

Liquefied Natural Gas

Update

Good start to the year

Oil & gas

Liquefied Natural Gas (LNG) has already announced two encouraging updates in 2017. On 30 January, the EPC contract with KSJV was extended to the end of June 2017, giving greater construction price certainty as and when the final investment decision (FID) is taken. On 23 January, it announced a Heads of Agreement (HOA) with KG LNG terminal in India for 4mtpa for 20 years. While non-binding, this suggests the company is making progress towards financial close for Magnolia's 8mtpa export project. As it works to retain as much cash as possible until the FID is reached, LNG is making good progress towards monetizing the OSMR technology and Magnolia project. We leave our valuation unchanged, but note that if a binding contract is agreed with KG LNG it would be a major step towards realizing the significant potential of the Magnolia project. Bear Head (with all environmental approvals obtained) remains a further option on the growing LNG trade in years to come.

Year end	Revenue (US\$m)	PTP* (US\$m)	Operating cash flow (US\$m)	Net debt/ (cash) (US\$m)	Capex (US\$m)
06/15	0.0	(65.1)	(52.8)	35.4	(8.8)
06/16	0.0	(86.9)	(88.4)	50.7	(0.1)
06/17e	0.0	(31.8)	(24.0)	26.7	0.0
06/18e	77.8	45.9	53.6	68.8	(11.5)

Note: Converted at A\$1.33/US\$1. *PTP is normalized, excluding amortization of acquired intangibles, exceptional items and share-based payments.

Non-binding HOA with KG LNG terminal

The non-binding nature of the HOA means further work has to be executed before a binding agreement can be signed; this would likely have a material de-risking effect on Magnolia as it would mean half of the 8mtpa capacity would be accounted for. However, we are encouraged that progress has been made and long-term customers are interested in taking Magnolia-sourced LNG.

Magnolia in a strong position if offtake signed

Magnolia has all regulatory approvals required, as well as the non-FTA permit, allowing the project to export LNG anywhere in the world. This means that if binding agreements are signed, the company and its equity partner Stonepeak (subject to current negotiations on increasing the amount if required) can move to a financing solution with adviser BNP.

Valuation: Remains US\$3.8/ADR (A\$1.3/share)

We leave our valuation unchanged, save for reflecting the year-end shares in issue and the evolving FX rates, neither of which have a material effect. The key components for investors will be the de-risking events of a binding offtake, a financing solution with BNP being reached and a FID. After this, the construction of the project can start, taking the company towards first LNG, which we model in 2022, at the time when the current LNG surplus is forecast to have rebalanced.

31 January 2017

Price **US\$2.69**
Market cap **US\$344m**

ADR/Ord conversion ratio 4

Net cash at end December 2016 A\$59.9m /US\$45.2m

ADRs in issue 128m

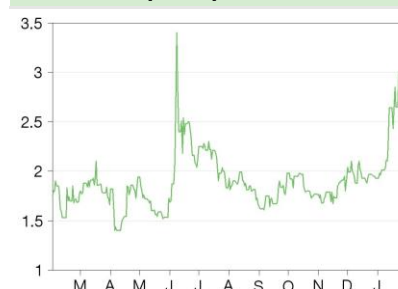
ADR Code LINGLY US

ADR exchange OTC

Underlying exchange ASX

Depository Deutsche

ADR share price performance



52-week high/low US\$3.4 US\$1.4

Business description

Liquefied Natural Gas is an ASX-listed company devoted to the development of LNG export terminals in the US, Canada and other potential locations. It has traded ADRs.

Next events

Binding offtake agreements signed 2017

Final investment decision 2017

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Liquefied Natural Gas is a research client of Edison Investment Research Limited

KGL LNG terminal summary

KGL is an ambitious Indian project to supply gas to the Andhra Pradesh-Orissa industrial region where VGS (the Indo-American company running the project) estimates there is close to 7,000MW of near-idled power capacity. According to VGS, the initial plans call for up to 4.47mtpa of LNG to be stored and regasified off the coast and piped to the industrial area. A second phase, dependent on market demand, could see an increase to over 8mtpa. We would not expect LNGL to provide this extra gas if the project expands as it would represent significant concentration and third-party risk; however, the area's possible demand is encouraging.

The project is a joint venture between VGS Group, Cavallo Energy and Exmar. Cavallo Energy is backed by Calpine, the largest generator of electricity from natural gas and geothermal sources in the US. It has a c \$4bn market cap and is listed on the NYSE. Exmar is a c €440m market cap, Belgium-based shipping group.

