Gas Strategies

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Viewpoint

LNG Finance: the end of precedent

Industry uncertainty is testing projects' credibility for lenders

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Executive summary

- The risk profile of LNG projects has changed significantly, and lenders can no longer rely on precedent to assess project credibility. Lenders must evolve their mindset and apply far greater scrutiny to a project's cost competitiveness, counterparty risk and price forecasts to avoid getting burnt.
- For project developers, those who back the right projects and take the right commercial decisions, can capture significant upside value from a volatile market.
  - Credible commercial, market, and financial advice is more important than ever to the decision-making process.
- Three key changes have potential to markedly increase project risk for lenders:
  - There is now structural LNG demand uncertainty, driven by imminent global oversupply for the next five years and the prospect of 'peak LNG' in the 2030s.
  - The historic role of LNG as a strategic source of energy supply diversification is being eroded by renewables (the IEA expects renewable power capacity to double between 2025 and 2030), as markets place increasing value on energy independence and decarbonisation
  - Offtakers are no longer overwhelmingly destination buyers, but increasingly portfolio players looking to onward sell LNG. These portfolio offtakers, which in many cases include project sponsors, are therefore exposed to structural demand (and resulting price) uncertainty.
- The Strait of Hormuz closure in March 2026 will likely further increase markets' incentive for energy independence and impact the extent to which LNG is still viewed as a strategic supply source. Developing economies – on which LNG market growth depends – may find LNG too risky to build their energy supply around. This may exacerbate the 'glut' and bring forward 'peak LNG'.
- Increased market risks may prevent LNG producers from achieving the same debt leverage as past projects and instead increase their equity requirement, whilst alternatives to project financing will become more common for less bankable projects. However, uncertainty and volatility also bring significant value potential for those projects with a competitive edge.

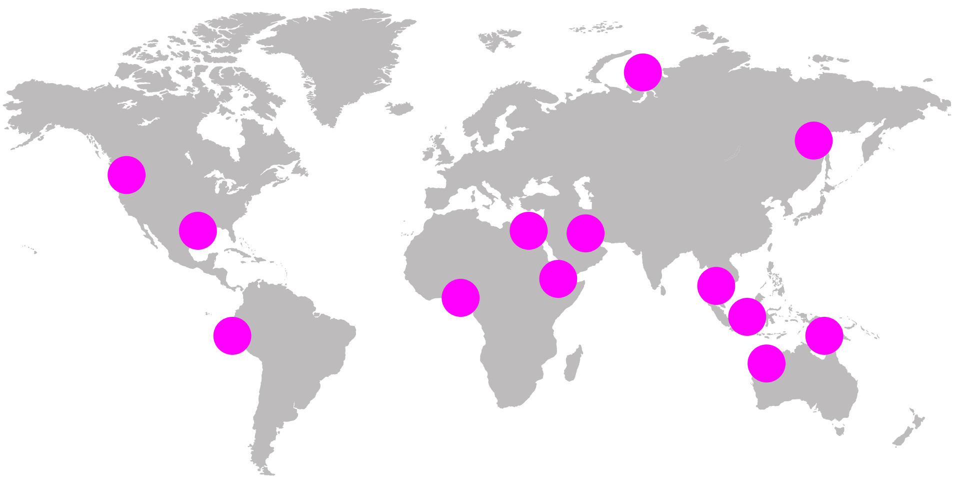
Context

The debt financing of LNG export projects has up to now been a low-risk business. Across more than three decades in our role of lenders' market advisor to ~80% of all LNG project financings globally, Gas Strategies has seen clients successfully steer a course informed as much by industry precedent as by contemporary market analysis. LNG projects' cashflows have typically been underpinned by bankable long-term offtake agreements under oil-linked pricing with investment-grade counterparties or, in the case of US projects, by a business model which leaves all market and price risk with the offtaker. Where projects have hit difficulty – Yemen LNG, Arctic LNG 2, SEGAS LNG, and Mozambique LNG – it has been for political or security reasons. This dependable model is now at risk.

The LNG industry faces structural long-term demand uncertainty through a combination of price sensitivity, geopolitical disruption and growth of alternative energy sources. In this environment, we are seeing first-hand the very real challenges faced by our clients, who we continue to support with the development and (re)financing of complex liquefaction projects around the world.

The value of precedent to lenders is diminishing and the fundamentals of their approach to LNG project financing – for so long predictable – must change.

