

EVALUERVE

Sector Intelligence: Impact of COVID-19

LNG Industry

Updated: May 07, 2020

COVID-19: Potential Impact on LNG Industry

\$9 trillion
Loss to global GDP 2020–21

Economic impact of 'great lockdown' (IMF)

\$50+ billion

Reduction in CAPEX by oil & gas majors, until March'20

~48%

Drop in average Brent price (2020 vs 2019)

~9.1 MMT

Potential impact on LNG demand in 2020 vs 2019 level

3.5%

(reduction in LNG demand from 2020 pre-COVID forecast)

(Scenario 1: Lockdown extension until Q2'20)

8%

(reduction in LNG demand from 2020 pre-COVID forecast)

(Scenario 2: Lockdown extension until 2020-end)

>110 MMT

Possible impact on FIDs in 2020

22+

Number of impacted liquefaction projects

~87 MMT

Possible impact on supplies (2020 vs 2030)

\$1.825/MMBTU
(Jun delivery)

New lows for JKM (on 28 Apr'20)

~60%

Drop in JKM price since early 2020

~\$1.3/MMBTU

Lowest recorded tender price (new low)

COVID-19 could wipe off 13–30 MMT of LNG demand in 2020. The industry is battling depressed downstream demand, low prices, high storage levels, and increased concerns over the viability of projects and supply cuts.

In the best-case scenario, Northeast Asia will lead the demand recovery in H2'20, with European storage space brimming with an influx of cheaper LNG and piped gas.



COVID-19: Implications and Way Ahead

The COVID-19 pandemic has led to demand destruction, record low pricing, and concerns over the viability of liquefaction projects. Global LNG trade is likely to register single digit or even negative growth in 2020 – compared with ~13% growth in 2019.

COVID-19: Evalueserve Recommendation



Impact on LNG Demand

- Force majeure, DQT, and cargo deferment / cancellation requests
- Opportunistic buying and emergence of new buyers
- Demand recovery in China in H2'20

- **Outline opportunistic versus strategic play frameworks for faster action**
- **Identify tier II and tier III players**
- **Develop China-focused strategy for expeditious Chinese player**



Implication for Supply

- Threat to project viability amid low prices
- Cancellation of US cargoes and concerns over operability of US-based projects
- Depressed Asian demand and record storage levels in Europe
- Increased competition with dwindling demand

- **Cut costs fast**
- **Consider LNG sourcing from other players**
- **Explore new sales horizon**
- **Review long-term capex plans in light of increased competition**



Outlook for Pricing

- Record fall in LNG pricing
- Tightened operational flexibility
- Eluding long-term contracts

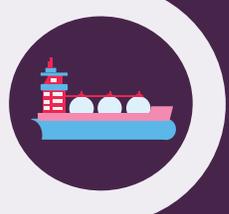
- **Optimize cross-basin sales**
- **Review shipping routes and storage space optimization**
- **Adopt innovative pricing mechanisms to secure greater term deals**



Things to Watch Out For

- Market optimistic about Asia leading demand recovery in 2021
- Threats over projects financing and long-term commitment (s)

- **Engineer developments in markets for long-term plays**
- **Scout for activity in nascent markets and new buyers (including buyers looking to switch from bunkering or coal fuels)**



LNG Demand in 2020 – How Much will be Wiped Off?

A repetition of the 2019 LNG demand growth is nearly impossible in 2020. As per Evalueserve estimates, 3.5–8% of the global LNG demand is at risk of being wiped off in 2020, compared with the pre-COVID-19 demand forecast.

Industry Outlook

The LNG industry is dwindling due to depressed demand and already high storage levels. Asian markets will lead demand recovery in 2021.

We expect LNG demand to come back over the next 12–24 months.

- Mr. Russell Hardy, CEO (Vitol)

World will require additional supplies post 2021 and current impact is temporary.

- H.E. Saad Sherida al-Kaabi, CEO (QP)

The whole urgency to sign LT contracts have dropped amid COVID-19. I think Asia is going to remain king of demand for the foreseeable future.

