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Contents

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Plotting long-term value in a stagnating LNG market

Valuing an under-utilised LNG asset

How do you go about valuing an LNG asset operating in a stagnating market when it has guaranteed revenue for several years, but little certainty beyond that? The asset in question in this case was an LNG receiving terminal in Europe. With gas demand stagnating in the European market, an increasing amount of LNG has been going to higher priced markets in Asia, and particularly in China.

The European terminal would continue to create revenue from a long-term capacity contract, but our client - an infrastructure investment fund evaluating an opportunity to invest in the terminal - needed a better understanding of what was in store at the end of that deal.

Understanding future use of the terminal

Our client brought us in to investigate what additional sales were available to immediately increase revenue, and to determine what utilisation levels and bookings would look like once the existing contracts had expired.

We used our global gas and LNG price and flow model to explore a number of different scenarios of LNG availability and requirements in Europe. This allowed us to assess competition between various European terminals, and the potential utilisation of each terminal. That information would have given our client a good starting point for their valuation of the terminal, but we were able to add an extra level of insight.

Predicting the shape of Europe's LNG market

Based on our strong knowledge of the LNG industry and the long-term strategies of each of the players in the market we were able to assess the strategic approach of different players to holding European regasification capacity. Our understanding of different tariff and regulatory models was also essential in helping determine the potential tariffs that might apply at the end of the existing contracts.

We combined all of that information to create a series of utilisation and revenue scenarios for our client. Our analysis was used as the basis for a binding bid for the LNG terminal.



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