

# **Stabilis Solutions, Inc. (SLNG) Q4 2023 Earnings Call Transcript**

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**Body**

Stabilis Solutions, Inc. (SLNG)

Q4 2023 Results Conference Call

March 07, 2024 9:00 AM ET

Company Participants

Westy Ballard - President, CEO

Andy Puhala - SVP, CFO

Conference Call Participants

Martin Malloy - Johnson Rice

Barry Haimes - Sage Asset Management

Bill Dezellem - Titan Capital

Presentation

Operator

Welcome to the Stabilis Solutions Fourth Quarter and Full Year 2023 Results Conference Call. [Operator Instructions].

I would now like to turn the call over to Andy Puhala, Chief Financial Officer. Mr. Puhala, please go ahead.

Andy Puhala

Good morning, and welcome to Stabilis Solutions' fourth quarter and full year 2023 results conference call. I'm Andy Puhala, Senior Vice President and CFO of Stabilis, and joining me today is our President and CEO, Westy Ballard.

We issued a press release after the market closed yesterday detailing our fourth quarter and full year 2023 operational and financial results. This release is publicly available in the Investor Relations section of our corporate website at stabillis-solutions.com.

Before we begin, I'd like to remind everyone that today's conference call will contain certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995 and other securities laws. These forward-looking statements are based on the company's expectations and beliefs as of today, March 7, 2024. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected. The company undertakes no obligation to provide updates or revisions to the forward-looking statements made in today's call.

Additional information concerning factors that could cause those differences is contained in our filings with the SEC and in the press release announcing our results. Investors are cautioned not to place undue reliance on any forward-looking statements. Further, please note that we may refer to certain non-GAAP financial information on today's call. You can find reconciliations of the non-GAAP financial measures to the most comparable GAAP measures in our earnings press release. Today's call is being recorded and will be available for replay.

With that, I'll hand the call over to Westy Ballard for his remarks.

Westy Ballard

Thank you, Andy, and good morning to everyone joining us on the call. Let me start by thanking our employees for their many contributions during what amounted to a historic year for Stabilis. Our success was a collective effort that culminated in our first full year of profitability since becoming a public company.

While our full year profitability was an important milestone for our entire team, we remain in the early stages of a multi-year value creation story. You see, not only are we building a profitable clean fueling solutions platform of scale, we're at the forefront of emerging blue sky sectors characterized by significant opportunities for sustained asymmetric growth.

And as we look across the competitive landscape here domestically, we believe we are the only company in the small-scale LNG universe that has built the infrastructure, operational and technical capabilities, and customer relationships, capable of advancing an increasingly sophisticated growth platform that further enhances our unique value proposition and competitive moat.

Looking back over the progress we made in 2023, there were several highlights worthy of note, including the following. Commercially, we continue to shift our business model from commodity spot sales toward longer-duration, take-or-pay contractual revenue. We believe this approach ensures further optimization of our asset base and increases the visibility of cash flow generation, positioning us to opportunistically invest in the people, systems and infrastructure required to support future growth.

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In our marine business, we made measurable strides, where we completed a 6-month LNG bunkering contract in Port Canaveral, Florida, and conducted multiple LNG bunkering operations for a large container carrier in the Port of Long Beach, California. In December, we commenced our previously announced multiyear marine bunkering contract with Carnival Corporation in Galveston, Texas.

Carnival is a pioneering global cruise line committed to the decarbonization of their fleet through the adoption of LNG and alternative fuels, and the first cruise line to introduce LNG-powered cruise ships in North America. Our relationship with Carnival is an important use case that further solidifies our position as a premier provider of comprehensive and scalable marine LNG fueling solutions in the market.

Revenue from our marine customers in 2023 represented roughly 14% of total revenue, and our outlook for 2024 has marine revenue increasing to roughly 1/3 of total 2024 revenue. Beyond Carnival, over the last 2 years, we have engaged in full project development, management, engineering, support personnel, supply and operational services for the successful delivery of more than 2,000 loads of LNG to fuel container ships, cruise ships and offshore supply vessels. And our team's efforts during that period have been impressive, with marine revenue growing at a compounded annual growth rate of 122%.

Looking ahead, our marine strategy will focus on expanding our capabilities directly to the waterfront of high-traffic ports across the U.S. In doing so, we will continue to optimize our portfolio of owned and third-party supply sources, infrastructure and logistical assets to provide comprehensive and scaled solutions to current and future customers.

Along those lines we operate, we continue to enhance our logistical capabilities to become the only small-scale LNG bunker provider capable of delivering multiple modes of delivery to our bunkering customers, whether that be bunker barge to vessel, truck to bunker barge or truck to vessel across all 3 U.S. coastal markets.

