

# Viewpoint

## So you want to be a portfolio player?

You own the assets, so why let someone else capture the full value?

Authors: Miraan Amin & Adam Bradfield

Reviewers & contributors:

Michael Sellers

Warwick Cernoch

Moon Hussain





Gas Strategies' Viewpoints bring you insights based on deep experience supporting clients accelerate their ability to reimagine their entire value chains. In a world where speed is a competitive advantage, we help clients navigate complexity and capture opportunities across the ever-evolving energy landscape.



# Drive more value from your value chain

Gas Strategies accelerates your ability to build physical and commercial value chains that drive real value, faster.

In a world where speed is a competitive advantage, we accelerate your ability to design, build and finance complex physical and commercial value chains.

We are an energy industry consultancy with an injection of high-end energy experience, and an instinct for action that drives results. Our people have sat in your chair, faced your issues. We translate those years in industry into clear-eyed direction that stops complexity slowing you down and turns process into progress.

From our beginnings in the complex worlds of gas and LNG, we have grown to partner clients across every energy type and drive more value from their value chains.

**Accelerate your ability to deliver, with Gas Strategies on your team.**

# Executive summary

**Billions of dollars are being left on the table across the LNG value chain. If your organisation is not actively optimising its portfolio, you are either missing that value or allowing others to take it from you. Here, we share our experience of what it takes to win in this high stakes.**

**● Reward, but with risk.**

The journey to becoming an advanced portfolio player is both difficult and risky. Your organisation needs to have the right characteristics and risk profile to make the transition successful.

**● Mastering volatility.**

Flexibility is key. Active portfolio management gives you the ability to capture huge value, but your organisation needs the flexibility to manage volatile markets with frequent price fluctuations.

**● Be prepared to change.**

Success may require a rethink of your organisational structure. Managing this change is critical to unlocking long-term success.

# Introduction

Billions of dollars are being left on the table across the LNG value chain. This value is only unlocked by organisations that understand the power of optimisation. But understanding is not enough. You have to actively drive it through your business.

With the supra-normal profits reported by traders in the last few years, many businesses have woken up to the appeal of portfolio trading. But despite this, portfolio optimisation is not for everyone. It brings greater risk, requires significant resource investment, and demands capabilities that not every organisation has or wants to build.

As energy industry practitioners, we have supported many organisations to build their portfolios or better optimise their existing assets. Some have successfully evolved to begin capturing lost value; others discovered the risk and the scale of organisational change required were too challenging and not worth the upside.

However, for those that do have the ambition, the risk appetite, and the right characteristics, there is a significant opportunity.

When you transition from managing your positions individually to operating an integrated portfolio that actively optimises multiple assets, performance can improve dramatically. You may not be striving to reach the heights of the oil and gas or independent trading giants, such as Shell, TotalEnergies, or Vitol, but there are still pragmatic steps you can take to move in that direction – allowing you to keep more of the value that might otherwise be gifting to your counterparties.

After all, they are your assets. Why let others own your upside?

Billions of dollars are being left on the table across the LNG value chain. This value is only unlocked by organisations that understand the power of optimisation. But understanding is not enough. You have to actively drive it through your business.

# What kind of player are you?

There are various stages of development on the pathway to a portfolio player - understanding where you lie is crucial

We see five key stages (Figure 1) in the evolution to becoming a fully-fledged portfolio player, starting with Foundation (having discrete assets, but with aspirations for further value) and reaching all the way up to the integrated, optimised goal of Cross-fuel Optimisation.

