

Golar LNG

Upgrade – Buy (Neutral)

Preview 2Q10 23 August 2010

Share Price: NOK 63.8 (23.08.2010)

Results Date 27 August 2010

Target: NOK 80

Share data	23.08.10
Sector	Shipping
Reuters/Bloomberg	GOL.OL / GOL
Risk rating	Medium
Outstanding shares	67.2m
Market cap	\$ 692m
Net interest bearing debt	\$ 862m
Enterprise value	\$ 1 554m
Free float	53.6%
Average volume (1000)	22
High/low 52w	88.8/51
Weight OSEAX	0.32 %
Rel. Perf 3/6/12	-21/-5/-10
Abs. Perf. 3/6/12	-16/-6/5

Estimate changes

	2010E	2011E	2012E
Revenues (USDm)	225	315	325
Change	-3 %	0 %	0 %
EBITDA (USDm)	152	240	248
Change	-2 %	1 %	1 %
EBIT (USDm)	82	167	173
Change	0 %	3 %	3 %
Net Income (USDm)	17	96	101
Change	-25 %	1 %	1 %
EPS reported	0.26	1.42	1.51
Change	-25 %	1 %	1 %
Spot rate (USD/day)	26 949	55 000	60 000
Change	-4 %	0 %	0 %

LNG vessel



GOLAR ARCTIC

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Get ready for the dividend

How big a dividend? – That's the main question for Golar LNG to answer in their upcoming 2Q report. Earnings will be poor due to a continued weak spot market for LNG shipping and losses from interest rate swap contracts. We forecast an USD 0.20 hand-out as the company moves towards its target of distributing more than 90% of free cashflow (guided at around USD 1.10 per share) after debt service from its long-term assets. We estimate a total dividend of USD 0.65 for 2010 rising to USD 1.0 from 2011 (unchanged). This implies an attractive yield of about 10 % based on current share price.

We keep our target at NOK 80 based on our DCF valuation of the long-term assets in Golar and the market value of its 68% stake in Golar Energy (GOLE, which holds all the spot vessels). We expect a positive response to a confirmation of the dividend policy. The shares have dropped 13 % since the 1Q report and trade 25% below our target. We raise our recommendation to Buy from Neutral.

We expect a 2Q EBITDA of USD 27.2m up from USD 26.5m in 1Q. The start-up of the Golar Freeze as a FSRU (Floating Storage & Regasification Unit) in Dubai helps boost revenues in the quarter. Still, the main issue remains dismal dayrates and utilization for the spot LNG fleet. With substantial idle time come fuel costs that Golar has to pay from its own pocket, offsetting the positive effect of the Freeze start-up. We expect a net loss of USD 11m vs. a loss of USD 2.8m in 1Q.

Spot utilization has come up significantly in 3Q and we expect to see a further seasonal increase in demand as 2H progresses. Still, our average spot rate assumptions are down by 4% for 2010. EBITDA estimates are down 2% this year and little changed for 2011.

Key figures (USDm)	2009	2010E	2011E	1Q10	2Q10E
Revenues	177	225	315	42.7	45.6
EBITDA	96	152	240	26.5	27.2
EBIT	31	82	167	10.7	10.7
PTP	38	26	112	-3.2	-9.2
Associated	-5	0	0	-0.4	0.0
Net profit	23	17	96	-2.8	-11.0
EPS adjusted	-0.44	0.48	1.42	0.02	0.00
CEPS	1.34	1.31	2.53	0.20	0.08
EBITDA growth	-50 %	58 %	58 %	-30 %	3 %
Dividend	0.00	0.65	1.00		
EV/EBITDA	16.9	10.4	6.4		
P/E adjusted	-26.1	21.2	7.2		
P/BV	1.57	1.47	1.39		
ROE	-6 %	7 %	20 %		
ROCE	2 %	6 %	12 %		

