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LNG Finance in World Markets

Ship Funding Edges Higher in 1Q 2023

LNG ship funding stayed robust in 1Q 2023, reaching its highest quarterly level in three and a half years. This follows a buoyant 2022 when it jumped 37% to \$8 billion from \$5.7 billion in 2021. The financing secured in 1Q 2023 is for LNG carriers, floating storage and regasification units and floating liquefaction. Funds were raised by FSRU specialists Hoegh LNG and Excelsior, FLNG players Golar LNG and New Fortress Energy, and companies growing their fleets of LNG carriers such as Flex LNG and Capital Products Partners.

FSRUS took the largest share of funding in 1Q 2023, at \$1.3 billion, followed by LNG carriers at \$694 million and then FLNG units at \$474 million. Some funding is difficult to break down by vessel because it was obtained for multiple types of ships serving the LNG industry – there was \$377 million of this type of funding in 1Q 2023. However, some LNG shipping companies are privately-owned, so funding can be difficult to track and tallies may understate total amounts raised.

Financing for LNG ships will stay at elevated levels as ship owners pay instalments on newbuild deliveries. The orderbook has over 290 vessels delivering this year through to 2028, and the cost of each vessel has climbed to over \$250 million compared to just under \$200 million about a year and half ago.

Despite European countries' push to bring in FSRUs in order to boost LNG imports and overall energy security after Russia invaded Ukraine in February 2022, funding needs had been lower than expected because most requirements met by new charters for existing vessels or bought by entities that did not need to raise external funds.

However, some companies have been able to refinance FSRUs at lower cost because of new charterers have higher credit ratings than previous customers. Hoegh LNG was able to refinance the Hoegh Esperanza and Hoegh Gannet at attractive rates because they are now deployed in Germany which carries a triple A credit rating from Moody's, Standard & Poor's and Fitch. Roughly 40% of 1Q 2023's funding total was used for refinancing purposes.

FLNG units have also seen increased demand as LNG export project developers seek fast access to markets. Some FLNG units are financed by shipping companies with New Fortress Energy and Golar LNG both continuing to raise funding for their FLNG offerings this year.

In 1Q 2023 shipping companies raised funding from banks, sale and leaseback providers and private investors. The dominant funding method was loans, then sale and leasebacks (see Ship Funding Methods Table). Last year sale and leasebacks made a big comeback, jumping to over \$3 billion from just under \$800 million in 2021. They were used more extensively by LNG shipping companies than loans, which fell to \$2.3 billion in 2022 from \$3.5 billion in 2021.