EDISON

Liquefied Natural Gas Ltd

Fund-raise

Strategic investor enhances credibility in China

Oil & gas

On 4 June 2018, Liquefied Natural Gas Ltd (LNGL) announced a strategic investment by IDG Energy Investment Group (IDG Energy), a Hong Kong-listed investment holding company affiliated to IDG Capital with assets under management of c $20bn. The share placement raised gross proceeds of A$28.2m at a price of A$0.5/share (a 14.1% premium to 30-day volume weighted average price to 1 June 2018). We believe the share placement will cover Magnolia pre-FID costs and cash burn through to mid-2020. In addition, the presence of IDG Energy as a major shareholder (9.9% of share capital) will enhance credibility in China, a principal growth market for liquefied natural gas (LNG) imports. Our valuation, which we have updated to reflect funds raised and fx, rises 1% from A$1.00/share (US$3.23/ADR) to A$1.01/share (US$3.18/ADR).

Year end	Revenue (A$m)	PBT* (A$m)	Cash from operations (A$m)	Net (debt)/ cash (A$m)	Capex (A$m)
06/16	7.3	(115.1)	(117.1)	67.2	(0.1)
06/17	0.6	(29.2)	(25.5)	40.3	(0.4)
06/18e	0.3	(29.1)	(21.7)	45.6	0.0
06/19e	0.0	(37.4)	(29.6)	(417.5)	(319.7)

Note: We include all project debt on LNGL's balance sheet and assume FID in late 2018.

Tolling agreements and debt finance key to FID

Magnolia LNG has existing lump sum turnkey (LSTK) contractual agreements for plant construction with performance guarantees for the company's low-cost, proprietary OSMR technology. With equity funding secured from Stonepeak Infrastructure Partners, the key to delivering project final investment decision (FID) in 2018 remains the signing of tolling agreements/SPAs and securing debt funding (c 70% of total US$3bn). The timing of these remains uncertain.

China remains a principal LNG growth market

In 2017 China overtook South Korea as the world's second largest LNG importer at 39.0Mtpa, with Japan (83.5Mtpa) remaining in the number one spot. Chinese LNG demand is expected to continue to grow driven by economic growth and increasing environmental regulation. China currently lacks regasification and storage capacity; however, companies like IDG Energy are investing in debottlenecking LNG access, allowing for an increase in LNG imports.

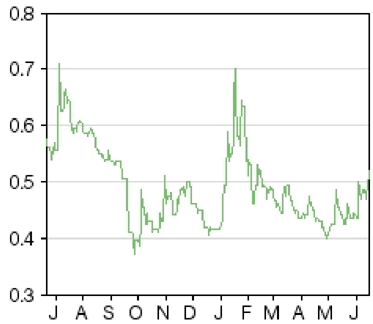
Valuation: Equity dilution in line with expectations

Our last published risked LNGL valuation had incorporated an assumed US$20m fund-raise, hence the net change after incorporating the completed A$28.2m share placing is minimal. Our risked valuation rises 1% to A$1.01/share (US$3.18/ADR). Significant uncertainty remains with regard to the timeline for project delivery. However, with our 60% chance of success currently applied to Magnolia LNG, there is the potential for a material increase in valuation once tolling agreements are signed and FID has been taken.

18 June 2018

Price	**A$0.52**
Market cap	**A$267m**
	US$:A$1.27
Net cash (A$) at 31 December 2017	33.0
Shares in issue	513.7m
Free float	95%
Code	LNG AU; LNGLY US
Primary exchange	ASX
Secondary exchange	OTC

Share price performance



%	1m	3m	12m
Abs	16.9	6.1	(18.8)
Rel (local)	16.7	3.1	(24.1)
52-week high/low		A$0.7	A$0.4

Business description

Liquefied Natural Gas Ltd 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

Tolling/offtake signed (management guidance)	2018
Final investment decision (management guidance)	2018
Financial close	2019

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Edison profile page

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

Strategic investor enhances credibility in China

Dilution from the equity fund-raise is broadly in line with our expectations (we had included a US$20m fund-raise in our last published valuation) and we view the addition of IDG Energy as a major shareholder as a positive. IDG Energy has the support of two well capitalised shareholders, IDG Capital and Global Fortune 500 company, Foxconn, enhancing LNGL's credibility in the Chinese market.

LNGL has entered into a binding agreement for a placement of fully paid ordinary shares in LNGL through an investment made by IDG Energy, an investment company listed on the Hong Kong Stock Exchange and an affiliate of IDG Capital. No shareholder approval is required and, on completion, IDG Energy will hold a 9.9% interest in LNGL. LNGL is currently applying for an ASX waiver, which will ensure anti-dilution measures for the new shareholder, IDG Energy, in the event of further share placements.

