

# **Navigator Holdings Ltd. (NVGS) Q1 2024 Earnings Call Transcript**

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**Body**

Navigator Holdings Ltd. (NVGS)

Q1 2024 Earnings Conference Call

May 16, 2024 10:00 AM ET

Company Participants

Randy Giveans - Executive Vice President, Investor Relations & Business Development

Mads Peter Zacho - Chief Executive Officer

Gary Chapman - Chief Financial Officer

Oeyvind Lindeman - Chief Commercial Officer

Conference Call Participants

Omar Nokta - Jefferies

Frank Galanti - Stifel

Climent Molins - Value Investor's Edge

Presentation

Randy Giveans

[Starts Abruptly]

On today's call we have Mads Peter Zacho, Chief Executive Officer; Gary Chapman, Chief Financial Officer; Oeyvind Lindeman, Chief Commercial Officer and myself Randy Giveans, Executive Vice President of Investor Relations and Business Development in North America.

I must advise you that this conference call is being recorded today. As we conduct today's presentation, we'll be making various forward-looking statements. These statements include, but are not limited to, the future expectations, plans, and prospects from both a financial and operational perspective and are based on management assumptions, forecasts, and expectations as of today's date, and are as such subject to material risks and uncertainties.

Actual results may differ significantly from our forward-looking information and financial forecast. Additional information about these factors and assumptions are included in our annual and quarterly reports filed with the Securities and Exchange Commission.

With that, I will now pass the floor to Mads Peter Zacho, the company's CEO. Please go ahead, Mads.

Mads Peter Zacho

Thank you, and good morning. Thank you all for logging into this Navigator Gas earnings call for Q1 2024. Yes, I will as always begin with a quick review of the main data points relating to the first quarter of '24. And then I'll talk over the outlook for the year. Gary Oeyvind and Randy will follow-up in a couple of minutes with more detail on our business drivers and results.

Also this time, we can present robust revenues for the past quarter with operating revenues almost equal to same period in 2023. The mix is different, though, in that it was driven by higher time charter rates. I'll say a little bit more about that in a minute.

Adjusted EBITDA for Q1 set a new record at $74 million, well above the EBITDA of $69 million same period last year. Adjusted net income came in at $23 million. Our cash position remained solid even after we repaid on debt facilities on our credit revolver, and we also continued deploying capital into our ethylene terminal expansion.

We've returned capital to our shareholders with a $0.05 per share dividend and repurchased own shares similar to previous quarters. You'll see this continue as we also now declare a further 5% per share dividend plus new share buyback. This will, in total, be equivalent to 25% of net income following our first quarter results.

We're particularly pleased with the commercial result and that we are able to push up our TCE rates to an average above $28,000, which is 11% higher than same period last year. Last year in Q1, our utilization was unusually high at 96%. In Q1 of this year, we achieved utilization closer to 90%, which is more akin to previous quarters. We're quite pleased to see that we managed to generate TCE rates and EBITDA at a record level in this environment.

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Throughput at our JV ethylene export terminal was slightly down at 220,000 tonnes for the quarter, but we expect that during this year, we will reach a total export near the terminal capacity of 1 million tonnes per annum. The expansion of the terminal continues on track for completion in Q4 of 2024, and we have now contributed progress payments of $51 million in total to date.

Navigator's Board approved a new investment in an early-stage clean ammonia export project in the U.S. Gulf Coast area. As we said before, we are optimistic about clean ammonia as an energy carrier and we believe that gas tankers will transport the majority of the clean ammonia volumes.

As is the case with Morgan's Point, our key interest lines with the terminal and ship-to-shore logistics. The outlook for our business remains good. We expect utilization to remain near or above 90%, and we continue to renew our expiring time charters at higher rates. With solid demand for transportation on handysize gas carriers, older vessels being sold out of international trade and limited supply from new buildings in our segment, we expect this to continue. We also see a gradual normalization with the Panama Canal, which Oeyvind will explain in more detail shortly.