Source: Golar LNG / FF Research

Target calculation

Name	Size	Built	Stake	Contract status		
Golar Spirit	125	1977	100 %	Petrobras FSRU	DCF	229
Golar Winter	126	1977	100 %	Petrobras FSRU	DCF	339
Golar Freeze	125	1976	100 %	Dubai FSRU	DCF	293
Golar Mazo	138	2000	60 %	CPC to end 2017 + 2 x 5 year options	DCF	143
Mathane Princess	138	2003	100 %	British Gas to end 2023	DCF	218
Total values of delivered vessels						1165
Golar Energy Lng stake			68 %		Market value	192
Estimated net interest bearing debt. incl Golar Freeze payment					Book value	-506
Equity value (USDm)						852
Equity value per share						80
						NOK

Source: FF Research

Risk assessment

<i>Low contract coverage</i>	If the weak spot market prevails for the next few years, Golar's earnings will be negatively affected, and potentially more than in our current estimates.
<i>Continued pressure on long-term contracts</i>	New players in the LNG market have put significant pressure on dayrates (and ROCE) in the last year few years. The risk premium in long-term contracts is significantly reduced and Golar will need to cut its own return requirements in order to receive new long-term contracts.
<i>Large orderbook</i>	The current LNG orderbook is around 60% of the existing fleet (100 000+ cbm). A large number of vessels are ordered without long-term coverage. Owners will probably settle for low ROCE levels on LT contracts when the alternative is a weak spot market.

Definitions of ratings

Buy Low risk: with a potential of min 5%. Medium risk: with a potential of min 10%. High risk: with a potential of min 15%.

Neutral Low risk: -5% to +5%. Medium risk: -10% to +10%. High risk: -15% to +15%.

Sell Low risk: min 5%. Medium risk: min 10%. High risk: min 15%.

Risk ratings are based on price volatility, fundamental criteria and perceived risk. Ratings are: Low (L), Medium (M) and High (H).

Target: Our valuation as of today.

Time frame of target: Target is what we value the share as of today.

Recommendation distribution as of 23.08.10:

Recommendation	No	Percent
Buy	42	81 %
Neutral	7	13 %
Sell	3	6 %
Total	52	100 %

Companies in each recommendation category that have been investment banking clients over the past 12 months:

Recommendation	No	Percent
Buy	5	12 %
Neutral	1	14 %
Sell	0	0 %
Total	6	

Our intention is to issue preview and update research on a quarterly basis.

Our investment recommendation is elaborated in accordance with "The Norwegian Securities Dealers Associations" standards.

This report has not been sent to the company for correction of any factual errors.

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The analyst is partner in DIS Fondsfinans.

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The recommendation has been changed from Neutral to Buy. The previous recommendation was issued 28.05.10.

Ownership per 23.08.10 in Golar LNG:

Analyst (including his/her closely related persons or companies):

0, corresponding to 0% of the company share capital

Employees (including their respective closely related persons or companies):

0, corresponding to 0% of the company share capital

Group Fondsfinans (including the holdings of its Chairman and his spouse and their closely related companies, Erik Must AS and its 100% controlled subsidiaries):

0, corresponding to 0% of the company share capital

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This report was issued and distributed 23.08.10.



Golar LNG

Analyst: Petter Narvestad +47 23113040

Sector:	LNG transp.	Price:	NOK 64	Shares outs.:	67.2m
Date:	23.aug.10	Book equity per share:	NOK 44.3	Market cap (USDm):	692
Next result:	28.aug.10	Equity ratio:	20 %	Net int.-bearing debt (USDm):	862
Target	80			Enterprise value (USDm):	1 554
Recommendation:	Buy	12 month high/low:	88.8/51		

