Oil and Gas

JM FINANCIAL

Global O&G cos see risk of high spot LNG price sustaining in CY25

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According to the management of Cheniere Energy (link to 4QCY24 PPT), the global LNG market remained relatively tight throughout CY24 due to: a) limited growth in LNG supply capacity; b) strong LNG demand in Asia through CY24, while Europe LNG demand jumped in the last few months (due to the cold winter, end of Russian gas supply to Europe via Ukraine at end-CY24 and low inventory); and c) continued geopolitical tensions. Further, it expects Europe's strong spot LNG demand to continue through most of CY25 as LNG will be critical in mitigating the loss of Russian gas in Europe and helping replenish inventories for next winter. The management of Total Energies (link to 4QCY24 PPT) has also highlighted the risk of high spot LNG price in CY25 due to limited additional LNG capacity addition (of ~5% only), while it expects Europe's LNG demand to be strong due to lower Russian gas pipeline flow and low inventory.

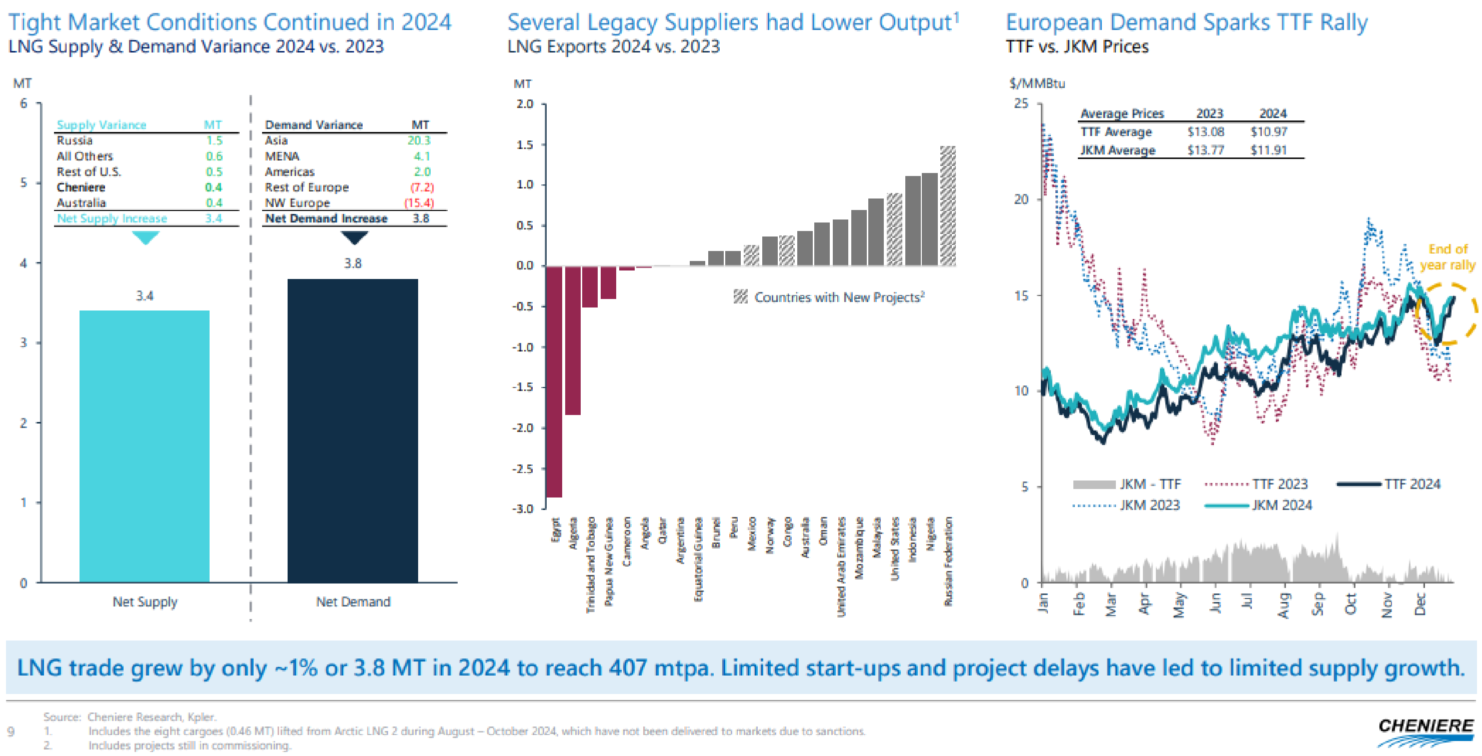
Asian spot LNG has been trading higher at 18% of Brent (vs. historical average of ~12% pre-Russian-Ukraine crisis). Sustained high spot LNG price is a key concern for all gas companies in India as it could impact domestic LNG demand, and volume/margins of CGD companies (particularly for GGas as it has high 20-30% dependency on spot LNG, amidst moderate price of competing fuel propane) and also of PLNG, GAIL and GSPL.