I'll now hand it over to Gary, and he'll give you a more detailed review of our financial results. Go ahead, Gary.

Gary Chapman

Thank you very much, Mads, and very good morning or afternoon to everyone. I'm pleased to report first quarter 2024 results in which we continued our progress and momentum with, again, some very positive outcomes and a new record adjusted EBITDA, giving ourselves a great platform.

On Slide 6, our total operating revenue was GBP 134.2 million in the first quarter of 2024 with slightly lower but still very healthy utilization of 89.3%, boosted by stronger time charter equivalent rates that were, on average, $28,339 per day in the quarter, being a marked increase compared to $25,620 per day in the first quarter of 2023. There were further positive effects as a result of having our five Navigator Greater Bay vessels fully operational in the first quarter of 2024 compared to the same quarter in 2023.

And both total vessel operating expenses and depreciation in the first quarter of 2024 was slightly up on this quarter last year, also mainly due to having those five Navigator Greater Bay vessels in full operation. The net effect overall for us was a near 14% increase in operating income, up to $36.3 million compared to $31.9 million in the same quarter last year.

Our general and administrative costs were well managed in the quarter coming in slightly lower than the same period in 2023, and our interest expenses were cushioned by interest income earned on our cash balances in the quarter and the non-cash movement in the mark-to-market valuations of our interest rate swaps was a small loss in this first quarter of $0.4 million, reflecting more stable forward interest rates in recent months.

Our income tax line reflects current and mainly deferred taxes, primarily derived from our investment and share of profits in our ethylene export terminal at Morgan's Point. The ethylene terminal throughput volumes, as Mads mentioned, in the first quarter of 2024 with 220,000 tonnes lower than the same quarter last year by around 29,000 tonnes. However, we currently expect the terminal to remain near its throughput capacity during 2024 with results accordingly.

Our new record adjusted EBITDA was $74.1 million. Net income attributable to stockholders of Navigator Holdings was $22.6 million with EPS for the quarter coming in at $0.31. The table bottom right gives some further fleet data points, which I'll leave you to read for yourselves.

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The balance sheet shown on slide seven, remains strong with a cash and cash equivalents balance of over $172 million at March 31 and total liquidity, including our undrawn revolving credit of just over $200 million. This compares to minimum total liquidity covenants on our bank loans and credit agreements of around $50 million.

This cash and liquidity balance is after all of our recent buybacks and dividends after making our schedule due loan repayments after making progress payments for our ethylene terminal expansion project and after repaying an additional $4.7 million on one of our revolving credit facilities. Our net debt to capitalization was just 33% as of March 31, 2024, and net debt to adjusted EBITDA was 2.4x for the 12 months to March 31, 2024.

With good market rates and robust utilization, our liquidity has continued its upward trend. We expect that some of our cash will be needed for the remainder of our ethylene terminal expansion project until we finance a proportion of our investment later in the year and as well for other projects and investments that we're considering that will enhance shareholder returns.

There are, of course, a number of projects that we're actively looking at. But meantime, we'll continue to manage our business carefully, reduce our debt, look to our capital distributions and share buybacks and be good stewards of the business capital.

Looking at our finance situation on slide eight. Although we have no low maturities until 2025, we're now actively looking at those, including the $100 million unsecured bond that matures in September 2025, which is likely to be called the extended sometime from March 2025.

And as well, the $190 million of remaining 2025 maturities that are likely to be refinanced with new loans or loans of more than $200 million, resulting in a positive liquidity event for the company. The feedback received to date from new and existing lenders is very positive, and we'll provide a further update as part of our second quarter results.

You'll see on the top left, how Navigator has substantially reduced its net debt to EBITDA in the last 12 months and indeed since 2019, now at around 2 times. We're continuing to aggressively reduce our debt with more than $100 million of average annual scheduled debt amortization due to occur during 2024 through 2025, which you can see on the top right.