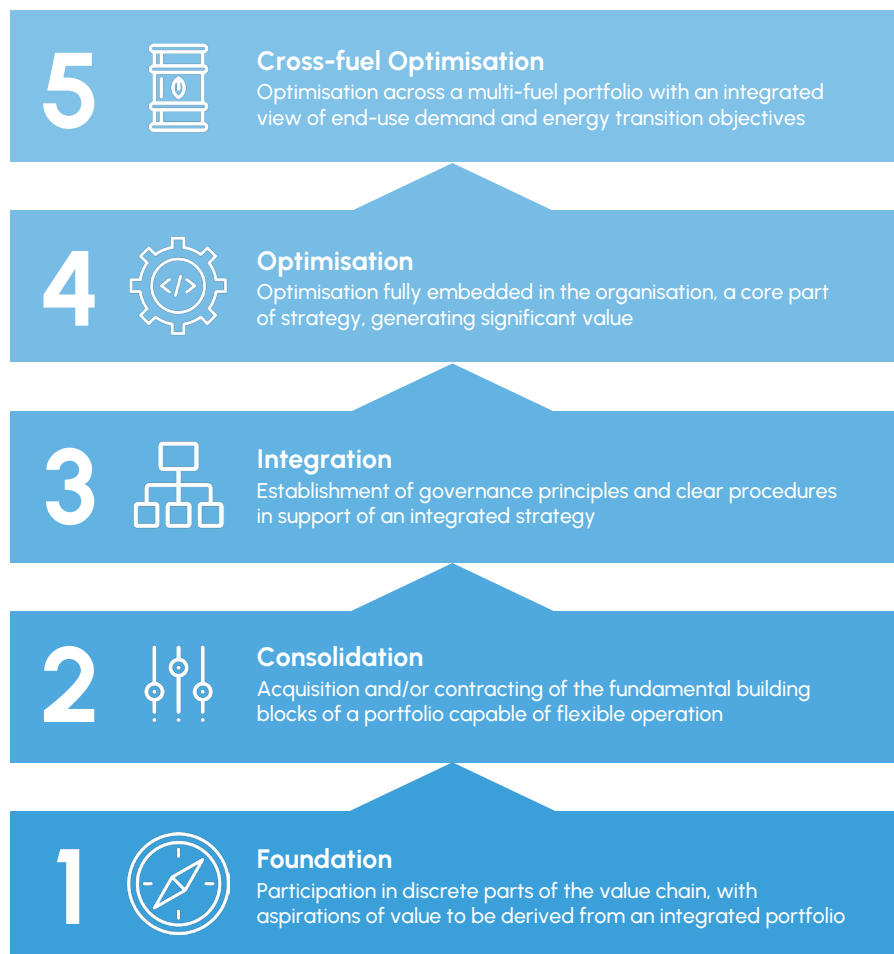
To successfully navigate the journey, you need to understand the roadmap. Many companies have the ambition to travel towards Stages 4 and 5, however only a select few have a genuine appreciation of the risks involved and the complexities they will encounter on the way.

Many of us have spent careers working in industry for the Stage 5 winners of this game. As consultants, we now share that knowledge in our work with multiple aspiring players. In our experience, those aspiring players fall into one of three categories.

## 1. Misplaced Aspirers

Typically in Stage 1 or early Stage 2, these organisations, which may have several assets/contracts, operate in discrete parts of the value chain. When it comes to pursuing an integrated approach, however, they often fall short. They lack access to

Figure 1: Gas Strategies' Portfolio Value Building Model



Source: Gas Strategies

sufficient capital and/or have sub-investment grade credit ratings. They are characterised by indecision, unable to commit to being structurally 'long' or 'short'. Without clarity on this question, it is unlikely that they will make much progress towards developing an integrated portfolio.

A more significant indicator of success, or failure, is their risk appetite. These organisations tend to be risk-averse, unwilling to be exposed to great losses in return for great profits. We have experience with clients that aspire to become a portfolio/trading organisation, but ultimately decide they are unwilling to raise the required capital for uncertain returns. This was particularly true where ambitions had been ignited by the Q4 2021 - Q1 2023 price spike. When decision time came, market conditions had subdued significantly, leaving them to call off their ambitions.

What this tells us is that even if you think you want to pursue portfolio development, you must ask yourself a key question. Are you willing to take a long-term view of value realisation, or are you distracted by an unrealistic "What if...?"

## 2. Advanced Portfolio Players

Sitting somewhere between Stages 3 and 5, these companies already manage diverse LNG portfolios. They have clear strategies, structural positions, and flexibility embedded into their contracts.

The world is not static, and even the most established players need to be alive to market change and complacency, but these organisations are well set for sustaining their portfolio value.

## 3. Foundational Market Players

In terms of opportunity, Foundational Market Players, likely sitting in Stage 1 or early Stage 2, have the most to gain. What sets them apart from Misplaced Aspirers however, is that they have a strong appreciation of what it takes to transition to become a portfolio player. They are prepared to manage the risks. They understand and accept that being a portfolio player that actively optimises assets involves becoming a fundamentally different business. And crucially, they are up for the challenge.

