

## Golar LNG Spin-Off: What's It Worth?

PARENT		SPIN-OFF		KEY NOTES	
<b>Name:</b>	Golar LNG	<b>Name:</b>	LNG Carrier Business	Spin-off Announcement:	May 23, 2019
<b>Ticker:</b>	GLNG	<b>Ticker:</b>	TBD	Spin-off Target Date:	Q4 2019
<b>Price:</b>	\$17.40	<b>Price:</b>	TBD		
<b>Dividend Yield:</b>	3.5%	<b>Dividend Yield:</b>	TBD	Tax-status:	TBD
<b>Market Cap:</b>	\$1.8BN	<b>Expected Market Cap:</b>	TBD	Form 10:	Not filed
<b>Enterprise Value:</b>	\$3.5BN	<b>Expected Enterprise Value:</b>	\$1.1BN		
<b>2018 Revenue:</b>	\$431MM	<b>2018 Revenue:</b>	NA		
<b>2018 Adj EBITDA:</b>	\$200MM	<b>2018 Adj EBITDA:</b>	\$108MM		

Note: Market Data as of July 24, 2019

### Overview

On May 23, 2019, Golar LNG (GLNG) announced that the Board of Directors has made the decision to spin off its liquid natural gas (LNG) carrier business. Details are unclear surrounding tax treatment. Management noted that it intends to spin off the LNG carrier business “later this year”, but the transaction is dependent on market conditions.

The spin-off will allow the remaining company to focus on its floating liquid natural gas business as well as its Power segment. These businesses have relatively stable operating results, while the LNG shipping business is extremely volatile.

GLNG intends to maintain a majority ownership position in the spin-off and to raise capital independently for the spin-off.

In the below chart, the Production and Liquification, Regasification, and Power divisions are those that will remain with the parent company. The LNG carrier shipping division will be spun off.

# Golar Group: LNG infrastructure from gas to power



## Background

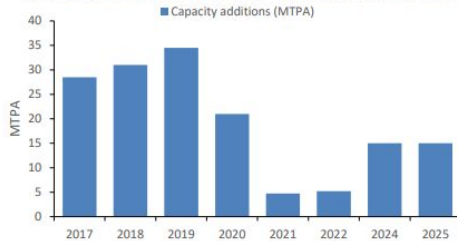
Management has decided to spin off the LNG shipping carrier business in order to focus future activities around floating liquid natural gas assets and downstream assets. The team believes this transaction will reposition Golar's core business toward LNG infrastructure and long-term contracts.

This makes a lot of sense. The spot rates for the shipping market are incredibly volatile and this results in wild swings in profitability of the shipping division.

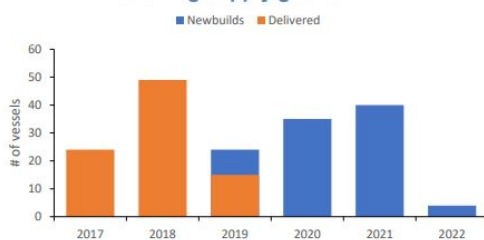
Nonetheless, management believes the outlook for the LNG spin-off is positive. Looking forward, Golar LNG cites a structural shortage of LNG carriers with demand expected to grow by 14% - 15% vs. supply growth of 9% for 2019 - 2020. Management also notes that the LNG carrier market is showing signs of seasonal recovery and is edging into a time-frame where a structural shortage of ships appears inevitable. Golar expects that the new LNG shipping company will be an attractive pure play vehicle for investors to participate in the strong growth and cyclical recovery of the LNG shipping market.