Taken with the refinancing work we are now pursuing, we anticipate that our debt maturity profile will look very different by this time next year with an illustration of that shown in the pro forma graphic on the bottom right.

Then on slide nine, we outline our estimated cash breakeven for 2024, which remains at $20,705 per day, which figure includes our scheduled debt repayments and as well our heavier dry dock schedule in this coming year compared to 2023. Even considering this with such a breakeven level relative to today's charter rates, recording our average TCE for the first quarter of 2024 was $28,339. It, of course, enables Navigator to generate a very positive EBITDA, not only now but also throughout the shipping side.

And on the right is our daily OpEx guidance for 2024 across our differing vessel size segments, ranging from smaller vessels to our larger and more complex ethylene vessels. And we are also now providing some guidance for the second quarter of 2024, as well as updates for the full year across vessel OpEx, general and admin, depreciation and interest expense.

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On slide 10, we outlined our historic quarterly adjusted EBITDA, showing this first quarter's record figure and demonstrating the very positive and consistent results we were able to report across the whole of 2023 continuing into 2024. We also currently expect the second quarter of 2024 to provide a healthy result.

On the right side of slide 10, we show our historic adjusted EBITDA bar for 2023. Our last 12 months adjusted EBITDA and an annualized adjusted EBITDA based on this first quarter. In addition, the EBITDA bars then to the right provide some sensitivity and illustrates an increase in adjusted EBITDA of approximately $18 million for each $1,000 incremental increase in average time charter equivalent rates per day.

Then on slide 11, an update on our vessels scheduled dry docks. We have 17 vessels scheduled for drydocking during 2024 with an expected total of 422 off-hire days and total drydocking CapEx anticipated of $24.6 million all of which is fully costed and included in our cash flow plans. So more detail on the expected timing and cost of these dry docks as shown below, noting that 4 vessels have already successfully completed their docking this year, One is actually scheduled to complete the dry dock today and 12 more for later in the year.

Also, as we have announced before, we are taking these dry dock opportunities to install energy-saving technologies on those vessels at a cost of around $4.8 million, with many of those technologies having a very short payback. Finally, we also provided here some guidance on 2025 and 2026 scheduled drydocks for those that are interested and which guidance remains very similar to previous figures we disclosed.

So at the end of another very solid quarter with record adjusted EBITDA, we've been able to continue our good momentum and provide ourselves with a great foundation for further growth and development.

And with that, I'll now hand it over to Oeyvind, who will provide an update on some of those plans and our commercial position. Oeyvind, please go ahead.

Oeyvind Lindeman

Thank you, Gary, and hello to everybody. Let's move to slide 13. If you look back on what cargoes have driven our business over the last 10 years or so, we see a couple of clear trends. Firstly, LPG used to be a significant driver to our earnings days. However, as you can see on the gray line on the left-hand graph, it has steadily been declining over the last decade or so. Today, it represents only one-third of our earnings days.

Secondly, the emergence of ammonia and petrochemical demand is clearly filling the LPG shortfall for Navigator. We are excited about these developments, though, what they contribute to our business today, but also the significant growth projections for each cargo grade going into the future. And this explains why we will be spending some time talking about ethylene and clean ammonia later in the presentation.

Growth of petrochemicals and ammonia is very much linked to North America. North America significance to navigate is growing year-by-year. And we try to show this on the right-hand graph. We sorted the origination of our earnings days, i.e., where does -- where do our ships load and then linked it to discharge areas for 2023. The results are illustrated in the graph to the right. And as you can see, opening 60% of all our voyages originated in North America, and that's a lot.

A few years back, it was below a quarter. It just reaffirms that we are firmly linked to U.S. gas production growth, U.S. midstream investments and U.S. downstream olefin infrastructure. We see positive trends in all these areas, which will invariably benefit us. And the 60% is set to increase further as we develop.

