



Höegh LNG Partners LP (HMLP)

Updated February 25th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	9.2%	Market Cap:	\$567 M
Fair Value Price:	\$17.60	5 Year Growth Estimate:	0.0%	Ex-Dividend Date¹:	05/07/2021
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	05/15/2021
Dividend Yield:	10.4%	5 Year Price Target	\$17.60	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Höegh LNG Partners LP focuses on owning, operating, and acquiring floating storage and regasification units (FSRUs), liquefied natural gas (LNG) carriers, and other LNG infrastructure assets under long-term charters. The company's principal strength is in its relationship with its sponsor, Höegh LNG, which has a track record dating back to the delivery of the world's first Moss-type LNG carrier in 1973. The \$597 million company owns interests in a fleet of five FSRUs, generates around \$145 million in annual revenues, and is based in Hamilton, Bermuda.

What makes HMLP unique in contrast to LNG carriers is that FSRUs do not actually transport LNG. The company's ships are used as an "infrastructure asset," simply remaining docked, providing access to the LNG customer when needed. Because their role is "niche" in the value chain, the company does not necessarily share the more volatile environment other firms face during the different stages of production. Its storage-like operations remain essential and cannot merely be "suspended." Hence, its cash flows can remain solid even under various environments, such as those of the recent past few months.

On February 25th, 2021, Höegh LNG Partners reported its Q4 2020 results for the period ending December 31st, 2020. Its FSRUs, achieved 100% availability once again due to its business model as described above. Total time charter revenues were \$36.1 million, a -6.2% decrease year-over-year, mostly due to payment period mismatching. DCFU (Distributable Cash Flow per Unit) was \$0.543, 2.1% higher compared to last year, amid stable operations. The fleet has more than 8 years of average remaining contract cover, which should provide resilient cash flows over the medium term, as it has been the case since the company's public-listing. We expect FY2020 DCFU of \$2.20. We are not forecasting growth on a per unit basis from this point.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFU	---	---	---	\$1.50	\$1.55	\$1.84	\$1.94	\$2.15	\$2.00	\$2.20	\$2.20	\$2.20
DPS	---	---	---	\$1.43	\$1.65	\$1.72	\$1.76	\$1.76	\$1.76	\$1.76	\$1.76	\$1.76
Shares²	---	---	---	26.3	26.3	26.8	32.9	33.1	33.2	33.2	33.3	34.0

Due to the fixed contract life of its FSRUs, steady cash flows should last for nearly a decade more. Therefore we expect the company to keep delivering robust DCFU in the medium term, as it has done historically. While the company is likely to grow its fleet as FSRUs drop down by its sponsor, DCFU and DPS may not increase meaningfully, as the company will likely issue more shares in the process. The Partnership will have the right to purchase the Höegh Giant, the Höegh Esperanza, the Höegh Gannet, and the Höegh Galleon following acceptance by the respective charterer of the related FSRU under a contract of five years or more, subject to reaching an agreement with its sponsor regarding the purchase price. Management's goal is to mostly retain its current distributions by extending its assets' lifetime value and acquiring new ones. Hence, we expect financials to remain quite steady in the future.

¹ Estimated distribution dates based on past distribution dates.

² Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFU				12.5	11.7	9.6	9.9	8.5	7.3	6.7	7.7	8.0
Avg. Yld.				7.2%	9.3%	9.8%	9.1%	10.0%	11.5%	11.5%	10.4%	10.0%

With HMLP's resilient, contractually secured revenues, its units have climbed higher since our latest report, as investors keep reaching for its safe distributions. Due to the current environment, which lacks high yields, we believe that the market is likely to push the valuation multiple higher, at around 8, setting the stock's yield to around 10%. We expect the stock's valuation and yield to remain close to today's levels going forward, in any case.

