

FLNG Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

H. Foss: Hi, everybody. Welcome to Flex LNG Third Quarter 2025 Result Presentation. My name is Marius Foss, I am the Interim CEO of Flex LNG, and I'm here joined with our CFO, Knut Traaholt, who will take us through the financials later in the presentation. Today, we will cover Q3 results given an update on the LNG market, and as always, conclude the earnings presentation with a Q&A session.

Knut Traaholt: And before we begin, a quick attention to our disclaimer. Today, we will be using some non-GAAP measures such as TCE, adjusted EBITDA and adjusted net income. These are supplements to the earnings report reported in accordance with U.S. GAAP. Reconciliations of these are available in the report. As there are limitations to the completeness of today's presentation, we encourage you to read this together with the quarterly report. And with that, let's commence with today's presentation and over to you, Marius.

H. Foss: Thank you. Let's begin the highlights of the quarter. During the quarter, we said in \$86 million or \$84 million, excluding the EUAs related to the EU emission trading system. The fleet average TCE during the quarter ended up at \$70,900 per day. Net income for the quarter came in at \$16.8 million, implying an EPS of \$0.31 per share. Adjusting for unrealized losses on interest rates, derivatives and write-off financing costs. We end up with an adjusted net income of \$23.5 million or adjusted earnings per share at \$0.43. During the third quarter, we finalized the refinancing of Flex Resolute and Flex Constellation, resulting in an all-time high cash balance of \$479 million. We received a notice from one of our charters that they will not declare the 1-year option on the good vessel Flex Volunteer, leaving her open from mid-January 2026. Flex Constellation is now fully booked in the fourth quarter and first quarter next year when she commenced her 15-year time charter in direct continuation. We expect the full year revenues for 2025 to come in around \$340 million, and we expected TCE for the year about \$71,000 to \$72,000 per day. Adjusted EBITDA is expected to come in around \$250 million for the full year. We are all time high cash balance, no debt maturity prior 2029 and a solid contract backlog. The Board has declared another dividend of \$0.75 per share. This is then our 17th consecutive dividend of \$0.75. Our 12-month trailing dividend is then \$3 per share, implying a dividend yield of 11%. We have distributed close to \$730 million to our shareholders since the fourth quarter of 2021. Looking at our contract coverage. We have 53 years of minimum firm backlog, which may grow to 80 years if the charters declare all the options. As mentioned during the highlights, Flex Volunteer will be relevered from us from current charter in December, and she will go straight into dry dock in Singapore for her 5-year special survey. We are first marketing the vessel for next employment ex dry dock Singapore mid-January. The Flex Artemis has completed her 5-year special survey in September and has since traded in the spot markets. We have fixed our good vessel Flex constellation, and she is now fully employed until 2041. In sum, we have a solid contract backlog with 80% of available days covered next year. This protects us from a softener term market. As we will see later in the presentation, our contract profile is well positioned to benefit the increasing LNG volumes coming on stream. Looking at our guidance for the full financial year of 2025, we expect 2025 revenues to come in around \$340 million. We expected TCE per day of around \$71,000 to \$72,000 per day. Looking at our adjusted EBITDA, we expect TCE to come in around \$250 million. We are committed to maintaining a shareholder-friendly dividend policy and delivering attractive shareholder returns. We have a transparent framework for dividend payouts. These include earning visibility, contract backlog, balance sheet strength and debt

maturity profile. We have made a small adjustment to our set of decision factors. The backlog and visibility is now going from dark green to light green. This reflects having 2 vessels opened in 2026, which we are actively marketing. That said, we have comfortable with 53 years of minimum firm backlog, but we find it prudent to make adjustment to this scorecard. The Board has declared an ordinary quarterly dividend of \$0.75 per share. The dividend will be paid out about 11th of December for shareholders on record by 28th of November. Before handing over to Knut, I want to give a sincere thank you to our crew on board, our vessels and our technical team for completing the 4 scheduled dry dockings in 2025 in a safe and efficient manner. With no LTIs, this is very impressive work, and we have completed all of our special survey in less than 20 days each. The average cost of docking was \$5.6 million, reflecting that we had one drydocking taking place in Europe, which is more expensive than Singapore. In 2026, we will complete 3 dry dockings. Flex Volunteer will be ex-dry dock mid-January, whereas Flex Freedom and Flex Vigilant will be dry docking in the first half of 2026. With that, I think I'll hand it over to you, Knut.

