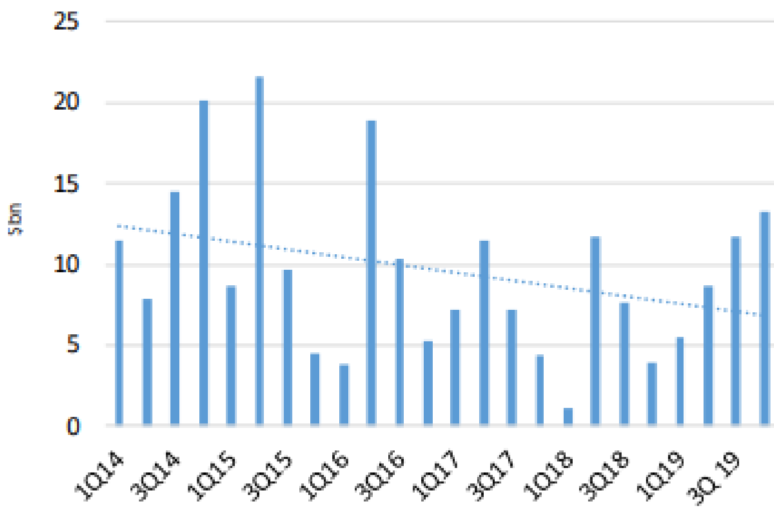
Covid-19 Threatens LNG Funding after 2019 Jump

LNG funding activity jumped to a three-year high in 2019 after a sluggish 2018 but could slip back sharply this year as a result of the coronavirus pandemic.

LNG Financing Volumes Rise Through 2019 ($bn)



The 2019 figures were boosted by liquefaction which was up 75% and funding in the LNG shipping sector, which doubled. LNG import funding, however, slipped by about 50%.

In 2019 only two new liquefaction project financings were completed, both in the US state of Louisiana. They comprised $5.8 billion for Venture Global's Calcasieu Pass and $1.5 billion for Train 6 at Cheniere's Sabine Pass. US liquefaction financing jumped to an all-time high in 2019, but most of it was refinancing of project finance debt that had closed in previous years.

The total funding for 2019 was meant to be much higher because sponsors of the two land-based projects planned for Mozambique had expected to secure around $30 billion in project finance debt in 2019, but the transactions were delayed (see Liquefaction section).

In 2019 LNG funding climbed to around $39 billion, up from $24 billion in 2018 and $31 billion in 2017. But it failed to reach the levels seen in 2016 ($42 billion), 2015 ($44 billion) and 2014 ($53 billion). LNG funding in 4Q 2019 was up from both the previous and year-ago quarters, hitting its highest quarterly level since 2Q 2016.

It had seemed possible at the beginning of 2020 that liquefaction funding this year could surpass 2019 levels and return to the record years of 2014-2016, if funding could be concluded for the two Mozambique projects, the Novatek-led Arctic LNG 2 project in Russia, and Nigeria LNG Train 7.

Sponsors on Arctic LNG 2, NLNG Train 7 and Mozambique LNG have all reached final investment decisions (FIDs). At the start of 2020, along with the refinancing for Ichthys LNG, the funding for NLNG Train 7 and Mozambique LNG had appeared imminent, with Arctic LNG 2 expected to secure funding by year-end.

They may still get funded this year, although the fallout from the Covid-19 pandemic is affecting all industries, including LNG. Restrictions on travel are an issue where large-scale project financings require multiple signatures, so even projects that are nearing financial close could see administrative delays.

With the Covid-19 pandemic making soft demand growth even worse, coupled with the uncertainties over how long it will last and the severity of its economic repercussions, project sponsors are already starting to delay FIDs. And where they can, companies will also delay refinancing of projects.

LNG Financing Volumes Rise Through 2019 ($bn) $bn The pace of new FIDs had already started to slow in the latter part of 2019 as buyers were increasingly looking for shorter contracts and more flexible supply. This strategy has been further encouraged by the currently oversupplied market, which is expected to persist for a couple of years. More recently Covid-19 has hit demand and there have been declarations of force majeure from China's CNOOC and India's Petronet and there could be more.

The key to unlocking funding had been to sell a high portion of production in long- or medium-term contracts. Once most production was sold, sponsors had been able to attract banks and export credit agencies if projects were well-structured, given that liquidity from these financiers was at a high level and debt was relatively cheap. In the commercial bank market that has now shifted as borrowing costs have risen. Banks have scrambled as companies across many sectors of industry have drawn on credit lines, such as revolving facilities.

The rout in the capital markets makes it difficult to raise funds, for both companies and banks. As companies call on credit lines it reduces banks' abilities to lend in other areas, and the effects will be worse if the Covid-19 pandemic is of long duration (see Banking section). With over a quarter of the world's population under lockdown towards the end of March, it is hard to imagine a rapid recovery.

Meanwhile, LNG import infrastructure funding failed to match 2018's big jump, although on a positive note, LNG-to-power projects in Brazil and El Salvador got done (see LNG Import Funding section). With more countries looking to import LNG, and others wanting to bring in greater volumes of LNG, higher levels of funding are expected in the coming years, although the complexities of structuring LNG-to-power make it a slow process and some countries have seen big delays in implementing their LNG import plans (see LNG Finance, July '19). Key to moving these schemes along are development banks and both projects that got funded in 2019 used them. They are expected to continue to play a major role in structuring and funding projects in this sector.

LNG ship funding doubled in 2019 from 2018's low levels. With 154 newbuilds on order, before Covid-19, LNG ship funding had been expected to remain at an elevated level for the next couple of years, but the impact of the pandemic is unclear. The major South Korean yards have already informed LNG shipowners of delivery delays and raised the possibility of force majeures (see LNG Ship Finance section).

Covid-19 is the most pressing problem for the LNG sector, but it is not the only one. A growing number of financiers and investors have announced exits from fossil fuels. Many have laid down timelines for leaving coal or oil financing, but some are also looking to get out of gas as well. The question is how quickly this will happen and whether other financiers will move in to fill the gaps, given that as a crucial part of the transition to a low carbon future, gas and its faster growing LNG segment will require considerable investment for decades to come.