



Liquefied Natural Gas Ltd (LNG.ASX)

Looking for an Offtake Green Light

Event:

- We revisit LNG.

Investment Highlights:

- Growing realisation in the market of impending LNG supply shortfall.** We are positive on the medium term outlook for LNG, and we are of the view that supply will catch up to demand by the early 2020s, and as early as 2020e.
- End of LNG FID hiatus:** LNG project FIDs have compressed in recent years from around 20Mtpa in 2015a down to below 5Mtpa in 2017a. This is in contrast to demand growth in last year alone estimated at more than 25Mt. This cool down period in FIDs coincided with the market anticipation of LNG over-supply, which we believe has not eventuated. Given long lead times to first production, we believe shovel ready LNG projects can benefit from this potential supply shortfall.
- Market confidence evidenced by reappearance of the long dated gas contract:** Cheniere signed a 20+ year contract for up to 1.2Mtpa LNG with China National Petroleum Corporation (CNPC) in February 2018. The contract allows for immediate delivery of some product while the main tenor of the contract is for product delivery from 2023 to 2043. Pricing terms were not disclosed, though the mechanism has a link to Henry Hub prices.
- Long tenor and significant size not hurdles for contracts:** what the Cheniere contract does indicate in our view is that long contract tenor and significant size are not impediments to agreements. LNG are targeting 75% of a contemplated 8Mtpa output ahead of its investment decision, and remains of the view it is likely to comprise a number of groups for 1-2Mtpa each.
- Clean China push underestimated by the market:** we see the continuing efforts by China to pivot to cleaner energy sources and reduce pollution as drivers for demand in the near term. Increased investment in handling facilities at Chinese ports are in our view a signal of serious intent to push towards clean fuel targets.
- And it's not just China:** demand from traditional markets such as Japan and Korea, as well as other Asian destinations including India, Thailand, and Malaysia to shore up Asian near- to medium-term LNG demand.

Earnings, Valuation and Recommendation:

- We recommend LNG as a Speculative Buy.** We believe LNG projects on the cusp of FID are best placed to benefit from increased demand, given lengthy lead times to project ramp. LNG is targeting 75% of a contemplated 8Mtpa output ahead of an investment decision.
- Key catalysts for the stock include:** continued recovery in global demand to catch up to LNG supply; securing contracts totalling 6Mtpa output; final investment decision; construction.

Recommendation	Speculative Buy
Previous	Speculative Buy
Risk	Very High
Price Target	N/A
Previous Target	N/A
Share Price (A\$)	\$ 0.445
ASX Code	LNG
52 week low - high (A\$)	0.37-0.71
Capital structure	
Shares on Issue (M)	514
Market Cap (A\$M)	229
Net Cash/(Debt) (A\$M)	28
EV (A\$m)	201
Options (M)	15
Warrants (M)	0
12mth Av Daily Volume ('000)	1,953
Board	
Mr Paul J. Cavicchi	Non-Executive Chairman
Mr Gregory Vesey	MD and CEO
Mr Richard Beresford	Non-Executive Director
Ms Leeanne Bond	Non-Executive Director
Mr Philip D. Moeller	Non-Executive Director
Mr D. Michael Steuert	Non-Executive Director
Major Shareholders	
The Baupost Group LLC	12.1%
Valnor Management LLC	8.2%

Price Graph



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The analyst does not own LNG securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,041,069 LNG shares.

Cranport Pty Ltd owns 5,750,000 LNG shares.