Navigating the New Order in LNG Markets

Eric Zhu
 Greater China Oil & Gas Market Segment Leader
 EY
Renewed interest in sanctioning LNG projects

Strong growth in global LNG demand has renewed interest in sanctioning LNG projects globally.

15+ liquefaction projects with ~200 MTPA of capacity are competing to reach final investment decision by 2019*

*as of 31 December 2018
Source EY analysis
LNG markets undergoing significant transformation

**Diversifying mix of buyers/sellers**
LNG exporters and buyers mix is diversifying as new sources of supply and import markets gain prominence.

**Changing contract terms**
LNG buyers are demanding shorter contracts and greater volume and destination flexibility.

**Changing demand drivers**
LNG will need to adapt to evolving role of gas in power generation, growing industrial demand and flexible needs of growth markets.

**LNG pricing dilemma**
Balance is needed between buyers’ expectations of affordable LNG and commercial viability of new LNG export projects.
Disruption in traditional LNG business model

Significant transformation in the LNG markets has disrupted the traditional business model, wherein long-term, oil-linked, take-or-pay contracts with large, creditworthy buyers support final investment decision on LNG export projects.

The LNG industry is searching for suitable commercial models to underpin new LNG supply.
Adapting to changing market conditions

Greater **collaboration** between buyers and sellers to expand the middle ground

**Restructuring** ownership and commercial models to allocate risks to investors that are better situated to manage them
Gas value chain becoming more complex

Transformation of gas value chain

Opening up new business opportunities

Encouraging various players to participate in LNG value chain

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Encouraging various players to participate in LNG value chain
Growing role of intermediaries in LNG markets

Portfolio players and commodity traders are playing a key role in connecting new and diverse sources of supply and demand. They are:

- Supporting final investment decision on LNG projects as long-term buyers or project partners
- Extending credit lines to buyers with low credit ratings
- Facilitating the development of LNG import and regasification infrastructure in new import markets
### LNG companies investing across the value chain

LNG companies are starting to invest in different parts of the value chain to create optionality and harvest value from each gas molecule produced.

<table>
<thead>
<tr>
<th>Storage</th>
<th>LNG import terminals</th>
<th>End-use applications</th>
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<tbody>
<tr>
<td>• Meet seasonal demand</td>
<td>• Gain economic access to new import markets</td>
<td>• Secure long-term demand to support LNG projects</td>
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<tr>
<td>• Benefit from regional arbitrage opportunities</td>
<td>• Tap demand constrained by lack of infrastructure</td>
<td>• Develop new markets and applications</td>
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<td>• Provide floor price for unsold LNG cargoes</td>
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Need for gas trading hubs and price indices

Gas trading hubs and price indices in Asia are needed to:

- Determine gas/LNG price in the region
- Make LNG trade more transparent and standardized
- Lower barriers to entry for smaller players
- Boost market liquidity
- Facilitate the creation of risk management tools to enable investment in LNG projects

A well-functioning gas trading hub in Asia may require several years to establish due to lack of sizable local production, LNG import and storage infrastructure, and cross-country pipelines in the region.
LNG industry needs to respond/adapt to survive

Key considerations

- Reduce cost and enhance focus on project management
- Adapt to changing needs of buyers
- Strengthen contract and risk management skills
- Build a diversified portfolio of supply options
- Identify the “field of play” in LNG value chain
- Boost returns, e.g., via razorblade model or a portfolio of businesses
- Devise a suitable entry strategy to build a presence in new import markets
Thank You.
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