Knut Traaholt: Thank you, Marius. So as mentioned, revenues for the third quarter came in at \$85.7 million or \$83.6 million adjusting for the EAs. This translates into a time charter equivalent of \$70,900 per day. The softer spot market is impacting the earnings from Flex Constellation and Flex Artemis. We have also completed the drydocking of 2 vessels, namely Flex Artemis and Flex Amber in the third quarter reducing the number of available days. While this is offset by Flex Resolute and Flex Aurora returning to service after dry dock. The operating expenses came in at \$18.8 million or around \$15,700 per day. Vessel OpEx for the first 9 months of the year is \$15,500. Hence, in line and spot on with our full year guidance of \$15,500. On the interest expenses, we are now materializing the benefits from lower base rates, improved terms under our financings, interest rate hedge management and utilization of our RCF capacity. Even though we have added new debt, these are done at improved terms. Hence, interest expenses are reduced compared to the previous quarter. But notably, and as highlighted here, the interest expenses for the first 9 months of the year is down \$10 million compared to last year. We expect to see further positive impact as our new financings in particular, the attractive leases for the Flex Courageous and Flex Resolute are materializing into the P&L.; During the quarter, we refinanced Flex Resolute and Flex Constellation. Hence, we have some refinance costs, which are primarily write-off of debt issuance costs related to the old financings. Our interest rate portfolio delivers a realized cash gain of \$4.1 million, which is offset by \$4.3 million in unrealized losses as a result of falling mid- to long-term interest rates. Consequently, we have a net loss on derivatives of \$200,000 for the quarter. As a reminder, our swap portfolio has a notional value of \$775 million, with an average duration of 3 years fixed at an average interest rate of 2.5%. Since January 2021, this portfolio has generated unrealized and realized gains of \$130 million. So in sum, this results in a net income of \$16.8 million or earnings per share of \$0.31. Adjusting for the unrealized losses from derivatives and the refinance cost, adjusted net income came in at \$23.5 million or adjusted earnings per share of \$0.43. In Q3, we generated \$43 million from operations and released \$2 million in net working capital adjustments. With the \$8 million in drydock expenditures, we generated approximately \$37 million in net operating cash flow. We paid \$23 million in scheduled debt installments. And as you can see, we realized \$93 million in net proceeds from the refinancing of Flex Resolute and Flex Constellation. We also paid out \$41 million in dividends to our shareholders, which then leaves us with an all-time high cash balance of \$479 million at the end of the third quarter. So let's have a look at our balance sheet. With the new attractive financings in place, freeing up additional liquidity, we have fortified our balance sheet even further. As you can see, the balance sheet is clean with cash and ships. Our fleet is young and ordered at the right point in the cycle. The financing is a mix of long-term leases and bank debt, which is split in term loans and nonamortizing revolving credit facilities, which provides us with a lot of financial flexibility. We are managing the interest rate risk with a derivative hedging, as mentioned. But we have also fixed rate leases, which together provides us with a hedge ratio of 70% net of utilization of the RCFs. So to summarize, we maintain our fortress balance sheet with revenue visibility from our contract backlog, ample cash position, limited CapEx liabilities and no debt majority prior to 2029. That gives us financial and commercial flexibility to manage more market exposure and the current LNG shipping market. And with that, I hand it back to you, Marius.