Safety, Quality, Competitive Advantage, & Recession Resiliency

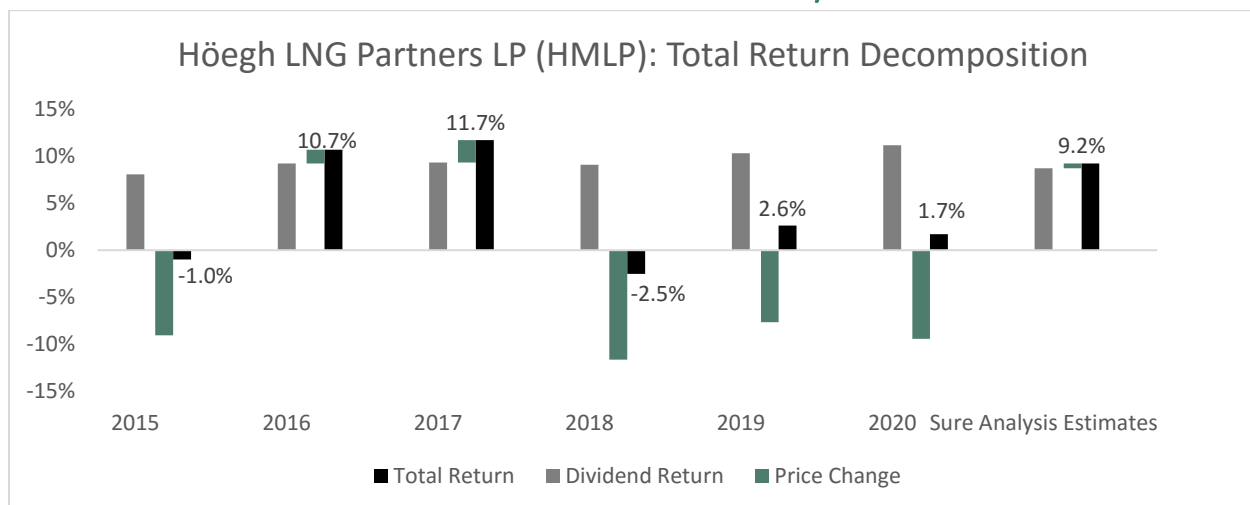
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout				95%	106%	93%	91%	82%	88%	80%	80%	80%

In the ultra-niche FSRU space, HMLP is by far the highest quality company, showcasing incredibly robust financials and the most experienced sponsor in the globe when it comes to the industry. Distributions should be safe over the next 7-10 years, with potential contract extensions for another decade in some of its current charterers' options. As proven during the ongoing pandemic, DCFU should remain robust even under a potential recession. Simultaneously, due to dominating the minimal availability of FSRUs and the nature of its contracts, the company should face no material competition in the medium term. There are currently only 37 FRSUs on water, with 10 of those being controlled by HMLP and its sponsor, HLNG. They are very slow to build, so competition is not an issue for the company. Still, there are major risks regarding the longevity of the business. Therefore investors are discounting a limited amount of cash flows amid a limited lifetime value of its assets. Hence the single-digit P/DCFU.

Final Thoughts & Recommendation

Höegh LNG Partners is a truly unique stock, operating in a very niche industry. The company should keep enjoying contractually secured cash flows for years to come. While risks regarding the business's longevity exist, which could result in considerable unit price losses, we believe that HMLP is currently relatively fairly valued. We believe that investors could enjoy medium-term returns of around 9.2% on an annualized basis, slightly lower than our latest report amid the stock's rally. We rate units a hold at current levels, but would find HMLP more attractive at lower prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	6	52	75	57	91	144	147	145
Gross Profit	---	-	8	27	45	64	99	101	93
Gross Margin	---	0.0%	14.7%	36.7%	78.5%	70.4%	68.7%	69.1%	64.0%
SG&A Exp.	---	3	8	13	9	10	10	9	10
D&A Exp.	---	-	0	1	3	11	21	21	21
Operating Profit	---	(3)	(2)	12	34	52	86	90	80
Operating Margin	---	57.8%	-3.0%	16.0%	58.8%	56.7%	60.0%	61.2%	55.2%
Net Profit	---	4	40	1	41	41	49	78	53
Net Margin	---	76.0%	78.5%	1.8%	71.8%	45.4%	34.0%	53.0%	36.3%
Free Cash Flow	---	(65)	(78)	(143)	42	36	80	91	85
Income Tax	---	---	---	0	0	4	4	8	7

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	135	229	549	764	810	1,059	1,023	1,013
Cash & Equivalents	---	0	0	30	33	19	23	26	39
Accounts Receivable	---	---	---	6	8	2	8	1	1
Inventories	---	---	---	---	1	1	1	1	0
Goodwill & Int. Ass.	---	---	---	---	19	16	24	21	17
Total Liabilities	---	188	277	313	514	446	584	503	511
Accounts Payable	---	0	---	1	1	1	0	1	1
Long-Term Debt	---	92	193	199	410	376	532	475	466
Shareholder's Equity	---	---	(48)	236	250	365	475	520	502

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	22.2%	0.3%	6.3%	5.3%	5.2%	7.5%	5.2%
Return on Equity	---	---	---	1.4%	17.0%	13.5%	11.6%	15.6%	10.3%
ROIC	---	---	---	0.8%	13.6%	10.5%	10.7%	15.4%	11.2%
Shares Out.	---	---	---	26.3	26.3	26.8	32.9	33.1	33.2
Revenue/Share	---	0.21	1.96	2.83	2.18	3.40	4.36	4.43	4.37
FCF/Share	---	(2.49)	(2.95)	(5.43)	1.59	1.35	2.43	2.75	2.56

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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