Figures in USD	2008	2009	2010E	2011E	2012E	2Q09	3Q09	4Q09	1Q10	2Q10E
TC revenues	196	177	225	315	325	36	41	58	43	46
Sales gains	78	0	0	0	0	0	0	0	0	0
Operating expenses	-62	-61	-58	-58	-58	-14	-16	-15	-13	-15
Adm. expenses	-18	-20	-15	-17	-19	-4	-6	-6	-3	-4
EBITDA	194	96	152	240	248	17	19	38	26	27
Ordinary depreciation	-62	-65	-70	-73	-75	-15	-16	-19	-16	-17
Operating profit	132	31	82	167	173	2	4	19	11	11
Interests income	46	12	10	15	20	3	2	2	1	3
Interest expenses	-96	-58	-51	-70	-72	-15	-15	-13	-11	-11
Other fin. items	-82	44	-15	0	0	25	11	7	-4	-11
Pre tax & one-offs	0	30	26	112	120	15	2	15	-3	-9
Currency effects	0	0	0	0	0	0	0	0	0	0
EO items	0	8	0	0	0	0	0	8	0	0
Pre tax & one-offs	0	38	26	112	120	15	2	23	-3	-9
Korea Line Corp	-2	-5	0	0	0	-1	-1	-3	0	0
Minorities	-7	-8	-8	-15	-18	-2	-2	-2	1	-2
Taxes	-1	-2	-1	-1	-1	0	0	-1	0	0
Profit/loss reported	-10	23	17	96	101	12	-1	17	-3	-11
Adjustments	4	-53	15	0	0	-25	-11	-14	4	11
Tax effect adjustments	0	0	0	0	0	0	0	0	0	0
Adjusted profit/loss	-6	-30	33	96	101	-13	-12	3	1	0
Cashflow adjusted	56	37	103	170	178	3	4	23	18	17
EBITDA	194	96	152	240	248	17	19	38	26	27
Gross op. margin	99.4%	54.4%	67.7%	76.2%	76.4%	48.1%	47.8%	64.6%	61.9%	59.7%
Operating margin	67.7%	17.7%	36.6%	53.0%	53.2%	5.5%	8.9%	32.9%	24.9%	23.6%
Key figures										
No. of shares, average	67.2m	67.2m	67.2m	67.2m	67.2m	67.2m	67.2m	67.2m	67.2m	67.2m
EPS reported	-0.15	0.34	0.26	1.42	1.42	0.18	-0.02	0.26	-0.04	-0.16
EPS adjusted	-0.09	-0.44	0.48	1.42	1.42	-0.19	-0.17	0.05	0.02	0.00
CFPS adjusted	0.84	0.55	1.54	2.53	2.64	0.04	0.07	0.34	0.26	0.25
P/E adjusted	na	-26.1	21.2	7.2	6.8					
P/CF adjusted	8.5	21.0	6.7	4.1	3.9					
EV/EBITDA	11.8	16.9	10.4	6.4	5.9					
Dividend (USD)	0.8	0.0	0.7	1.0	1.0					
Return on equity (adj.)	-1.3%	-6.3%	6.8%	19.8%	19.7%					
Return on capital employed	9.8%	2.3%	6.1%	12.3%	13.1%					

Balance Sheet Data	2008	2009	2010E	2011E	2012E	Major shareholders	30.06.2010
Current assets	145	182	156	184	227	Shareholders	Shares %
Fixed assets	2 215	2 310	2 341	2 332	2 302	World Shipholding Ltd.	31.2m 46.4%
Total assets	2 360	2 492	2 496	2 516	2 529	State Street	6.0m 8.9%
						Bank of New York	5.4m 8.0%
Current liabilities	267	206	206	206	206	JP Morgan Chase	3.6m 5.4%
Long-term liabilities	1 599	1 628	1 650	1 627	1 587	First Clearing	2.4m 3.6%
Minority interest	42	163	171	186	204	Goldman Sachs	2.1m 3.1%
Shareholders' equity	452	496	469	498	532	Folketrygdfondet	1.9m 2.8%
						NFC	1.3m 1.9%
Book equity/share	6.7	7.4	7.0	7.4	7.9	CHS Schwab	1.3m 1.9%
Equity ratio	19.2%	19.9%	18.8%	19.8%	21.0%	Northern Trust	1.1m 1.7%
Net interest bearing debt	920	870	918	866	784	Pershing	1.0m 1.5%
Net int. bear. debt/equity	2.0	1.8	2.0	1.7	1.5		
Cashflow statement						<u>Other shareholders</u>	<u>10.0m 14.8%</u>
Cashflow from operations	48.5	42.8	110.4	184.0	194.8	Total shares	67.2m 100 %
Net investments	-83.5	-56.5	-100.0	-65.0	-45.0		
Free cashflow before financing	-35.0	-13.7	10.4	119.0	149.8		

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