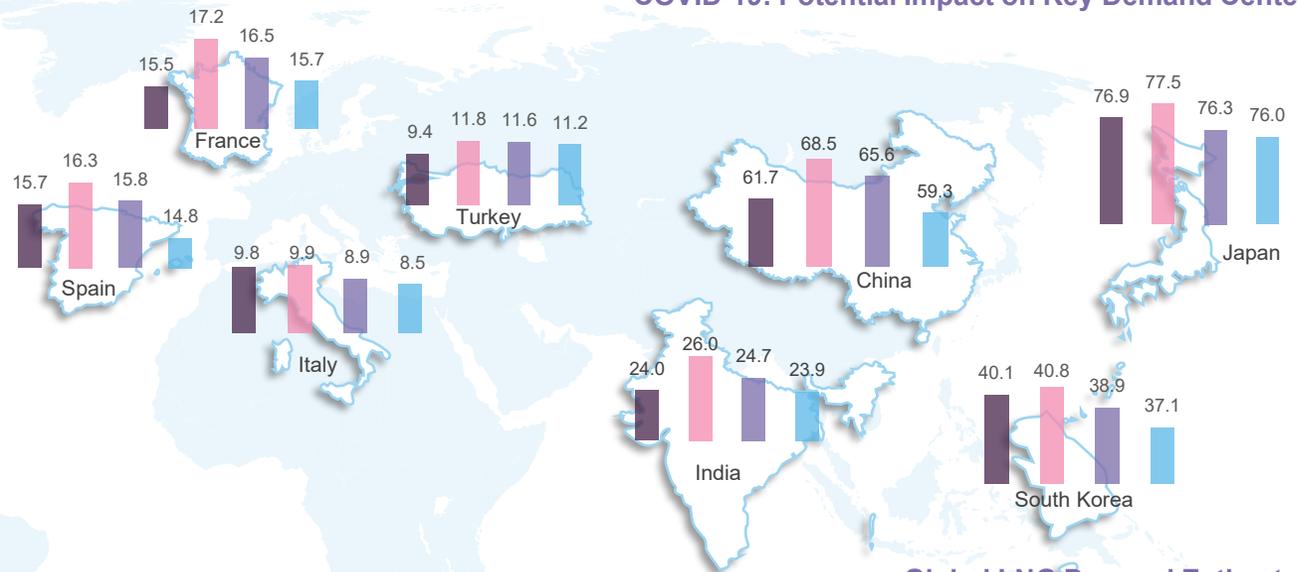
- Mr. Jack Fusco, CEO (Cheniere)

Whilst we continue to believe in the long-term viability and advantages of the LNG project, the time is not right for Shell to invest.

- Mr. Maarten Wetselaar, Director, Integrated Gas & New Energies (Shell)

Demand Estimates by Evalueserve, 2020

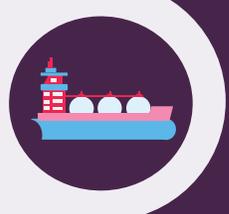
COVID-19: Potential Impact on Key Demand Centers (MMT)



Global LNG Demand Estimates (MMT)



