

## OIL &amp; GAS

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## Takeaways from global LNG channel checks

- Global LNG prices showing initial signs of easing; improved availability likely to make the fuel competitive for Indian buyers
- Worldwide LNG supply on track to improve 12% over two years and close to 40% by 2030
- We highlight GUJS (BUY, TP Rs 370) and IGL (BUY, TP Rs 550) as key beneficiaries of potential improvement in India's gas consumption

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We summarise key takeaways from our channel checks with global LNG experts.

**Spot LNG prices likely to return to ~US\$ 10 post European winter:** Muted LNG prices during Europe's winter season have paved the way for a modest price zone ahead. However, prices are not likely to go below the sustainable floor of US\$ 7-8/MMBtu given breakeven considerations for US LNG. Higher China consumption at lower prices and/or potential supply disruptions due to the Gaza conflict are key upside risks.

**Contract LNG prices starting to normalise...:** New long-term LNG contract price slopes to crude are retracting to 12.0-12.5% (from highs of 13.5%) for long-term and even more for medium-term contracts. However, this is unlikely to dip to previous lows of 10-11% seen during the Covid period.

**...with planned material ramp-up of supply:** Given planned global capacity additions of ~50mmtpa over CY24-CY25, ~50mmtpa in CY26 and another ~50mmtpa over CY27-CY28, LNG supply is likely to improve ~40% by CY30. Industry experts see a distinct possibility of supply surprising on the upside in CY24 as several developers have accelerated implementation amid recent tightness in LNG markets.

**Read-across for gas transmission players:** The availability of competitive LNG has the potential to increase gas consumption and transportation volumes in India from FY25, in our view. **GUJS** (BUY, TP Rs 370) is significantly levered to LNG volumes with connectivity to five terminals on the Gujarat coast.

**Read-across for PLNG:** We believe **PLNG** (HOLD, TP Rs 220) is poised to benefit from higher utilisation of its regasification terminals and an increase in contract volumes with Qatar following contract extension. However, it may face difficulties securing a floating storage regas unit (FSRU) for its proposed Gopalpur RLNG terminal.

**Read-across for CGD players:** The city gas distribution (CGD) sector can benefit from higher demand growth upon improved availability of competitive LNG. We highlight our BUY on **IGL** (TP Rs 550).

## Recommendation snapshot

Ticker	Price	Target	Rating
GUJS IN	334	370	BUY
IGL IN	424	550	BUY
PLNG IN	232	220	HOLD

Price & Target in Rupees | Price as of 4 Jan 2024



## Other channel check takeaways

### Global LNG market

- While Qatar is adding 48mmtpa of LNG supply, the US is likely to add 60-70mmtpa, and developers outside these countries have announced plans to commercialise 30-40mmtpa by CY30.
- Qatar Energy has entered into a string of contracts with Asian and European buyers, but more than half of the new 48mmtpa Qatar LNG volumes are yet to be placed.
- Spot availability is also likely to improve from the new US volumes as typically only 60% of US supply is signed directly with users and even these contracts have destination flexibility.
- China, ASEAN and India are expected to be key markets for new long-term LNG contracts. ASEAN's LNG demand is being driven by usage in the power sector, China's demand is being fuelled by a mix of industry and power, and India's by transport and industry.
- Though European consumers have an interest in medium-term contracts, their need for long-term contracts remains in question considering their decarbonisation goals.
- The global FSRU market could remain tight for the next 2-3 years as Europe has captured most of the available units and shipyards are booked for the medium term. Availability could improve after CY28 as European contracts start to expire.
- The international market is witnessing growing interest from investors/ developers for acquiring stakes in LNG projects.

### India natural gas

- India's CGD demand is set to grow over the next 5-7 years. With pan-India gas infrastructure under development, vehicles running on CNG have an advantage over electric vehicles in penetrating the market over the medium term. Although there are no global parallels to India's pursuit of CNG at scale, the country's commitment to this objective is seen to be credible.
- Japanese players may have an interest in entering into or increasing their stakes in the Indian CGD space. On private equity firm I Squared's plans to combine its two India businesses – Think Gas Distribution and AG&P Pratham, our checks suggest Japanese players may have an interest and ability to be part of a billion-dollar deal. Osaka Gas is already a shareholder in AG&P Pratham which may increase comfort levels for other Japanese investors.

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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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