

FLNG Earnings Call Transcript

Date: 2025-08-20

Quarter: 2

Knut Traaholt: [Audio Gap] a quick note, we will be using some non-GAAP measures such as TCE, Adjusted EBITDA and adjusted net income. These are supplements to the results reported in accordance with U.S. GAAP, and a reconciliation of these are available in the earnings report. As the limitation to the completeness of the presentation, we encourage you to read the SEC filings and the quarterly report together with the presentation. If you have any questions, please use the chat functions on the webcast or send an e-mail to ir@flexlng.com, and we will cover that in the Q&A session. And with that, let's begin and over to you, Marius.

H. Marius Foss: Thank you, Knut. We sailed in \$86 million or \$84 million, excluding EUAs. The TCE during the quarter ended up at \$72,000 per day. Net income for the quarter came in at \$17.7 million, implying an EPS of \$0.33 per share. Adjusting for the unrealized losses on the derivatives and exit costs for Courageous refinancing, we end up with an adjusted net income of \$24.8 million or adjusted earnings per share at \$0.46. The Balance Sheet Optimization Program 3.0 is progressing according to plan. In May, we completed the \$175 million refinancing of Flex Courageous, generating net proceeds of approximately \$43 million. Today, we are announcing that we will -- that we have signed the documentation of the refinancing of Flex Constellation and the Flex Resolute. We are targeting closing of same in the third quarter, subject to customary closing conditions. Knut will speak more about that later in the presentation. We announced this morning the launch of a share buyback program for \$15 million. Any purchase under the buyback program is made independent of the next dividend considerations for Q3. Lastly, as a reminder, Flex LNG is delisting from Oslo Stock Exchange and last day of listing is 15th of September. We reconfirm our full year 2025 guidance of revenues of \$350 million to \$370 million and TCE per day around \$72,000 to \$77,000 per day. Similarly, we reconfirm our guidance for expected adjusted EBITDA of approximately \$250 million to \$270 million for the full year. The Board has declared a 75% share dividend, resulting in last 12 months dividend of \$3 per share. This implies dividend yield of 12% on a share price of \$25. The dividend is supported by our fortress balance sheet of -- with \$413 million in cash and a solid contract backlog. We have completed 2 of our 4 drydockings so far this year. The drydocking of the Flex Aurora and Flex Resolute was completed in June and early July, respectively, and went straight back to service for the [charterer's X-yacht], minimizing off-hire days. We are pleased that both dockings were completed below our guided max 20 days of off-hire. We have 2 more drydockings in 2025. Flex Amber is currently undertaking a 5-year drydocking in Singapore, where Flex Artemis will enter drydock late in August, also in Singapore. Three of the 4 drydockings are carried out in Singapore, whilst Flex Aurora completed in Europe. On average, the docking cost is estimated around \$5.7 million per vessel, slightly above our previous estimates. The increase is due to higher costs in Europe compared to Singapore. Thank you to our technical team and our crew on board for results and safe execution of the drydockings. A strong backlog results in earning visibility even with 2 vessels open for the rest of the year. We are reaffirming our guidance range of full year 2025 revenues of \$340 million to \$360 million, and we maintain our TCE range of \$72,000 to \$77,000 per day. As such, we are reaffirming our full year 2025 adjusted EBITDA range from \$250 million to \$270 million. Looking at our contract coverage, we are very well covered for the next years with 56 years of minimum backlog, which might grow up to 85 years if the charterers do declare all the options. As you can see from this slide, we have 2 vessels in the spot market. Flex Artemis is

concluding her last voyage on a current time charter and will be redelivered to us late in August. and then go straight into drydock in Singapore. We are now marking the vessel open ex drydock. Flex Constellation has enjoyed some short-term employment since she was delivered to us in late February. She will trade in the spot market until commencement of her 15-year time charter during first half of 2026. In sum, we have a solid contract backlog which insulates us from soft short-term market, and we are well positioned to benefit from increasing LNG volumes coming on stream in the future. We at Flex LNG are committed to maintain a shareholder-friendly dividend policy and delivering shareholder returns. We aim to provide a transparent framework for dividend payouts guided by a defined set of decision factors. This includes earning visibility, contract backlog, balance sheet strength and debt maturity profile. While we maintain our cautious short-term outlook on the LNG market, we remain bullish on the long-term LNG story. We have a very strong charter backlog and maintain a fortress balance sheet. On the back of this, the Board has declared an ordinary quarterly dividend of \$0.75 per share. The dividend will be paid out to shareholders on record 5th of September. The payment date 18th of September for shareholders in New York Stock Exchange and 23rd of September for shareholders on Oslo Stock Exchange. With that, I will hand this over to Knut.