- **Europe's LNG demand down 19% YoY at 93mmt in CY24, but has jumped in last few months due to cold winter, end of Russian gas supply and depleting inventories:** Cheniere Energy's management highlighted that Europe imported 93mmt of LNG in CY24, down 19% (or 22mmtpa) YoY due to sluggish growth in the industrial sector, lower gas-fired power generation and competing demand for volume outside the region – **Exhibit 1-3.** However, Europe's LNG demand improved in 2HCY24 due to cold weather coupled with the expiry of the gas transit agreement between Russia and Ukraine in end-Dec'24, supporting spot LNG prices. This led to accelerated gas withdrawals from storage, bringing inventory levels below the pre-war 5-year average and roughly 17bcm below the comparable period last year; EU gas storage inventories are currently only 41% full vs. 64% YoY and below the 5-year average of 83% – **Exhibit 6**; this is likely the reason that led to a swift call on cargoes into Europe towards the end of the year and at the beginning of CY25. Cheniere expects the call on spot LNG to continue through most of CY25 as LNG will be critical in mitigating the loss of Russian gas in Europe and helping replenish inventories for next winter in the absence of other incremental supply alternatives. Total Energies' management also said that global gas prices could remain strong in CY25 with limited additional LNG capacity (of only ~5%) likely to come on stream in CY25, while demand for LNG in Europe is likely to be strong due to lower Russian gas pipeline flow and low inventory - **Exhibit 4**.
- **Asia's LNG demand strong at 283mmtpa in CY24, up 8% YoY, led by China:** Cheniere's management highlighted that Asia's LNG demand growth was strong in CY24, up over 20mmtpa or 8% YoY to 283mmtpa, with China's LNG demand up 10% YoY to 78mmtpa (as overall gas demand grew roughly 8% across all major sectors including transportation aided by the heat wave past summer, which helped boost gas power generation) – **Exhibit 1-3**
- **Global LNG supply needs to rise by 230mmtpa to meet demand in the coming decade; restoration of Russian gas supply to Europe can help balance market:** Cheniere's management said global LNG supply needs to rise by 230mmtpa to meet demand in the coming decade – **Exhibit 3.** Further, it believes that new supply from Cheniere will not only help meet this demand, but will also help ensure improved availability, deliverability, and affordability of gas supply globally, while offsetting some of the legacy resource depletion, and ensuring greater energy security to markets worldwide. Cheniere's management is actively engaged with the new US administration and is very encouraged by its early action and stated policy goals prioritising a clear, transparent, and durable approval process for new LNG liquefaction projects in the US. It also said a possible resolution to the Russia-Ukraine war would likely result in the restoration of incremental Russian gas volumes into Europe over time and help rebalance the gas market and help support a more affordable and stable pricing environment conducive to long-term natural gas and LNG demand growth.

- Sustained high spot LNG price is a key concern for all gas companies in India: Spot LNG has been trading higher at 18% of Brent (vs. historical average of ~12% pre-Russian-Ukraine crisis) – **Exhibit 7**. Sustained high spot LNG price is a key concern for all gas companies in India, as it could impact domestic LNG demand, and volume/margins of CGD companies (particularly for GGas as it has high 20-30% dependency on spot LNG, amidst moderate price of competing fuel propane – **Exhibit 9-10**) and also of PLNG, GAIL and GSPL.

