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Hoegh LNG Partners Preferred Stock - Slow To React To Good News

Dec. 28, 2021 11:49 AM ET | **Höegh LNG Partners LP (HMLP)**, **HMLP.PA** |
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Summary

- Successful refinancing has radically reduced bankruptcy risk to the benefit of common and preferred units.
- Common units continue to be hobbled by distribution suspension and majority partner take-over offer.
- Preferred units have no such issues.

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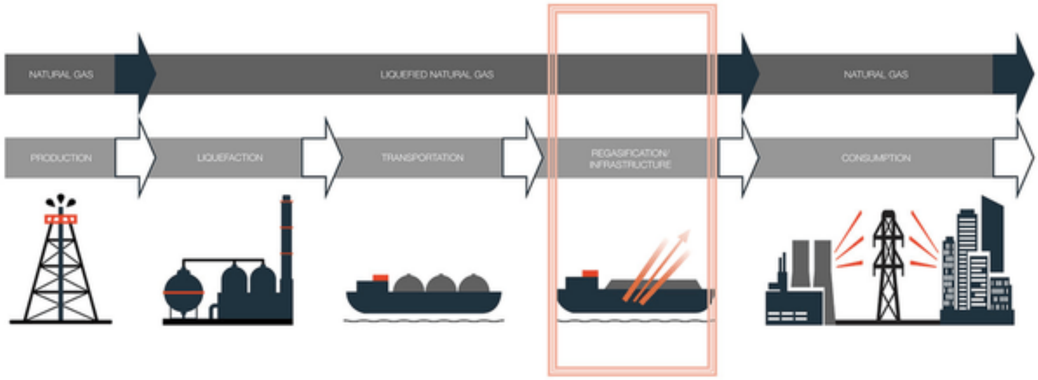
Hoegh LNG Partners LP (HMLP) is a partnership, spun off by and effectively controlled by Hoegh LNG ("***HLNG***"), which operates five floating storage and re-gasification units (each an "***FSRU***"). These vessels are intended to remain stationary for many years at a time. They simplify and de-risk LNG import by receiving LNG from carriers while moored (usually well off-shore), storing it, un-freezing it (from -260 degrees Fahrenheit) and pumping it through pipelines to utilities for power generation and/or consumer usage. Their mobility makes investors and lenders more comfortable than with on-shore facilities in less credit-worthy counties (current locations are India, Indonesia, Turkey & Colombia) as, in the case of a defaulting user, they can simply be moved to a new location. In addition, between deployments as FSRUs, they can be used as an LNG carrier vessel and one of HMLP's units is currently deployed in that manner.



Source: HLNG

It all works...

Contracts for use of these units are generally very long-term (often 20 years or more), and so once the FSRUs have been constructed and deployed, there are relatively few risks to be considered. Debt can be sourced on the basis of a mortgage over the vessel and an assignment of the off-take contract (which is often with a sovereign entity), and export-credit finance is often available. Cashflows after debt-service are usually substantial and predictable, and therefore seem very attractive to yield-seeking investors. HLNG takes advantage of that by spinning off the post-deployment vessels into HMLP, thus recovering capital and realizing profit from the riskier pre-deployment part of the business - and thus getting access to funds from US investors by HMLP's issuance of common (2014) and preferred (2017) partnership units - while retaining substantial ownership of HMLP. The preferred units may be found on SA under the ticker HMLP.PA , but (as usual with preferred stock) may have slightly different tickers at different brokerages - for example, IBKR uses HMLP PRA, while E*Trade uses HMLP.PR.A.