Knut Traaholt: Thank you, Marius, and let's walk through the key financial highlights of the quarter. Revenues for the first quarter came in at \$86 million or \$84 million net of EUAs. This translates into a time charter equivalent of \$72,000 per day. This represents a slight drop compared to the first quarter, which is primarily due to the seasonal softer spot market, impacting earnings for the Flex Constellation who operated in the spot market and Flex Artemis, which is on a variable hire contract. We also had 2 vessels in drydock in the second quarter, reducing the number of operational days impacting the revenues. Revenues for the first half of the year was approximately \$171 million, net of EUAs. On the operating expenses, it came in at \$18.2 million or around \$15,400 per day, and this is in line with our full year 2025 guidance and slightly lower than the first quarter. Vessel OpEx can vary somewhat from quarter-to-quarter due to timing effects. However, we maintain our full year OpEx guidance of around \$15,500. As you will note in the report, we booked \$1.6 million in extinguishment costs for the refinancing of Flex Courageous and a net loss on the interest rate derivatives of \$1.3 million. This includes realized gains of \$4.3 million and unrealized losses of \$5.7 million. This results in a net income of \$17.7 million for the quarter or \$0.33 per share. Adjusting for the unrealized losses of the derivatives and extinguishment costs for the financing, we end up with an adjusted net income of \$24.8 million or adjusted earnings per share of \$0.46. Looking at the cash flow for the quarter, we started the quarter with \$410 million in cash. We generated \$44 million from operations, which was offset by negative working capital movements of \$7 million as well as \$11 million in drydocking expenditures. These expenditures include both costs for the 2 drydockings completed in the quarter as well as prepayment for the cost for the next 2 drydockings scheduled in the third quarter. We paid \$27 million in scheduled debt installments. And as you can see, we realized \$43 million in net proceeds from the refinancing of the Flex Courageous. Net of \$41 million in dividends, the cash balance at the end of the quarter came in at \$413 million. With the closing of the financings announced today, we will add additional \$90 million to our cash balance in the third quarter. Today, we are pleased to announce additional 2 new financings for the Flex Resolute and Flex Constellation. With the closing of these transactions, we are concluding the Balance Sheet Optimization Program 3.0 and freeing up \$132 million in liquidity pushing out the maturity profile and reducing the cost of debt. The new financing of Flex Resolute is a Japanese JOLCO on the same terms as for the Flex Courageous concluded in May. This addresses our first debt maturity in 2028 and push out the maturity date to 2035. The new lease comes with an attractive blended cost of debt of SOFR plus 1%. And as you can see, the repayment profile is slightly lower, and that is due to the fact that Resolute is 1 year younger than the Courageous and the financings are on exactly the same terms. We are also announcing a new 15.5 years, \$180 million bank facility with a margin of 165 basis points for the Flex Constellation. This financing is back-to-back with the 15 years charter contract for Flex Constellation. However, it allows us to make full drawdown now prior to commencement of the contract. For the first 7.5 years, the facility is repaid on an age-adjusted repayment profile of 25 years, while the last 8 years is on a 22 years profile to [0]. We are grateful for the trust and support from our financing partners, both the new coming in for this financing and the ones who have provided the previous financing of these 3 ships. Thank you. On the interest rate