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Turning to U.S. natural gas liquids production on slide 14. The U.S. NGL production dipped during the first month of this year, but trended positive during March. LPG exports, which comes from the NGL barrel were less volatile. As we have mentioned during previous calls, NGL production, as well as LPG exports provides a good indication of the health of the freight markets.

We also need to think about how the Panama Canal situation is impacting the supply side, whether the vessels transit Panama Canal or Cape of Good Hope on their way to Asia has a meaningful impact. How so? Well, U.S. exports during 2023, 55% of all its LPG exports headed to Asia, 71% of its ethane exports headed to Asia and 65% of its ethylene exports headed to Asia, which means that most of U.S. exports are impacted by the Panama Canal one way or another.

Larger vessels are required to head through the neo Panamax locks, the new locks. And according to the Panama Canal authorities, there are no additional transits allowed for these vessel sizes which in practice means longer voyages. For the Handysize segment, however, we are now increasingly transiting through the original locks as daily transits have increased from 12 to 20 over the last couple of months are against a normal of 26%, but a dramatic improvement.

For our segment, this is actually a good thing. Handysize attained trade becomes more viable against larger vessels needing to head via South Africa. It is also positive for ethylene earnings. If freight, for example, of $400 a ton from U.S. to Asia. Our day rates will be higher transiting Panama, compared to the longer run. Although the voyages are shorter, I think the benefits are greater to us.

Staying on ethylene. On page 15 illustrates the importance of U.S. exports. The global seaborne ethylene market for 2020 were 5.3 million metric tons. The traditional ethylene trades have been on smaller ships within Europe or within Asia. When Morgan's Point ethylene export terminal commenced its operations in 2019, it started to influence the status quo. New tonnes were now available and these tonnes required to be shipped longer requiring larger vessels. This dynamic is obviously quite positive to us. More tonnes coming through the expansion will require longer voyages for all the volumes, which will again increase demand for our ethylene shipping services.

To note, U.S. have gone from being an insignificant supply of ethylene to the world reaching 20% of global seaborne supply. And post expansion, including the flex capacity, the U.S. ethylene market share has the potential to reach half of current global supply. And that's quite impressive. And it goes to show the power of cheap U.S. gas and its ability to change traditional trade patterns.

On page 16, we have laid out the U.S. ethylene arbitrage and value chain. The price points on the left-hand graph is provided by Argus and represent a snapshot what they assess the markets to be at that point in time, which allows us to draw out the various elements in an ethylene to market chain.

On paper, it shows that freight can be $380 a tonne to reach Asia. $380 a tonne on a Handysize ship via the Panama Canal yields about $40,000 a day for our ethylene ships, and that is what we're seeing today. In addition to product arbitrage, investment supply has a major influence on freight. And during the first quarter, about 50% of U.S. exports headed to Europe and 50% to Asia. For second quarter, we already see Asia pulling a larger share, which means that the majority of -- this means the majority of longer voyages originating from our terminal.

The latest 12-month time charter assessment are shown on page 17. The time charter markets continue to be robust. The Handysize assessment, though, is based on fairly illiquid market with fewer no time charters being conducted on a weekly basis compared to other things. That said, the green ethylene line is fairly accurate at about $40,000 a day. The darker and lighter blue lines are representing semi-ref and fully rev handysize vessels and is trending lower compared to what we see on our contract renewals. So we are seeing higher rates than what this graph is showing when we talk about time charter renewals and so forth.

The updated fleet composition on page 18 shows a relatively high number of vessels to be delivered in the large-sized fully refrigerated segments. It is the complete opposite to what we see in the hand size and small size category, both showing a low percentage of vessels on order. It is also worth noting that 21% of the existing Handysize fleet is about 20-years of age with many of these vessels becoming candidates for recycling over the next few years.

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So to repeat what Mads and Gary just said, we had a very good start of the year, and we see the positive trend continue into the second quarter with increasing rates on average and increasing utilization.