This operational and geographical flexibility affords our current and prospective customers, the ability to validate a variety of trade lanes throughout the U.S., knowing they will have a reliable fuel supply with Stabilis. Throughout the year, we're also the beneficiaries -- the strong activity across our other diverse end markets, primarily led by aerospace, electric utilities, mining, and oil and gas sectors.

Within the aerospace sector, our high purity methane continues to become the preferred fuel for space rockets, resulting in sales volumes of LNG to aerospace customers of approximately 3.4 million gallons in 2023, or 7% of total volumes for the year. Entering 2024, we are seeing a significant increase in quoting activity that points to a positive demand inflection within both our marine and aerospace markets.

Given these favorable underlying demand conditions, we expect that by mid-2024, our 2 owned liquefaction plants will effectively be sold out for the remainder of the year and well into 2025. Which begs the question, now what? In answering that question, it's important to remind everyone that our proven ability to rapidly source LNG at scale from our extensive supply network to meet ongoing incremental growth in customer demand, while we produce a variety of opportunities to expand our assets and operations.

On that note, allow me to share a few comments on our capital allocation over the last year, and we are focused entering 2024. In 2023, we deployed more than $7.8 million toward growth-related investments in our marine capabilities by acquiring the critical components for a new LNG production train and associated storage and equipment for waterfront expansion. Even after the significant level of investment in our marine business, we ended the year with more than $11 million of cash and availability under our credit facilities to fund our ongoing operations, and a net leverage ratio of 0.6x 2023 adjusted EBITDA.

Looking ahead, we intend to further optimize our existing asset base and supply chain, while prioritizing scalable investments and incremental new capacity and infrastructure capable of supporting demand inflection within our marine, aerospace and other diverse end markets, both in the U.S. and abroad.

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To accomplish this, we are routinely evaluating a variety of prospective sources of capital with heavy emphasis on focus -- and focus on those partners that know our industry, our company and recognize a significant upside potential in our operating model. Importantly, our decision to proceed with new infrastructure investments will correspond directly with our demonstrated ability to secure long-term ratable offtake to derisk our investment for multi-year period.

With that, I'll turn it over to Andy.

Andy Puhala

Thank you, Westy. Let's move to a discussion of our fourth quarter and full year performance, together with an update on our balance sheet and liquidity exiting 2023. Our fourth quarter 2023 results reflect 18% sequential revenue growth, and the first quarter of profitability since Q1 of 2023. During the fourth quarter, our George West plant returned to full production rates. And that, combined with several new projects resulted in a strong sequential performance.

During the second and third quarters of 2023, operations at our George West facility were impacted by a series of investments we made to enhance our ability to utilize a wider range of [De Gas] stock. With this project work reaching completion in the third quarter, our George West facility operated at 95% of capacity during the fourth quarter and continues to operate at a similar level into the first quarter of 2024.

We generated $1.3 million of cash from operations in the fourth quarter and $6.7 million for the full year. This strong cash generation helped us to fund $10.3 million of total capital investment through the year, while maintaining our strong liquidity position. At December 31, 2023, Stabilis had total cash in equivalence of $5.4 million, together with $5.6 million of availability under our credit facilities. Total debt outstanding as of December 31, was $9.4 million, resulting in a ratio of net debt to trailing 12-month adjusted EBITDA of 0.6x.

Given the recent activity in some of our higher growth target end markets, we are actively considering potential avenues for capacity growth. Our current liquidity position and balance sheet provides us with the optionality to pursue select organic investment as we meet an inflection point in demand for our solutions.

As we look out over the coming years, the exponential growth opportunity for our business may want further capital investment beyond what our current balance sheet can support. For such investment, we are actively evaluating multiple pathways for financing, but our top priority in doing so continues to be protecting and maximizing shareholder value.

That concludes our prepared remarks. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Martin Malloy with Johnson Rice.

Martin Malloy

Congratulations on the strong fourth quarter and progress you made in '23. The first question, just wanted to follow up on some of the topics you touched on in your prior remarks on growth and potential multi-year contracts out there. Could you maybe help us with what kind of milestones we should look for that you would need to have before you pull the trigger on expanding liquefaction capacity on the contractual side, whether it be marine, bunkering or aerospace? And then on the aerospace side, I guess, what's the term out there that people are looking for in terms of LNG supply from a contract standpoint?