HMLP soon established a stable and predictable distribution record, giving investors in mid-2021 an attractive yield in the 10-12% range

Apr 22, 2021	May 5, 2021	May 14, 2021	$ 0.44	Regular Cash
Jan 14, 2021	Jan 29, 2021	Feb 12, 2021	$ 0.44	Regular Cash
Oct 16, 2020	Oct 20, 2020	Nov 13, 2020	$ 0.44	Regular Cash
Jul 16, 2020	Jul 30, 2020	Aug 14, 2020	$ 0.44	Regular Cash
Apr 24, 2020	May 8, 2020	May 15, 2020	$ 0.44	Regular Cash
Jan 16, 2020	Jan 30, 2020	Feb 14, 2020	$ 0.44	Regular Cash
Oct 17, 2019	Oct 31, 2019	Nov 14, 2019	$ 0.44	Regular Cash
July 18, 2019	Aug 1, 2019	Aug 14, 2019	$ 0.44	Regular Cash
Apr 23, 2019	May 9, 2019	May 15, 2019	$ 0.44	Regular Cash
Jan 17, 2019	Feb 1, 2019	Feb 14, 2019	$ 0.44	Regular Cash
Oct 18, 2018	Nov 1, 2018	Nov 14, 2018	$ 0.44	Regular Cash
Jul 19, 2018	Aug 2, 2018	Aug 14, 2018	$ 0.44	Regular Cash
Apr 19, 2018	May 4, 2018	May 15, 2018	$ 0.44	Regular Cash
Jan 18, 2018	Feb 1, 2018	Feb 15, 2018	$ 0.43	Regular Cash
Oct 19, 2017	Nov 2, 2017	Nov 14, 2017	$ 0.43	Regular Cash
Jul 20, 2017	Aug 3, 2017	Aug 14, 2017	$ 0.43	Regular Cash
Apr 20, 2017	May 4, 2017	May 15, 2017	$ 0.43	Regular Cash
Jan 19, 2017	Feb 2, 2017	Feb 14, 2017	$ 0.4125	Regular Cash
Oct 21, 2016	Nov 4, 2016	Nov 14, 2016	$ 0.4125	Regular Cash
Jul 22, 2016	Aug 5, 2016	Aug 15, 2016	$ 0.4125	Regular Cash
Apr 22, 2016	May 3, 2016	May 13, 2016	$ 0.4125	Regular Cash
Jan 22, 2016	Feb 5, 2016	Feb 15, 2016	$ 0.4125	Regular Cash
Oct 22, 2015	Nov 5, 2015	Nov 13, 2015	$ 0.3375	Regular Cash
Jul 24, 2015	Aug 6, 2015	Aug 14, 2015	$ 0.3375	Regular Cash
Apr 23, 2015	May 7, 2015	May 15, 2015	$ 0.3375	Regular Cash
Jan 22, 2015	Feb 3, 2015	Feb 13, 2015	$ 0.3375	Regular Cash
Oct 23, 2014	Nov 4, 2014	Nov 14, 2014	$ 0.1834	Regular Cash

Source: HMLP

The preferred (perpetual cumulative) stock, which carries an 8.75% coupon on a $25 par value, traded as high as $27.82 in 2019, and was back around $27 in spring of 2021.

Until it doesn't!

PGN FSRU LAMPUNG

Owner: Höegh LNG Partners LP

Manager: Höegh LNG

Vessel Specification: Vessel delivered in May 2014 from Hyundai Heavy Industries
Storage capacity of 170,000 cbm of LNG and maximum send-out capacity of 360 mmscf/d of regasified LNG
Equipped with reinforced membrane-type cargo containment system that facilitates offshore loading operation.

Charterer: Perusahaan Gas Negara (Persero) Tbk ("PGN")

Contract: 20 + 5 or 10 years time charter
Commenced operations July 2014

Vessel Operation: Located offshore in the Lampung Province at the southeast coast of Sumatra, Indonesia.
Moored at a purpose-built mooring system owned by PGN and located approximately 16 kilometers offshore