# Shipping

**Liquefaction capacity additions (MTPA)**  
 1.3-1.8x LNGCs required per MTPA dependent on end location



**Slowing supply growth**



Source: Fearnleys

## LNG shipping market commentary

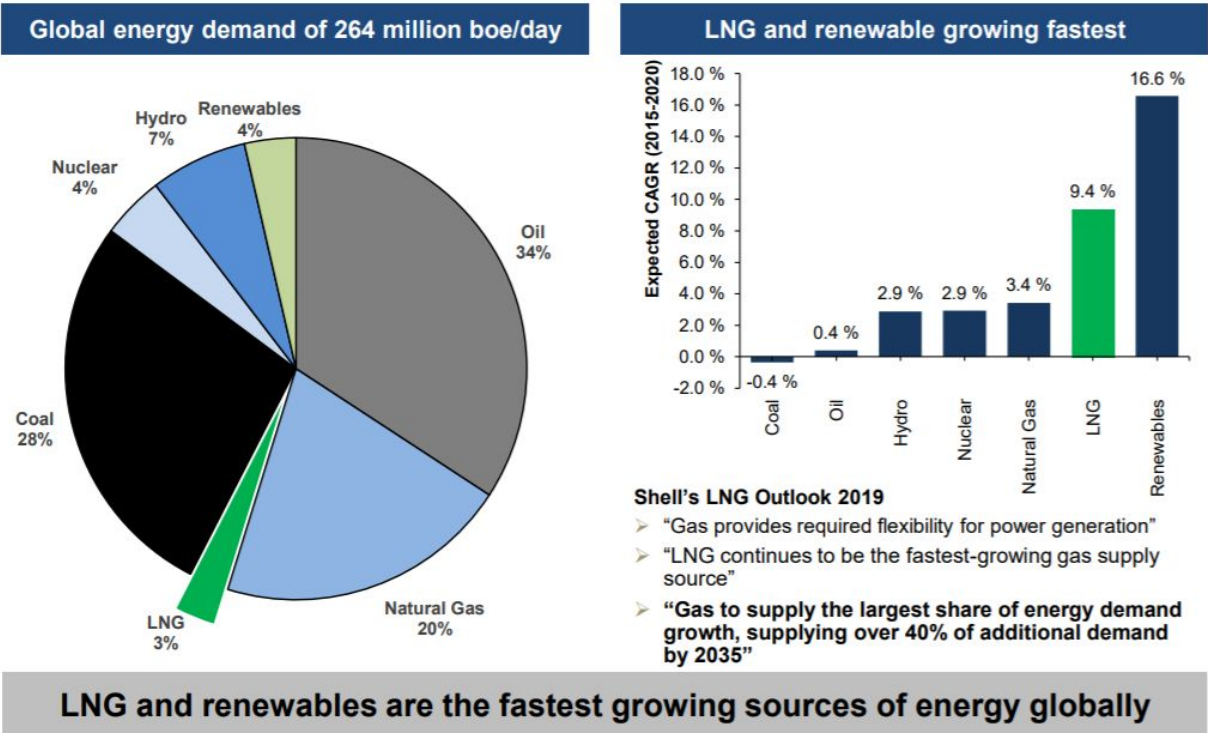
- The 1Q 2019 LNG shipping market declined from strong 4Q 2018 levels in line with historic seasonality.
- The LNG freight market is currently responding to the strong contango in the gas market, with forward prices of \$9mmbtu quoted for December support improved shipping rates for rest of 2019.
- Structural shortage of LNG carriers: Demand expected to grow by 14-15% vs. supply growth of 9% for 2019-2020.
- **Golar's board has approved a spinoff of the Company's TFDE LNG carriers business to allow LNG shipping investors more direct exposure to the LNG shipping market, subject to satisfactory market conditions**

Despite the above arguments for the shipping company, we believe the RemainCo company will be the more attractive company.

The outlook for LNG is very strong as natural gas is a much cleaner fuel than coal. As such, China and to a lesser extent, India, are working on switching their coal powered plants to natural gas in order to combat their growing pollution problem.

As shown below, supply for LNG and renewables are expected to be the fastest growing energy source for the foreseeable future.

# LNG – High Growth



How will RemainCo benefit from growing LNG supply and demand?

First let's dig into some of Remainco's assets.

A key part of Remainco's business is FLNG. [FLNG](#) stands for "floating liquid natural gas" and it refers to massive facilities that float above offshore natural gas fields. These facilities are there to liquefy natural gas (liquid natural gas is easier to ship as it takes up less volume), store the LNG and then transfer it to LNG carriers which transport it to the market.

Golar's first FLNG project is called "Hilli Espeyo" and is floating offshore of Cameroon over a natural gas field operated by Perenco, an Anglo-French oil and gas company.

See a picture of Hilli Espeyo below:



Golar spent \$1.15BN to create Hilli Espeyo (below original estimated budget of \$1.3BN). Golar has an agreement with Perenco that is expected to generate \$164MM of annual run rate EBITDA. This works out to a return of ~14%. However, Golar was able to secure \$964MM of financing for this asset. Thus, the return on equity is an astronomical 88% ( $\$164 / \$186$ ).

Further, the expected \$164MM of EBITDA is based on only 50% capacity utilization.

At 100% capacity utilization, Hilli Espeyo (“Hilli”) would generate ~\$300MM in run rate EBITDA and return on equity would go even higher.

Further, GLNG dropped down 50% of the initial Hilli capacity to Golar LNG Partners L.P. (GMLP) for \$662MM (\$180MM in cash and \$482MM of the debt associated with the project). So adjusting for this transaction, GLNG’s equity contribution declines to \$10MM ( $\$190MM - \$180MM$ ).

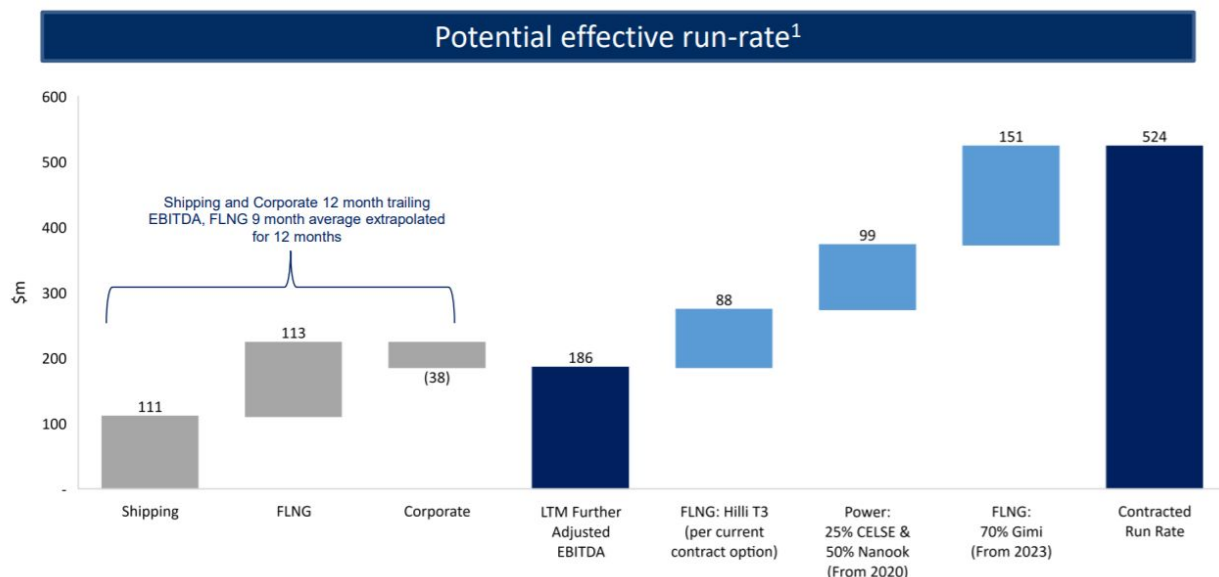
Golar has another FLNG project in development called Gimi. This project will be floating off the coast of Senegal and Mauritania over a natural gas field called Greater Tortue Ahmeyim. The gas field is operated by British Petroleum (BP). The project is expected to cost \$1.3BN and to generate \$215MM of baseline EBITDA (16.5% return on investment). However, Golar will be able to finance a large percentage of the project (similar to Hilli). Golar owns 70% of this project; thus, it can expect an EBITDA contribution of \$151MM.



Finally, Golar has a power project in Brazil that is expected to generate run rate EBITDA contribution of \$99MM.

As a result of these projects, contractual cash generation is expected to ramp up significantly in the years ahead.

## Cash generation ramping up...



### Preliminary Thoughts on Valuation

First let's try to value the RemainCo.

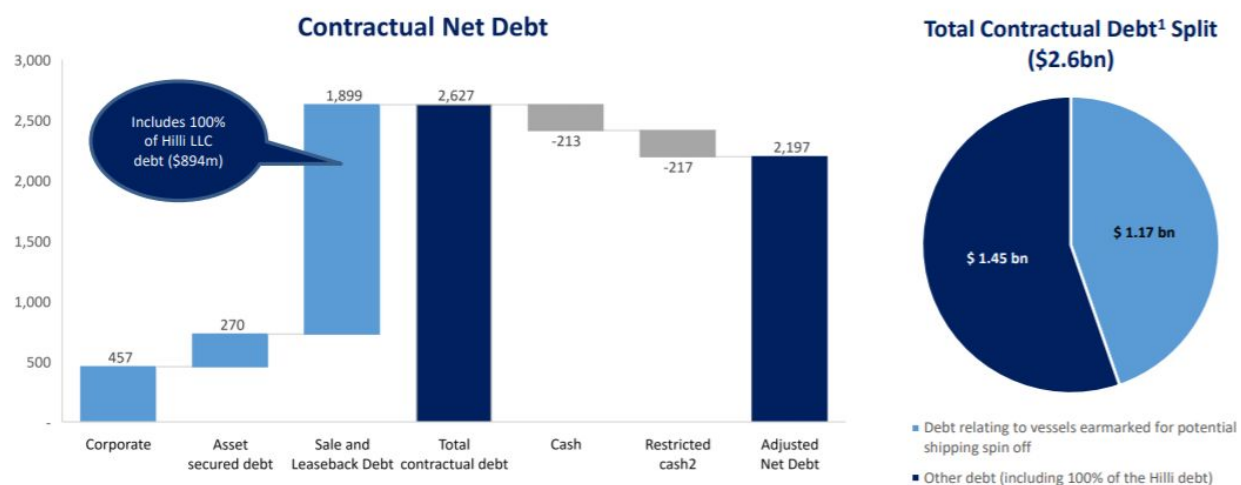
Based on the chart above, the company has a line of sight to generating \$262MM of EBITDA from LNG infrastructure assets in 2020. Of course, there should be significant EBITDA upside beyond 2020.

Cheniere (LNG), a LNG infrastructure pure play, trades at 11.6x 2020 EBITDA. Assuming the same multiple implies a fair enterprise value of \$3,040MM for RemainCo.

The LNG shipping spin-off generated \$111MM on a trailing twelve month basis. LNG shipping comps GLOG and TGP trade at 12.3x TTM EBITDA and 8.6x TTM EBITDA, respectively. Assuming the shipping spin-off deserves to trade at 10.0x TTM EBITDA, it will be worth \$1,110MM on an enterprise level.

Adding these asset values together yields a fair enterprise value of \$4,150MM. As shown below, Golar has \$2,197MM of net debt.

# Contractual Net Debt<sup>1</sup> Breakdown



Source: [Golar Q1 2019 Slide Deck](#)

However, this includes 100% of the \$894MM of debt associated with Hilli. As discussed above, Golar dropped down 50% of that debt (\$482MM) to Golar LNG Partners L.P. (GMLP). Thus, net debt which GLNG is actually responsible for is \$1,715MM.

Let's put it all together.

Golar LNG Valuation	
RemainCo Asset Value	\$3,040
Spin-off Asset Value	\$1,110
Fair Enterprise Value	\$4,150
Net Debt	\$1,715
Fair Market Cap	\$2,435
Shares Outstanding	101.3
Fair Share Price	\$24
Upside	33%
Current price	\$18.04

Let me emphasize that this valuation work is preliminary. I need to do additional work to determine the best comps for the spin-off. The spin-off is expected to support \$1.17BN in debt versus my asset valuation of \$1.11BN, and so my valuation is probably low.

What do you think?

Comment below.

**Resources from Golar LNG**

[GLNG 4Q18 Earnings Slide Deck - February 27, 2019](#)

[GLNG 1Q19 Earnings Slide Deck - May 21, 2019](#)

[GLNG Interim Results - March 31, 2019](#)

[GLNG 20-F - March 29, 2019](#)

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**Other Resources**

[Seeking Alpha: Golar LNG - Project Economics Drive \\$40 Price Target](#)