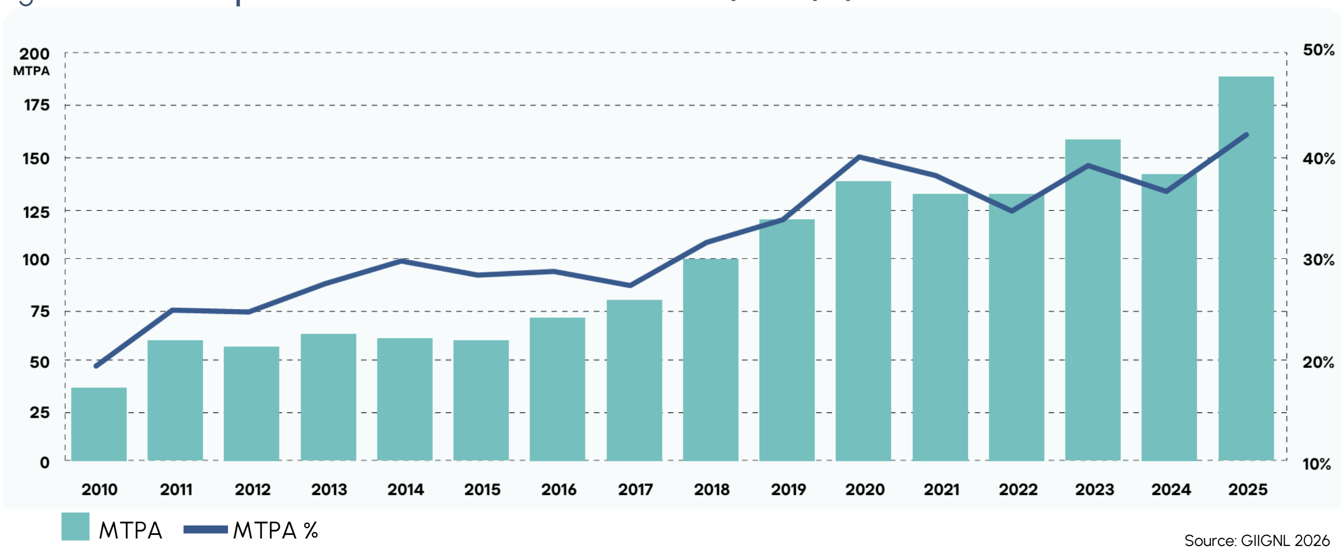
Figure 1: **Liquefaction project centres where Gas Strategies has acted as Lenders' market advisor.**



Structural LNG demand uncertainty

The concept of 'peak LNG' is not new. The journey by which the LNG industry reaches this peak may be changing, however. Long-touted as a transition fuel for growing Asian economies and a replacement fuel for coal, the questions around the LNG appetite of price sensitive markets had already begun to grow before the latest geopolitical shock, with Gas Strategies' existing forecast of peak LNG in 2035 being sooner than previous projections.. The closure of the Strait of Hormuz in March 2026 – a moment at which the industry's most serious geopolitical risk materialised – represented an historically unparallelled disruption to global LNG supply and may undermine the credibility of LNG as a source of reliable and affordable energy for potential growth markets. The impact on demand from these less mature LNG markets, on which future LNG demand growth largely depends, may be lasting. This prospect also comes in a period where living standards are being challenged and recent global economic growth is ~10% down on the pre-2020 average.

Figure 2: **Share of spot and short-term vs. total LNG trade (MTPA/%)**



Source: GIIGNL 2026

In established markets, the strategic role of LNG in providing supply diversification (historically from oil over-reliance) is being challenged by renewable alternatives and nuclear restarts, in an era where the 'energy trilemma' of energy independence, decarbonisation and affordability is many countries' key focus. Large scale renewables continues to grow strongly, particularly in China where solar and wind installed capacity grew in 2025 by 35% and 23% respectively. In certain markets, renewables are aiding energy independence where LNG does not, at a lower marginal cost once installed. A reversal of nuclear phase-out policies in Japan and Taiwan is also in motion, which combined with renewables penetration, looks set to shift the role of LNG from a strategic energy source to a supplementary, balancing one. In Europe, the strategic importance of LNG in enabling diversification from Russian pipeline gas is likely to wane as the continent continues to pursue renewables growth.

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Peak LNG is thus a more realistic prospect within the next 10-15 years. Regardless of the growth curve, LNG projects are facing a market of structural long-term demand uncertainty, in which buyer appetite to contract long term may ultimately decline. We have seen, and will continue to see, growth of the spot market and an increase in short-term contracts.

In parallel, the much-discussed global LNG supply 'glut' has not gone away. The halt to ~20% of global LNG supply and the loss of two Qatari trains (13 Mtpa) will only delay the expected oversupply temporarily – and more likely than not exacerbate it in the medium-to-long term as confidence is impacted and buyers seek alternative options. US liquefaction projects continue to lead the charge on FIDs and the questions remain: where will the LNG ultimately go, and how low will prices get?

Scrutinising counterparty risk

For lenders, this demand outlook is particularly significant because the nature of offtakers has changed. Historically dominated by end-buyer 'blue-chip' utilities, project offtake has shifted substantially to portfolio players seeking to on-sell their cargoes. A project's contracted offtake no longer guarantees end-market demand and the counterparty risk for lenders – already greater as a result – is now amplified by the exceptionally large extent of liquefaction project FIDs in the past 18 months (87 Mtpa since the beginning of 2025) and the wider backdrop of structural demand uncertainty. To what extent will portfolio buyers struggle to place their LNG cargoes with end markets?

