EDISON

Liquefied Natural Gas Ltd

Stonepeak increases its involvement

Peer comparison

Oil & gas

Stonepeak has committed to fund the full equity component of financing the Magnolia project, totalling US$1.5bn. The terms of the agreement have changed, and Stonepeak will be taking a preferred interest in the project, leaving LNGL with a 100% equity ownership. This is a vote of confidence for the project. The key remaining event for Magnolia will be the completion of binding tolling agreements covering enough volumes to enable project sanction. All necessary regulatory milestones have been reached, leaving the company entirely focused on negotiations with potential partners to enable sanction of the 8mtpa project. Within its peer group, Magnolia is well placed to be able to deliver LNG cargoes in the 2021-2022 period, in time with projected demand needs. We have adjusted our valuation, increasing it to A$1.37 /share (US$4.19/ADR).

Year end	Total revenues (A$m)	Reported PBT (A$m)	Cash from operations (CFO) (A$m)	Net (debt) cash (A$m)	Capex (A$m)
6/15	7.9	(86.3)	(70.0)	47.0	(11.6)
6/16	7.3	(115.1)	(117.1)	67.2	(0.1)
6/17e	2.1	(35.9)	(27.8)	20.4	(0.4)
6/18e	58.0	13.1	23.4	37.3	(6.6)

Note: Figures are as reported Note: 2018e revenues include back-costs from Stonepeak.

LNGL has few peers, but looks inexpensive

LNGL has few listed peers. Most LNG export facilities are owned by majors. Cheniere is much larger and already producing LNG. Tellurian (owners of Driftwood LNG project) and Next Decade (IPO ongoing) are planning much larger projects but are some way behind the Magnolia project on regulatory approvals. As a result, the peer group is relatively limited, but does indicate that LNGL is comparatively cheap. It offers nearer term start-up than its two key peers and more advanced regulatory approvals (although we note Tellurian is backed by Total so has less uncertainty on an anchor offtaker, we think). We would expect LNGL's valuation discount to unwind as and when the company lists formally on a US exchange (a more natural home than the ASX) and especially when future tolling agreements are signed.

Offtake agreements are key

The assessments of LNG supply/demand point to an end to the global oversupply from 2021-2023. Magnolia is well placed to complete construction around this time, if tolling agreements can be signed in the coming months and if project sanction decisions are taken. We understand that management is focusing on getting a first agreement completed, after which it believes others will follow more easily.

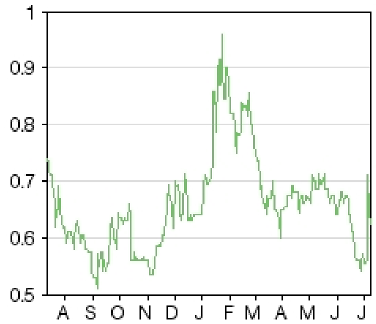
Valuation: Increases to A$1.37/share (US$4.19/ADR)

We have adjusted our valuation, rolling over the discount year and adjusting the terms of the Stonepeak funding, but reduced our risking for Bear Head. We keep our Magnolia assumptions on project revenues, costs and first production (mid-2022), as well as financing costs of debt (7.5%) and equity discount rate (10%). These combine to increase our NAV to A$1.37/share (US$4.19/ADR).

10 July 2017

Price	**A$0.63**
Market cap	**A$321m**
	US$/A$1.3
Net cash (A$m) as at 31 March 2017	49.3
Shares in issue	512.0m
Free float	92%
Code	LNG AU; LNGLY US
Primary exchange	ASX
Secondary exchange	OTX

Share price performance



%	1m	3m	12m
Abs	(8.1)	(7.4)	(18.3)
Rel (local)	(8.7)	(4.8)	(24.5)
52-week high/low		A$1.0	A$0.5

