

# **Navigator Holdings Ltd. (NVGS) Q2 2024 Earnings Call Transcript**

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**Body**

Navigator Holdings Ltd. (NVGS)

Q2 2024 Earnings Conference Call

August 15, 2024, 10:00 AM ET

Company Participants

Randy Giveans - EVP, IR and Business Development

Mads Peter Zacho - CEO

Gary Chapman - CFO

Oeyvind Lindeman - CCO

Conference Call Participants

Ben Nolan - Stifel

Omar Nokta - Jefferies

Climent Molins - Value Investor's Edge

Kristoffer Barth Skeie - Arctic Securities

Presentation

Operator

[Abrupt Start]

Randy Giveans

And myself, Randy Giveans, Executive Vice President of Investor Relations and Business Development in North America.

I must advise you that this conference is being recorded today. As we conduct today's presentations, 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, August 15, 2024 and are subject to material risks and uncertainties. Actual results may differ significantly from our forward-looking information and financial forecasts. 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

Good morning and thank you all for joining this Navigator Gas earnings call for Q2 2024.

Please turn to Page 3. To begin with, I'll review the key data on our Q2 '24 performance, and then I'll go over the outlook for the rest of the year. Gary or even Randy will then bring more detail and analysis. Yet again, we generate more revenues during the quarter with operating revenues up 8% compared to the -- both the same period in 2023 and also Q1 of this year. This was driven by both higher rates, but also strong utilization.

Adjusted EBITDA for Q2 set yet another Navigator record of $78 million, which is well above the EBITDA of $69 million earned in Q2 of last year. The balance sheet is strong with the robust cash position even after we repaid on our debt facilities. We continued deploying capital into our ethylene terminal expansion and we also bought back shares.

The return of capital continued in Q2 with both the $0.05 fixed dividend and the share buyback up to now in combination 25 of -- 25% of net income. This will continue after the Q2 result, and in addition, you probably also noted that during Q2, we bought back 3.5 million shares from BW Group for a total of $51 million at $14.52 per share.

Commercially, we continue pushing up rates and secured average Q2 TCE rates of $29,500, which is 9% higher than the same period last year. We achieved utilization above 93%, which is high and more than 4% above the same period last year. We are pleased with the direction and continued improvements in our commercial results across rates and utilization and thereby our operating revenues.

Throughput at our joint venture ethylene export terminal was down at 231,000 tons for the quarter and Oeyvind and Randy will provide a bit more context to this in a few minutes. The expansion of the terminal continues on track for completion in Q4 2024 and with progress payments that are continuing.

We have, for some time now, talked about the significant opportunities lying ahead for Navigator with the transportation of CO2 and clean ammonia. So we are very pleased to have announced progress on both fronts. Within ammonia, we've entered into an MoU with Uniper, and within ammonia, we've committed a small but important investment into Ten08. None of these will absorb or produce significant cash flows in the near term, but both are paving the way for new, potentially very significant markets for Navigator.

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We remain confident about the outlook for our business for both the near, mid and long-term. We expect utilization to remain near 90% in Q3 and we continue to renew our expiring time charters at higher rates. So with solid demand for transportation on handysize gas carriers, we see older vessels being sold out of international trade and limited supply from newbuildings in our segment, we expect this to continue.

So with that, I'll just pass it over to you, Gary, now so you can provide a little bit more detail on the financial result. Go ahead.

Gary Chapman

Thank you, Mads, and very good morning or afternoon to everyone.

Our second quarter 2024 results have continued our progress with, again, some really positive results and another new record high adjusted EBITDA, as Mads mentioned.

On Slide 6, our total operating revenue was $146.7 million in the second quarter of 2024 with strong utilization of 93.4% against 89.3% for the first quarter of 2024, and boosted by still stronger time charter equivalent rates that were on average $29,550 per day in the second quarter, compared to $28,339 per day in the first quarter of 2024 and $27,241 per day in the second quarter of last year, 2023.

In the second quarter of 2024, our vessel operating expenses were held steady at $43.5 million despite the larger number of vessel drydocks that are taking place in 2024 and depreciation was principally in line with the previous quarter at $33.3 million.

We incurred some additional non-recurring general and administrative costs in the quarter related primarily to the secondary public offering of 7 million common shares by the BW Group, of which we concurrently bought back 3.5 million of those shares and they were cancelled.

