

BCP Research: Golar LNG (GLNG -/-/-) Initial Thoughts

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Summary: Golar LNG (GLNG) is one of the three main companies within the Golar Group. The group is focused on LNG infrastructure from liquefaction, shipping, regasification to power generation. The Golar Group is made up of GLNG, Golar Partners (GLMP) and Golar Power (renamed as HYGO Energy), together having 27 vessels and being a market leader in liquefaction, top-5 player in LNG shipping and a top-3 player in regasification. GLNG has 14 of the group's 27 vessels, a 32% stake in GLMP and 50% of HYGO Energy. On a pro-forma basis, GLNG's 14-vessel fleet will be 9 LNG carriers, 3 floating liquefaction vessels (FLNG's) and 2 floating storage and regasification vessels (FSRU's), accounting for three conversion projects underway.

On an LTM basis, GLNG generated US\$448 mm in revenues and US\$294 mm in EBITDA, with the LNG carriers and the FSRU accounting for 43% EBITDA and the FLNG accounting for 57%. EBITDA growth was driven by higher TCE day rates in shipping, with LTM TCE rates currently 25% higher vs 2019. Yet the EBITDA improvement failed to fund large capex for the FLNG conversion resulting in cash burn. While the conversion has been delayed due to covid 19, US\$914 mm in capex remains. An IPO for 50% power JV, HYGO Energy was delayed after the former CEO was linked to Brazil's lava-jato scandal through a role in a previous company. Per the IPO registration, the 1.5 GW power plant is expected to generate US\$170 mm in annual EBITDA. The plant recently started operations on a 25-yr PPA, chartering HYGO's own FSRU for feedstock supply.

A bull case for GLNG could see the vessel EBITDA reaching US\$511 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 the vessel equity value would be negative. Adding the estimated HYGO value per the IPO fillings, the total equity value would be US\$896 mm – an implied 18% return on the stock. On balance, we see funding capex plans as quite challenging, increasing leverage accordingly. With the shares trading at US\$7.8/share vs the conversion price at US\$37/share, we view the convert as “busted.” LTM net leverage is elevated at 7.8x with lack of visibility on FCF breakeven and the convert deeply subordinated. Per the FY19 20-F, 9 of GLNG's 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 132% coverage vs gross debt (incl. the convert) at US\$2.6 bn. Yet, we await better clarity on funding for the large capex commitments before becoming constructive on the story.

Description	Coupon	Maturity	Amt Out (US\$ MM)	Mid Price	Mid YTM	Conv. Price	GLNG Price
GLNG	2.75%	2/15/2022	403	80.50	20.90%	\$37.05	\$7.8

* Prices sourced from BBG as of November 4, 2020

Company Overview

- Golar LNG (GLNG) is one of the three companies within the Golar Group, focused on integrated LNG infrastructure
 - The Golar group is comprised of GLNG, Golar Partners (GLMP) and Golar Power (renamed as HYGO Energy)
 - As of 2Q20, the Golar group had 27 total LNG vessels and a 1,551-MW power plant in Brazil that started operations in 1Q20
 - 16 LNG carriers, 8 FSRU's, 1 FLNG and 2 LNG carriers under conversion to a FSRU and a FLNG
- Golar LNG (GLNG) has 14 of the 27 vessels, a 32% ownership of GLMP and 50% ownership of HYGO Energy

