



Höegh LNG Partners LP (HMLP)

Updated May 27th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16.89	5 Year CAGR Estimate:	8.7%	Market Cap:	\$562 M
Fair Value Price:	\$16.80	5 Year Growth Estimate:	0.0%	Ex-Dividend Date¹:	07/29/2021
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	08/14/2021
Dividend Yield:	10.4%	5 Year Price Target	\$16.80	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 \$562 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 May 27th, 2021, Höegh LNG Partners reported its Q1-2021 results for the period ending March 31st, 2021. Its FSRUs, achieved 100% availability once again due to its business model as described above. Total time charter revenues were \$34.8 million, a -5.1% decrease year-over-year, mostly due to slightly lower chartering revenues. DCFU (Distributable Cash Flow per Unit) was \$0.50, 5.9% lower compared to last year, for that reason, offset by lower operating and financial expenses. The fleet continues to have more than 8 years of average remaining contract cover, which should provide resilient cash flows over the medium term, as has been the case since the company's public-listing. We expect FY2021 DCFU of \$2.10. 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	\$2.10	\$2.20
DPS	---	---	---	\$1.43	\$1.65	\$1.72	\$1.76	\$1.76	\$1.76	\$1.76	\$1.76	\$1.76
Units²	---	---	---	26.3	26.3	26.8	32.9	33.1	33.2	33.2	33.6	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 (HLNG), DCFU and DPS may not increase meaningfully, as the company will likely issue more shares in the process. That being said, as a consequence of its sponsor going private during the quarter, HLNG is not required to offer HMLP Five-Year Vessels and is permitted to compete with HMLP. Therefore, HMLP may struggle to grow its fleet. While the long-term charter contracts do not threaten the medium-term cash flows, HMLP will likely have to hunt for its own FSRUs, and we can't guarantee that management is competent enough to do so without its sponsor fully supporting it. HLNG remains "committed" to providing support, nonetheless. Still, we remain cautious about their future relationship. We continue to expect steady financials in the medium term.

¹ Estimated distribution dates based on past distribution dates.

² Unit count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	8.0	8.0
Avg. Yld.	---	---	---	7.2%	9.3%	9.8%	9.1%	10.0%	11.5%	11.5%	10.4%	10.5%

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 keep pricing Units at P/DCFU of around 8.0, where HMLP's yield stands 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

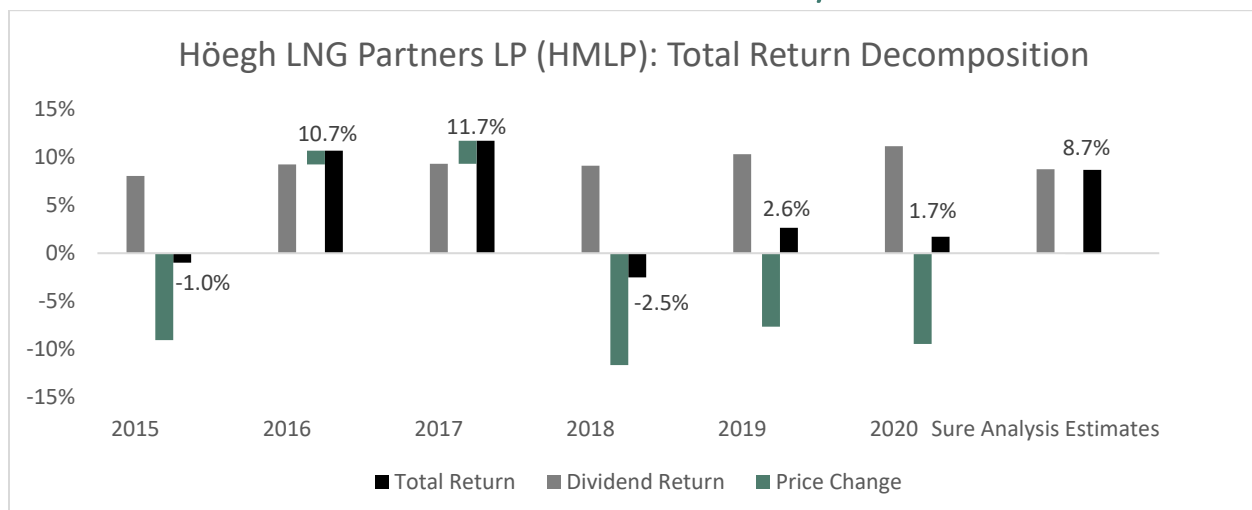
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	95%	106%	93%	91%	82%	88%	80%	80%	84%

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 (though with their relationship risk mentioned earlier). 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 8.7% on an annualized basis, slightly lower than our latest report amid the stock's rally. We rate units a hold at current levels, and would find HMLP more attractive at lower prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6	52	75	57	91	144	147	145	143
Gross Profit	-	8	27	45	64	99	101	93	98
Gross Margin	0.0%	14.7%	36.7%	78.5%	70.4%	68.7%	69.1%	64.0%	68.5%
SG&A Exp.	3	8	13	9	10	10	9	10	10
D&A Exp.	-	0	1	3	11	21	21	21	21
Operating Profit	(3)	(2)	12	34	52	86	90	80	86
Operating Margin	57.8%	-3.0%	16.0%	58.8%	56.7%	60.0%	61.2%	55.2%	60.1%
Net Profit	4	40	1	41	41	49	78	53	63
Net Margin	76.0%	78.5%	1.8%	71.8%	45.4%	34.0%	53.0%	36.3%	44.1%
Free Cash Flow	(65)	(78)	(143)	42	36	80	91	85	86
Income Tax	---	---	0	0	4	4	8	7	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	135	229	549	764	810	1,059	1,023	1,013	982
Cash & Equivalents	0	0	30	33	19	23	26	39	32
Accounts Receivable	---	---	6	8	2	8	1	1	0.4
Inventories	---	---	---	1	1	1	1	0	0
Goodwill & Int. Ass.	---	---	---	19	16	24	21	17	14
Total Liabilities	188	277	313	514	446	584	503	511	489
Accounts Payable	0		1	1	1	0	1	1	0.5
Long-Term Debt	92	193	199	410	376	532	475	466	433
Shareholder's Equity	---	(48)	236	250	365	475	520	502	493

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	22.2%	0.3%	6.3%	5.3%	5.2%	7.5%	5.2%	6.3%
Return on Equity	---	---	1.4%	17.0%	13.5%	11.6%	15.6%	10.3%	12.7%
ROIC	---	---	0.8%	13.6%	10.5%	10.7%	15.4%	11.2%	14.1%
Shares Out.	---	---	26.3	26.3	26.8	32.9	33.1	33.2	33.3
Revenue/Share	0.21	1.96	2.83	2.18	3.40	4.36	4.43	4.37	4.30
FCF/Share	(2.49)	(2.95)	(5.43)	1.59	1.35	2.43	2.75	2.56	4.58

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

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