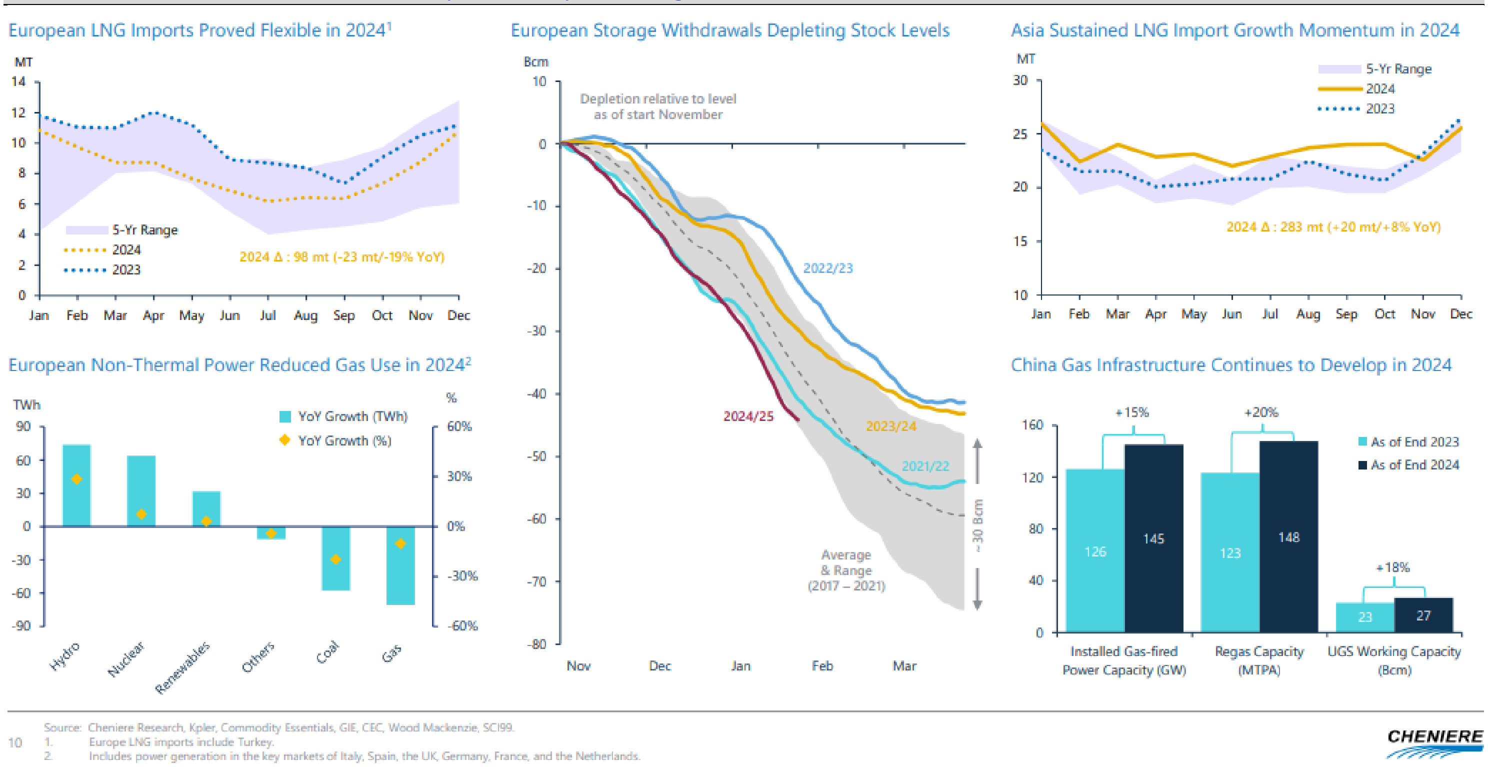
- Total Energies says Mozambique project financing likely soon; USD 20bn project cost unchanged and targeting completion by 2029-30: Total Energies' management said the Mozambique government was strongly supporting the company's project in terms of security arrangements and other aspects. It added that the consortium is trying to complete the financing of the project; there is no change in the USD 20bn project cost, and the company expects the project to be completed by 2029-30. Total Energies has 26.5% stake and ONGC has 16% while Oil India and BPCL hold 10% stake each.

Exhibit 1. Limited new supply constrained LNG trade in 2024



Source: Cheniere Energy

Exhibit 2. 2024 flows and demand have depleted European storage



Source: Cheniere Energy

Exhibit 3. More LNG supply needed to meet long-term demand

LNG Market Sensitive to Supply & Demand Disruptions
2024 Trade Balance Drivers

Tightening Factors[1]	Δ MT
Trinidad and Tobago Exports	(0.5)
Algeria Exports	(1.8)
Egypt Exports	(2.8)
Egypt Imports	+2.4
Columbia Low Hydro Power	+0.9
Brazil Low Hydro Power	+1.9
South Asia Heat Wave	+2.3
SE Asia Heat Wave	+2.8
NE Asia Heat Wave	+8.3