Like the Advanced Portfolio Players, these organisations may have multiple LNG supply and/or on-sale

positions, but are not (yet) managing them in an integrated way. There may be a real opportunity to reshape how they approach their contracts and relationships with their counterparties, in order to extract more value. They may also have the opportunity to rethink business structures or expand internal capability.

Unlike Misplaced Aspirers, they are prepared to invest time and money into capturing opportunities for long-term value, even if they still need to develop a clear view on being 'long' or 'short' in the market and exactly how to appropriately allocate risk and reward.

It is the Foundational Market Players with these traits – the right attributes, attitudes, and ambition – that are the ones with a real opportunity to advance and reap the rewards.

# With high levels of associated risk, why bother becoming a portfolio player?

The rewards of becoming a portfolio player are immense, the largest and most successful players in the LNG industry understand this and have stomached the risk involved with this transition

Ultimately, there is money to be made.

If you are participating in discrete assets but have no real optimisation, it is likely that you are being outmanoeuvred by large portfolio players and independent traders. They understand the benefits of an integrated approach and are well placed to capture value from asset owners and contract holders that either do not understand the benefits or whose business model is an obstacle to capturing them.

Global LNG markets are also volatile, with price spreads, seasonal swings, and unforeseen external events having increasing impact. Each of these present real risks to those who are underprepared. But with the right optimisation and management of a portfolio, this chaos can also present itself as an opportunity to capture value.

For example, companies with contracts and business structures that allow for flexibility can capture significant value by redirecting cargoes, optimising the delivery timing of month-end cargoes, and adjusting hedging positions.

In Figure 2, you can see Gas Strategies' Portfolio Value Building Model. We believe there are several 'pockets of value' that contribute to total portfolio value. Some come from contracting, others from the nature of your strategy, and others are made possible by the capabilities of your organisation. For each of these pockets of value, there are corresponding levers you can pull to control value generation. Only by maximising control of all of your value levers can you maximise and capture the full value of your portfolio.

If your organisation lacks those levers, the chances are you are leaving value on the table. Ask yourself these questions.

- Does your approach to contracting have sufficient flexibility embedded in it?
- Do you have a true trading organisation with the people and skills to stay dynamic in a volatile market?
- Have you financed your LNG assets with strict debt provisions that limit your flexibility (i.e. by requiring long-term contracts to be put in place from the outset) in order to protect