In the second quarter, we also saw a swing in our non-cash unrealized movements on our non-designated derivative instruments compared to the first quarter of 2024, this being related to movements in the market valuation of our long-term interest rate swaps over the quarter, and which movement turned negative, thus impacting our accounting net income figure by just over $4.7 million, but which had no impact on our cash or liquidity.

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. Then overall, net income attributable to stockholders of Navigator Holdings was $23.2 million, with a basic earnings per share of $0.32, an adjusted net income, which excludes those unrealized gains and losses on derivative instruments and any vessel sales was $24.8 million or $0.34 per share.

Ethylene terminal throughput volumes in Q2 2024 were 230,857 tons, resulting in a contribution of $4.7 million from our ethylene terminal joint venture, and Randy will talk some more about the terminal shortly. As Mads mentioned, our new record adjusted EBITDA was $77.6 million in the second quarter, coming from robust available ownership and earnings days, which translated into strong vessel utilization and combined with generally increased charter rates.

Our balance sheet shown on Slide 7 remains very strong, with a cash and cash equivalents balance of over $138 million at June 30th, 2024, and that's despite paying out $87.9 million for scheduled loan repayments and share buybacks in the second quarter, plus $16 million in progress payments for our ethylene terminal expansion project. Our total available liquidity at June 30th, 2024 was $167 million, and we currently anticipate further robust cash generation from our operations in the third quarter of 2024.

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As already noted, as part of our share buybacks, we repurchased and then cancelled 3.5 million of our common shares in a secondary offering from the BW Group in June at a cost of $14.52 per share, which was a total cost of $50.8 million. We believe this transaction was highly accretive to the company given our underlying net asset value is currently over $25 per share and we were pleased to be able to complete it.

On Slide 8, we were also pleased to report that on August 9th, 2024, we entered into a new six-year secured term loan and revolving credit facility of up to $147.6 million, which is to be used to refinance our existing March 2019 secured loan facility that matures in March 2025 to fund the repurchase in October 2024 of the Navigator Aurora pursuant to our existing October 2019 sale and leaseback arrangement, and for general corporate and working capital purposes.

The facility releases up to $45 million in additional liquidity to the company and we've negotiated improved terms over our existing 2019 facility, including a new lower margin at 190 basis points, and which rate is significantly below the cost of our existing sale and leaseback arrangement.

We're also very pleased to say that the margin of 190 basis points includes a sustainability-linked adjustment of 5 basis points, reflecting our continued commitment to concentrating our efforts on the environmental impact of our fleet.

We then have two debt maturities, our unsecured bonds and another bank facility, both due in just over one year's time in September 2025, which refinancings were already planning and which may result in positive liquidity events for the company. And we'll provide more updates on those as they progress.

On Slide 9, our leverage remains very comfortable with net debt to adjusted EBITDA at 2.3 times for the 12 months to June 30th, 2024, and our net debt to capitalization was just 31.2% as of June 30th, 2024.

We're continuing to reduce our debt with more than $100 million of average annual scheduled debt amortization payments during 2024 through 2027, as you can see on the graph. And within our refinancing work streams, we're looking to target further reductions in the average cost of our debt.

We do expect that some of our cash will be needed for the remainder of our ethylene terminal expansion project unless and until we finance the project later in the year, and as well for other projects and investments that we're considering that will enhance shareholder returns.

As we mentioned in previous earnings calls, there are 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 remain an active steward of the business' capital.

On Slide 10, we outline our latest estimated cash breakeven for 2024 at $20,800 per day, which shows a slight increase of $100 per day compared to the previous quarter estimate, but which figure is all in and includes our scheduled debt repayments and our heavier drydock schedule this year.

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Even considering this with such a breakeven level relative to today's charter rates, recalling our average TCE for the second quarter of 2024 was $29,550 per day, it will enable Navigator to generate a very positive EBITDA with significant headroom throughout the shipping cycle.

As we like to present on the right is our daily OpEx guidance for 2024 across our differing vessel size segments, ranging from our smaller vessels to our larger, more complex ethylene vessels. And following is guidance for the third quarter of 2024 as well as updates for the full year across vessel OpEx, general and admin cost, depreciation and net interest expense, all of which are materially unchanged from the guidance given in our first quarter 2024 presentation.

Slide 11 outlines our historic quarterly adjusted EBITDA, showing this second quarter's record high figure and demonstrating yet again the very positive and consistent rates -- results we have been able to report for many quarters now. And despite a currently narrowing ethylene arbitrage, we expect this trend to broadly continue in the third quarter of 2024.