The announced share placement has raised A$28.2m before costs via the issue of 56,444,500 ordinary shares at A$0.50 per ordinary share. The placement was at a 14.1% premium to the volume weighted average price (VWAP) of LNGL shares on the ASX over the 30-trading day period ending on 1 June 2018 of A$0.44. LNGL announced that it had received A$28.2m before costs on 13th June 2018.

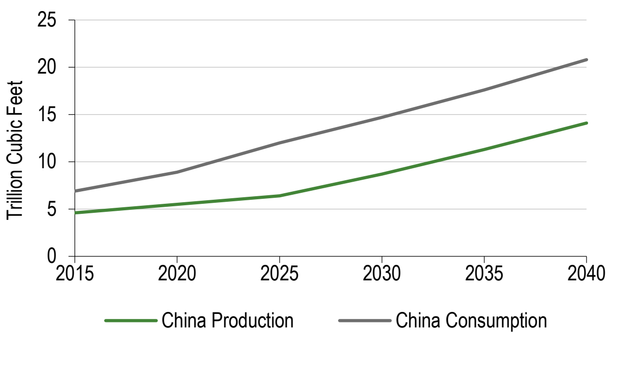
IDG Energy's investment demonstrates confidence in LNGL, particularly in the fully owned Magnolia LNG project. Magnolia LNG is a planned 8Mtpa LNG export terminal in the Port of Lake Charles, Louisiana, US. Net proceeds from the share placement will be used for ongoing LNG offtake marketing efforts, focused on the Magnolia LNG project. Management expects IDG Energy's investment to enhance credibility in China, a key growth market for LNG imports. IDG Energy has existing investments in the LNG sector including a regasification terminal in China, a potential market for Magnolia LNG product.

China a key component of LNG demand growth

LNG spot prices in Singapore this week have reached the highest in 16 weeks at US$9.7/mcf, reflecting a recent rise in crude oil, to which long-term contracts are linked, and increasing demand from emerging economies, in particular Asia. Total Asian LNG imports grew by 10.2% to 211.2Mtpa in 2017, with China a key contributor to this growth (+42.3%) as the result of a central government push to diversify away from coal to gas in order to reduce air pollution in major cities. As a consequence, China has been investing in regasification and storage infrastructure to debottleneck LNG import capacity.

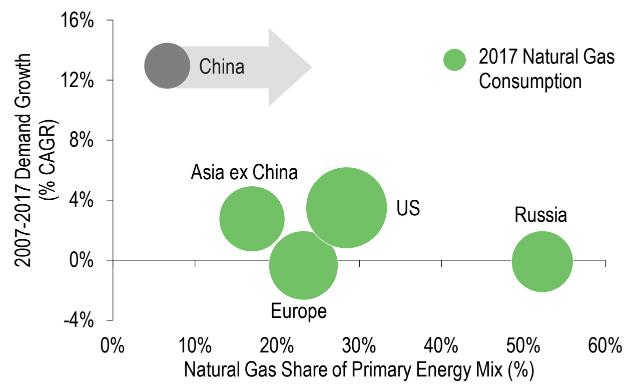
LNG markets priced above c US$8/mcf would present an opportunity for potential Magnolia LNG offtakers based on source gas of c US$3/mcf, an assumed tolling fee of US$2.75/mcf and transport costs of US$1-2/mcf. Management remains confident of signing tolling agreements/SPAs in the current market environment, but flags that securing commitments of this size can take time. A 1Mtpa contract for a 20-year period can equate to a commitment of more than $2.8bn in tolling fees. Management's ability to secure tolling agreements and debt funding during 2018 remains uncertain, but the widening disconnect between US gas prices and Asian spot LNG presents an opportunity.

Exhibit 1: Demand outpaces domestic supply



Source: Edison Investment Research, EIA International Energy Outlook 2017

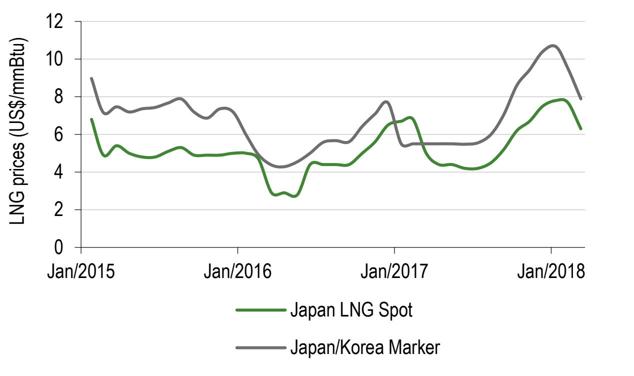
Exhibit 2: China vs world natural gas demand