Source: HMLP

Then suddenly in July 2021, the off-taker of HMLP's FSRU located in Indonesia - the majority state owned Perusahaan Gas Negara (OTCPK:PPAAF) declined to consent to a relatively routine re-financing of the commercial tranche of debt secured by that vessel. While the amount of that re-financing was quite small - $15.5 million, well below HMLP's unrestricted cash of $23.8 million on 6/30 - the fact of a failure of the re-financing would have triggered an acceleration of the much larger Korean export-credit financing on the vessel. It appears that PPAAF's action was an attempt to gain leverage in a re-negotiation of the off-take contract, which was placed into arbitration at about the same time. This situation caused HMLP to preserve cash by a 98% cut in distributions on the common units (preferred distributions continue undisturbed). As HMLP explained:

HAMILTON, Bermuda, July 27, 2021 /PRNewswire/ -- Höegh LNG Partners LP (the "Partnership") (NYSE: HMLP) today announced that its Board of Directors has reduced the Partnership's quarterly cash distribution to $0.01 per common unit, down from a distribution of $0.44 per common unit in the first quarter of 2021, commencing with the distribution for the second quarter of 2021 payable on August 13, 2021 to common unitholders of record as of the close of business on August 6, 2021. The Partnership needs to conserve its internally generated cash flows to resolve issues related to the ongoing refinancing of the PGN FSRU Lampung credit facility as described below. The Partnership thereafter expects to use its internally generated cash flow to reduce debt levels and strengthen its balance sheet.

There is no change to the $0.546875 quarterly cash distribution relating to the Partnership's outstanding 8.75% Series A cumulative redeemable preferred units. The cash distribution for the 8.75% Series A preferred units for the period commencing May 15, 2021 to August 14, 2021 will be paid on August 16, 2021 to all 8.75% Series A preferred unitholders of record as of the close of the business on August 9, 2021.

The ongoing refinancing of the PGN FSRU Lampung credit facility, which had been scheduled to close by the end of the second quarter of 2021, is not yet completed due to the failure by the charterer of the PGN FSRU Lampung to consent to and countersign certain customary documents related to the new credit facility. By letter dated July 13, 2021, the charterer raised certain issues in relation to the operations of the vessel and its charter and by further letter dated July 27, 2021, has stated that it will commence arbitration to declare the charter null and void, and/or to terminate the charter, and/or seek damages. Based on an initial legal review, the Partnership believes the charterer's position is without merit. These circumstances have left the Partnership exposed to having to arrange alternative refinancing, or rearrange the existing refinancing, in the short term in advance of the debt facility's maturity on September 29, 2021, which was originally expected to occur in October 2021. We have commenced discussions with key lenders, and expect that the terms of any alternative refinancing, if we are successful in finalizing such refinancing, are likely to be less favorable than the terms of the originally agreed refinancing. No assurance can be given at this time as to the outcome of the dispute with the charterer of PGN FSRU Lampung, or of the aforementioned discussions with lenders. In the meantime, the PGN FRSU Lampung has continued to operate pursuant to the terms of the charter.

Source: HMLP

As a consequence of this announcement the common units fell immediately from around $17.90 to round $4.00 and the preferred from around $26.70 to around $15.80.

Recent events

Since this article is about the preferred stock I will not go into the details of the consequences for common unitholders, nor of the on-going tender offer (at $4.25) by HLNG for the common units. For readers interested in those, I recommend the excellent analysis by SA contributors Henrik Alex (here & here) and Daniel Thurecht (here & here).

Those interested in the preferred stock should rather focus on HMLP's Christmas Eve announcement. This covered not only the successful completion of the Lampung (thus removing the threat of immediate acceleration of the KEXIM debt), but also of the successful refinancing of another vessel the Neptune, and substantial progress toward the refinancing of a third - the Cape Ann (thus demonstrating that the Lampung situation has not scared off lenders to other business units. The negative side of the news - that cash from the Lampung FSRU will effectively be reserved to pay for any cost arising from the arbitration, and for prepayment of Lampung related debt, will be insignificant to preferred unitholders, because the cashflow from the other businesses will be much more than necessary to covered preferred unit distributions.

HMLP's 2020 20-F shows us that only about 1/3 of HMLP's revenues come from Lampung.

