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LNG Shipping: A voyage that still faces some shoals


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Andrew Orekar ceo of GasLog Partners

LNG shipping forms the intersection of shipping and Master Limited Partnerships (MLPs) and business prospects are good – but do investors really understand it?

At the Capital Link MLP Conference in New York, LNG carriers were represented by Andrew Orekar, ceo of GasLog Partners (NYSE: GLOP), while FSRUs were represented by Hoegh LNG's (NYSE: HMLP) and ceo/cfo Richard Tyrell.

In describing the market, Orekar talked about the changes during 2016, which after a dismal start, still managed to eke out 7% growth for the year; he said that in 2016, "demand was there to absorb the supply; we look forward to demand growth for many years to come". He cited the overall natural gas market expected to grow by 1-2% annual over the next 15 years, with LNG's growth double that…"we are taking significant share from pipeline gas".

Tyrell, from Hoegh, framed the role of FSRUs, which feed gas into local supply grids, as an energy source that could be brought online quickly, and can provide gas for peak loads - for example using the example of peak summer A/C loads - for long term supply, or using the example of Lithuania, to provide an alternative to more traditional pipeline supply sources. "Demand will be strong for a number of years," he offered.

On the finance side, the partnerships' relationships with strong parent companies that can build vessels and deliver them into contracts, are critical. The Hoegh entity, HMLP, has five vessels, with three more to be "dropped down", in other words "in the pipeline," while GasLog's partnership, GLOP, currently owns nine vessels, with rights to acquire 13 more from the parent (NYSE: GLOG).

The perfunctory moaning and groaning about difficulties in securing bank finance were not in evidence here. Indeed, quite the opposite is true. Orekar, responding to a question about how financing to pay for vessels "dropped down" from the parent is structured, talked about "first lien debt", and said, "we are seeing terms improve over time, even as the credit markets have tightened up a bit".

Bankers seem to crave LNG shipping. Investors, however, do not completely understand the sector, nor are company shares widely transacted. In the banker-speak of panelist Akif Irfan, from Goldman Sachs Asset Management, "The LNG space screens as interesting…the contracts do tend to be long-term contracts". Yet, still, the shipping MLP's do not see a lot of trading, and shipping partnerships are perceived as riskier than the overall MLP universe - some 100 plus entities.

Irfan contrasted yields of the Yorkville Capital Marine Transport Index, which includes five gas MLPs among its nine constituents, compared with the broader Alerian MLP index, representing 42 MLPs none from LNG shipping. This spread was 1%- a slight risk premium for LNG shipping MLPs, just before the late 2014 oil price crash, when it rose to 6.4% (at the oil price nadir of early 2016). Now, it has backed down to 2.4% in early March, as perceptions of the overall energy complex have improved.

Is LNG shipping ready for prime time? Maybe it is. Orekar, from GasLog with its capitalization now approaching $1bn, told the audience, "we are keen to appeal to different pockets of capital" and "we'd be keen to pursue" the addition of GasLog to one of the broader MLP indices such as Alerian. He added that, "since our last equity offering (raising $77m in late January), we've seen a fairly substantial increase in our trading volume."

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