Business description

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

Next events

Binding offtake agreements signed	2017
Final investment decision (FID)	2017

Analyst

Will Forbes +44 (0)20 3077 5749

oilandgas@edisongroup.com

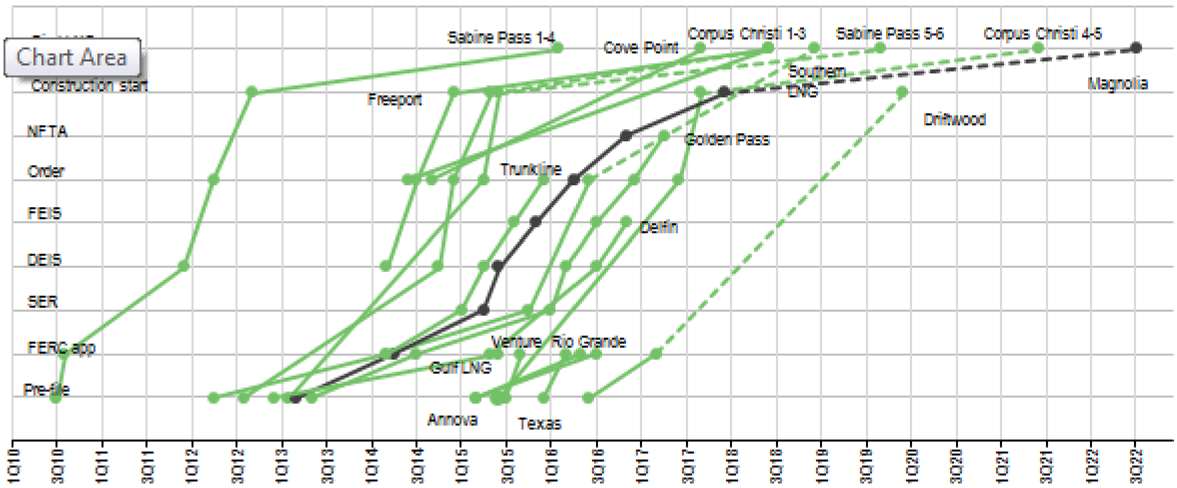
Edison profile page

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

Magnolia is well placed among peers and cheaper

Magnolia is one of many prospective projects looking to take advantage of the low-price US shale gas to export LNG. As seen below, the project is one of few that has received full FERC approval and non-FTA approval, allowing exports of LNG to global markets. This is a key milestone in attracting potential partners prepared to sign long-term contracts. The project is more advanced than many others in approvals (perhaps one to two years ahead, in some cases), so should be well placed to attract tolling partners.

Exhibit 1: Regulatory progress of US-based LNG projects



Source: LNG Ltd, Edison Investment Research (any future dates - as indicated by dotted lines are Edison estimates)

Despite this advantage, LNGL appears to trade more cheaply than its (limited) peers. The table below shows that on an EV/mtpa basis, LNGL is the cheapest of the peer group. Accounting for expectations of first production, it is also the cheapest by some margin.

We note that the Tellurian/Driftwood project is backed by Total, which owns over 20% of the shares. We would expect Total to take material offtake volumes, thereby reducing the risks. This is perhaps one of the key reasons why the company is more expensively rated than LNGL. We anticipate some slippage to guidance given by Tellurian and Next Decade on first production, given the timing of approvals seen by other projects (from application to approval, for example, or from approval to the start of production).

Exhibit 2: Summary of Magnolia peers

Company	Projects	EV, US$m	Capacity	FID expected	First production expected	Current EV/total expected mtpa US$m/mtpa	EV/discounted capacity
LNG Ltd	Magnolia	201	8	2017/2018	2022	25	40
Tellurian	Driftwood	1,795	26	Mid-2018, company End 2019 based on other project progress	First production 2022, full capacity 2025*	69	111
Next Decade	Rio Grande	1,000#	27	2018, based on other projects progress	2024+	37	49
Cheniere	Sabine Pass Corpus Christi	37,031	4.5mtpa operating, 27mtpa under construction		2016		

Source: Edison Investment Research, various. Note: EV/discounted capacity is EV/ capacity discounted assuming the expected first production date. *Denotes Tellurian expected timelines. +Edison's current expectation of timing for Rio Grande. Tellurian also owns acreage in the UK and Australia that may be contributing to its valuation (this is unlikely to be more than US$100m, we think). #Next Decade's EV is uncertain as it has not reached the market yet – the US$1bn is taken from press reports in April 2017.

