



Höegh LNG Partners LP (HMLP)

Updated August 27th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9.24	5 Year CAGR Estimate:	9.4%	Market Cap:	\$308.4 M
Fair Value Price:	\$12.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date¹:	10/28/22
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.4%	Dividend Payment Date:	11/15/22
Dividend Yield:	0.4%	5 Year Price Target	\$12.00	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

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 \$308.4 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.

Following our quarterly updates regarding HMLP's pending arbitration and the initial farce offer from its parent to acquire the remaining units outstanding for \$4.25/unit, investors never settled for such a low price.

On May 25th, 2022, HMLP announced it entered into a definitive merger agreement with Höegh LNG Holdings Ltd. (the parent company), under which Höegh LNG will acquire, for cash, all of the outstanding publicly held common units of the partnership, at a price of \$9.25 per common unit. The revised price is a \$5/unit increase from the prior offer.

On August 24th, HMLP reported its Q2-2022 results for the period ending June 30th, 2022. Its FSRUs, achieved 100% availability once again due to its business model as described above. Total time charter revenues were \$36.9 million, 6.5% higher year-over-year. Generated operating income came in at \$22.3 million, while net income totaled \$13.1 million. This compares with an operating income of \$24.1 million and a net income of \$2.6 million last year. Operating income fell by the rise in operating and administrative expenses more than offsetting the rise in revenues. The massive difference in net income was due to unrealized gains/losses on derivatives in both periods. We expect DCFU of \$2.00 for FY2022, though the metric is currently irrelevant following the latest buyout offer, which will likely go through this time.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFU	---	---	\$1.50	\$1.55	\$1.84	\$1.94	\$2.15	\$2.00	\$2.20	\$2.54	\$2.00	\$2.00
DPS	---	---	\$1.43	\$1.65	\$1.72	\$1.76	\$1.76	\$1.76	\$1.76	\$0.47	\$0.04	\$1.28
Units²	---	---	26.3	26.3	26.8	32.9	33.1	33.2	33.2	33.4	33.4	36.0

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

¹ Estimated distribution dates based on past distribution dates.

² Unit count is in millions.

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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 through 2027 assuming distributions converge to their past levels.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCFU	---	---	12.5	11.7	9.6	9.9	8.5	7.3	6.7	2.0	4.6	6.0
Avg. Yld.	---	---	7.2%	9.3%	9.8%	9.1%	10.0%	11.5%	11.5%	0.9%	0.4%	10.7%

HMLP shares currently trade almost equally to the revised \$9.25 buyout offer. The current price would imply a P/DCFU of 4.6 based on our DCFU. Clearly, while this time the sponsor's offer is not utterly ridiculous, it still undervalues the partnership. We believe that a P/DCFU of 6 is a fairer multiple for the stock under normal circumstances. However, the stock is not currently trading based on any relevant valuation metric.

Safety, Quality, Competitive Advantage, & Recession Resiliency

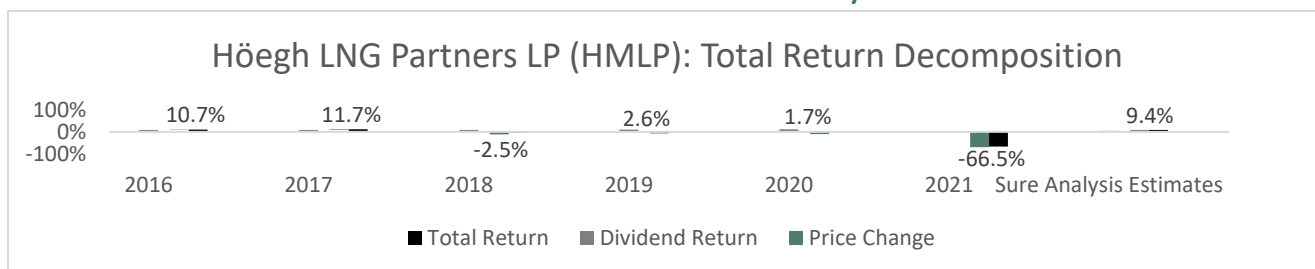
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	95%	106%	93%	91%	82%	88%	80%	19%	2%	64%

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). Operating Cash flows 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 48 FRSUs on water, and around 1/4 of those are 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.

Final Thoughts & Recommendation

Höegh LNG Partners is set to keep enjoying contractually secured cash flows for years to come. We would normally be very keen on the partnership's operations and future distribution capabilities and would rate shares a buy based on the stock's total return prospects. However, HMLP's story seems to be wrapping up rather early, at least for public unit holders. With shares already quite close to the buyout price, we now assign HMLP a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	52	75	57	91	144	147	145	143	141
Gross Profit	8	27	45	64	99	101	93	98	92
Gross Margin	14.7%	36.7%	78.5%	70.4%	68.7%	69.1%	64.0%	68.5%	65.2%
SG&A Exp.	8	13	9	10	10	9	10	10	12
D&A Exp.	0	1	3	11	21	21	21	21	20
Operating Profit	(2)	12	34	52	86	90	80	86	77
Operating Margin	-3.0%	16.0%	58.8%	56.7%	60.0%	61.2%	55.2%	60.1%	54.6%
Net Profit	40	1	41	41	49	78	53	63	44
Net Margin	78.5%	1.8%	71.8%	45.4%	34.0%	53.0%	36.3%	44.1%	31.1%
Free Cash Flow	(78)	(143)	42	36	80	91	85	86	79
Income Tax	---	0	0	4	4	8	7	6	16

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	229	549	764	810	1,059	1,023	1,013	982	1,004
Cash & Equivalents	0	30	33	19	23	26	39	32	43
Accounts Receivable	---	6	8	2	8	1	1	0.4	4
Inventories	---	---	1	1	1	1	0	0	---
Goodwill & Int. Ass.	---	---	19	16	24	21	17	14	11
Total Liabilities	277	313	514	446	584	503	511	489	473
Accounts Payable		1	1	1	0	1	1	0.5	4
Long-Term Debt	193	199	410	376	532	475	466	433	411
Shareholder's Equity	(48)	236	250	365	475	520	502	493	531

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	22.2%	0.3%	6.3%	5.3%	5.2%	7.5%	5.2%	6.3%	4.4%
Return on Equity	---	1.4%	17.0%	13.5%	11.6%	15.6%	10.3%	12.7%	8.6%
ROIC	---	0.8%	13.6%	10.5%	10.7%	15.4%	11.2%	14.1%	10.4%
Shares Out.	---	26.3	26.3	26.8	32.9	33.1	33.2	33.3	33.4
Revenue/Share	1.96	2.83	2.18	3.40	4.36	4.43	4.37	4.30	4.23
FCF/Share	(2.95)	(5.43)	1.59	1.35	2.43	2.75	2.56	4.58	2.38

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

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