Let me hand it over to Randy for him to give some additional details on recent developments. Randy, over to you.

Randy Giveans

Thank you, Oeyvind. So following up on several announcements we made in recent months, we want to provide some additional details on updated developments regarding those announcements. So starting on slide 20, we are pleased to announce our return of capital for the first quarter of 2024, in line with our recently announced return of capital policy and the illustrative table below.

We're returning 25% of net income or $5.7 million to shareholders this quarter. The Board has declared a cash dividend of $0.05 per share payable on June 25, 2024 to all shareholders of record as of June 4, 2024, equating to a quarterly dividend payment of $3.7 million.

Additionally, with Navigator Gas shares trading well below our NAV of at least $25 a share. We'll use the variable portion of the return of capital policy to repurchase shares. As a reminder, during the first quarter, we repurchased 52,630 common shares totaling $800,000 at an average price of $15.2.

Looking ahead, we expect to repurchase at least $2 million of Navigator common shares between now and the end of the quarter, such that the dividend and the share repurchases together equal 25% of net income. Returning capital to shareholders will remain a core focus for us.

Turning to slide 21 and following up on our previous announcement regarding the expansion of our ethylene export terminal, the project is progressing nicely. Engineering is now complete. Most of the key components have been delivered and construction is now underway with an expected completion date by December.

The total capital contribution required from us to the joint venture is expected to be less than $130 million. And to-date, we have already made progress payments totaling $51 million, with the remaining CapEx expected from cash on hand until new financing agreements are completed later this year.

Now as you can see on the bottom left chart, despite some softness in December and January due to tight commodity spreads and limited vessel availability, throughput is now back above nameplate capacity with the second quarter off to a strong start. We'd also like to inform you that the first new multiyear offtake contract has been signed and another offtake customer has agreed to commercial terms likely to be signed this summer. So we continue to expect the vast majority of the additional capacity will be contracted in the coming months.

Now for a new announcement on slide 22. After a deep vetting process and driven by our firm belief in the immense growth potential of clean ammonia, our Board has approved a $2.5 million investment in an early-stage clean ammonia export project here along the U.S. Gulf Coast. We expect to make our first monetary contribution in the coming weeks. And although light on details today, we'll be sure to provide more details as the project develops and capital is deployed.

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Now this initial investment is development capital for the pre-FEED and FEED studies and subject to future board approval, we also expect to make larger investments at FID and during the construction phase of the project with our focus being on the terminal and the Ship Shore Logistics. As evidenced by our numerous vessels currently transporting ammonia, our recent investment in the Zain Fuel Solutions for ammonia bunkering, our approval in principle for an ammonia fuel vessel and our recently performed first ship-to-ship transfer of ammonia. Ammonia already is and will continue to be a key focus for Navigator Gas.

To note, the U.S. Gulf will be a key producing region of clean ammonia, which will then be exported to high-demand areas around the world, such as Asia for co-firing coal power plants, Europe you're cracking into hydrogen and then using for power generation. and across the globe as a clean bunkering tool for ships as well as to displace conventionally produced ammonia-based fertilizer. So we're very excited to take this first step into a project that should be a meaningful contributor to our business and we look forward to telling you more about it in the near future.

And finishing on slide 23 to celebrate more than a decade of trading on the New York Stock Exchange, Navigator Gas will be ringing the closing bell at the NYSE on Tuesday, June '20. We'll start the day with an investor presentation, followed by the Bell Ring ceremony and conclude with the celebratory reception on site, everything that afternoon. We would love to have you there to learn more about these aforementioned exciting developments and to hear you Hooton and Holleran as we ring the bell. So if you'd like to attend, please let me know, so we can add you to the guest list.

With that, I'll now turn it back over to Mads for closing remarks.