Source: Edison Investment Research, BP Statistical Review of World Energy June 2018

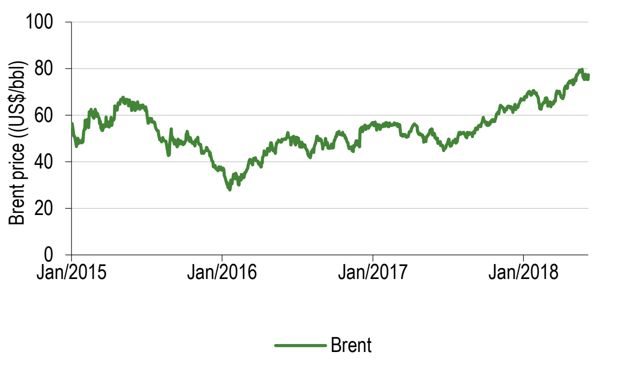
The pick-up in oil prices, combined with an increase in LNG spot prices and the growing acceptance that the glut in LNG supply will fade in the early 2020s brings confidence to the market and may help incentivise the conclusion of the tolling agreements for Magnolia LNG.

Exhibit 3: Japanese spot LNG prices have recovered



Source: Bloomberg

Exhibit 4: Brent spot pricing has improved



Source: Bloomberg

Valuation

Our valuation falls by just 1% as a result of the announced share placement, as we had already incorporated the equity dilution in our base case. Key steps to de-risking our valuation include FID on Magnolia LNG, which management expects towards the end of 2018 once tolling agreements and debt funding has been secured. To date, the project has secured tolling agreements for 2Mtpa of capacity (from a total of 8Mtpa) from Meridian and equity funding from Stonepeak.

In 2015, LNGL secured a binding engineering, procurement and construction (EPC) contract with KBR for Magnolia LNG at a fixed capex of US$4.4bn for the first four operational trains. The EPC contract has a six-month pricing adjustment mechanism, which is due to be re-evaluated in December 2018. We believe there is a potential for a contract price increase on the basis of a recent rise in raw material prices (steel prices have risen 38% since the start of 2018). Under the current agreement, Stonepeak is to provide equity funding of up to US$1.5bn for the project in return for a preferred interest in Magnolia with a fixed coupon with pay-in-kind provisions during construction. The tenor is set at 12 years and is redeemable at Magnolia's discretion after three years of operation (there are no equity conversion features).

Exhibit 5: LNGL risked valuation

Asset NOSH 570m	Country	WI	CoS	Absolute	Risked	Risked
		%	%	US$m	A$/share	US$/ADR
Net (debt)/cash (December 2017)				26	0.06	0.18
G&A (includes share based payments)				(54)	(0.12)	(0.38)
Project development costs January 2018 - December 2018e				(10)	(0.02)	(0.07)
Cash from June 2018 equity raise A$28.2m gross				22	0.05	0.15
Magnolia Trains 1-4	United States	100%	60%	365	0.81	2.56
Bear Head Trains 1-4	United States	100%	15%	105	0.23	0.74
NAV				**453**	**1.01**	**3.18**

Source: Edison Investment Research

Financials

Our financial forecasts incorporate the announced funds raised, and continue to assume Magnolia LNG FID by the end of 2018.

LNGL's current cash burn stands at c A$16m of annualised administration expense and c A$12m pa of project development expense. At December 2017, LNGL had cash resources of A$33m excluding additional funds raised of A$28.2m and cash burn is therefore now covered through to mid-2020. Management believes this to be more than sufficient to progress Magnolia through to FID.

