Capital Link Shipping
Weekly Markets Report

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IN THE NEWS

Anything MLPs

Contributed by

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Master Limited Partnerships, abbreviated as MLPs, are all over the shipping news lately. In the past few weeks, a future spin-off from Hoegh LNG, dubbed as "Hoegh LNG Partners" filed paperwork with U.S. regulators presaging a $150 million issue. The new entity will own part or full stakes in three Floating Storage and Re-Gasification Units (FSRUs)- which can be thought of as portable plants that gasify LNG, after transport, and then transfer it to the local gas transmission grid. These types of facilities have been deployed
As an aside, the big players in this segment include Hoegh LNG (HLNG-Oslo)- which will be dropping down vessels to the new entity, and also Golar Gas (GLNG) along with its MLP (GMLP), and Excelerate Energy (privately held, at least for now). Experts have agreed that floating re-gas units are a growth segment. Importantly, for investors, the technology risk is low, unlike other tangential activities related to the LNG chain that shipping companies may try to wander into.

Other MLPs in the energy space, operating conventional LNG vessels, include Teekay Gas (TGP), and GasLog (GLOG)- which caught MLP fever earlier this year with its offering of its partnership- GLOP. Another owner in the LNG space, Dynagas (specializing in ice classed LNGs that will participate in the burgeoning LNG trades in the Russian Arctic region), completed its offering of units in its MLP- Dynagas LNG Partners LP (DLNG), in mid June. Teekay's firmament also includes Teekay Offshore Partners (TOO), which operates oil storage and producing equipment, and specialized shuttle tankers.

The pros and cons of MLPs, and similar partnership structures, are well known to shipping people by now. For investors, their most important attribute is the yield that they throw off. From a capital raising point of view, actual MLPs avoid corporate taxes because the investors are partners- rather than shareholders. The ability to save on corporate taxes makes such entities tax efficient for U.S. shipping companies- which would, potentially, actually pay taxes. This ability to pass through cash, which partners receive in the form of "distributions" (rather than dividends) makes MLPs and partnerships (structured with quarterly payouts, but not set up according to the strict dictates carved out by the U.S. Congress in the 1980's- and updated through numerous "private rulings" from the Internal Revenue Service (the U.S. taxing agency) which specify which projects provide income that qualifies for MLP treatment.

The MLPs are especially suitable for big ticket bespoke assets that will be tied to one oil or gas field, or a distributive grid, for long tenors. For specialized LNGs and FSRUs, charters are lengthy. Examples include Hoegh's charters, out beyond 2030, or those of GasLog, where commitments could extend out to 2025 and beyond. A new 13 year charter, with Gazprom, will tie up one of Dynagas's vessels until the late 2020's.

Where sponsors are shipowners like Teekay and Navios (a partnership in the drybulk arena) who then drop deals with shorter term charters, say closer to 3 years duration, down to "daughter" companies, the distribution meme applies, but there is re-chartering risk. In other words, there is a big difference between a truly "long term" commitment, with an investment grade counterparty (ie a charter that will pay and pay) versus a medium term charter (even with a strong counter-party). Obviously, these comments are generalities, and each situation is different.

Participants in the traditional equity analyst panel held at the conclusion of the three day Marine Money event last month (coinciding, almost to the day, with Dynagas MLP's very successful offering), agreed on very little, except on the likely good prospects for entities with partnership structures. At the session's end, when a figurative gun was held to each analyst's head, and each was forced to indicate his view on which shipping sector holds the best prospects, one analyst famously answered, "Anything with MLPs". Wow, that's quite the endorsement.

Shipping's MLP boom is a microcosm of a larger trend- where the MLP floodgates have truly opened up for companies in the movement of extracted or refined energy materials. Some commentators have suggested that tax authorities, who must bless the tax treatment of new MLP's, have taken a "go slow" approach, as entrants have been taking liberties as interpret the rules. Several months ago, the Wall Street Journal offered that: "Energy Spinoffs Are Moving Into Tax Limbo: The IRS Is Wondering if Some Firms Are Pushing the Tactic Too Far". The good news, though, is that transportation of crude and refined products is close to the core for MLPs as opposed to something like, for example, equipment for pumping liquids or hauling sand that's used for fracking. Oil production? Maybe yes, maybe not.

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