H. Foss: Thank you, Knut. The spot market was in doldrums at the start of the winter market in Q3.

However, in recent weeks, we have seen a positive shift in the spot market. Spot rates for modern 2 strokes are currently quoted at around \$70,000 per day. I would like to highlight some of the factors causing these dayrates movements. We are seeing a record LNG volumes on the water with record number of liftings coming out of the U.S. with almost 10 million tonnes exported in October. It's not just in U.S. LNG exports from Africa continent have also surged to the recent weeks especially for Nigeria and Algeria pushing total original output of the strongest level since late 2022. This has happened in apparel with a strong demand of LNG from Egypt. So strong that this is causing some congestions with several carriers waiting to discharge. This creates efficiencies and absorbs a lot of shipping capacity. Lastly, we have seen some signs of pricing spread between the JKM and the TTF, laying the groundwork for some arbitration opportunities. In sum, we see a very attractive spot market, and there are pockets of shipping efficiencies, which can suddenly absorb a lot of tonnage on a short time, and this drives the spot market now. Global LNG trading volumes continue to grow, 350 million tonnes from January to end of October 2025, which is up 3% from last year. The U.S. is driving that growth, exporting 87 million tonnes at a 22% jump year-on-year. Qatar is steady at around 68 million tonnes, while Australia has slipped 5%. On the import side, Europe is the clear growth engine with imports of 26%, offsetting declines in Asia. The more mature Japan, Korea, Taiwan or JKTC block is down 1%, whereas China is down 18%. And India is down 6%, showing that Asian buyers are pulling back from these levels around \$10 and \$11 per MMBtu. On this slide, we illustrate the accelerating growth in U.S. export volumes. The U.S. export close to 10 million tonnes, LNG in October with Freeport, Corpus Christi and Plaquemines as achieved record volumes. Take Plaquemines as an example, that project has impressively ramped up the production volumes and are now pushing already nameplate capacity. From a trade flow perspective, most US LNG cargoes continue to head to Europe, contributing to elevated inventories levels. Shipments to Asia has increased modestly and more vessels take the longer Cape of Good Hope route, boosting the ton-mile demand through Asia, share remains below the peak in 2024. So far in 2025, there has only been 18 LNG carriers ordered. This is markedly down from previous years and the lowest number for the first 9 months since 2029. The new building price for a standard 174,000 cubic meter vessel has seemingly flattened out below the \$250 million mark and is currently quoted at around \$240 million by ship brokers. The shipyards are quite busy, and the slots offered for these levels are for deliveries in the second half of 2028 and onwards. The order book itself stands at around 287 vessels, which equals around 40% of the live fleet. The bulk of fleet growth is concentrated to this year 2026 and 2027. There is a considerable slippage of deliveries from 2025 to 2026. Less than 30 of these new buildings are open, and we would like to highlight that the most new vessels are already tied up to Qatar project or other long-term projects entering programs. This profile means that while there will be a lot of new tonnage entering the market in the midterm. However, our own backlog gives us strong illustration of the near-term fleet growth. We are seeing a wave of LNG vessels retirement this year, 14 so far in 2025 has already been scrapped. The following gradual climb been scrapping since 2003 as older steam turbine ships reach the end of their economic life. The average age of scrap vessel continue to fall, now around 26 years, down from nearly 40 a few years ago, meaning that ships are being retired earlier than before. On the right, you can see the age profile of the live fleet. About 1/3 of the LNG carriers on the water today are 15 years old and 10% are already past 20 years. We see some 30 steam vessels are set for the fourth 5-year special survey over the next 12 months. As there is a very limited appetite for steam vessels in the current spot market, we believe this will push shipowners in the direction of scrapping versus substantial investment of another dry docking. So while 2025 is already a record year for scrapping, the trend is set to continue as operators make room for new buildings wave and retire the dinosaurs of the fleets. On the left-hand side, we are looking at the signed long-term SPAs volumes. The first 9 months of 2025 have seen record high activity. 79 million tons of new loan contracts approaching at peak levels last seen in 2011. This reflects a renewed appetite for long-term offtake, particularly among Asian buyers who are looking at future supply to manage prime and security risk. The positive takeaway is that this trend derisk new liquefaction project, giving developers of commercial backing needed to move forward. You can see that the momentum on the right-hand side of the slide, the way of having new FIDs continue through into the third quarter. Early in the year, several major projects reached FID, including Louisiana, Corpus Christi Midscale and CP. In September and October next decade took FID on Rio Grande LNG trains 4

