



Liquefied Natural Gas Ltd (LNG.ASX)

Remaining Focussed on Offtake

Event:

- FY19Q1a update.

Investment Highlights:

- LNG released its FY19Q1a quarterly report yesterday.
- The company is still working towards long term contracts for Magnolia LNG: management remains focussed on efforts to sign offtake agreements, though have noted trade issues with the Chinese market are having an impact on discussions in that jurisdiction. The company notes its negotiations with potential customers outside of China remain strong.
- Magnolia LNG FID in first part of CY19e:** in our view minor slippage for Magnolia FID to the Board into the first part of CY19e; the company had previously been hopeful of FID during CY18e.
- Resolution of US-China trade dispute would catalyse offtake:** we hold the view that a swift resolution in the current trade dispute would significantly increase the likelihood of progress in discussions on Magnolia offtake with Chinese customers.
- But interest remains strong from other parts of the world, meaning offtake agreements are not necessarily reliant on Chinese offtakers.** LNG continues detailed negotiations with a range of new, emerging, and traditional buyers across Europe and Asia.
- Magnolia offtake could be taken up by ex China partners:** we interpret the company's statement that 'communications with potential Chinese offtakers remain robust with the intent to complete agreements if trade tensions abate before Magnolia is sold out' as a signal that the possibility still exists that demand outside China has the potential to take on all of Magnolia capacity.
- We continue to anticipate future updates on Magnolia offtake will signal FID.** We note the possibility for offtake agreements and subsequent FID for CY18e are not wholly extinguished in our view, given commentary on strong ex China negotiations.
- The company remains well funded with A\$46M cash and no debt at 30 September.** Cash burn was A\$4.8M in FY19Q1a, while the company expects outflows of A\$6.5M in FY19Q2e.

Earnings, Valuation and Recommendation:

- We have an unchanged recommendation of Speculative Buy for LNG.** We view the recent price reaction to the quarterly update as an attractive near term entry point, and remain confident LNG will ultimately secure Magnolia offtake and reach FID, in spite of the minor slippage in the target FID date.
- We continue to note LNG's Magnolia is shovel ready, fully permitted, and has a guaranteed production EPC contract in place,** as it works towards securing offtake agreements for the proposed Magnolia project 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 (75% of 8Mtpa nameplate); update at AGM on 15 November; final investment decision; construction.

Disclosure

The analyst does not own LNG securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,098,069 LNG shares.

Cranport Pty Ltd owns 5,200,000 LNG shares.

Refer to disclosures at end of report for details.

Recommendation

Previous Speculative Buy

Risk Very High

Price Target N/A

Previous Target N/A

Share Price (A\$) \$ 0.415

ASX Code LNG

52 week low - high (A\$) 0.40-0.815

Capital structure

Shares on Issue (M) 571

Market Cap (A\$M) 237

Net Cash/(Debt) (A\$M) 46

EV (A\$m) 191

Options (M) 17

Warrants (M) 0

12mth Av Daily Volume ('000) 2,521

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

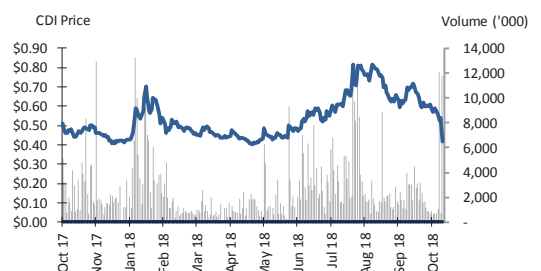
Major Shareholders

The Baupost Group LLC 10.9%

Mulliner Investment Ltd 9.9%

Valinor Management LLC 7.4%

Price Graph



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