Westy Ballard

Yes. Thanks. I think the way to think about this, these 2 buckets, one the marine and the other aerospace, I'll start obviously with the? marine in that we -- I think we've been pretty clear that, as we think about capital deployment, we're not averse to put money to work speculatively. We did that in the third quarter when we bought some of those -- the first train and the associated equipment for almost $8 million of expenditure in marine. So we're comfortable with that.

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But I think for us to really deploy scalable dollars, we're going to want to have some more commercial meat on the bone and ensure that we've got a comfort level with term and ratability for some of these marine contracts. We've had a variety of discussions across multiple ship owners and operators. And if you just look at that kind of wave of demand in 2023 and now into 2024, we've got over 500 ships as an addressable market, and that's up to twofold from just 2 years ago from 15x from 6 years ago. So this market has got a massive, massive demand. And so we're being thoughtful in these discussions.

And so we'd like to have some more certainty, ratability before we start announcing the expenditure. And so look for that, but the freight to also do someone spec as we demonstrated through last year. I think on the space side, those contracts vary. I think that as we think about those contracts, they can be not dissimilar to marine. They can be anywhere from 6 months to 2 years to 5 years. And certainly, we're working diligently to have them as ratable and long term as the economics and operations make sense. So that's really how you should think about the aerospace side of it.

Martin Malloy

Okay. And then a follow-up question. Just wanted to ask about operations at George West, I know you made some investments in '23 to increase the inlet gas. And it looks like from the fourth quarter results that things -- that the utilization is well and everything. But could you just maybe talk about how those investments are playing out in George West?

Westy Ballard

Sure. Yes. So I think if you go back and look at kind of midyear last year, we're in the kind of the 40% and 50% utilization, and that was some of the disruption that happened. We spent not a lot of money, but around $1 million to go ahead and rectify that, and we want to be thoughtful. And I'm proud to say that as well in our rearview mirror. It doesn't mean that we're not -- other things that won't happen. We don't foresee anything that have or will happen.

And so I think the way to think about that is very high, kind of mid-90 utilization right now. It will ebb and flow based upon predetermined downtime for maintenance and the like, but that plant has, in fourth quarter and continues through certainly the first part of 2024, operates in the mid- to high 90% range. It's firing on all cylinders, and we're really excited about that.

Operator

Our next question comes from Barry Haimes with Sage Asset Management.

Barry Haimes

First of all, I wanted to clarify, the money spent on growth capital, was that all marine bunkering equipment? Or was that long lead time long-lead time items for the new train that you've talked about in the past?

Westy Ballard

Yes. So it's -- it's a little both. It was another 100,000 gallon -- the critical components to another 100,000 gallon train. That's -- in a small-scale world, it's modular and so we could theoretically put it anywhere. Right now, we have sight lines on move it to the water for marine bunkering. Doesn't have to, but right now that's the intention. But also part of that $7.8 million was marine bunkering associated equipment, with some pumping skids and some other hard items that further facilitate the bunkering of ships.

And so you could look at it as all marine bunkering or maybe that train, if an opportunity comes up since it's a very modular system, we can move it elsewhere for aerospace or the like. Does that answer your question?

Barry Haimes

Yes. So following up, what would be the timing of the new train coming on?

Westy Ballard

Yes. The time is going to be predicated upon, kind of the earlier question that I talked about with Marty Malloy, and that's really just the cadence of contracts. As you think about really 2 big drivers for this company, the aerospace industry as well as the marine industry, those are kind of nascent blue sky markets and sectors. And so they're in their infant stages of growing. So understandably, those sales cycles take a little bit longer to build out within a new market.

And so we've had several success along the marine front and space front, frankly, with the work we've done in Florida as well as California, and now the Gulf of Mexico. We think that pace of play in marine picks up, we think the pace of play space picks up. Trying to put definitions around that, if that's in the next 2 months or 6 months or 9 months, it's hard to say. But if you just look at the -- in marine, the total number of ships, that's 500 ships now. 3 years ago, it's 200 ships. And 5 years ago, it was 31 ships. And so we think that just the inertia in play now is going to inure to our benefit. But it's hard to put an actual time line on that, but we're aggressively and pedaling rapidly in 2024 with a lot of discussions around those topics.

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Barry Haimes

Right. And then so once you have contract coverage and you make the decision to go forward, how long would it take to build and finish up that train, just how many months are we talking about roughly?

Westy Ballard

Yes. Once we have the contracts on and we disclose that, it's anywhere between 12 to 8 months. It just depends on the critical components. For that first train, it would probably take us about 14, 15 months from the time you say go. If we are starting and had to order new components, it might take 18 to 24 months. But the beauty of it is, unlike the world scale, this can be a very quick shot in the arm.

