Höegh LNG Partners LP (HMLP)

Updated August 27th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$4.31	**5 Year CAGR Estimate:**	27.4%	**Market Cap:**	$143.7 M
Fair Value Price:	$12.00	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date[1]:**	10/16/2021
% Fair Value:	36%	**5 Year Valuation Multiple Estimate:**	22.7%	**Dividend Payment Date:**	11/13/2021
Dividend Yield:	0.9%	**5 Year Price Target**	$12.00	**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 $143.7 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 are more stable, even in difficult periods, like the last several months.

On August 26th, 2021, Höegh LNG Partners reported its Q2-2021 results for the period ending June 30th, 2021. Its FSRUs, achieved 100% availability once again due to its business model as described above. Total time charter revenues were $34.7 million, just 0.8% lower year-over-year. DCFU (Distributable Cash Flow per Unit) was $0.50, 9% lower compared to last year. Since our last report, units of HMLP have plummeted despite solid results. The reason why is described below.

The charterer under the lease and maintenance agreement for the PGN FSRU Lampung ("LOM") served a notice of arbitration ("NOA") on August 2nd, 2021, to declare the LOM null and void and/or to terminate the LOM and/or seek damages. HMLP has served a reply refuting the claims as baseless and without legal merit and has also served a counterclaim against the charterer for multiple breaches of the LOM. HMLP will take all necessary steps and will vigorously defend against the charterer's claims in the legal process. Notwithstanding the NOA, both parties are continuing to perform their respective obligations under the LOM.

At the moment, this isn't about who is right (legally) but whether HMLP can afford to run the legal battle without running out of liquidity. HMLP slashed its distributions to a quarterly rate of $0.01 to conserve its internally generated cash flow to resolve issues related to the ongoing refinancing of the Lampung facility, which is due to be refinanced on September 29th, 2021. Normally this is routine, but since that charter is now in arbitration, HMLP is now stuck, as lenders are reluctant to give money based on a charter that might be void if HMLP loses the arbitration.

The partnership has asked the existing lenders to approve a six-month extension to the maturity date to allow for more time to complete a refinancing and has commenced discussions with existing lenders and other potential lenders. If they can get this done it would provide HMLP with needed time and liquidity that would allow it to show the client disputing the charter that they're not folding and that the charter is risking not only losing the arbitration but also paying damages.

There's no way for us to assess how likely HMLP is to get the refinancing/extension on time, and it's clear that any solution would be expensive for the partnership. However, at this point, it's better for HMLP to pay, at least temporarily, more on refinancing and 'straighten' the client rather than risk the client taking down the business.

[1] Estimated distribution dates based on past distribution dates.

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HMLP is in great distress and everybody knows it. The client has made the move solely based on knowing that such a move would put a lot of pressure on HMLP, and it's likely not a coincidence that this happened 2-3 months prior to the refinancing due date. Lenders that were willing to give HMLP money three months ago are now probably asking for subprime rates and so HMLP is getting pressured from both ends. While the next year is going to be costly regardless, the partnership may be able to 'right the ship' yet. It's a domino effect in both directions.

We expect DCFU of $2.00 for FY2021, though the metric is currently irrelevant, as how the upcoming refinancing scenarios play out is the only meaningful event in terms of whether the stock surges or goes under.

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	***$2.00***	***$2.00***
DPS	---	---	---	$1.43	$1.65	$1.72	$1.76	$1.76	$1.76	$1.76	***$0.04***	***$1.28***
Units[2]	---	---	---	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 earlier this year, 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 and have utilized a massive 100% DPS CAGR in the medium term to price in a strong DPS resumption should the refinancing ends on relatively good terms.

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	***2.2***	***6.0***
Avg. Yld.	---	---	---	7.2%	9.3%	9.8%	9.1%	10.0%	11.5%	11.5%	***0.9%***	***10.7%***

HMLP currently trades at a depressed valuation relative to its cash flows, as the stock's fate is entirely dependent on the refinancing of its credit facility as described above. We believe that a P/DCFU of 6 is a fair multiple for the stock should it come out of its current state, though the stock is not currently trading based on its valuation metrics.