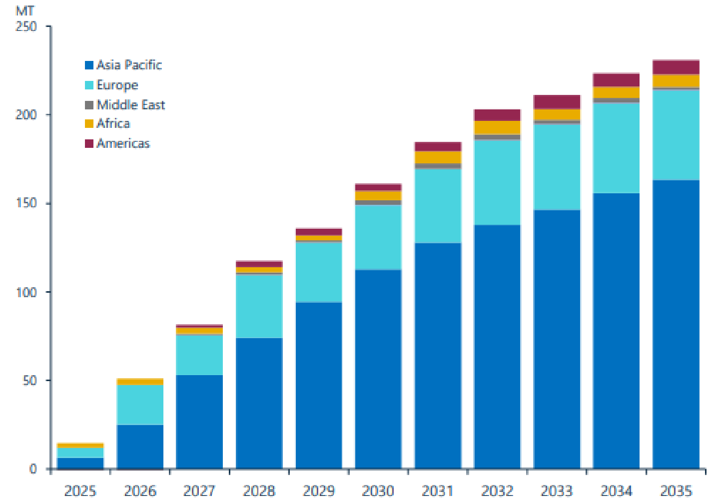
(5.1) MT Supply Reduction from Resource Depletion

+18.6 MT Demand From Weather & Resource Depletion (Egypt)

Loosening Factors[2]	Δ MT
Arctic LNG 2	+0.5
Plaquemines	+0.1
NFE Altamira	+0.2
Tango	+0.4
Other Operational Projects	+2.3

+3.5MT Supply From New Projects

Market Will Require ~230 MTPA of Supply Over A Decade
Incremental LNG Growth Requirements by Region



✓ Project Delays ✓ Geopolitical Tensions ✓ Weather ✓ Resource Depletion

New LNG Supply Critical to Meet Forecasted Global LNG Demand Growth

Source: Cheniere Research, Kpler, Wood Mackenzie.
1. Represents full YoY change from 2023 to 2024.
2. The eight cargoes (0.46 MT) lifted from Arctic LNG 2 during August – October 2024 have not been delivered to markets due to U.S. sanctions.

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Source: Cheniere Energy

Exhibit 4. 2025 oil and LNG market drivers

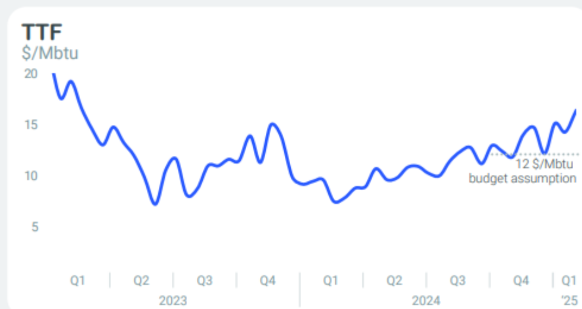
Oil

→ Oil demand growth expected at **1.1 Mb/d** in 2025 vs. 0.8 Mb/d in 2024, supported by emerging Asia (IEA)

→ **Non-OPEC** strong supply growth, supported by **US policy**

→ **OPEC+** taking actions to balance the market

Gas



→ **Limited additional LNG capacity** (+5%) on stream in 2025, with delays at key projects

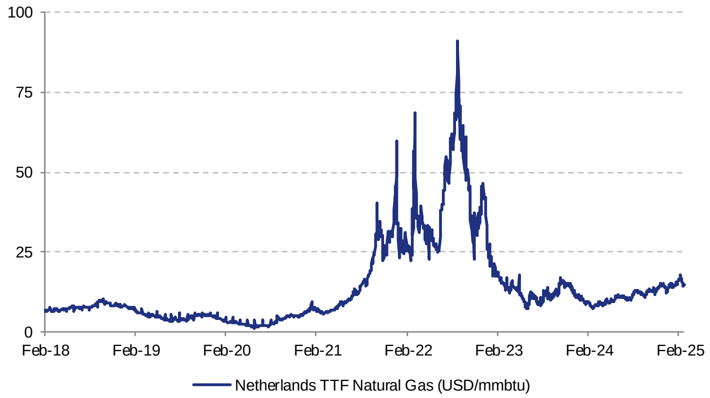
→ In **Europe**, lower Russia pipeline flow and low storage levels will increase LNG call in 2025

→ **Asia** and **Europe** to compete for LNG supply

2025 Objectives Sources: IEA Oil Market Report (December 2024), ICE and Bloomberg. February 2025 – Results and Objectives | 14