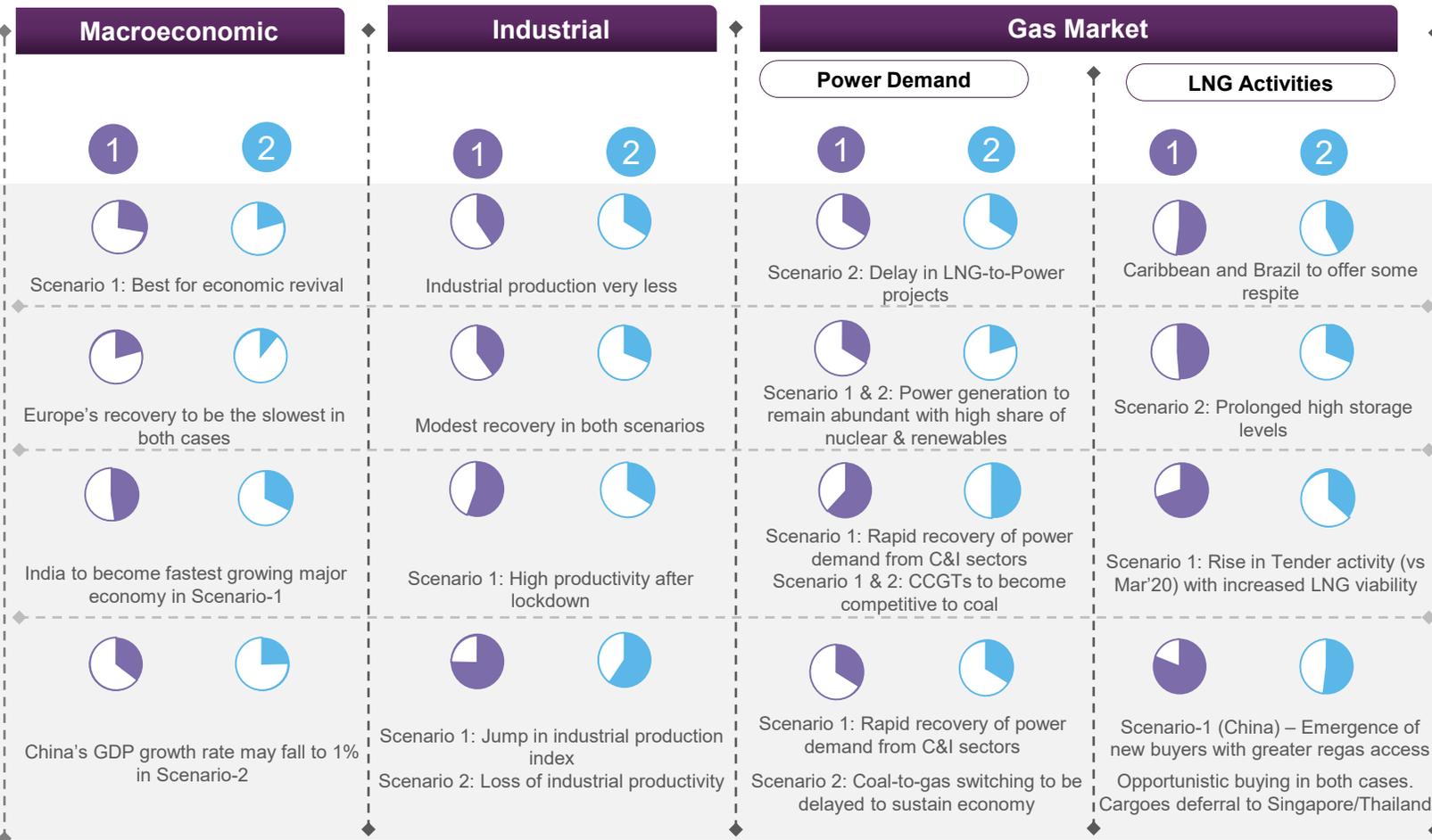
The COVID-19 pandemic has added stress to an already oversupplied market, which witnessed constant demand and price reduction in Q1'20. However, the LNG market is witnessing the emergence of opportunistic buyers, increased imports in new markets, and competitiveness, which will offer some respite to the declining demand.



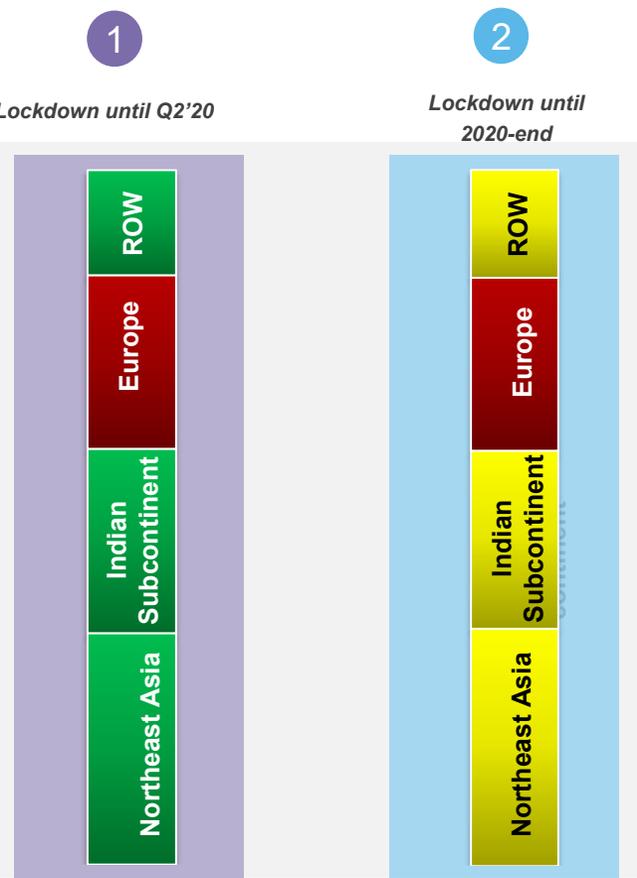
LNG Demand Recovery in 2020 - A Myth or Possibility?

LNG demand recovery in 2020 remains unlikely, unless normalcy returns by the end of Q2'20. Northeast Asian countries will likely absorb most of the excess LNG this year and the market will start rebalancing in 2021.

Current Impact on Demand, by Region



Demand Recovery Outlook



Significant impact on LNG Demand
 Medium impact on LNG Demand
 Low impact on LNG Demand

1 Scenario 1: Lockdown extension until Q2'20
2 Scenario 2: Lockdown extension until 2020-end

The shaded portion indicates a possible positive impact on demand recovery.