three months ended September 30, 2017. The increase was primarily due to an increase in U.S. LIBOR. Interest capitalized on newbuilding installment payments for the three months ended September 30, 2017 was $0.3 million, prior to the completion of our newbuilding program in November 2017. Interest capitalized in the three months ended September 30, 2018 of $0.5 million relates to installment payments on the investment in the Export Terminal Joint Venture.

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 September 30, 2018, we had a tax charge of $137,364, compared to taxes of $101,717 for the three months ended

September 30, 2017.

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Results of Operations for the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Percentage Change
	(in thousands, except percentages)		
Operating revenue	$ 221,911	$ 231,813	4.5%
Operating expenses:			
Brokerage Commissions	4,105	3,793	(7.6%)
Voyage expenses	40,761	46,158	13.2%
Vessel operating expenses	74,012	79,624	7.6%
Depreciation and amortization	54,725	57,256	4.6%
General and administrative costs	10,262	12,225	19.1%
Other corporate expenses	1,605	1,901	18.4%
Total operating expenses	$ 185,470	$ 200,957	8.4%
Operating income	$ 36,441	$ 30,856	(15.3%)
Interest expense	(27,724)	(32,891)	18.6%
Write off of deferred financing costs	(1,281)		
Write off of call premium and redemption charges on 9% unsecured bond	(3,517)		
Interest income	371	561	51.2%
Income/(loss) before income taxes	$ 4,290	$ (1,474)	
Income taxes	(391)	(366)	(6.4%)
Net income/(loss)	$ 3,899	$ (1,840	