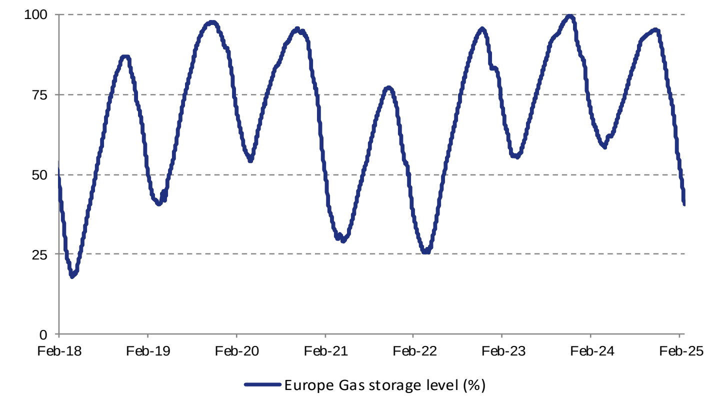
Source: Total Energies

Exhibit 5. European benchmark gas prices remain high ~USD 14/mmbtu…



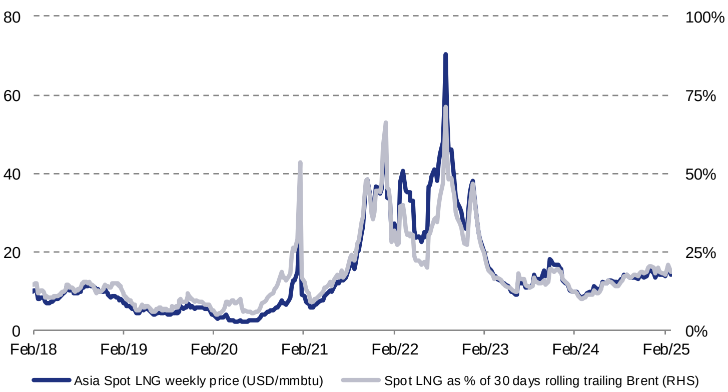
Source: Bloomberg, JM Financial

Exhibit 6. …as EU gas storage inventories low at 41% vs. 64% YoY and 5-year average of 83%



Source: Bloomberg, JM Financial

Exhibit 7. Asia spot LNG trading high at USD 14/mmbtu (18% of Brent vs. historical average of 12% pre Russian-Ukraine crisis)

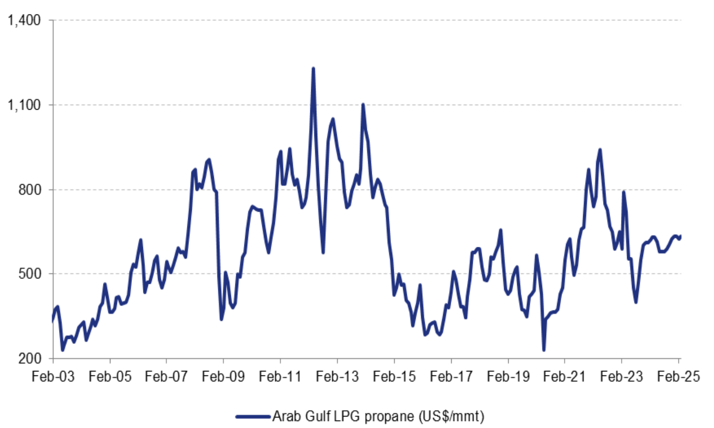


Source: Bloomberg, JM Financial

Exhibit 8. US HH gas futures high at USD 4/mmbtu as Arctic cold boosts heating demand and potential cold-freeze threatens supply

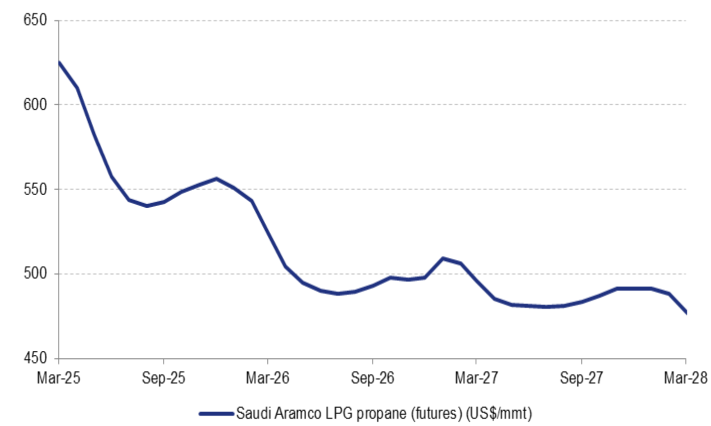
Source: Bloomberg, JM Financial

Exhibit 9. Saudi LPG propane sees limited increase to USD 635/mmt (vs. Asia spot LNG rising from USD 9/mmbtu to USD14/mmbtu)



Source: Bloomberg, JM Financial

Exhibit 10. Argus estimates propane prices to start moderating from Apr'25 to USD 540/tn by mid-CY25 and to USD 500/tn in CY26



Source: Argus, CME Group

APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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