On the right side of Slide 11, we show our historic adjusted EBITDA bar for 2023, our last 12 months' adjusted EBITDA, and an annualized adjusted EBITDA based on this second quarter result. In addition to the EBITDA bars, then to the right, provide some sensitivity and illustrate an increase in adjusted EBITDA of approximately $18 million for each $1,000 incremental increase in average time charter equivalent rates per day.

Then finally for me, on Slide 12, an update on our vessels' scheduled drydocks. We have 18 vessels scheduled for drydocking during 2024, of which six were completed in the first half of the year. We then expect a total for the 18 vessels of 504 off-hire days and total drydocking CapEx anticipated of $29.3 million, all of which is scheduled, fully costed, and included in our cash flow plans.

As we've set out before, some further detail on the expected timing and costs of these drydocks is shown below, noting that three more vessels are scheduled to have completed their drydock by the end of August, leaving seven more to complete during the remainder of 2024.

Also, as an important reminder, we're taking these drydock opportunities to install energy-saving technologies on those vessels at a total cost of around $4.8 million with many of these technologies having a very short payback period. Then finally, we also provide here some guidance on 2025 and 2026 scheduled drydocks for those that are interested, which guidance remains very similar to previous figures we've disclosed.

Overall, Navigator has had a very good quarter both operationally and financially with record adjusted EBITDA, high TCE rates and utilization. We've completed one key step in our refinancing plan and we're looking forward to keeping our momentum for the remainder of 2024 and beyond.

So with all that said, I'll now hand over to Oeyvind to talk about our commercial position and outlook. Oeyvind?

Oeyvind Lindeman

Thank you, Gary, and good morning and afternoon all.

Let's turn to Slide 14. Our earnings days continue to be strongly supported by ammonia and petrochemical shipping demand. We have recently had an uptick in vessels carrying ammonia and we are now back up to employing double-digit 10 vessels in this growing trade. We expect demand for ammonia shipping to continue to be strong for the foreseeable future.

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Significant growth for ammonia transportation is forecasted towards the end of the decade and we are proactively positioning ourselves today both on the maritime side as well as the infrastructure side to be a major mover and shaker in this emerging market. Randy will shortly give some color to our recent clean ammonia announcement.

Petrochemical demand remains relatively robust, providing 45% of our total earnings days. U.S. exports of ethylene and ethane are the major commodities within this category. It is also nice to see that butadiene exports from Europe to Asia has returned. Long-haul butadiene provides positive support to the semi-refrigerated part of our fleet.

The second quarter utilization at 93.4% is unseasonably strong. In fact, it is the highest second quarter utilization we have seen for a very long time. The top left graph on Page 15 is illustrating this point. The green dotted line represents our 2024 utilization today. The gray line represents our five-year average utilization and the gray shaded area represents our historic high and lows throughout those years. And as you can see, we're pretty happy with the countercyclicality for our second quarter, and the high levels continued into the third quarter with July coming in at just above 92%. This is well above the average, which puts us in a good trajectory for the next months.

The bottom right graph is showing our fully refrigerated vessels. They're all on time charters and are all employed in the ammonia trade and we expect that to continue. The bottom left graph is showing the employment of our semi-refrigerated fleet. Here these are mostly employed in regional distribution of LPGs. These vessels are also recently attracting extra demand from both ammonia and petrochemical customers such as butadiene.

The top right graph is showing 100% dedication to petrochemical cargoes from our ethylene-capable fleet. The vast majority of the cargoes are exactly that, ethylene and ethane exports from the U.S. The utilization for the ethylene fleet is, however, somewhat under pressure in the near term due to a couple of external factors which we will address on Page 16.

Before we get into the short-term impact of Hurricane Beryl on Page 16, it is important to highlight the continued rise of natural gas liquids production in the United States of America. This is hugely positive across the board. One barrel of natural gas liquids production typically consists of 88% of gases that we do transport on-board our vessels.

And as you can see on the graph to the left, it's on the rise. Excess ethane production should translate to competitive ethylene production and price. Fundamentally, this is still the case in North America. However, there is one element unique to the region that sometimes causes disruptions and that is the hurricane season.

Now, this year, Hurricane Beryl made landfall in Houston area beginning of July. It caused major power shortages for many, many local residents. It also disrupted the production of ethylene. Most of the ethylene producers reduced capacity in anticipation of Beryl. They can easily ramp up again, but we can see a clear short-term impact.