- GMLP is a non-consolidated affiliate and a public company (NYSE: GMLP) with a US\$145 mm total mkt cap
- **We highlight GLNG and GMLP have cross-default covenants on their loans and leases**
- GLNG is structured into three major businesses and its energy JV:
 - **Liquefaction** – 1 FLNG vessel, 1 LNG carrier currently being converted to FLNG and 1 LNG carrier prepared for conversion to FLNG
 - Golar is a market leader in the floating liquefaction market, with its FLNG vessel having one of the lowest liquation costs per ton even vs onshore projects
 - FLNG Hilli (50% stake) – chartered until 2026 in Cameroon by Perenco/SNH and generated 60% of GLNG’s total EBITDA in 2Q20
 - We note the current charter is only using 2 of the 4 liquefaction trains, which are available to be potentially chartered
 - Though GMLP owns the other 50% in FLNG Hilli, the subsidiary is fully consolidated within GLNG financials
 - FLNG Gimi (70% stake) – currently under construction by Keppel, 20-yr charter by BP/Kosmos upon delivery
 - In October 2020, GLNG and BP reached an agreement extending the delivery by 11 months until year-end 2023
 - In April 2020, BP claimed force majeure due to Covid-19 and unable to receive the FLNG vessel
 - GLNG is in talks with Keppel for a modified capex plan, as US\$350 mm capex were due 2020 and US\$461 mm in 2021
 - Gandria – one of the oldest LNG carriers on the portfolio, currently inactive and marked for conversion to FLNG
 - **Shipping** – 9 LNG carriers, with Golar being a Top-5 player in market share
 - All LNG carriers were delivered between 2013 and 2015
 - We note the issuer had previously mentioned plans to spin-off the shipping business
 - **Regasification** – 1 FSRU vessel and 1 LNG carrier currently being converted to FSRU
 - Golar being a Top-3 player in market share, with FSRUs having flexibility to be used as LNG carriers or LNG storage
 - Viking – LNG carrier being converted to FSRU and expected to be completed this year
- HYGO Energy is a consolidated JV within GLNG’s “Investment in Affiliates” line item, 50% JV with Stonepeak Infrastructure
 - **HYGO Energy** – 1 FSRU, 2 LNG carriers and 2 power plants
 - Sergipe Plant (50% stake) – 1,551 MW combined cycle natural gas power plant contracted under a 25-yr PPA
 - The plant was ramping up operations in 2Q20, with one of Golar’s own FSRU supplying the feedstock
 - Bacarena Plant – 605 MW plant under construction and an FSRU terminal

- Expected to start in 2022 under a 25-year PPA, Golar would bring an FSRU to supply the feedstock
 - In September 2020, HYGO Energy 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
- Most GLNG vessels are operated under the "Cool Pool", 8 of the 9 LNG carriers and the FSRU
 - The pool operates in the spot market or have spot-oriented charters, with GLNG responsible for the vessel opex
- In 2020, the latest IMO regulation became effective mandating a reduction in sulfur emissions and improved ballast water management systems
 - As of 4Q19, all of the issuer's LNG carriers had installed the Ballast Water management systems
 - The 2 carriers that are not in compliance are being converted into FSRU and FLNG
 - Vessels can meet the new standards by using lower sulfur fuel, install scrubbers or switch to LNG power
 - As a result, low-sulfur bunker (vessel fuel) costs have increased vs high-sulfur bunker
- Diluted shareholder base with Orbis Investment having 11%, Cobas AM 10% and FMR 9%
 - Tor Olav, the current Chairman of the Board owns 5% of the common
- Traditionally, LNG has been a seasonal business with higher charter rates in the winter for heating related uses and lower in the summers
 - However, FSRUs now provide year-round nat. gas supply to generators to meet A/C demand in the summers
- On an LTM basis as of 2Q20, GLNG generated US\$448 mm in revenues and US\$294 mm in EBITDA
 - Shipping & Regasification – the 9 LNG carriers and the FSRU accounted for 47% of revenues and 43% of EBITDA
 - Daily TCE rates have recovered strongly since 2017, we note vessel opex has increased to a lesser extent
 - LTM daily rates are US\$55k/d, vs US\$44k/d over the past two years and US\$18k/d in 2017
 - Liquefaction – the FLNG accounted for 49% of revenue but 57% of EBITDA

- The FLNG started operations in 2Q18 and has generated stable revenue and EBITDA since
 - HYGO Energy – in 2Q20, the Sergipe plant had a 15% utilization factor as it began operations
 - Per the IPO registration, the Sergipe plant is expected to generate R\$1.6 bn (US\$290 mm) in annual revenue
 - Annual EBITDA expected to be R\$1 bn (US\$170 mm), an implied 61% margin for the duration of the 25-yr PPA
 - 50% would be attributable to HYGO Energy as the Sergipe plant is a 50/50 JV with Ebrasil Energia

GLNG (US\$ MM)	FY17	FY18	FY19	LTM
LNG Carriers (TCE Revenue)	56	173	170	209
FLNG	-	128	218	218
Other	27	24	22	21
Total Revenue	82	325	410	448
EBITDA	(15)	217	254	294
Interest expense	(59)	(102)	(103)	(87)
Capex	(515)	(245)	(422)	(465)
Working capital	11	(52)	(55)	(66)
Tax expense	(2)	(1)	(1)	(1)
FCF	(580)	(184)	(327)	(325)
Total Debt	2,411	2,565	2,536	2,545
Cash	613	704	410	265
Net Debt	1,798	1,861	2,125	2,280
Gross Leverage	n/a	11.8x	10.0x	8.7x
Net Leverage	n/a	8.6x	8.4x	7.8x
EBITDA Margin %	(18%)	67%	62%	66%

Thoughts on GLNG Convert

- 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\$3.4 bn
- As of 2Q20, total debt (incl. leases and the convert) was US\$2.6 bn – an implied **132% coverage**
 - We note the US\$403 mm convert would be junior to US\$2.0 bn in loans and leases secured by individual vessels
 - As well as junior to two loans for a total of US\$180 mm secured by GLNG's HYGO and GLMP shares
- GLNG Bull Case:
 - LTM TCE day rates for the LNG carriers and the FSRU are 25% higher vs 2019, together generating US\$127 mm in LTM EBITDA
 - The stable FLNG Hili charter will continue to generate around US\$160 mm in annual EBITDA until 2026
 - As mentioned earlier, 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\$160 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\$320 mm at full capacity
 - GLNG’s attributable EBITDA would be 70%, an implied US\$224 mm
 - However, US\$914 mm in capex remain to be deployed and likely increasing net debt by the same amt.
 - GLNG’s vessel EBITDA could reach US\$511 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\$125 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\$896 mm – **an implied 18% return** on the stock
- We highlight the challenging FCF, as LTM FCF burn was US\$325 mm despite the higher vessel TCE rates
 - The potential EBITDA growth does not appear sufficient to offset the large capex pipeline
 - GLNG is negotiating with Keppel for deferring capex, as 2020 capex is US\$349 mm and US\$462 mm in 2021
 - We do not see a material improvement in FCF
 - We await for resolution of HYGO’s IPO and the FLNG capex deferral
 - As well as 3Q20 earnings to get a better estimate current TCE rates
- On balance, the 2022 convert would remain “busted” in our view as the common would remain out of the money
 - GLNG’s current stock price is US\$7.8/share vs the conversion price at US\$37/share

GLNG (US\$ MM)	2Q20	GLNG (US\$ MM)	Bull Case
LNG Carriers	9	LNG Carriers	127
FLNG	1	FLNG - Hili at 100% Capacity	160
FSRU	1	FLNG - Gimi in 2024	224
LNG Carriers under conversion	3	Est. Vessel EBITDA	511
Total Vessels	14	EV/EBITDA multiple	6.0x
Credit & Lease Financing	2,142	EV	3,069
Bonds	0	Est. Net Debt	3,194
Convert	403	Est. Vessel Equity Value	(125)
Total Debt	2,545	GMLP Value @ 32%	46
Cash	265	Est. HYGO Value	975
Current Market Cap.	760	Est. Total Equity Value	896
Minority Interest	281	Est. Equity Upside	18%
Current EV	3,321		
EV / LTM EBITDA	11.3x		
Vessel Book Value @ 90%	3,353		
Vessel Book Value / Total Debt	132%		

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