Also, I think another way to think about this is we've got a critical vendor that's also a large shareholder of our company, and that's Chart Industries. They're a logical provider of a lot of our CapEx. And so I think we would like to get and think that we've got some favorite nation relationships there as well over anybody else. And so it could be, as I mentioned, 15, 16, 18, 24 months. It all depends on the scale and location.

Barry Haimes

Great. That's helpful. And then just 1 or 2 others on different topics. You talked about the movement to contract from spot. Can you give us a rough feel for what that real was contract to spot '23 versus '22? And then if you have any sense for this year?

Westy Ballard

Sure. So I think that when you think about our assets, 2022 was predominantly, if not holistically, spot. 2023, the vast majority of that was spot or short term, think 6 months or shorter type contracts. I think as we go into 2024 and into 2025, think kind of 18-month 4-year type contracts.

Barry Haimes

And that would be for like what percent of your volumes in 2024, do you think, would be under a contract like that versus continued spot business?

Westy Ballard

Yes. So the variability is around our assets versus third party. Third party is a variable. But I'll just speak with our own balance sheet assets and our own plants, I would say that our goal is to have 100% of our assets under some sort of term ratable contracts, whether that's 1- to 4-year type contracts. Versus, in 2022, 100% of that rent was all spot. And the vast majority of it in 2023 was all spot. So what we're doing is we're pivoting from a spot inconsistent, unpredictable market and we're pivoting to consistent better visibility, better backlog and better planning. Better planning because we got better visibility and sidelines on cash flow and also better margins.

Barry Haimes

Great. And then on volumes this year, how much production volume, how many gallons do you think you missed out on, because of the issues at George West? But theoretically, you'd get those volumes back this year.

Andy Puhala

Yes. Barry, we -- publicly, we've discussed it in terms of EBITDA, and we think that the EBITDA impact of that was about $3.2 million, which crossed both Q2 and Q3. So that's how we're kind of thinking about it.

Barry Haimes

Got it. And then last question. Are there -- is there anything happening on the export license that you guys got? Just a little update on whether that's kind of sitting on the shelf or whether there's some plans to utilize that.

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Westy Ballard

There are absolutely plans to utilize that. And the good news is it's a 28-year license. The bad news is there is some short-term deliverables that we need to be thoughtful around. I also think it's hard to contemplate the export right now just given where natural gas prices are in Europe and Asia. But we don't think that's a long-term systemic, and we think that this is a very exciting tool for us to use, in quick fashion, should those markets turn quickly.

And so we are constantly in discussions with offtake internationally that can flip the switch pretty quickly. But it's a really interesting tool, and we intend to leverage and utilize that not only for demand and power generation and the like, industrially in Europe. But also, we think that there are opportunities for us to put that on vessels and utilizing U.S. gas, exploiting that to European markets and bunkering ships there as well. So it's got a lot of utilization -- utility for us.

Operator

Our next question comes from Bill Dezellem with Titan Capital.

Bill Dezellem

In your opening remarks, you referenced the Long Beach marine bunkering project. Would you please talk about the circumstances of that for us?

Westy Ballard

Well, that's a relationship that we are providing -- engineering, management and pumping services to a third party who is then fueling a vessel that's been going on for a couple of years. Also, did that for another container ship, a separate container ship company. Very similar construct, where we were providing engineering and management and service personnel to pump LNG into a container ship on behalf of a third party.

Bill Dezellem

And that third party is the shipping company itself? Or is there a contractor between the 2 of you?

Westy Ballard

Yes. So specific to Long Beach, there is a contractor between us that their responsibility was to source the gas and provide that to the container ship, and we were providing the services, project management logistics supply chain of picking up their gas and delivering it to their customer. That's that construct. That's -- I wouldn't look at that as being the business model across all the markets we're expanding to. But in that specific instance, that was the construct.

Bill Dezellem

And actually could you tell about the expertise that you bring to the equation that in that case that the gas provider themselves was not able to do? Or why they were not able to do that?

Westy Ballard

Yes. I mean a lot of people really kind of stick to their knitting. And I think we've positioned ourselves as a turnkey provider of starting with the molecule and it could be our own molecule, or we can source that for somebody or somebody else can source it on their own, we're fairly agnostic. But we have the technical expertise, the rolling stock in many instances. We have the engineering, the commercial capability. We've got really kind of the entire infrastructure to provide permitting, the licenses, really all some of that qualitative stuff as well and some of the administrative stuff.

We've got a full capability of investment that we've made operationally and -- with our people and systems to deliver a turnkey solution from production all the way to last mile delivery, whether it's in our industrial business, aerospace business or marine business. No one else really has that. No one else has that capability, nor they've invested in that capability, nor they've demonstrated the desire to invest in that capability.

Bill Dezellem

Great. And in the opening comments, you also referenced having both plants essentially sold out. And you mentioned the time frame, and I missed what that time frame was. Would you please repeat that?

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Westy Ballard

Yes. So based upon LLMs we're looking through, we think that it stands the reason that by midpoint this year and well into 2025, our plants will be effectively sold out, Bill.

Bill Dezellem

And today, the 95% capacity at George West, do you consider that sold out? Or do you still see more -- you're really wanting to get up to 100% or more?

Westy Ballard

I want to get up to 100% or more, and I think I'm optimistic that we're going to get there.

Bill Dezellem

Okay. Great. And so when you take both accounts or both plants and put them together, what would be current utilization be running at, say, in the fourth quarter?

Westy Ballard

Yes. If you take George West at kind of the mid- to high 90s and, Andy, Port Allen was kind of in the...

Andy Puhala

Mid-80s.

Westy Ballard

Mid-80s, it's probably the low -- on a just kind of weighted average. It's probably the low to low mid-90%.

Bill Dezellem

Great. That's helpful. And Port Allen, does it have much volatility in its utilization? We just don't talk about it much. Or is it similar to George West that it has its level and it's kind of holding there now?

Westy Ballard

The latter. It's got very low volatility, and we've got a very strong counterparty customer that absorbs the vast majority of that production.

Operator

[Operator Instructions]. We'll take next question from [Spencer Layman].

Unidentified Analyst

Just a couple of quick questions. The current administration in Washington seems to be antagonist to fossil fuels and specifically LNG now with the foreign exports. How do you see that impacting you domestically and maybe in the future? Are you worried about that?

Westy Ballard

I'm not overly concerned about it because if you think about it, just in general, low natural gas prices really are our friend. And if you think about the competitive landscape, certainly, there may be other operating companies out there, but the real competition for me are oil prices for diesel or propane or other kind of maybe types of natural gas. And so we don't think it has a dramatic impact, not the least of which we've already got our permanent licenses for export. So we're already grandfathered in. It might actually work to our benefit to the extent that others are successful.

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But also that's really a world-scale phenomenon. And we think world-scale, you're thinking 1.5 million, 2 million of gallons of production a day. And so Chenieres and Tellurians and all these new kind of greenfield projects that are coming on for export, that's going to, I think, more dramatically impact them than really in the small-scale world where we participate, which is filling rocket ships for space exploration or marine bunkering for large ocean vessels and cruise ships.

Unidentified Analyst

Okay. That sounds good. And then the second question on hydrogen distribution. There's been a lot of talk lately and it's starting to heat up, and I guess they're looking for some kind of guaranteed supply if a big gesture comes in? Are you still -- are you guys still pretty excited about the future of hydrogen?

Westy Ballard

I think we're excited about a variety of things. I don't know, since I joined the company, and I know that there was some thoughts around hydrogen that predates me. I don't know that I'm as bullish on it. I'm not overly bearish, but I think that there are other transitional fuels that are scalable, clean and readily available and secure and cost effective.

The thing about hydrogen, if it's not green, it's not green. And so if it's going to be blue or gray, then you're better off utilizing a resource that is clean natural gas. And so I think the scalability and practicability around green hydrogen is pretty far in the future. So I'm not against hydrogen or methane or on any of it, and we'll be thoughtful around not just LNG, but other fuels -- as marriage fuels and our product solutions offerings, but I think hydrogen is 1 that's a little bit harder for me to get my head around at this point in time, kind of given the visibility that I see.

Unidentified Analyst

Got it. Okay. But you're ready to go when -- if something breaks out?

Westy Ballard

I think it's absolutely something we would consider to the extent that there's scalability in green hydrogen. And if that or methanol or RNG and other kind of alternative clean fuels. LNG is not an instate for us, it's beginning, and so all those other fuels would be fair game. But there's got to be -- they got to be clean, they got to be green and they've got to add incremental value, not only on the BSG side, but also on the scalability as well as cost side.

Operator

This concludes the Q&A portion of today's call. I would now like to turn the floor over to Mr. Ballard for his closing remarks.

Westy Ballard

Thank you, operator, as well as all of those of you that joined us and for your time and interest in our company. If you have any further questions, please contact our IR team, and we look forward to seeing you on the road. Take care.

Operator

Thank you. This concludes today's Stabilis Solutions fourth quarter and full year 2023 results conference call. Please disconnect your line at this time, and have a wonderful day.

**Load-Date:** March 12, 2024

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