We are encouraged by the announcement of the non-binding HOA, and note that a binding agreement would move the Magnolia project directly towards a bankable solution then financial close (it has no further regulatory steps to fulfil). It is also worth noting that (while we do not change any assumption in our model), the credit rating of the offtakers may have an effect on the amount of debt that can be raised against the project, which may affect the equity required for Magnolia to be built. If more equity is required from LNGL, this may reduce the overall value for shareholders (in absolute and/or per share terms).

Valuation

We leave our valuation and model unchanged, only updating the FX rates and the shares in issue as of 31 December. This has a minimal effect.

Exhibit 1: NAV summary

Asset	Country	Equity interest	CoS	Net risked value		
				US\$m	A\$/share	US\$/ADR
Net (debt)/cash (June 2016)				51	0.13	0.40
G&A (includes share based payments)				(55)	(0.14)	(0.43)
Project development costs Jun 2016 - July 2017				(15)	(0.04)	(0.12)
Magnolia Trains 1&2	United States	35%	60%	218	0.57	1.71
Magnolia Trains 3&4	United States	35%	60%	166	0.43	1.29
Bear Head Trains 1&2	Canada	60%	20%	68	0.18	0.53
Bear Head Trains 3&4	Canada	60%	20%	68	0.18	0.53
Bear Head Trains 5&6	Canada	60%	0%	0	0.00	0.00
Riskied NPV of cost of raising equity Bear Head (assumed NAV/share dilutive effect 30%)			20%	(16)	(0.04)	(0.13)
Fisherman's Landing	Australia	100%	0%	0	0.00	0.00
NAV			0%	485	1.26	3.79

Source: Edison Investment Research

Financials

The company held A\$59.9m (US\$45.2m) in cash in December, down from A\$67m to (US\$51m) in June 2016. As we have indicated before, the company has enough cash to continue to progress the Magnolia (and Bear Head) projects towards financial close, but needs to partner with others to fund the construction of the projects. For Magnolia, this could (subject to ongoing negotiations) come from Stonepeak Infrastructure Partners, while a partner for Bear Head is not yet known.

Exhibit 2: Financial summary

	US\$000s	2014	2015	2016e	2017e	2018e
June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	78
Cost of Sales		0	1	0	0	0
Gross Profit		0	1	0	0	78
EBITDA		(18)	(65)	(87)	(32)	46
Operating Profit (before amort. and except.)		(18)	(66)	(87)	(32)	46
Intangible Amortization		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(18)	(66)	(87)	(32)	46
Net Interest		(1)	0	0	0	0
Profit Before Tax (norm)		(19)	(65)	(87)	(32)	46
Profit Before Tax (FRS 3)		(19)	(65)	(87)	(32)	46
Tax		0	(0)	0	0	0
Profit After Tax (norm)		(19)	(65)	(87)	(32)	46
Profit After Tax (FRS 3)		(19)	(65)	(87)	(32)	46
Average Number of ADRs		115.5	125.8	126.0	128.0	128.0
EPS - normalized		(0.0)	(0.0)	(0.0)	(0.0)	0.0
EPS - normalized and fully diluted		(0.0)	(0.0)	(0.0)	(0.0)	0.0
EPS - (IFRS)		(0.0)	(0.0)	(0.0)	(0.0)	0.0
Dividend per share		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		0	9	9	9	20
Intangible Assets		0	0	0	0	1
Tangible Assets		0	9	9	9	20
Investments		0	0	0	0	0
Current Assets		39	139	55	31	84
Stocks		0	0	0	0	0
Debtors		0	2	1	1	1
Cash		36	35	51	27	80
Other		3	102	3	3	3
Current Liabilities		(3)	(11)	(3)	(3)	(3)
Creditors		(3)	(11)	(3)	(3)	(3)
Short term borrowings		(0)	(0)	(0)	(0)	(0)
Long Term Liabilities		(0)	(0)	(0)	(0)	(0)
Long term borrowings		(0)	(0)	(0)	(0)	0
Other long term liabilities		(0)	(0)	(0)	(0)	(0)
Net Assets		36	137	61	37	102
CASH FLOW						
Operating Cash Flow		(16)	(53)	(88)	(24)	54
Net Interest		(0)	(0)	(0)	(0)	(0)
Tax		0	0	0	0	0
Capex		(0)	(9)	(0)	0	(11)
Acquisitions/disposals		0	0	0	0	0
Financing		53	155	0	0	0
Dividends		0	0	0	0	0
Other						
Net Cash Flow		35	(1)	15	(24)	42
Opening net debt/(cash)		(1)	(36)	(35)	(51)	(27)
HP finance leases initiated		0	0	0	0	0
Other		(0)	0	(0)	0	0
Closing net debt/(cash)		(36)	(35)	(51)	(27)	(69)

Source: Company accounts, Edison Investment Research

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