portfolio, we have made no additions to the portfolio since the \$150 million added in April. The overview now includes the fixed rate element for the new JOLCO lease for Flex Resolute, resulting in about 70% hedge ratio in the next quarters. Our swap portfolio is today \$850 million with an average duration of 3 years and fixed at an average interest rate of 2.3%. Since January in 2021, this portfolio has generated unrealized and realized gains of \$131 million. So with the new financings, freeing up additional liquidity, we are fortifying our balance sheet even further. Together with a sound contract portfolio, limited CapEx liabilities and no debt maturity before 2029, this gives us a solid commercial platform and provide us financial flexibility. On this slide, we are again reminding our shareholders on Oslo Stock Exchange about the delisting with the last day of trading on the 15th of September. We encourage shareholders to contact their broker investment adviser to transfer the Oslo listed shares to the New York listed share if you would like to continue the journey with Flex. Following the last day of trading, the shares registered with Euronext Securities Oslo or commonly known as VPS will, for practical purposes, be illiquid due to the administrative burden on transferring the shares after the delisting. So we remind the shareholders to be mindful and take action before the last day of trading. For the dividend, the payment date of the Q2 dividend comes after the delisting date from Oslo. So please be aware that shareholders on record on 5th of September will receive the dividend to the VPS account irrespecting (sic) [irrespective] of the delisting. As already mentioned, we have today announced a \$15 million buyback program, and the program will last until the Q3 reporting in November. This will enable us to buy back shares in both New York and in Oslo. If we will utilize the program and buy back shares, such will be announced in accordance with the rules of the respective stock exchanges. And more details on the program are found in the separate stock exchange disclosure made today. As the program is limited in size and time, our considerations for a dividend for the third quarter will be made independently of any purchases under the program. We find it natural to have a buyback program as part of our financial toolkit, and we will reassess the scope of the program before the third quarter presentation. And with that, I hand it back to you, Marius.

H. Marius Foss: Thank you, Knut. I'm very impressed with your new financing. So thank you to you and your team. Flex LNG is in better shape than ever. The LNG trade from January to July 2025 grew approximately 2% to 245 million tonnes compared to the same period last year. Looking at the export side, the top 3 exports were again U.S., Qatar and Australia, representing more than 62% of the total LNG trades. U.S. LNG exports amounted to 60 million tonnes and increased with more than 20% over year-to-year. There is a lot of new volumes coming to the market from the ramp-up of Venture Global's Plaquemines and the expansion of Cheniere's Corpus Christi. We'd also like to note that Freeport LNG had some downtime during 2024 due to hurricane season, also contributing to a high growth year-to-year in 2025. There is a lot of talk about Russian gas and sanctions. Earlier this year, the EU sanctioned the Baltic LNG Russian terminals, explaining the 5% drop year-to-year. As a side note, we would like to mention that Canada joined the ranks of exporters with LNG Canada shipping the first commercial cargo in July. This has absorbed tonnage away from the spot market, and we expect similar dynamics when the new project comes on stream. Total European LNG import amounted to 74 million tonnes in the January to July period, up 24% from same period last year. Turning our focus to Asia. We see that the more mature region, Japan, South Korea and Taiwan, represent in sum the largest LNG importer with 79 million tonnes, down just 1% compared to the last year. Japan is on track to becoming the single largest LNG importer in 2025 as China, India have reduced their imports in 2025. Chinese imports are down around 19%, whereas India is down 11% year-to-year. There are several factors explaining the drop in imports to China and India. One factor is, of course, the strong demand pull to Europe, as European LNG importers are deemed less price sensitive than many of the growing Asian economics. China and India have turned their attention to coal and LPG. Chinese economics slowdown and U.S.-China trade tension during the first half of the year have also resulted in lower LNG imports. On this slide, we are looking at 2 key dynamics for the LNG demand in Europe. On the left-hand side, you will see U.S. LNG export flows by destination year-on-year. The yellow bars represent Europe and the dark blue in Asia. Europe have absorbed a very large share of U.S. LNG, replacing Russian gas. This has reduced ton miles, which is partly explained in the soft spot market. Now turning to the right-hand side. This chart shows European gas storage levels. Inventories started off at relatively healthy levels, but have since drawn down sharply and bottomed out at around 30%

