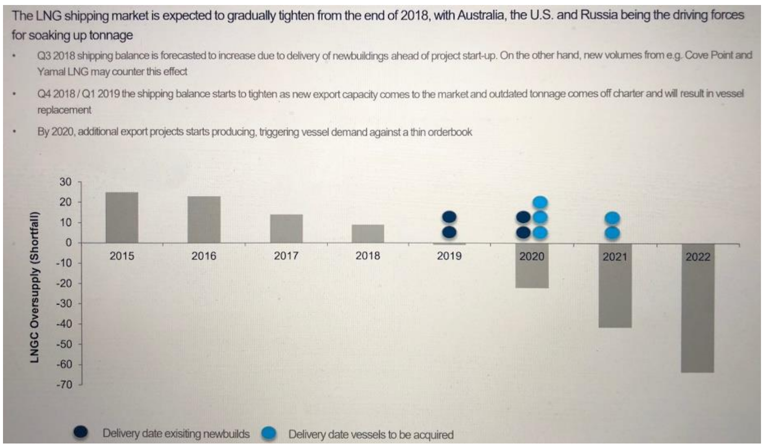
FLNG NO – A CHAMPION IN THE MAKING

With only a handful of vessels available for the front month, and demand set to grow significantly over the next couple of years on the heels of relentless China demand coupled with new projects coming on-stream in the US at 1,8x the current average sailing distance, the LNG market is about to enter a period of boom conditions (see «*Asia visit – LNG*» note posted yesterday).

FLEX LNG is my preferred way to play, and the sell-off in the large indices last week in combination with a $300m equity issue in FLNG in the midst of it all, has created another buying opportunity in the stock.

The deal made FLNG the leading operator of 5th gen LNG vessels with a cool 13 MEGI/X-DF class vessels, and true to JF-form the timing of the deliveries imply that the company will be one of the few owners with uncommitted tonnage being delivered into the prospective 2019/20 LNG boom. Also, as before, JF drops the vessels down at beneficial terms incl purchase price at an approx 10m discount to current yard financing and as much as 70pc payment at delivery. That is a minimum NOK 1,9/shr in added NAV for FLNG.



Source: Fearnleys

Earnings potential:

Checking analysts estimates they seem to factor in ca $75k/d for 2019 and $84k/d for 2020. That may seem optimistic, considering rates in the Jan-Jun period `18 were $60k/d after having doubled from 2017 levels. There`s one catch, though: rates are exploding as we speak – up 45pc in one week and climbing – and I am hearing FLNG has fixed one of their vessels for a 42d voyage at $160k/d. And this is just as the winter season is about to start… More and more, consensus looks behind the curve and I expect large upgrades to come in the weeks and months ahead.

My own thinking on rates and what the market is willing to discount is the following: while I don`t think anyone will pay life-of-vessel rates of $150k/d (yet), I think the market is willing to discount whatever a 12mth+ contract pays. Talking to market participants I think it is fair to assume that real rates currently are 160, 125 and 100 for a spot, 12mth and 36mths contract, respectively (MEGI). Assuming a fully invested FLNG with 13 vessels that gives me the following numbers

FLEX	USD/d	125000	USD/NOK	8,13	
per vessel		**USD**			
Revenues		45625000		No of vessels:	13
cash opex		6424000			
int/depr		10585000			
pretax		28616000		**total pretax**	**372008000**
cashflow		39201000		**total cf**	**509613000**
	NOK	USD			
Mrk cap	7695000000	946494465		**EV/EBITDA**	**4,997**
net debt		1600000000	fully invested		
EV		2546494465			

Fully invested net debt is USD 1,6bn and mrk cap following last week`s issue is USD 946m. The company has 13 vessels fully invested, implying firm EBITDA of a hefty USD 509m if all vessels are fixed on current *probable* 12mth rates. That leaves us with a sober 5x fully invested EV/EBITDA vs 8-10x mid-cycle for this type of business. It looks as we`ll go higher, though, and with 160 spot already I think 150k/d is well within reach for 12mths business as some importers are getting increasingly nervous (*pls see note «Asia visit – LNG»*). That takes us down another multiple point on FLNG, to 4x EBITDA. Checking Gaslog`s numbers I arrive at an EV/EBITDA of approx 8x on 150k/d. Take FLNG to the same multiple on the same rate and you arrive at an EBITDA of $628m, a mrk cap of $3,4bn or NOK 51/shr.

Another way of looking at this is through yield pricing: assuming FLNG pays out 100pc of EPS and the market requiring 10-12,5pc on that you get to the following numbers:

$125k/d: $372m net/0,1= NOK 31,9/shr 0,125: NOK 20,7/shr

$150k/d: $490m net/0,1= NOK 49,6/shr 0,125: NOK 34,9/shr

So, base case on current rates: NOK 20-30/shr. As contracts get fixed later this winter (and the stock moves higher…), I think analysts will eventually begin to zoom in on the NOK 35-50/shr range. How high can we go? For those interested; check the last boom in gas shipping (LPG) in 2014/15. And don`t forget to reprice those rates into LNG equivalents.

All on-board. This tanker is about to cast off.

Oslo, 15102018. Ståle Rodahl