While LNGL's shares are cheaper than peers, we would not be surprised to see the shares continue to trade on a bounded basis until tolling agreements are signed – at which point the (Magnolia) project would de-risk materially, leading to a potentially sharp re-rating. Our valuation asserts a project risking of 60%. For illustrative purposes, a 10% increase would lead to a rise in valuation of A$0.2/share or US$0.6/ADR.

Although the company has listed ADRs we would expect that its planned US listing (management continues to explore the possibility and a shareholder vote to move the US listing may occur as soon as November 2017) could contribute to a re-rating. The US is LNGL's natural home given Magnolia's location and peer group, and management has indicated that a number of interested investors cannot invest unless it is US-listed.

Valuation

We have removed the Fisherman's Landing project from our model following the company's decision to discontinue the project. We had not attributed any valuation for this option given the hurdles the project faced. However, we have moved the risking we have applied to the Bear Head project given the focus on Magnolia and the lack of progress on Bear Head in recent months (from 20% to 15%). We also slightly increased the cash burn element in the period January to June 2017. These would have reduced the NAV/share.

However, we have moved the discount year to 2018 (given financial year end of June). We keep our assumptions of cost of debt of 7.5% and equity return rate of 10%. We have also substantially remodelled the financing element from Stonepeak given the changes in structure announced on 5 July 2017. Additionally, we have reshaped the debt modelling and increased cash burn to the end of June 2017. This increases the valuation to A$1.37/share (US$4.19/ADR) from A$1.26/share (US$3.84/ADR). Our current assessment of the valuation is below.

Exhibit 3: Valuation summary

Asset	Country	WI	CoS	Absolute	Risked	Risked
		%	%	US$m	A$/share	US$/ADR
Net cash (June 2017e)				35	0.09	0.27
G&A (includes share based payments)				(55)	(0.14)	(0.43)
Project development costs Jun 2017 - July 2018				(15)	(0.04)	(0.12)
Magnolia Trains 1-4	United States	100%	60%	452	1.16	3.53
Bear Head Trains 1-4	United States	100%	15%	120	0.31	0.93
NAV				536	1.37	4.19

Source: Edison Investment Research. Note: Net cash figure includes short term investments of A$25m.

Financials

Management has done a good job of reducing cash burn until the project reaches sanction (when it will receive a payment in partial recognition of project development costs from Stonepeak– we assume in 2018). In the case where the company does reach sanction, it has stated it believes cash resources will last until early 2019. The project is dependent on successful coordination of the debt component by BNP, as the Stonepeak agreement should cover $1.5bn of the capex costs (of a total EPC contract quote of $4.354bn).

Stonepeak agreement

Stonepeak announced on 5 July 2017 that it has upped its involvement in the project to cover the full equity component of the capital investment (previously it was covering the equity component for the first 4mtpa in return for an equity component to gain a fixed IRR).