For the years ended December 31, 2020, 2019 and 2018, the percentage of consolidated total revenues from the following customers accounted for over 10% of the Partnership's consolidated total revenues:

	Year ended December 31,		
(in thousands of U.S. dollars)	**2020**	**2019**	**2018**
PT PGN LNG Indonesia	33 %	33 %	33 %
Höegh LNG	30 %	31 %	31 %
Sociedad Portuaria El Cayao S.A. E.S.P.	37 %	36 %	36 %

Source: HMLP filing

Since distributions to preferred unitholders were only about 18% of total distributions to unitholders in 2020, a one third reduction in revenue/net income should not cause any difficulties in continuing those payments.

HÖEGH LNG PARTNERS LP
CONSOLIDATED STATEMENTS OF
CHANGES IN PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(in thousands of U.S. dollars)

	Partners' Capital					
	8.75% Series A Preferred Units	**Common Units Public**	**Common Units Höegh LNG**	**Subordinated Units**	**Accumulated Other Comprehensive Income**	**Total Equity**
Consolidated balance as of December 31, 2017	$ 113,404	317,149	6,513	40,341	(2,748)	$ 474,659
Net income	12,303	34,409	4,257	26,653	—	77,622
Cash distributions to unitholders	(13,107)	(31,211)	(3,881)	(24,298)	—	(72,497)
Refund of indemnification received from Höegh LNG	—	—	(325)	(2,028)	—	(2,353)
Cash distributions from Höegh LNG	—	—	234	1,467	—	1,701
Other comprehensive income	—	—	—	—	(2,589)	(2,589)
Net proceeds from issuance of common units	—	4,563	—	—	—	4,563
Net proceeds from issuance of Series A preferred units	38,659	—	—	—	—	38,659
Issuance of units for Board of Directors' fees	—	200	—	—	—	200
Other and contributions from owners	—	140	46	286	—	472
Consolidated balance as of December 31, 2018	$ 151,259	325,250	6,844	42,421	(5,337)	$ 520,437
Net income	13,850	20,186	12,973	5,732	—	52,741
Cash distributions to unitholders	(13,692)	(31,663)	(10,051)	(18,398)	—	(73,804)
Refund of indemnification received from Höegh LNG	—	—	(9)	(55)	—	(64)
Conversion of subordinated units to common units	—	—	29,837	(29,837)	—	—
Other comprehensive income	—	—	—	—	(12,606)	(12,606)
Net proceeds from issuance of common units	—	1,029	—	—	—	1,029
Net proceeds from issuance of Series A preferred units	13,065	—	—	—	—	13,065
Issuance of units for Board of Directors' fees	—	194	—	—	—	194
Other and contributions from owners	—	180	201	137	—	518
Consolidated balance as of December 31, 2019	$ 164,482	315,176	39,795	—	(17,943)	$ 501,510
Net income	14,802	25,333	23,010	—	—	63,145
Cash distributions to unitholders	(14,698)	(31,737)	(28,451)	—	—	(74,886)
Cumulative change in accounting principle (Note 2)	—	(84)	(72)	—	—	(156)
Other comprehensive income	—	—	—	—	(11,629)	(11,629)
Net proceeds from issuance of Series A preferred units	3,174	—	—	—	—	3,174
Issuance of units for Board of Directors' fees	—	181	—	—	—	181
Contribution from Höegh LNG	—	—	11,850	—	—	11,850
Other and contributions from owners	—	(19)	145	—	—	126
Consolidated balance as of December 31, 2020	$ 167,760	308,850	46,277	—	(29,572)	$ 493,315

The accompanying notes are an integral part of these financial statements.

F-9

Source: HMLP filing

Conclusion

At the current price of $19.11, the preferred units offer a perpetual yield of about 11.45%. There is an issuer redemption right in October 2022 (likely, in my opinion, to be used if HLNG completes the re-absorption) which gives a YTC of around 40%. Both scenarios seem attractive for investors. I therefore recommend the preferred stock.

This article was written by

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