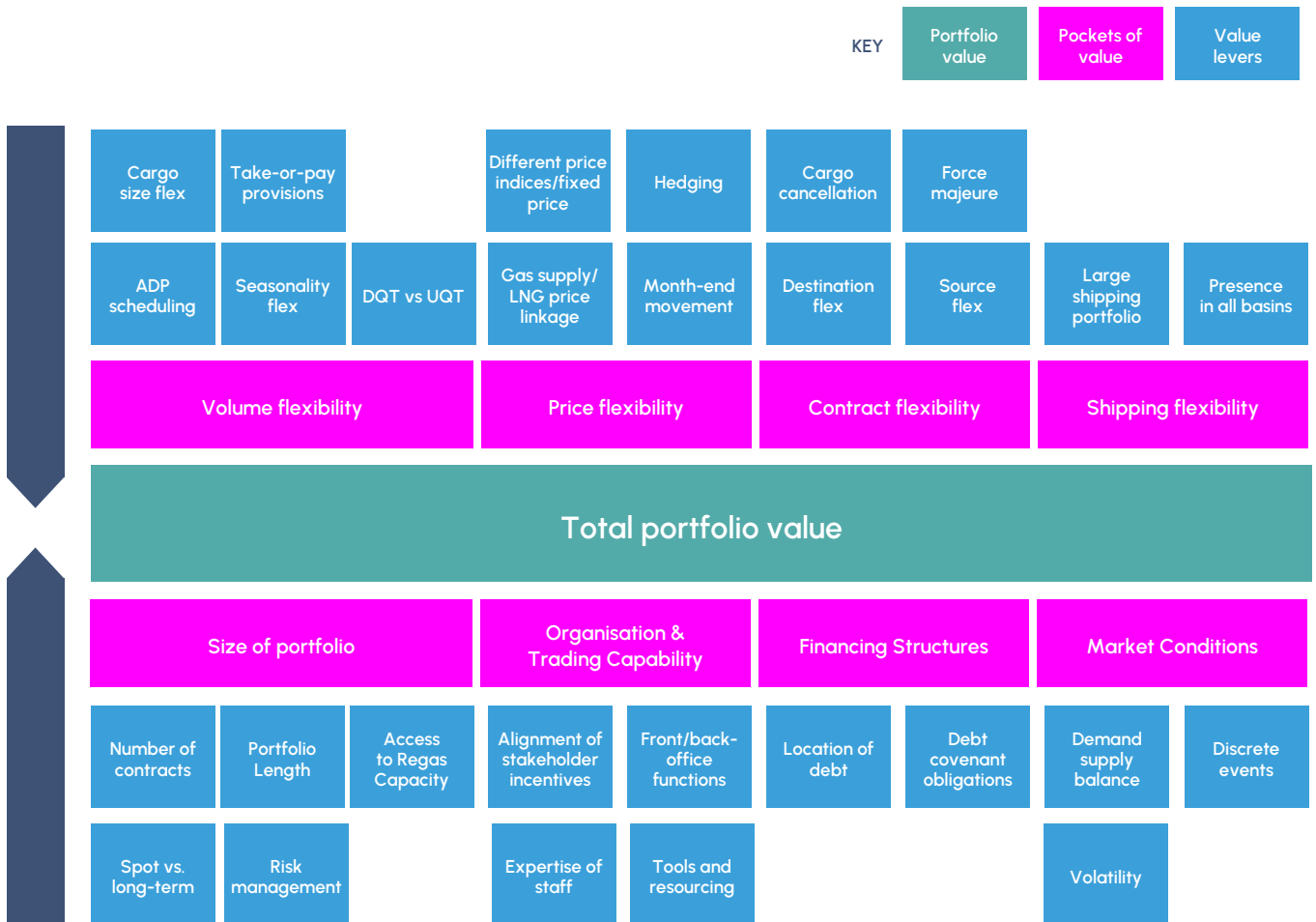
the interests of the lender over your own?

Your answers to these questions will tell you if a change of approach can unlock value you are currently passing by.

Becoming a portfolio player who actively optimises your assets creates stronger resilience to risk. Where you may previously have been vulnerable to market swings or operational uncertainties, an optimised portfolio allows strong management of these risks. It builds your credibility in the market as a serious buyer/seller. Counterparties start to view you as a more resilient and flexible partner and will want to sign agreements with you.

This is a key lesson we have seen in recent client work. Compared to organisations that our client would have considered peers, they were simply not viewed by other market participants as a 'go-to' portfolio supplier.

Figure 2: Gas Strategies' Portfolio Value Building Model



Source: Gas Strategies

# If you can't see the bigger picture, you won't see the bigger profits

To capture the full value available to you and your assets, you need to step back and understand the constraints that you are operating under

Capturing value means overcoming challenges. For the transition to be smooth and profitable, you must understand what these challenges are and how to mitigate them. And that can often include confronting the reality of where you are today.

- Have you got the right business model?
- Are you clear if your portfolio is 'long' or 'short'?

Building on the experience of others, good and bad, can help your organisation to avoid the time and cost of learning by trial and error, instead providing a clear path that sidesteps common pitfalls.

## An Inflexible Business Model

Your current model may include contracts that limit your flexibility or give more rights to your counterparty. It takes a mindset shift to approach the signing of new deals with flexibility front and centre. This will look different for different businesses. Some may want more flexible delivery terms, while others may want wider unloading ranges. Others still may opt for more favourable deliver/take-or-pay clauses.

Ultimately, your contracts need to reflect your optimisation strategy, and not that of your counterparty.

As we mentioned earlier, we have seen at least one situation where debt-financing structures have imposed restrictions on flexibility. To avoid that inflexibility, it may pay to consider alternative methods for future investments.

- Does your organisation have the balance sheet and risk appetite to finance directly?
- Or could you consider equity financing?

## An Ill-Informed Structural Position

Clarity is king. You need a definitive and organisation-wide alignment on your portfolio structure: is it 'long' or 'short'? Your decision will set your strategy, but should not constrain you. An organisation pursuing length in its portfolio still needs outlets to sell its volumes. We have supported a client that is structurally long, but appears publicly (compared to its peers) to be less active in the on-selling of volumes. That is partly because much of its portfolio length is volumes from projects that are

yet to enter commercial operations. However, waiting several years for these volumes to become available is increasing their risk of missing valuable opportunities.

For example, what if there is a near-term market development opportunity, but where the timing of this does not align with when your long-term contract volumes come onstream? What are your options in this situation? You could look at procuring short-term volumes to capture this near-term opportunity. In time, this will be filled by the long-term agreements in your portfolio. However, by taking the tactical decision to procure short-term volumes now, you establish a foothold in the market which can be leveraged for further growth, unlocking much greater demand than you would have achieved by sticking to your 'long' decision and discounting 'short' opportunities.

# Successful LNG portfolios are 1% vision and 99% alignment

Evolving your portfolio requires organisational alignment, combining new ways of working, the right recruitment, and the right systems that will ensure your success

The journey to becoming a portfolio player is a lengthy and winding one. Navigating initial risks, defining your structural position, and acquiring or contracting with more assets is just the first step in that journey. Up to this point, you have collected the building blocks of a portfolio. But there is much work to do in structuring those blocks into an integrated, optimised whole, rather than operating them as a 'part-folio' of independent assets.

Your next steps will see you move away from independent decisions, shifting instead to structured, disciplined decision-making that aligns with your company strategy and risk appetite. You will need to resource your new ways of working, employing the right people and embedding the right systems and processes. Together, this will accelerate your ability to manage risk and capture higher value upsides.

Here are some important actions that will help you on the journey

## 1 Building out an established trading function

- What roles and systems do you need to create?
- Who should you recruit to fill and operate them?
- What do your risk governance structures look like?
- What do your tax structures look like?

## 2 Restructuring your contracts to unlock optimisation

- Can existing agreements be restructured to provide additional flexibility? At what cost?
- What types of flexibility do you want your contracts to reflect?
- How will you hardwire your new flexibility into processes and ways of working?

## 3 Embedding technology and analytics

- What tools and analytic applications will allow your organisation to capture value opportunities quickly and flexibly?
- What role could AI play as you evolve, and how can you start capturing data effectively today to become AI ready?

## 4 Managing change

- What does the change management process look like as your organisation evolves?
- How can you make sure it aligns with your company strategy and ensure its success?

# Three final thoughts to guide your transformation into a portfolio player

Not everyone has the risk appetite to undergo this monumental shift, those who have done so successfully will be wondering why they didn't transition sooner

By now, you will be well aware that the journey from being a Foundational Market Player in the LNG value chain to an Advanced Portfolio Player is long and difficult. The prospective value to be gained as you move towards Stage 5 is a strong motivator. Our team has been in your shoes, building and managing complex portfolios. We bring that experience to help clients on their own transition. So we have three final tips to share on setting yourself up for success in the early stages.

## 1 Be realistic.

Being overly optimistic in the early days may lead senior executives to pull support when reality disappoints, with the result that your effort and investment are wasted. Instead, be realistic. Setting achievable targets will keep management on-side as they see the transition is heading in the right direction.

## 2 Pilot key changes.

Rather than going 'all-in' without any proven wins, pilot key changes to prove their value. You may, for example, start with a smaller asset to test the concept and validate your ability to operate profitably before investing sizeable capital into a large asset. You can also de-risk by running extensive simulations to test the commercial viability of any investment.

## 3 Aim to scale and evolve.

Standing still in an ever-evolving market, with new breeds of dynamic upstarts, can push your organisation backwards through the stages. To retain your standing, you need to be scaling and evolving, collecting data and information to make informed decisions on your next steps.

Profits are there to be made, but there are no guarantees. Risks and downsides may come before you see any value created. But if you take the right approach, combined with the right organisational ingredients, you can position yourself to capture and keep major long-term value from the market and stop other parties enjoying what should be your upside.





Accelerate your ability to deliver,  
with Gas Strategies on your team

10 St. Bride Street  
London, EC4A 4AD  
United Kingdom

[marketing@gasstrategies.com](mailto:marketing@gasstrategies.com)  
[www.gasstrategies.com](http://www.gasstrategies.com)