The new agreement sees Stonepeak increasing its interests in the project. The new terms are given below (taken from the press release):

- Fixed coupon with pay-in-kind provisions during construction that lowers project cost of capital from the previous agreement
- Stonepeak's commitment is a redeemable Preferred Interest in the Magnolia LNG project having a 12-year tenor from financial close
- Redeemable in full at Magnolia's election beginning three years following commercial operations date, subject to certain call protections
- Normal liquidation preference, pre-emptive rights, and other preferred interest protection features
- Preferred Interest has no conversion features into either Magnolia or LNGL equity instruments
- LNGL owns 100% of the common interest in Magnolia pre- and post-financial close

Exhibit 4: Financial summary

Accounts: IFRS, Yr end: June, AUD: Millions	20789537	2013A	2014A	2015A	2016A	2017E	2018E
Total revenues		0	0	8	7	2	58
Cost of sales		0	0	0	0	0	(3)
Gross profit		0	0	8	7	2	55
SG&A (expenses)		(3)	(3)	(8)	(19)	(12)	(12)
Other income/(expense)		(11)	(20)	(72)	(89)	(16)	(20)
Exceptionals and adjustments	Exceptionals	0	(1)	(15)	(14)	(10)	(10)
Depreciation and amortisation		(0)	(0)	(0)	(0)	(0)	(0)
Reported EBIT		(14)	(24)	(87)	(116)	(36)	13
Finance income/(expense)		0	(1)	1	1	0	0
Other income/(expense)		0	0	0	0	0	0
Reported PBT		(13)	(25)	(86)	(115)	(36)	13
Income tax expense (includes exceptionals)		0	0	(0)	0	(0)	0
Reported net income		(13)	(25)	(86)	(115)	(36)	13
Basic average number of shares, m		268	334	464	503	512	512
Basic EPS		(0.05)	0.00	(0.19)	(0.23)	(0.07)	0.03

Balance sheet	2013A	2014A	2015A	2016A	2017E	2018E
Property, plant and equipment	0	0	12	12	12	18
Goodwill	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	0
Total non-current assets	1	0	12	12	12	19
Cash and equivalents	2	48	47	67	20	144
Inventories	0	0	0	0	0	0
Trade and other receivables	0	0	2	1	1	1
Other current assets	1	3	135	5	25	25
Total current assets	3	51	185	73	47	170
Non-current loans and borrowings	0	0	0	0	0	107
Other non-current liabilities	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	0	107
Trade and other payables	1	3	14	3	3	3
Current loans and borrowings	0	1	0	0	0	0
Other current liabilities	0	0	1	1	0	0
Total current liabilities	1	4	15	4	3	3
Equity attributable to company	2	48	182	81	56	79
Non-controlling interest	(0)	(0)	(0)	(0)	(0)	(0)

Cashflow statement	2013A	2014A	2015A	2016A	2017E	2018E
Profit for the year	(13)	(25)	(86)	(115)	(36)	13
Taxation expenses	0	0	0	0	0	0
Net finance expenses	0	0	0	0	0	0
Depreciation and amortisation	0	0	0	0	0	0
Share based payments	(0)	0	15	14	10	10
Other adjustments	5	1	(7)	(7)	(2)	0
Movements in working capital	0	2	9	(10)	0	0
Interest paid / received	0	0	0	0	0	0
Income taxes paid	0	0	0	0	0	0
Cash from operations (CFO)	(8)	(22)	(70)	(117)	(28)	23
Capex	(0)	(0)	(12)	(0)	(0)	(7)
Acquisitions & disposals net	0	0	0	0	0	0
Other investing activities	2	(2)	(132)	131	(20)	0
Cash used in investing activities (CFIA)	2	(2)	(143)	130	(21)	(7)
Net proceeds from issue of shares	0	70	205	0	1	0
Movements in debt	0	0	0	0	0	107
Other financing activities	(0)	(0)	(0)	(0)	(0)	0
Cash from financing activities (CFF)	(0)	70	205	0	1	107
Increase/(decrease) in cash and equivalents	(5)	46	(8)	14	(48)	124
Currency translation differences and other	0	(0)	7	7	1	0
Cash and equivalents at end of period	2	48	47	67	20	144
Net (debt) cash	2	47	47	67	20	37
Movement in net (debt) cash over period	(5)	46	(0)	20	(47)	17

Source: Edison Investment Research, company accounts. Note: 2018e revenues include back-costs from Stonepeak.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia