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Taking matters into your own hands: Unlocking PE investment in new market LNG projects

A key theme we explored in our recent ViewPoint *“Collaboration and Complexity: Solving the Puzzle of New and Growing LNG Markets”* [1]was that securing funding for LNG import projects in new markets[1] is expected to become increasingly challenging. Especially given the capital budgets of the LNG suppliers – which have been instrumental in recent years in supporting these projects – are likely to be constrained as a result of global recession and reduced commodity prices. Host governments, too, are likely to face more capital constraints, having been essential influencers of new import projects in recent years, whether through direct investment or by providing an attractive investment framework.

Private equity (PE) investment in these import projects is often considered as a potential alternative source of funding, although – barring a few notable exceptions – it is yet to fully take off. In this blog we explore why this may be the case, and why some PE firms seem to have bucked the trend.

Introduction

LNG import projects in new markets are not a typical investment target for PE firms. This is largely due to a combination of long lead times involved before achieving stable cashflow, no guarantee of successfully getting a project off-the-ground and uncertainty on the potential exit opportunity. A challenging proposition for any investor - and a position confirmed to Gas Strategies by a number of import project developers that have sought private capital backing only to have found a reluctance from PE firms to provide development capital.

Enter the entrepreneurs

As with most things, there are of course exceptions that buck the trend. Gas project developer New Fortress Energy (NFE) is owned by the private equity arm of Fortress. Much of NFE’s focus in recent years has been on the implementation of LNG import infrastructure in new markets – starting with the development of Jamaica’s first LNG import terminal in 2016.

Another prominent example is Africa-focused private investor Helios. Helios in 2017 established Tema LNG Terminal Company, responsible for developing the Tema import project in Ghana which is currently under construction and due to be completed later in 2020.

What links both of these new market LNG import projects is that were driven by the PE firms themselves – from early inception through to operation. And both built upon their own existing specialisms to grow the businesses from the outset, rather than by backing the management of an external project development organisation seeking finance.

NFE’s business started in small-scale LNG production and distribution onshore US (including Florida). Supplying Jamaica was a way to grow this business and NFE effectively secured a monopoly by becoming the de facto LNG supplier and distributor on the island – selling initially to one power plant and then expanding to other customers.

After growing its Jamaican operations (bringing in an upgraded FSRU and supplying additional customers), the company has since expanded geographically too, repeating in Puerto Rico the successful model it applied in Jamaica of switching liquid-fueled power plants to gas. NFE is now developing similar projects in Nicaragua [2] and Mexico – LNG-to-power complimented by small-scale LNG distribution to off-grid users. The developer also has early-phase interests across the Atlantic in Angola [3] and Ireland – with delays in the latter project proving just how hard development of import projects in new markets can be, even for an experienced player such as NFE.

Helios' investment in Tema compliments its other interests across the African continent. In West Africa alone, Helios has equity in E&P companies, gas and power distributors and hydrocarbon products too. Energy isn't the only string to Helios' bow, with investments in other sectors as well e.g. telecoms. Helios is therefore well versed in developing and managing a range of businesses in the region, including Ghana. This existing country experience meant Helios was well positioned in terms of connections, experience in navigating regulatory and permitting processes and providing the ability to bring its LNG import project over the line where others had failed.

Some other PE firms have formed similar enterprises. In 2016, Stonepeak Infrastructure Partners and Golar launched Golar Power, a joint venture which focuses on LNG-to-power projects. Golar Power's attention to date has been on Sergipe in Brazil – the partnership's first such project and importantly the first private LNG import terminal in Brazil – which started commercial operations earlier this year. The partnership has other similar projects [4] in the development pipeline.

The structure of Golar Power – a 50/50 joint venture between the two partners – is slightly different to the development approach taken by Helios and Fortress. One attraction for Stonepeak to enter in equal partnership with Golar may well have been that the shipping company already had physical assets which it could deploy at relatively short notice: the PE firm in this case perhaps trading full ownership of projects for a potential edge over competition proposing similar projects but without assets to hand.

Conclusion

Where we have seen most success in PE-backed new market LNG import projects is where those firms have led the development themselves from the outset: where they have been willing to drive and be in control of the opportunity from conception through to development and operation.

And those particular projects may have been pursued in the first place because the PE firms behind them had some specialism which gave them an edge: be it Fortress' existing small-scale LNG distribution business in the region, Helios' significant West African experience or Stonepeak's partnership with a proven technology provider.

The relative rarity of this combination of capital, expertise to develop a new project and a relevant specialism to use as a springboard, is perhaps why we are yet to see more involvement in new LNG import projects. Independent project developers considering finance routes for their import projects would do well to note this distinction. And those PE firms with an eye on investment in new market LNG import projects should recognise the myriad commercial challenges which stand between them and a potentially attractive investment – and why there are few of their peers with the specialism required to successfully drive such projects.

[1] Including those with either no or only one established import project.

For an example of our work in supporting investors in complex LNG import projects please click here [5].

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