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%	2%	***64%***

[2] Unit count is in millions.

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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 the notable 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.

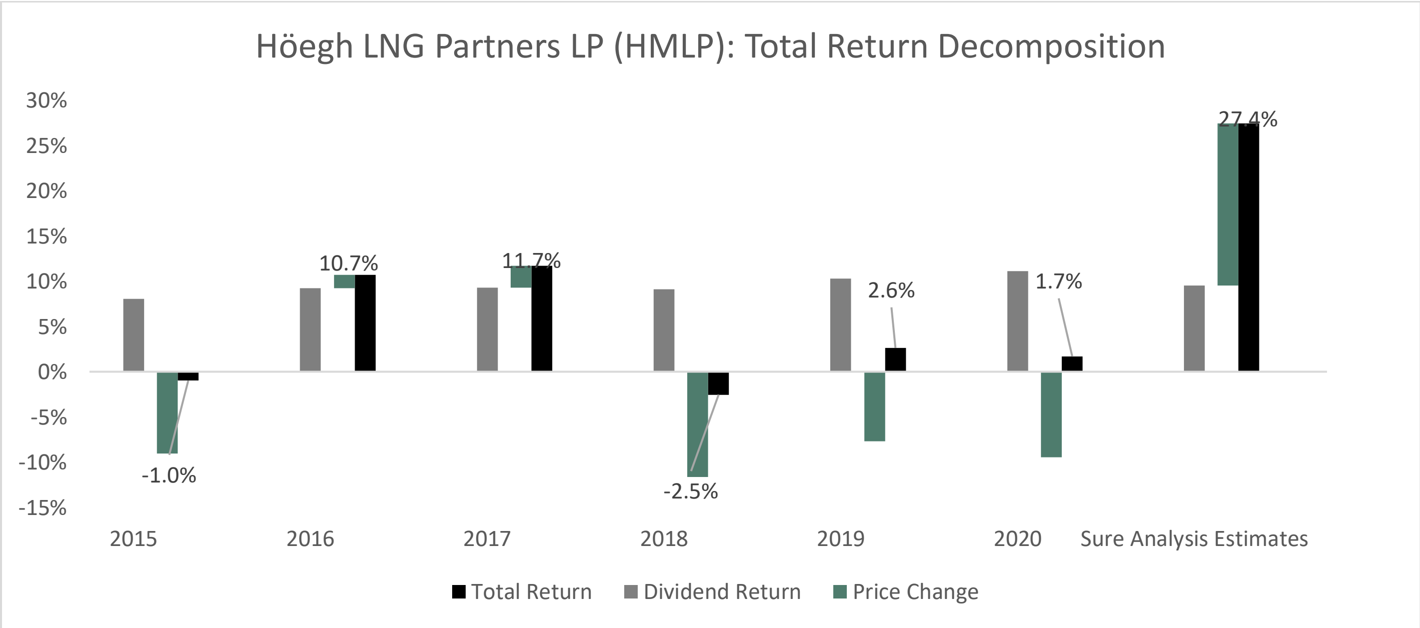
Final Thoughts & Recommendation

Höegh LNG Partners is a truly unique stock, operating in a very niche industry. It should keep enjoying contractually secured cash flows for years to come. At its current state, however, future returns are entirely dependent on the refinancing of the Lampung facility, which becomes due on September 29th, 2021.

HMLP has the potential to deliver massive annualized returns in the medium term, which can range from 20% to 40% based on various forecasts. Simultaneously, HMLP could also go bankrupt in a worst-case scenario in which it does not manage to refinance its credit facility. We consider the former more likely, which would make HMLP a fantastic buy at its current price levels. Still, the stock's investment case is entirely speculative at this point.

This makes HMLP an interesting *high risk, high reward* buy. It's not the type of security to buy for stable income, but a small position could make sense for more speculative investors as the risk adjusted returns appear favorable.

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.