

BCP Research: Golar LNG (GLNG -/-/-) 3Q20 Earnings Stable

Published: December 18, 2020

*Summary: *Delayed* LNG carrier and liquefaction issuer, Golar LNG, reported stable 3Q20 earnings two weeks ago. LNG shipping revenue was 6% higher y/y due to higher day rates and partially offset by an extended drydock that resulted in lower charter days. Shipping EBITDA was 31% higher y/y due to lower voyage expenses. Yet, overall EBITDA was only 4% higher y/y as the FLNG vessel accounted for 72% of the total in 3Q20. The FLNG operations were stable with 100% uptime, resulting in stable revenue and EBITDA q/q. FCF burn was US\$14 mm, driven by capex as the issuer has two major ongoing vessel conversions. A new FLNG conversion has been delayed due to covid-19, yet US\$914 mm in capex remains to be deployed. LTM net leverage is 9.8x. We highlight that GLNG's 50% energy JV, HYGO, deferred its IPO after the former JV CEO was linked to Brazil's lava-jato. Per our understanding, HYGO is not implicated nor impaired and we suspect IPO plans will be resumed.*

As we had previously mentioned, a bull case for GLNG could see the vessel EBITDA reaching US\$520 mm assuming the available Hili capacity is contracted and the new Gimi FLNG vessel carries similar rates upon delivery in 2024. With product tanker peers currently trading at 6.0x EV/EBITDA, GLNG's EV would be US\$3.1 bn. However, the capex left for Gimi would increase net debt accordingly to US\$3.2 bn and as a result GLNG's vessel equity value would be negative. Adding the estimated HYGO value per the IPO fillings, the total equity value would be US\$938 mm, which would be 8% lower than GLNG's current US\$1 bn market cap. We see funding capex plans quite challenging and increasing leverage accordingly. As a result, we view the GLNG 22s convert as "busted" with the shares currently trading at \$9.33 vs the conversion price at \$37/share. LTM net leverage is elevated at 9.8x with lack of visibility on FCF breakeven and the convert deeply subordinated. However, 9 of the 14 vessels had a carrying book value that was on avg. 10% higher vs the estimated market value. Impairing all GLNG's vessels book value by 10%, the value would be US\$3.4 bn - an implied 134% coverage vs gross debt (incl. the convert) at US\$2.5 bn. This would imply a backstop in our view for the convert as a straight bond.

Description	Coupon	Maturity	Amt Out (US\$ MM)	Mid Price	Mid YTM	Conv. Price	GLNG Price
GLNG	2.75%	2/15/2022	403	90.13	12.23%	37.05	\$9.33

- 3Q20 Revenue increased by 2% y/y to US\$95 mm, yet decreased by 6% on a sequential basis
 - TCE revenue was 6% higher y/y at US\$35 mm, due to higher LNG carrier spot rates and partially offset by lower charter days
 - LNG shipping TCE rate was US\$39k/d, vs US\$35k/d rate in 3Q19
 - FLNG revenue was flat q/q at US\$55 mm, as the FLNG Hili had stable 100% uptime
- EBITDA increased by 4% y/y to US\$59 mm, yet decreasing by 15% q/q as well
 - TCE EBITDA was 31% higher y/y at US\$16 mm, due to higher day rates and lower vessel opex and voyage expenses
 - FLNG EBITDA was flat q/q at US\$41 mm
 - As a result, the consolidated EBITDA margin was 62% vs 61% in 3Q19
- FCF burn was US\$14 mm, driven by the high capex plans
 - FLNG Gimi remains under construction, expected to be delivered by year-end 2023 to BP/Kosmos
 - An LNG carrier is being converted into an FSRU, expected to be completed in 4Q20
- Total debt was US\$2,542 mm, with cash standing at US\$239 mm
 - Q/Q cash decline was due to FCF burn and a US\$6 mm dividend
 - The issuer has US\$475 mm available credit line for the FLNG Gimi project
- The LTM gross and net leverage ratios are 10.8x and 9.8x, respectively
- Recent highlights:
 - In December 2020, GLNG closed an 12 mm share offering of common stock at US\$8.75 per share

- In September 2020, HYGO Energy (formerly Golar Power) launched its IPO plans but were latter placed on hold
 - The rumored IPO was for 23 mm shares at a mid-point US\$19.5/share. For reference GLNG expected to hold 50 mm shares post-IPO
 - An implied US\$975 mm value attributable to GLNG, though no detail was provided on the post-IPO ownership %
 - The CEO, Eduardo Antonello, was linked to Brazil's lava-jato for three contracts signed back in 2011 for US\$2.7 bn
 - The contracts were signed between PETBRA and Seadrill/Sapura, while Antonello was at Seadrill
- In October 2020, Antonello took a leave of absence and Paul Hanrahan (former AES Corp. CEO) was appointed as HYGO CEO
 - Per our understanding, HYGO is not implicated nor impaired and we suspect the IPO plans will be resumed
- [Link to results here](#)

Thoughts on GLNG Convert

- As of 3Q20, total debt (incl. leases and the convert) was US\$2.5 bn
 - We note the US\$403 mm convert would be junior to US\$1.9 bn in loans and leases secured by individual vessels
 - As well as junior to US\$180 mm in loans secured by GLNG's HYGO and GLMP shares
- Per the FY19 20-F, 9 of the 14 vessels had a lower estimated market value vs their carrying book value
 - The carrying book value was on avg. 10% higher vs market value, mostly LNG carriers
 - Impairing all GLNG's vessels book value by 10%, the value would be US\$3.6 bn
 - An implied **134% coverage** on gross debt, incl. the convert_
- GLNG Bull Case:
 - High TCE day rates for LNG carriers and FSRU's in 2020 have driven LTM EBITDA to US\$132 mm
 - The stable FLNG Hili charter will continue to generate around US\$162 mm in annual EBITDA until 2026
 - The vessel has 50% of its capacity available to be contracted which could double EBITDA
 - GLNG's attributable EBITDA would be 50%, an implied US\$162 mm
 - The completion of the new FLNG Gimi vessel is scheduled for delivery by year-end 2023
 - Given the similar mtpa capacity specs as Hili, the potential EBITDA could be US\$323 mm at full capacity
 - GLNG's attributable EBITDA would be 70%, an implied US\$226 mm
 - However, US\$914 mm in capex remain to be deployed and likely increasing net debt by the same magnitude
 - As a result, GLNG's vessel EBITDA could reach US\$520 mm
 - Similar product tanker peers such as STNG are trading at an avg. 6.0x EV multiple
 - The est. equity value would be negative US\$95 mm, given the incremental debt to fund capex
 - Adding GMLP stake value and the est. HYGO value at the IPO
 - GLNG's total equity value would be US\$938 mm – **an implied 8% decline** on the stock

- We highlight the challenging FCF, as LTM FCF burn stands at US\$346 mm despite the higher vessel TCE rates
 - The potential EBITDA growth does not appear sufficient to offset the large capex pipeline
 - We await for resolution on the deferred HYGO IPO and the FLNG capex deferral negotiation with Keppel
- As a result, we do not see a material improvement in FCF
- GLNG 22s convert would remain “busted” in our view as the common would remain out of the money
 - GLNG’s current stock price is US\$9.3/share vs the conversion price at US\$37/share

GLNG (US\$ MM)	3Q20	2Q20	3Q19	q/q	y/y
TCE Revenue	35	41	33	(14%)	6%
FLNG	55	55	55	0%	0%
Total Revenue	95	101	93	(6%)	2%
EBITDA	59	69	56	(15%)	4%
EBITDA margin	62%	68%	61%	-	-

GLNG (US\$ MM)	3Q20	2Q20	3Q19	q/q	y/y
Total Debt (incl. leases)	2,542	2,545	2,554	(0%)	(0%)
Cash & Equivalents	239	265	625	(10%)	(62%)
Net Debt	2,303	2,280	1,929	1%	19%
Total Debt / LQA EBITDA	10.8x	9.3x	11.3x	1.6x	-0.5x
Net Debt / LQA EBITDA	9.8x	8.3x	8.5x	1.5x	1.3x

GLNG (US\$ MM)	3Q20	2Q20	3Q19	q/q	y/y
EBITDA	59	69	56	(15%)	4%
Interest paid (incl. leases)	(16)	(17)	(23)	5%	31%
Capex	(56)	(58)	(54)	2%	(4%)
Working capital	(0)	(10)	28	95%	-
Taxes paid	(0)	(0)	(0)	-	-
FCF	(14)	(16)	6	12%	-

GLNG (US\$ MM)	3Q20
LNG Carriers	9
FLNG	1
FSRU	1
LNG Carriers under conversion	3
Total Vessels	14
Credit & Lease Financing	2,139
Convert	403
Total Debt	2,542
Cash	239
Current Market Cap.	1,017
Minority Interest	318
Current EV	3,638
EV / LTM EBITDA	12.3x
Vessel Book Value @ 90%	3,393
Vessel Book Value / Total Debt	134%

GLNG (US\$ MM)	Bull Case
LNG Carriers	132
FLNG - Hili at 100% Capacity	162
FLNG - Gimi in 2024	226
Est. Vessel EBITDA	520
EV/EBITDA multiple	6.0x
EV	3,122
Est. Net Debt	3,217
Est. Vessel Equity Value	(95)
GMLP Value @ 32%	58
Est. HYGO Value	975
Est. Total Equity Value	938
Est. Equity Upside	(8%)

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