and 5, while Port Arthur Phase 2 and Coral North FLNG in Mozambique, added another 16 million tonnes combined. Altogether, FID activity year-to-date stands around 68 million tonnes with the U.S. accounting for nearly 60 million tonnes of that underlying its continued dominance of the next wave of LNG supply growth. Let's wrap it up, the market section with a slide showing the growth in new liquefaction capacity. The outlook for new LNG supply remains very strong, and the way we are still building. What we are seeing is that the next phase of global LNG growth starting to take shape. Over the next years, there will be a steady stream of new volumes entering the market, supported by financial investment decision already taken and the record level of long-term contracts we discussed earlier. The 2 key drivers for upcoming supply wave are Qatar and the U.S. states. Qatar is moving ahead with the North Field expansion. The U.S. continues to lead the charge of the new projects with several facilities already under construction and more expected to reach FID soon. With this new wave of project coming, the outlook for LNG shipping is bright, and we are well positioned to capture opportunities ahead. With that, let's move over to Q&A; session.

Knut Traaholt: Thank you, Marius. Let's open up for the Q&A;, and thank you for everyone who has sent in their questions. There are a couple of questions regarding Flex Volunteer, but probably more related to the sister vessel, Flex Aurora and options that are due early next year. Question relates to the likelihood of that option being declared or if you can share any more information around it.

H. Foss: Yes. No. As we have explained in the presentation, the volunteer is coming back to us and going to dry dock and the Flex Aurora option is due in Q1, and we are anxiously waiting for the same. Given the momentum in the current spot market, and maybe that will continue into next year, it will be even more interesting to see if how they will deal with the option or not. We are always optimistic until we have the options or not. But for sure, the momentum in the spot market right now is maybe people, in general, have other thoughts which have options due in the near course.

Knut Traaholt: And with then Volunteer coming back, and we have Flex Artemis open. There was a number of questions on the opportunities there for -- more of the turn market and longer-term contracts. We did not cover at this time in the presentation. So what can you say about the activity in the market?

H. Foss: Yes. First of all, Flex Artemis has now been basically covered throughout 2025, which we're happy for. After we came back from Gastech, there has been a good number of term requirements, both for prompt deliveries and deliveries in 2028 onwards. So -- and we expect even more new projects to enter the market. So with what we have explained in today's presentation with the volume growth coming as well as you see most likely highway of scrapping. I think Flex LNG with the potential positions coming forward the next couple of years, we are in a good position to renew and enter into the market. So from where I'm standing today, we are quite optimistic and bullish about the coming 3, 4 years.

Knut Traaholt: And we also have a number of questions which are recurring from previous quarters and relates to how to spend it and our cash balance. I guess I can also cover there that we have a sort of a strict capital discipline if we are reinvesting. We have been prioritizing return of capital to shareholders. And as we also mentioned in the presentation that we now have more market exposure with ships coming back to us, it's important to have a solid balance sheet and available liquidity so we can maintain our commercial flexibility.

H. Foss: Yes, I think it's worth add that we aim to trade the ships we have coming open or are open in the spot market until the term rates come back where they should be and deserve to have our fleet on time charter. So I think we should be, as we said, disciplined and patient.

Knut Traaholt: Yes. We also have a couple of questions on the delisting. As we informed on the last quarter, we had our last day of trading on Oslo Stock Exchange on the 15th of September and delisted from Oslo Stock Exchange on the 16th of September. We are very pleased to see that a number of the shareholders on Oslo Stock Exchange continue to trade on the share and remain shareholders now on New York Stock Exchange. There are a small portion of shareholders remaining with Euronext Securities Oslo. So we encourage those to contact their bank and request the bank to transfer the shares to New York Stock Exchange, so you can continue trade in the Flex LNG share.

H. Foss: Yes, we are very pleased to see all the Oslo shareholders coming to New York and will join us for the next wave coming forward. So with that, I would like to thank you all for joining us on this Q3 presentation today and looking forward to welcome you back in early February for our Q4 presentation.

So in the meantime, [stable] and thank you very much.