The graph on the right will give an idea of the issue. The light blue area, which represents U.S. ethylene production shutdowns, peaked when Beryl made landfall. And at the same time, which is pretty logical, U.S. ethylene inventory levels, showed in the dark blue line, hit a low. While we and industry experts forecast both production and inventory levels to revert back to normal over the next couple of months, the laws of supply and demand are at play influencing ethylene pricing in the near term.

Updated ethylene prices are illustrated on Page 17. Here we can see the impact clearly by following the gray line in the left-hand graph. The U.S. ethylene price has increased by about $150 a ton recently. Asia pricing remains flat. $150 less available for arbitrage is challenging for exports economics to Asia.

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This is why we see most of the current ethylene volumes being shipped to Europe as the landed price is on par with Asia, but requires less freight to service. Whilst the ethylene price has risen, price of ethane has fallen. It is dirt cheap. Historically, ethane exports picks up any slack from ethylene and we see increasing proportion of ethane cargoes on our fleet, which is good.

The updated Clarksons broker 12-month time charter assessment for the various segments are shown on Page 18. Compared to last quarter, the very large gas carriers have reduced the most. A small adjustment is seen on the ethylene vessels due to the short-term issues we just discussed and the other handysize segments are seeing a small uptake. So all in all, pretty robust. The fundamentals remain very healthy. As mentioned in the outlook by Mads, our time charter renewals have all been completed and are being completed at higher levels compared to last year.

Turning to Page 19, the handysize fleet supply remains unchanged. It has 7% on order and 21% of the existing vessels are above 20 years of age. All this is very manageable. Apart from the short-term aftereffects of Hurricane Beryl and increase in U.S. ethylene price, the handysize fundamentals are robust and we have entered Q3 on a general positive note. There are many exciting growth projects in the pipeline and Randy will talk to some of these right now.

So Randy, over to you.

Randy Giveans

Thank you, Oeyvind.

So yes, following up on several announcements we made in recent months, we want to provide some additional details on those developments regarding some of the announcements. With that, turning to the next Slide, 21, we're pleased to announce our return of capital for the second quarter of 2024, but before we get to that, I want to first highlight that during the second quarter, we repurchased and canceled 117,000 common shares of NVGS in the open market, totaling $2 million for an average price of a little over $17 per share.

Additionally, in June, we repurchased and cancelled 3.5 million common shares of Navigator directly from BW Group for $51 million or $14.52 per share. To note, this transaction was done at a discount to the prevailing market price, had no impact to our free float, and has actually helped increase our trading liquidity throughout this summer.

So now, looking ahead, in line with our recently announced return of capital policy and the illustrative table below, we're returning 25% of net income, or $5.8 million, to shareholders during this third quarter. The Board has declared a cash dividend of $0.05 per share that's payable on September 24th to all of shareholders of record as of September 3rd, equating to a quarterly cash dividend payment of $3.5 million.

Additionally, with our shares still trading well below our NAV of well over $25 per share, we'll use the variable portion of the return of capital policy for share buybacks. As such, we expect to repurchase another 2.3 million of NVGS common shares between now and quarter-end such that the dividend and the share repurchases together equal that 25% of net income, $5.8 million. As seen over the past few years, and especially again this past June, returning capital to shareholders will remain a core priority for us.

Looking at the next Slide, 22, following up on our previous announcement regarding the expansion of our ethylene export terminal, the project continues to progress nicely. Engineering is now complete, construction is well underway, and the expected completion date remains mid-December 2024, so four months from now.

The project remains on budget with total capital contributions required from us to be around $130 million. To date, we've paid $59 million, and the remaining CapEx is expected to be paid from cash on hand until potential new financing agreements are completed later this year.

And as you can see on the bottom left chart, throughput remained near nameplate capacity throughout June, but there was a dip in July and that's due to seven ethylene crackers along the U.S. Gulf Coast experiencing planned or unplanned outages coupled with the negative impacts of Hurricane Beryl.

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Now, as you've seen in recent years, the third quarter is seasonally the softest quarter for the throughput, but the contracts are take or pay. So the annual cash flow over time remains firm despite quarterly movements.

Now, as for contracting the expansion volumes, the second and larger new offtake for the multi-year contract is likely to be signed in the coming weeks as the customer has agreed to the commercial terms and we continue to expect that additional capacity will be contracted in the coming months.

Now, turning to our two most recent press releases, starting on Slide 23, our BlueStreak CO2 joint venture with Bumi Armada remains active in supporting the carbon capture and storage efforts in the U.K. and North Sea, specifically targeting stranded emitters with no pipeline takeaway capacity.

