LNG Funding Hit New High in 2020, Unconstrained by Pandemic

LNG funding activity soared to a new high of $65 billion last year and was largely unhindered by the coronavirus pandemic. It climbed to record levels across all sectors, including export and import projects and ship finance, according to latest figures compiled by Poten (see chart).

Funding totals in 2020 were boosted by the signing of agreements for liquefaction projects, including Mozambique LNG, Nigeria LNG's Train 7, and Sempra's Energia Costa Azul LNG export project in Mexico. ECA LNG was the only new capacity to see a final investment decision (FID) last year. While the Mozambique LNG and Nigeria LNG deals were signed by banks in 2020 and are included in 2020 funding totals, they did not reach financial close until this year. Refinancing activity was also robust, with deals concluded for Australia's Ichthys LNG, and Cheniere and Freeport projects in the US.

LNG import infrastructure funding climbed in 2020 to almost $7 billion, up from around $3 billion in 2019. With more countries looking to import LNG, this sector is expected to continue to expand. Lower overall LNG prices, despite recent winter spikes, are encouraging importers to move ahead on negotiations with project developers.

LNG ship funding doubled in 2020 to almost $13 billion. It got a boost from two lease commitments totaling $8.9 billion from Russian development bank VEB for Smart LNG's 14 Arc7 icebreaking LNG carriers. However, the VEB funds are total commitments under the 24–26- year leases, including interest. Smart is a joint venture between Russian companies Sovcomflot and Novatek and its vessels will be chartered to the Novatekled Arctic LNG 2 project.

LNG ship funding activity is expected to remain robust. Poten forecasts that the global LNG fleet of 594 vessels will expand with the delivery of 62 newbuilds in 2021. Through 2025, including the 62 vessels for 2021, deliveries are expected to total 136 vessels.

More funding being sought

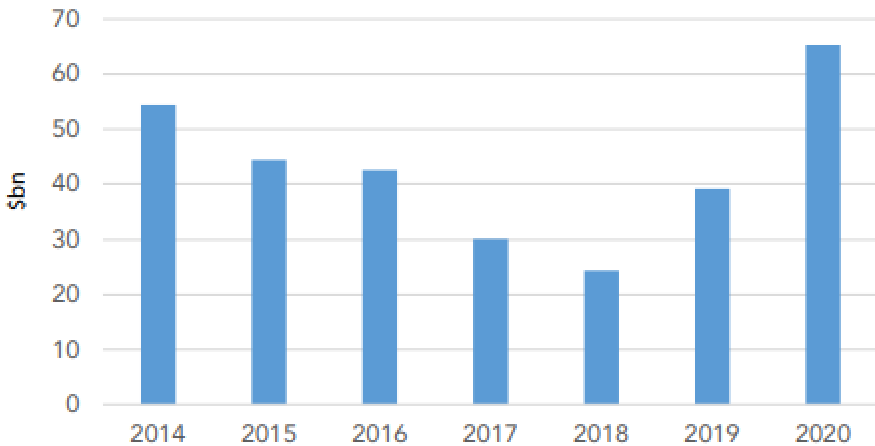
Fund raising for liquefaction projects could remain at high levels this year. Russia's Novatek and its partners are hoping to finalize the $11 billion debt package for their 19.8 MMt/y Arctic LNG 2 project in 1H 2021. Project sponsors in Australia are also looking to secure finance. A floating storage and offloading (FPSO) vessel will be used in the Barossa development for the Darwin LNG backfill, which received final sanction by Santos on March 30, and financing is actively being sought for the $2 billion ship.

Ship owner BW Offshore said that capital expenditure will be financed by banks and equity partners as well as $1 billion in advance lease payments during the construction period. The Barosaa FID was a final condition required for the sale by Santos of a 25% interest in BayuUndan and Darwin LNG to SK E&S. SK E&S is understood to have approached banks for a loan of around $1 billion to finance its purchase.

Also, in Australia, Global Infrastructure Partners (GIP) secured a loan for its $2.5 billion purchase of a 26.25% stake in the Queensland Curtis (QCLNG) common facilities from Shell. The purchase was wrapped up this month. The infrastructure investor obtained a loan of round $2.4 billion, with most of this provided by banks. Some $200 million is understood to have come from institutional investors with asset manager BlackRock as the cornerstone provider.

Further debt raising possibilities Other liquefaction projects sponsor could seek external debt for their schemes. In February this year, Qatar Petroleum sanctioned its North Field Expansion project which will take Qatari LNG capacity from 77 MMt/y to almost 110 MMt/y (see LNGWM, Feb '21). Qatar has carried out successful project financing of LNG production trains in the past, but strong cash flows and the planned participation by international oil companies in the expansion makes external fund raising questionable.

LNG Funding Jumps in 2020



However, the Qataris have already looked at the possibility of tapping export credit agency funding. ECAs can come in with large chunks of direct funding making them extremely useful in large scale project finance if the insurance cover they can also provide for political risk is not needed. Export-Import Bank of the United States, for example, provided $4.7 billion in direct loans to Mozambique LNG and the Japan Bank for International Cooperation provided $3 billion (see p. 6).

Many project sponsors delayed FIDs last year and some are now poised to reach final sanction as oil prices continue to rebound, so more project financings are expected. But even the recent FIDs by Qatar, Santos for Barossa, and Sempra for ECA LNG in late 2020 still leave sponsors seeking to sanction over 170 MMt/y of new LNG capacity. It is unlikely that project sponsors can sell enough production or tolling capacity to allow all of these schemes to go ahead this year. However, if just a few of these projects manage to attract enough customers to underpin limited recourse project financings, 2021 could be another strong year for LNG finance.

Banks are liquid and have a strong appetite to lend to well-structured projects with creditworthy sponsors that are supported by strong contractual arrangements. Around March-May last year, bank margins across all sectors were marked higher a result of the fallout from Covid-19, but by June 2020 they started to come back down and by the end of the year had returned to pre-pandemic levels.

Despite decarbonization pressures, most financiers continue to have strong appetites for LNG sector risk as it displaces coal and liquid hydrocarbons in power generation. At present the exits of fossil fuel lenders appear to be few for LNG and gas. Exits are mostly from oil and coal sectors, and even then, usually over a long horizon.