early this year. The last few months, supply of both pipeline gas and LNG have lifted the current levels to around 70% today. We expect inventories to meet the new EU targets later this year, though European remains exposed for a cold winter. On this slide, we illustrate accelerating contracting momentum and new project FIDs. On the left-hand side, you will see signed SPAs volumes. We continue to see a strong appetite for long-term LNG volumes and the signed SPA remain around 50 million tonnes in the first half of 2025. We see strong activity from Asian buyers. On the right-hand side, we look at the FIDs. While in 2022 and 2023 already delivered a large project, including Plaquemines and Port Arthur. Then in 2027, activity slowed somewhat and as the Biden administration imposed export moratorium for new projects. The moratorium was lifted by Trump administration, and we have seen fresh wave of FIDs, including Cheniere Corpus Christi Train 8 and 9, Venture Global CP2 and Woodside's Louisiana LNG projects. These new projects will absorb a lot of tonnage. Approximately 300 LNG vessels are scheduled for delivery over the next years. You can see that the bulk of fleet growth concentrates to this year, 2026 and 2027. Less than 30 of these vessels are uncommitted and most of new vessels are already tied up to Qatar or other long-term projects. From 2028 onwards, however, deliveries fall sharply with fewer than 10 vessels a year expected beyond 2029. This profile means that while there will be a lot of new tonnage entering the market in the midterm, however, our backlog gives a strong insulation from the fleet growth. The newbuilding prices for modern LNG carriers built in South Korea has stabilized and ship brokers called prices around \$250 million per vessel. The shipyards are quite busy and the slots offered are to be delivered in 2028 onwards. This means that the cost of carry on from financing in the period and supervision will push up the all-in delivered price. We expect newbuild prices to stay at these levels going forward. Term rates for 5 years and 10 years time charter are currently quoted around \$80,000 for delivery within the next 12 months. However, there are very few recent deals concluded. We continue to see a significant number of vessels idling, both steam vessels and tri-fuels. As many as 64 ships or 9% of the active fleet is effectively out of play today. A continued reduction in supply will have tightened effect on the market. For vessels moving into coal layup or the barrier for [reactivating] is costly and slow, in many cases, equivalent to a quiet exit from the fleet. From there, scrapping becomes a natural next step. Shipowners have increasingly offered steam vessel for sale as they roll off the long-term contracts and struggle to compete in today's market. So far in 2025, 8 vessels have been scrapped, matching the total of 2024. With more ships, with more steam vessels now up for sale, this figure is likely to raise. We are seeing a falling age profile of scrapper ships, once averaging around 40 years, it has now dropped to about 25 years. Steam vessels coming off contracts have limited commercial opportunities going forward. Even though the spot market for modern two-strokes have recovered from low in Q1 2025 and is now around \$35,000 to \$40,000 per day, this is below historical norms. We observed from brokers position list that available tonnage is tightening, especially in the Atlantic going forward. This spot market historically firms up going into September. On the right side of this slide, you will see the average and maximum spot rates for September throughout December from 2018 to 2024. Even before the European energy crisis, this period consistently delivered some of the strongest returns of our market. However, last year in mind, we have to be mindful of the number of ships being delivered for the rest of the year. That summarizes today's presentation, and we will now move on to Q&A; session.

Knut Traaholt: Thank you, Marius. And that leads us over to the Q&A; session. And thanks, everyone, who has submitted the questions to us today. Marius, we have a number of questions regarding the upcoming options for the Flex Aurora and Flex Volunteer, both in terms of likelihood of being declared and timing of these options?

H. Marius Foss: Thank you. That's a very good question. We're also waiting for those dates to come. And the only thing I can say today is that the first option is due now in Q4 2025 and the other option is in Q1 '26. So we shall revert once we can say more about that.

Knut Traaholt: And today, we are also announcing refinancing, building up our cash balance. There are questions on how to spend it, but in particular, question for you is on fleet growth and potential new buildings. How do you look at reinvestments in newbuildings today?

H. Marius Foss: I would love to add on new buildings to the Flex LNG fleets. At the time, we did 13 speculatively ordered and have been able to fix them out on term business. Right now, we are exploring with the new and existing partners if somebody would like to join us to order with a contract

attached, which I find is important to go forward if you're going to order more. But ordering a new building on the prices that we have talked speculatively is very difficult as long as the term market not justify a new building investment today.

Knut Traaholt: So then there's also follow-up questions of what we are doing with all the cash that we have on our balance sheet? As a reminder, we have \$413 million of RCF capacity, which we are not utilizing in between quarters, which is an effective cash management way to have that capacity ready when we need it. And I think as Marius also alluded to, we have sort of a strict capital discipline. But one of the ways is reflected in the share buyback program that we announced today, which is made independent of dividend considerations, where we have that capacity to do that without disturbing the dividend. We also have a number of questions regarding the delisting. Many of them are detailed. We've covered a lot in our presentation, but we also recommend you to have a look on our website. There's a dedicated page for the delisting covering all the items that you will need to know, but we also encourage people to contact their broker or investment advisers for the shareholders on Oslo Stock Exchange to look at how to transfer the share to the New York Stock Exchange share before the last day of trading. It's important as following the delisting, the shares registered with VPS will be very difficult to transfer and to sell when we are no longer listed on Oslo Stock Exchange. So please have a look on our website.

H. Marius Foss: Okay. Thank you, Knut. That should be all for today. Thank you for everybody participating on this presentation. We are looking forward to see you back in November for our Q3 presentation. Thank you.

Knut Traaholt: Thank you.