ASIA

The Growth Story for LNG in Asia

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As part of the clean energy transition taking place in Asia, liquified natural gas (LNG) is increasingly being looked at as a key fuel source for power generation. Notwithstanding the COVID-19 pandemic, governments are taking steps to promote significant projects for the import and consumption of LNG for power generation,LNG producers and financiers are looking to take advantage of new markets in fast-growing Asian economies.

The Oxford Institute for Energy Studies projects that LNG import demand across key Asian markets will increase from 44 billion cubic metres in 2020 to over 200 billion cubic metres by 2050. A significant portion of this demand will continue to be driven by China and the two other core (although perhaps shrinking) markets of Japan and South Korea (which, together with China, form the traditional "big three" import markets). it is expected that other Asian countries, such as Bangladesh, the Philippines, Thailand and Vietnam, will become increasingly active too. Indonesia, which was once one of the world's biggest exporters of LNG, is expected to become a net gas importer in the coming years.

There are multiple factors driving this increased demand. Many governments in the aforementioned countries have committed to adding power generation capacity to meet the forecasted growth in electricity demand from increasingly mobile populations. Vietnam, for example, recently published a revised National Power Development Plan (known as PDP7R), which targets growth in natural gas consumption to 21 billion cubic metres by 2030. In addition, there continues to be broad public, economic and political support to drive investment toward renewable or cleaner energy sources (including gas). Finally, with an abundance of natural gas available for export in markets such as Australia, Qatar and the United States, energy-hungry Asian countries are keen to facilitate import terminals, regasification facilities and other infrastructure to take advantage of cheap gas prices.

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These factors have combined to create a healthy deal pipeline across the region. In Vietnam alone, there are at least 13GW of LNG-to-power projects in development with an aggregate value of over US$14 billion. This includes the proposed US$2.8 billion 2.25GW Son My LNG-to-power project in Binh Thuan being developed by AES Corp and PetroVietnam, the US$3 billion 3.2GW LNG-to-power project in Bac Lieu province being developed by Delta Offshore Energy, the US$5 billion LNG-to-power project in Hai Phong City being developed by ExxonMobil and JERA and, finally, Energy Capital Vietnam's 3.2 GW LNG-to-power project in Mui Ke Ga in the Binh Thuan province.

A number of new deals have been announced in the Philippines too. First Gen Corporation and Tokyo Gas are reported to be in the advanced stages of developing a floating storage and regasification unit to be located in Batangas, where LNG imports are being targeted as a replacement for the vast Malampaya gas field. The Malampaya gas field currently delivers fuel for up to 20% of the country's power requirements but is projected to be depleted by 2027. Another government approval was recently awarded to Excelerate Energy of the United States, which is developing a terminal in Batangas that will become the Philippines' first open access LNG import terminal. There are reports of LNG-to-power developments in other Asian markets too.

These developments all come at a time when the industry is also experiencing other significant changes – including the entry of non-traditional funding sources such as infrastructure funds,

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new ownership models and disaggregation – which also creates increased deal activity. For example, supermajor ExxonMobil is looking to monetise certain interests by divesting up to US$2-3 billion of upstream oil and gas assets in Malaysia with a diverse group of bidders reportedly having submitted bids. ENI SpA, Shell and Chevron are all running sale processes of gas or LNG assets in Asia Pacific, each of which is receiving a lot of attention.

As has long been the case, however, pricing will remain a key consideration in the analysis of large-scale LNG projects (and any M&A processes around them). In the LNG space, we continue to see the general trend moving away from oil-linked long-term supply agreements – typically including a crude-linked 'S' curve pricing model – towards a much greater adoption of gas-on-gas pricing benchmarked to spot price indices, such as Platts JKM. The move to a more liquid and transparent LNG market has generally been welcomed. From a long-term infrastructure financing perspective, however, this shift in reference pricing presents challenges with regards to financial diligence and modelling and the potential for lenders to be asked to take on greater market risk where project sponsors may wish to preserve flexibility in sourcing LNG on the spot market.

Ultimately, it remains to be seen how many of the current developments and opportunities will progress. It is likely that a combination of the ever-expanding electricity demand requirements, the growing realisation of LNG's role in the clean energy transition, and the ongoing existence of the fundamental characteristics that led to Asia's growth as the key import market for LNG globally will provide a healthy environment for well-structured investments in new or expanded LNG projects.