Now, as seen in the bottom picture, our primary component of this joint venture will be to transport the CO2 from the shore-based storage tanks to the floating storage and injection units, FSIU.

Last month, we entered into an MoU with Uniper to help meet the U.K. government's aim of decarbonizing the power sector by 2030. The partnership has agreed to collaborate to explore the feasibility of implementing a jetty-moored floating liquid CO2 storage facility and liquid CO2 carrier solution for the export of CO2 from Uniper's proposed carbon capture project on the Isle of Grain in the U.K.

By bringing the right people to the table, we can leverage our collective expertise to design a sustainable and long-term CO2 shipping and storage value chain, and this adds value and reduces environmental impact, aligning perfectly with our sustainability goals.

On Slide 24, after a deep vetting process and driven by our firm belief in the immense growth potential of clean ammonia, we recently announced a $2.5 million co-investment alongside lead investor Attis Clean Energy into Ten08 Energy, an early stage clean ammonia developer with an export project along the U.S. Gulf Coast of Texas. The first phase of the project will consist of a single train producing 1.4 million tons per year of ultra-low-carbon ammonia with an expected completion date in late '29 or early 2030.

This initial investment is development capital for the pre-feed and feed studies and it gives us an option to make a larger investment at FID of up to $100 million of preferred equity towards construction of the terminal and export infrastructure for the project with potential further investments in subsequent expansions.

Now, as evidenced by our numerous vessels currently transporting ammonia, our recent investment in the Azane Fuel Solutions for ammonia bunkering, our approval in principle for an ammonia-fueled vessel and our recently performed first ship-to-ship transfer of ammonia, ammonia is already and will continue to be a key focus for Navigator Gas.

And the U.S. Gulf will be a key producing region of clean ammonia, which will then obviously be exported for high demand areas around the world such as Asia for co-firing coal power plants, Europe for cracking into hydrogen, and then using for power generation, and across the globe as a clean bunkering fuel for ships as well as to displace conventionally produced ammonia-based fertilizer.

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So we're very excited to take this first step into a project that should be a meaningful contributor to our long-term ammonia business. Also, both the BlueStreak joint venture and this Ten08 investment are helping us build some optionality and to ensure more stable cash flow in the coming years.

Finishing on Slide 25, I want to personally invite all of you to our upcoming 2024 Analyst and Investor Day here in Houston, Texas in a few months from now. On Tuesday afternoon, November 12th, we'll be hosting our Morgan's Point tours in the ethylene export terminal and one of our vessels. So just take a look at that picture to the right and imagine yourself climbing aboard that beautiful ethylene carrier. Wow.

Later that evening, the management team and some members of our Board of Directors will host a dinner for our analysts and investors. The next morning, on November 13th, we'll host some presentations covering current market trends, a financial update as well as our medium-term strategy. Then we'll have a lunch and an appreciation event for all of our analysts, shareholders, customers, partners, and fortunately, unlike today's heat, the weather will certainly be better in mid-November. So hope to see you then.

With that, I'll now turn it back over to Mads for some closing remarks before we get to Q&A.

Mads Peter Zacho

Good. Thanks, Randy.

And yes, so I'll just summarize today's presentation and when we look at the financial results for Q2, it was great to see that we posted record quarterly adjusted EBITDA of $78 million and adjusted net income of $25 million. We have the strongest balance sheet in the company's history, as illustrated by the low leverage ratios and the robust cash position, and we'll continue to pay quarterly cash dividends and buy back shares. And as you saw, we did a large share buyback of $51 million or 5% of shares out directly from BW in June.

We pushed forward and completed our refinancing project with strong appetite from new and existing lenders. And if you look at our shipping business, the average fleet utilization was 93% for Q2 and the average TCE rate for our vessels was just above 90, 29,500 per day. So that's the highest that we've seen in more than eight years.

Semi and fully refrigerated time charter extensions continue at higher levels compared to the same period last year, and the supply picture remains attractive with a small handysize order book and an aging global fleet.

On the energy infrastructure, ethylene export volumes through the ethylene export terminal stay at firm levels, and the terminal expansion is on time and on budget with completion set for end of this year.

BlueStreak entered into a memorandum of understanding with Uniper to help meet the U.K. government's aim of decarbonizing the power sector. And lastly, we just announced the $2.5 million co-investment alongside lead investor Attis Clean Energy into Ten08 energy.

So as you can see here, it's been a really busy summer. We've remained committed to developing Navigator at a high pace, and I hope you can see that all the initiatives that you -- we are putting in front of you here, that they are very well aligned with the strategy that we previously discussed with you.

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So I'd say just thank you very much for listening in. And back to you, Randy.

Question-and-Answer Session

A - Randy Giveans

Thank you, Mads. So yes, operator, we'll now open the lines for some Q&A. [Operator Instructions] So first question, your line is open.

Ben Nolan

Is it me? Can you hear me? This is Ben Nolan.

Randy Giveans

I hear you, Ben. Ben, how's it going?

Ben Nolan

All right, appreciate it. Thanks, guys. So I've got a couple of questions. The first is, Oeyvind, you were talking about the percentage of the fleet that's doing -- the substantially larger percentage of the fleet that's doing ammonia now. I was curious, is that a function of there just being a lot more ammonia being transported around the world? Or is it you're taking share maybe from other categories or have trading patterns changed? Just curious sort of how you think about appreciating that longer term there is going to be more ammonia, but today, what's driving that push into a greater percentage of the business being ammonia?

Oeyvind Lindeman

Yes. 10 vessels trading ammonia is quite significant. It's great for the business. It's not that we are taking market share from anybody else, but there are changing trade lanes requiring handysize vessels, because they are exactly that. They are handy for plugging holes, servicing, optimizing the different producers and the consumers of ammonia. And it's also a growing market. The world needs more fertilizers in general. So new plants are coming up.

So it is increasing growth, which we're participating in and taking advantage of and that will continue. As you mentioned, a great, significant growth will come in a few years, but I think we are starting from a great place today with 10 vessels, which is quite a lot for any ship owner to be servicing that emerging industry.

Ben Nolan

Okay. All right. Appreciate that. And then I guess for my second question, when thinking about the new CO2 businesses and the new ammonia infrastructure, appreciating that those are early days and you don't have quite line of sight on exactly how those will play out yet, but as you think about planning and strategically where you are, what do you think is a realistic timeframe under which you think actually there would be capital calls and need to deploy capital? I mean, is that a '25 kind of event or are we a number of years away from sort of those really sort of being greenlit and capital needing to be put to work?

Mads Peter Zacho

We have a pretty active business development portfolio, and there are also a number of projects that we haven't talked about because they are not ready to be talked about because they haven't materialized as Ten08 and BlueStreak have. When you look at Ten08, I think we've been clear on the timeline here that we're talking '29 to '30 before the operations of the facility there, and that means that the shipping investments don't need to happen anytime soon. So that'll be matched to ensure that they are in place at the time of exporting the first ammonia if that goes ahead.

I think when it comes to BlueStreak, it's also here a little bit uncertain exactly when it's going to happen. It's going to be pushed towards the end of this decade, but even then, there may be other projects that come into life on the ammonia side or on the CO2 side that can have a shorter fuse than what we just describing here. So it could well be that there would be newbuilding contracts to be matched against chartering contracts with customers on the other side, potentially long-term contracts that would happen for ammonia or for CO2 already within the next year or two.

Ben Nolan

All right. I appreciate it. Thank you, guys.

Mads Peter Zacho

And just to make clear here, Ben, that we would not be building those ships on speculation. I mean, we would be going into the ammonia segment and into the CO2 segment, if we have credible counterparts for long-term contracts.

Ben Nolan

No, understood. Yes. Thank you.

Randy Giveans

Thank you, Ben. Next caller, your line should be open. I see your hand up here, Omar.

Omar Nokta

Hi, Randy. Thank you. Well, thanks for the time and clearly the very detailed presentation. You guys have reported just another strong quarter. It looks like it just continues with just the strength in earnings and cash flow generation. So nice to see that the average charter rate at $29,550, it continues to climb, and it's up from $28,300 from the first quarter. It went higher despite maybe some of the indices suggesting that term rates came off just slightly, but then also you had VLGCs coming off.

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I know obviously you're not in that market and you're carrying a lot more specialized cargo than just straight up propane, but we did see the rates come off for the big ships. So historically we would have thought maybe rates would have -- you would have felt some pressure in the handy segment, but you didn't and in fact rates went higher. So just wanted to get a sense from you, what drove that, I guess, relative outperformance on the part of your fleet.

Oeyvind Lindeman

I think, Omar, we are not 100% insular to what is happening in the VLGC market. However, we do trade on different premises and fundamentals. On the LPG side, which is the direct competition with VLGCs, because that is what they carry only, they are completely different trades.

So our -- we showed on a graph there on our semi-refrigerated side, most of our vessels in that -- with that capability are trading LPG and that is regional distribution, and that has not seen the decline or pressure, as you have -- you just mentioned, that the VLGCs have. So it's more to do with the trade, not necessarily that there is direct competition from above at the moment and we're not really seeing that into July either. So that is positive.

Omar Nokta

Okay. Thanks, Oeyvind. And just kind of following up on your comments in the presentation, you walked through the impact of Hurricane Beryl and that's led to a bit of a correction on the inventories that expect -- you expect it to kind of smooth out or normalize as we get to winter. I guess just in terms of impact here in the third quarter, how do you think that affects both the shipping business and then the terminal business?

Oeyvind Lindeman

I think on the terminal side, as Randy mentioned, they're on take or pay. So with time, it shouldn't really matter. Now, of course, from the shipping side, we are interested in physical volumes being exported. And if you see on one of the throughput slide that we had, July is very low. However, our utilization across the fleet was above 92%, much higher than average for that period of time.

So what is really happening is that we are not exporting ethylene on the ships. We are doing some and that goes to Europe. However, ethane is generally picking up the slack. And if we have the freight hat on, we'll take ethane any day, and it's a great cargo connecting the U.S. with the world in terms of petrochemical production. So that is what is really happening.

On the ethylene side, we think it's a very short-term thing. There was no damages at any of the crackers because of the hurricane. So these operators are pretty savvy. They turn them down in anticipation to avoid any damage. So they can easily turn it back up, which they are slowly doing now in August. So that will correct itself, and you'll see ethylene exports to climb in parallel with that. That is our expectation. So it was a short-term blip because of this hurricane thing.

Omar Nokta

Okay. Thank you. And maybe just one final one, Randy, to you perhaps. You mentioned obviously the terminal expansion and that's underway, and you entered into the first offtake agreement and expect a second one here fairly soon. So congrats on that. Just in general, are you able to give any color on that first offtake agreement in terms of whether duration or portion of the facility? And then should we assume kind of profitability in line with the existing contracts? Yes, any color you can give.

Randy Giveans

Yes. It's multiple years, right? So it's not just a one-year contract, but we don't want to go into the specific duration. Pricing is at least as good as it was for that extension. And then in terms of volumes, it's slightly more than the initial, but again, won't give you the number, but the size of it has gone up a little bit from what they had been of late.

So again, the next one's going to be bigger and longer as well, and then we expect incremental offtake contracts by the time the completion is set into mid-December. So by Jan 1, when a lot of these offtake contracts are going to commence, we expect the majority of the expansion capacity to be sold.

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And again, one more color on the timing. So all the take or pay contracts, if they actually take the cargoes, we get that revenue in the quarter. If they don't, there is some deficiency lag. So they might have a quarter or two to make up for it. So it's not a one-for-one in terms of a take or pay, but over time, as Oeyvind was saying, we will recoup that kind of deficiency earnings for the terminal.

Omar Nokta

Okay. Got it. Thanks, Randy, for that color. Oeyvind, thank you. Good job, guys. I'll turn it over.

Randy Giveans

Appreciate it, Omar. Next caller, I think your line should be open. I see your hand here, Climent. You might still be on mute here.

Climent Molins

Sorry, can you hear me now?

Randy Giveans

Hi, Climent. We can hear you.

Climent Molins

Sorry about that. Thank you for taking my questions. I wanted to start by asking about the Ten08 investment. You will receive the option to invest up to $100 million in preferred to construct the initial phase, but on potential further investments, would those be as equity or once again as preferred? And secondly, will you have any kind of preference to expel the ammonia volumes with your vessels?

Randy Giveans

Yep. I'll start. Mads, Oeyvind, please join. So, right, for the first investment, up to $100 million, that will be taken at FID. So again, the $2.5 million is for the pre-feed and feed studies, which, again, back to Ben's question, should take about two years. So really the next capital deployed into Ten08 would likely be '26, and then it would extend throughout the construction period, say, three years through '29. So that's $100 million.

For incremental investments, correct, it could be further on the preferred side with kind of a fixed return, potentially some equity upside to it. So we have a lot of optionality with this project, and that was one of the key drivers for this initial investment, was on the optionality.

And in terms of the molecules, yes, we certainly would like to move it, similar to what we do with our ethylene export terminal, right? We don't necessarily -- or we don't produce any ethylene, but we liquefy it and then we move a lot of it. So similarly, on this terminal, on the clean ammonia side, certainly we want to help in the -- terminally in the liquefaction and also on the transportation, but if Oeyvind or Mads want to add some more color, please do.

Mads Peter Zacho

Go ahead, Oeyvind.

Oeyvind Lindeman

That's very straightforward. So some of the offtakers that we are discussing to prefer to have the molecules, the ammonia, the clean ammonia, delivered to their site. And that is where Navigator and Ten08 comes into perfect play, whereby together we can actually provide that service and economics. That then will include vessels, Navigator vessels.

So that is very exciting. Likewise, if the offtaker or the user, the end user, would like to buy from the terminal itself, then of course, we are in an excellent position to align with them to discuss what makes most sense logistically to get it to their place. So all in all, pretty good stuff.

Climent Molins

That's very helpful. And I have another question, more on the modeling side. You've already discussed that throughput on the ethylene export terminal will come under pressure throughout the quarter, but the take or pay contract should soften the blow. Could you remind us what's kind of the quarterly run rate on the take or pay contract?

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Randy Giveans

Yes. So in a range of what we've kind of shown previously, $4 million to $6 million, but again, we will not collect all of that real time, meaning in three quarter - in 3Q, as you've seen in July, if there are, there will be, some deficiencies, we won't collect those deficiencies likely in the third quarter. Right? It'll take another quarter, maybe two quarters beyond that.

So on an average basis, it's 5-ish million dollars. You can look at our chart here kind of on a historical basis, but does that mean in a single quarter it? It might be $3 million and it might be $7 million? Absolutely. So if you look over the long haul, maybe $4 million to $6 million is a good range, but it could certainly go below or above that, depending on the deficiency timing.

Climent Molins

Thanks for the color. That's all from me. Thank you for taking my questions.

Randy Giveans

Thank you, Climent. I believe there's someone else in the Q&A. Oh, here we go. I see your hand. Kristoffer from Arctic. How are you?

Kristoffer Barth Skeie

I'm good. Thank you. What about yourself?

Randy Giveans

Well, thank you.

Kristoffer Barth Skeie

So can you just shed some light on the throughput? I'm not sure if I understood correctly, but what was the terminal that you also operate impacted by the hurricane? And sort of, if that's the case, how long do you see sort of it take for volumes to ramp up because we are seeing on the VLGC side that it take some time?

Randy Giveans

Yes. Oeyvind, you want to --

Oeyvind Lindeman

Yes. I mean, just to be clear, the terminal itself, no damage, no issue because of the Beryl Hurricane. The issue lies with the wider production system capacity in the area. So they reduced capacity, production capacity during July, but at the same time, of course, there was domestic demand and that ate -- dug into the inventory.

So that caused the ethylene price to increase, discouraging ethylene exports to Asia, but European exports remain. So as we mentioned in the prepared remarks, no physical damage. These producers are ramping up because the margins are pretty good. Ethane is super cheap. It makes sense for them to run as hard as they can. So it's not a VLGC parallel. It is a petrochemical thing.

Kristoffer Barth Skeie

Okay, perfect. And in terms of the ammonia investments that you're potentially doing, can you share some color on sort of how you are looking to price such a preferred equity? And you also mentioned that it may be sort of further investments. So can you also take part of sort of the equity in itself so that you get sort of equity upside and not sort of only a bond type of investment into the facility or production facility?

Randy Giveans

Yes. I can start on that. In terms of the preferred equity return, we have not disclosed that, but it's well above our cost of capital. We can probably just leave it at that. In terms of equity, the initial investment, the $2.5 million, there is somewhat of an equity component to that, but for the larger investment, we'd probably prefer preferred, pun intended there, just with the stable cash flows that that provides instead of taking commodity risk or some kind of equity exposure to the project on a larger level.

So for the initial $2.5 million, there's some equity exposure for the larger, up to $100 million, that would be a fixed preferred rate, again, above our cost of capital for sure. And then incremental investments, correct, it could be a combination of preferred equity, maybe some equity, maybe we take some commodity risk upside. So a lot of options in a few years from now.

Kristoffer Barth Skeie

Perfect. That's all from me. Thanks.

Randy Giveans

Thank you. I believe that ends our Q&A. So Mads, final comment?

Mads Peter Zacho

No, thanks a lot for listening in, and thank you to all the good questions that we had. So it's been a good quarter and we look forward to sharing the news as it comes along and as we develop our business going forward. So thank you and have a fantastic day.

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