Exhibit 6: Financial summary

Accounts: IFRS, Year-end: June, A$m	2013	2014	2015	2016	2017	2018e	2019e
Profit & Loss							
Total revenues	0.5	0.3	7.9	7.3	0.6	0.3	0.0
Cost of sales	0.0	0.0	0.0	0.0	0.0	0.0	(2.5)
Gross profit	0.5	0.3	7.9	7.3	0.6	0.3	(2.5)
SG&A (expenses)	(2.7)	(3.5)	(8.1)	(19.1)	(13.4)	(9.9)	(10.1)
R&D costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income/(expense)	(11.3)	(20.1)	(71.9)	(89.3)	(14.0)	(12.6)	(17.1)
Exceptional and adjustments	0.1	(0.5)	(14.8)	(14.3)	(2.5)	(7.0)	(7.5)
Depreciation and amortisation	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Reported EBIT	(13.6)	(23.8)	(86.9)	(115.7)	(29.6)	(29.4)	(37.5)
Finance income/(expense)	0.2	(0.8)	0.6	0.6	0.4	0.2	0.1
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional and adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported PBT	(13.4)	(24.7)	(86.3)	(115.1)	(29.2)	(29.1)	(37.4)
Income tax expense (includes exceptional)	0.0	0.0	(0.1)	0.0	(0.1)	(0.0)	0.0
Reported net income	(13.4)	(24.7)	(86.3)	(115.1)	(29.3)	(29.2)	(37.4)
Basic average number of shares, m	267.7	333.9	464.4	503.2	513.0	541.9	570.1
Basic EPS	(0.0)	0.0	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Adjusted EBITDA	(13.6)	(23.3)	(72.0)	(101.1)	(26.8)	(22.1)	(29.7)
Adjusted EBIT	(13.7)	(23.3)	(72.1)	(101.4)	(27.0)	(22.4)	(30.0)
Adjusted PBT	(13.5)	(24.1)	(71.5)	(100.8)	(26.7)	(22.1)	(29.9)
Adjusted EPS	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.0)	(0.1)
Adjusted diluted EPS	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.0)	(0.1)
Balance sheet							
Property, plant and equipment	0.1	0.3	12.1	12.0	12.0	11.8	315.4
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	16.0
Other non-current assets	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	0.6	0.3	12.1	12.0	12.0	11.8	331.4
Cash and equivalents	1.6	47.8	47.0	67.2	40.3	45.6	0.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other receivables	0.0	0.3	2.5	0.7	0.1	0.3	0.3
Other current assets	1.0	3.3	135.2	4.6	4.6	4.3	4.3
Total current assets	2.6	51.4	184.6	72.6	45.0	50.1	4.6
Non-current loans and borrowings	0.0	0.0	0.0	0.0	0.0	0.0	417.5
Other non-current liabilities	0.3	0.2	0.2	0.1	0.0	0.0	0.0
Total non-current liabilities	0.3	0.2	0.2	0.1	0.0	0.0	417.5
Trade and other payables	1.1	3.4	13.9	2.6	2.2	2.1	2.1
Current loans and borrowings	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.3	0.0	1.0	0.9	0.4	0.3	0.3
Total current liabilities	1.4	3.9	14.9	3.5	2.5	2.4	2.4
Equity attributable to company	1.7	47.7	181.7	81.1	54.6	59.7	(83.9)
Non-controlling interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Cashflow statement							
Profit for the year	(13.4)	(24.7)	(86.3)	(115.1)	(29.3)	(29.2)	(37.4)
Taxation expenses	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0
Net finance expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Share based payments	(0.1)	0.0	14.8	14.3	2.5	7.0	7.5
Other adjustments	5.3	0.8	(7.4)	(6.8)	1.5	0.2	0.0
Movements in working capital	0.4	2.0	8.9	(9.8)	(0.4)	0.0	0.0
Interest paid / received	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from operations (CFO)	(7.7)	(21.8)	(70.0)	(117.1)	(25.5)	(21.7)	(29.6)
Capex	(0.0)	(0.2)	(11.6)	(0.1)	(0.4)	0.0	(319.7)*
Acquisitions & disposals net	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investing activities	2.4	(1.8)	(131.7)	130.6	0.0	0.1	0.0
Cash used in investing activities (CFIA)	2.4	(2.0)	(143.3)	130.5	(0.4)	0.1	(319.7)
Net proceeds from issue of shares	0.0	70.2	205.0	0.2	0.7	27.4	0.0
Movements in debt	0.0	0.0	0.0	0.0	0.0	0.0	417.5
Other financing activities	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(113.7)
Cash from financing activities (CFF)	(0.0)	70.2	205.0	0.2	0.7	27.4	303.8
Increase/(decrease) in cash and equivalents	(5.3)	46.4	(8.3)	13.5	(25.3)	5.7	(45.6)
Currency translation differences and other	0.0	(0.3)	7.5	6.7	(1.6)	(0.5)	0.0
Cash and equivalents at end of period	1.6	47.8	47.0	67.2	40.3	45.6	0.0
Net (debt) cash	1.6	47.3	47.0	67.2	40.3	45.6	(417.5)
Movement in net (debt) cash over period	(5.3)	45.7	(0.3)	20.2	(26.9)	5.3	(463.1)

Source: Company accounts, Edison Investment Research. Note: *Assumes Magnolia LNG FID at the end of 2018.

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