Mads Peter Zacho

Good. Thanks a lot, Randy. You can see here that 2024 has come off to a good start. And as you just heard, we are pretty confident that the year will be one of stronger commercial and financial results. I think we are well positioned for the future with a strong outlook in our existing core markets, and that combined with some really exciting opportunities in new emerging markets such as within the transportation of clean ammonia or CO2.

Our balance sheet is in its best shape ever, and it gives us the flexibility to grow our business and return capital to shareholders at the same time. So we are looking into a very exciting 2024 with the best yet to come. So thanks a lot, and back to you, Randy.

Question-and-Answer Session

Randy Giveans

Thank you, Mads. Operator, we'll now open the lines for some Q&A. [Operator Instructions] So first caller, your line should be open here in a second.

Omar Nokta

Hi, Randy. Hi, guys. Thank you. This is Omar Nokta calling from Jefferies. Randy, you said at the Hootin and Hollerin the -- it's been a nice quarter. It's been a nice series of quarters. You've had your best EBITDA ever. And it's noteworthy, I guess, as you mentioned in the release, utilization dipped year-over-year, and you mentioned softer demand. So clearly, there are strong dynamics at play.

I guess from just kind of thinking about it, the seasonality or perhaps kind of think about the utilization dip year-over-year -- is that a seasonality thing? And was it felt more dramatically than last year? And then how would you say overall activity levels are shaping up as we kind of move past 1Q?

Mads Peter Zacho

Maybe I can just kick us off and then Oeyvind you can take over and give them more detailed explanation. But I think looking at the first quarter of last year, that was really the odd 1 out here at 96% utilization, it's very difficult to achieve. There will almost always be ships that for 1 reason or another will be idle for short periods of time. And that means that 96% is not what we should be looking for as a typical robust market. once we are at 90% or just the over that, we are typically able to push up rates and we consider that to be a robust market pretty much as we saw in Q1 this year. But Oeyvind you can fill in.

Oeyvind Lindeman

Yes, Omar. One thing to note is that even though utilization was somewhat lower than 12-months ago, the TCE rates are higher, the average TCE rate. So there's obviously a dynamic is a trade-off between utilization and rate level. And with all the ships trading it's always a judgment call.

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Now you mentioned you used the word soft demand. It is -- we haven't seen soft demand because TCE rates are up. We had a ship that for whatever reason, was idle for technical issues, and that is each ship that is out of service as a penalty of 2% on that number. So if that had working, they would be above 90%, that's we've been talking about.

But I just want to reiterate that 90% is a good market. We're able to push rates. We have shown that during Q1 this year. TCs are up. The ethylene trade and ethane trade is producing about 40 a day, which is the highest we've ever seen. So things are looking bright on that front. Utilization is just a small factor of it.

Omar Nokta

Thanks, Oeyvind. That's clear. I appreciate that. And then maybe just kind of shifting gears a bit towards the terminal expansion you signed your first offtake agreement, which is nice to see, and you're expecting more here ahead of completion. Just wanted to think about -- in terms of project completion itself, it seems like it's definitely on track for completion at the end of 4Q or during 4Q, what kind of ramp should we expect as we think about starting to generate earnings off of that in '25. Is there a buildup? Or is it basically almost turnkey since it's already in a terminal in existence?

Mads Peter Zacho

Why don't you take this one, Randy?

Randy Giveans

Sure thing. Yes, yes, it's turnkey, right? So there will be maybe a week or two of ramp up operations, but most of that will happen in November, December. So by January 1, 2025, we will be fully operational for the entirety of the new capacity.

Omar Nokta

Okay. All right. Sounds good. And then a final one for me, just on the ammonia project you highlighted. I know it's still early on and you're putting in the development CapEx. As you kind of think about it and as you move forward, is this something that you expect to do or go alone at Navigator or would you look to partner with somebody like an enterprise or somebody similar as you move forward with the potential project?

Mads Peter Zacho

I think inevitably, we would be partnering up in projects like these ones. Typically, the marine infrastructure would be linked up to production facility or storage facility of some sort. And here, we would rely on good on land partners for that. So I think you should expect that we would be doing joint ventures as we have very successfully done with enterprise. It doesn't have to be enterprise. We love working with them. We'd love to do much more with them, but there can also be situations like this one where we will do it with other partners.

Randy Giveans

And just to give some scale to that, for the initial enterprise terminal is around $300 million CapEx in total. The new expansion is another $260 million. Ammonia projects, we're talking billions of dollars. So certainly with partners, not going ahead of ourselves.

Omar Nokta

Okay, appreciate that. Thanks Randy. Thanks., Mads. Thanks, Oeyvind and thanks Gary. I'll turn it over.

Mads Peter Zacho

Thank you.

Randy Giveans

Thank you, Omar. Next question, your line should be open.

Frank Galanti

Yes, great. This is Frank Galanti come from Stifel. And I appreciate that color, Randy, on the sort of investment size on the ammonia project. But can you sort of -- and I know it's early stage, but what sort of capacity are you guys looking at for that project should it go forward? And what sort of -- would the rough capital needs be from Navigator?

Randy Giveans

Yes. Again, hard to be to give any details at this point, right? The initial investment is for the pre-FEED and FEED studies to answer those questions, right, in terms of the capacity? Is it 1 million tonnes, 2 million tonnes, 4 million tonnes, 6 million tonnes. So there's a pretty wide range there. And as a result, there's a fairly wide range of what our investment could be, right? It will be a meaningful -- it could be a meaningful number. I don't think it starts with the B in terms of billions, but certainly much, much larger than this initial $2.5 million investment. Again, sorry, I can't give you too much clarity and color here, but certainly more details to come.

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Frank Galanti

Sure. No, that's pretty helpful though. And then sort of for my second question, I wanted to ask about sort of leverage. Obviously, it's coming down and it still should come down given sort of growing cash flows and only distributing 25% of net income. At what point do you anticipate sort of reexamining that return policy? Like is there a leverage number you want to get to? Or how do you generally think about that?

Mads Peter Zacho

I can just kick us off here, and then Gary, you can supplement me. I think we're in a quite comfortable place right now with the current gearing ratios, and they are probably lower now than I would think would be the steady state for a company like ours. I think it's perfectly appropriate for a company of our structure, where we have reasonably stable income from terminal, from our TC and so on to have a fair amount of financial gearing.

So you could say that we have capacity to do more. And this is a reflection of us also looking at growth projects. We have committed to growing Navigator over time. And we haven't deployed a huge amount of money in the past quarters on growing our business. So we are evaluating a couple. We are keenly aware that we are competing against investing in our own stock. So it needs to be good projects with good return profile. So I think we have good capacity for that. And I think we have an interesting portfolio of opportunities at the same time. Gary?

Gary Chapman

Yes. I would fully agree with all that you said, Mads. We don't have a target. I think we try to be careful with our balance sheet and make sure that we choose the right projects and the right uses of those funds. And sometimes that takes a little bit of time to evaluate them for the right projects to come along. Meantime, we've got the return of capital policy, and that gets looked at each quarter by the Board. And I think, hopefully, we'll see over this coming couple of quarters that we'll be able to give some news to the market about new projects. That's always our aim.

Frank Galanti

Great. Really appreciate the color. Thanks very much.

Randy Giveans

Thank you, Frank. Next caller, your line should be open.

Climent Molins

Good morning afternoon. This is Climent Molins from Value Investor's Edge. Thank you for taking my questions.

Randy Giveans

Hey, Climent.

Climent Molins

I wanted to start by asking about the offtake agreement you recently added. I'm guessing you cannot provide direct commentary, but could you provide some discussion on how the economics of new offtake agreements compared to the ones you have on existing capacity?

Mads Peter Zacho

Go ahead, Randy.

Randy Giveans

Yes. We can, but we probably won't at this time, right, because we're still in commercial discussions with various additional offtakers. It is for multiyears. It is at a very good return similar to what we've been earning on the current contracts. So we'll give more clarity and details in the coming months, again, after additional contracts are signed and we'll give it as an aggregate, right? We don't want to just call out the details on one contract. We certainly will, once we have that portfolio built out.

Climent Molins

Makes sense. Thanks for the color. You also mentioned you expect to secure new financing on the terminal later this year. Could you provide some insight on the amount of liquidity you expect to free up?

Randy Giveans

Yes. I'll let Gary start but it's a big range, but Gary provide some color.

Gary Chapman

Yes, Climent. That is a slightly tricky question. I think we are looking at a number of different sources of funds for this just like the company did for the original terminal investment, which was a combination of bond and bank finance way back a few years ago now. So I think we haven't yet made any or drawn any conclusions. I think at this stage, because we're in a comfortable position, we're not rushing that.

Our cash position itself allows us to invest from our own equity resources first and foremost. So I think we've got a little bit of time to judge what's the best and also to tie that in with other potential opportunities and projects that may come our way as well. So at this stage, a tricky question to answer. And as Randy said at the beginning, it's quite a wide range.

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Randy Giveans

Yes. By year-end, we'll have fully repaid the existing facility on the terminal. So we'll have an asset worth hundreds of millions of dollars that is certainly underlevered to give you some scale.

Climent Molins

That's very helpful. And final question from me. You're currently distributing 25% of net income via repurchases and dividends. Is there any appetite for incremental share repurchases on top of the 25% given the prevailing discount to NAV.

Mads Peter Zacho

I guess I can just kick us off here. I mean, share buybacks is a very efficient tool for returning capital to shareholders. And Navigator is in a position where it's generating good cash flow. Our balance sheet is strong. So it's a very valid question you're asking here. Last year, we bought back $50 million worth of shares plus some after each quarter. And we think that worked well for Navigator and for Navigator shareholders.

And we do have authorization to do more with the -- yes, about $20 million extra authorization that we have. So it is clearly something we're looking at. We also have a stated goal of taking part in consolidating our segment here. and we are expanding the terminal as we just discussed. And that will require more ethylene vessels to service the new terminal expansion here. So for us, I mean, it's really for us to plan out what we are looking to deploy in terms of capital of CapEx and schedule it well. So it is a great tool for us, and we just need to get the timing right.

Climent Molins

Makes sense. That's all from me. Thank you for taking my questions and congratulations for the quarter. Thank you.

Randy Giveans

Don't see any other hands. So we have one question coming in on the chat air. Broker assessments for spot rates have shown a strong start to 2024, but with the recent dip lately as shown on slide 17, how have rates been for you or recent pictures? And do you think the second quarter average TCE will exceed the first quarter. Oeyvind?

Oeyvind Lindeman

We don't normally give guidance for earnings for the next quarter. But what we can say is, and we mentioned in the prepared remarks that the ethylene ones is fairly accurate there, about $40,000 a day, and that's the green line on that page that the question was referring to. On the semi-refrigerated and fully refrigerated Handysize assessment has dipped, but also, as I mentioned in the prepared remarks that what we see in our ships and the contracting and renewal of those, those are higher than what you see on that graph.

And I think the reason why the graph is inaccurate in the sense is that the market is illiquid. It's only 127 ships on the water. And all of those 12-month time charges are not fixed every week. So is a little bit imbalance there. But what I can say is that we are seeing more positive numbers than what that graph is showing. I hope that answers the question.

Randy Giveans

It sounds good. All right. I think that is the conclusion of our Q&A. So thank you again for joining us on today's call. We'll certainly be around in the coming days and weeks, if you have any follow-ups, and we hope to see many of you on Tuesday, June 25, at the New York Stock Exchange. Have a wonderful day.

**Load-Date:** May 17, 2024

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