In addition to ensuring a project's cost competitiveness, lenders must scrutinise counterparty risk with different rigour than in the past. Many portfolio players and traders are already accepted to be long LNG, and whilst some of these volumes have been backed with on-sale agreements, others may not be. Lenders will need to seek greater mitigations for this risk from offtakers, including:

- Testing the oil majors' traditional reluctance to give Parent Company Guarantees (PCGs) for trading subsidiaries
- Devoting more focus to counterparties' trading balance sheets
- Scrutinising the extent to which the project sponsor itself acts as offtaker and the sponsor's consequent exposure

LNG project risk is fundamentally shifting beyond contract structure towards counterparty resilience. Even if lenders scrutinise all the above effectively, they may still need to become comfortable with accepting more counterparty risk than in the past.

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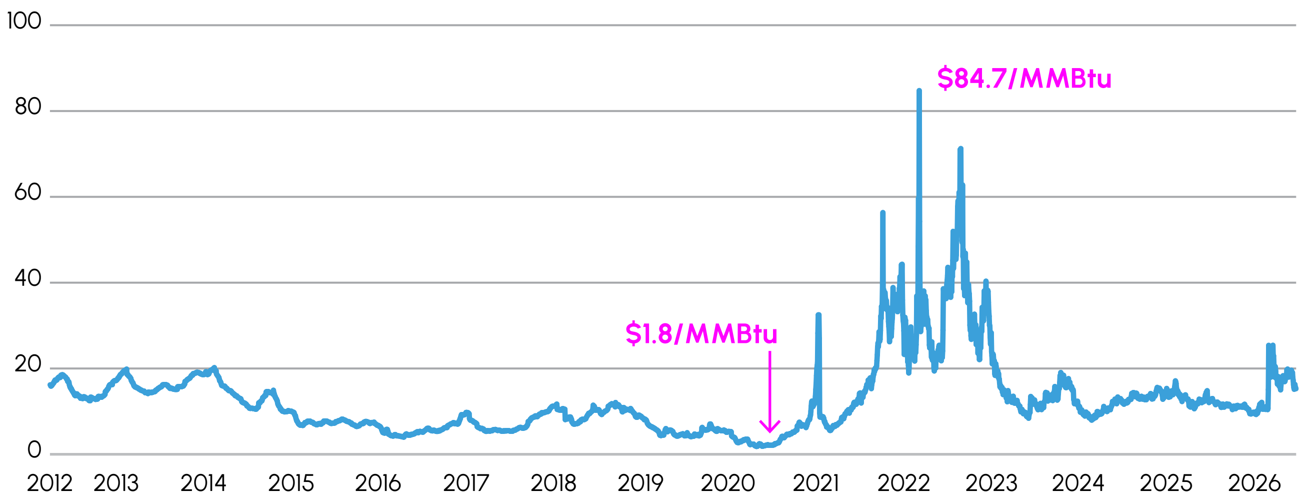
Higher ceilings, lower floors

Lenders to LNG projects are faced with a second key shift in project risk: the exposure of projects to LNG pricing that is increasingly fragmented and extreme in its market sensitivity.

LNG pricing, overwhelmingly linked to oil prices historically, has grown in complexity as spot price indices gain credibility in contract prices; most notably in the US and in Europe, the latter where TTF is now the leading price marker. The past decade has seen a number of LNG projects financed with a proportion of revenues linked to TTF (or NBP, previously the most liquid European index). In Asia, non-US origin long-term contracts remain predominantly oil-indexed, however the JKM (Japan-Korea Marker) index has emerged as the dominant index in the growing Asian short-term market, and there are strong signs that it will become more prevalent in long-term contracts.

The JKM index offers a more accurate reflection of the LNG

Figure 3: **JKM index price ($/MMBtu)**



market and the opportunity for sellers to capture huge market upside. With this however, comes more extreme price fluctuations than Brent crude, exemplified by the seismic market swings between 2020-22. JKM fell to a daily low of $1.8/MMBtu during the LNG oversupply of 2020 and rose to over $84/MMBtu in 2022 following the collapse in Russian pipeline gas supply to Europe.

This sensitivity is bringing rising risks for lenders seeking stable, predictable cash flows; even more so given the global uncertainty around the LNG supply-demand balance. Projects with significant JKM/TTF exposure must now be able to withstand extreme downside scenarios, not just base-case assumptions.

Gas Strategies is currently supporting major pre-FID LNG projects where JKM/TTF indexation is being pursued as a long-term index for a significant proportion of sales. As JKM/TTF pricing becomes more prevalent for LNG projects in this new era of dislocation between oil price and LNG price, the key question for lenders and sponsors is no longer "is the project's pricing stable?" but "is the project's pricing credible under market stress?"

The answer to this will depend partly on the proportion of revenues that are JKM-linked and partly on overall project economics. Lenders need to stress test the financial exposure of the project under very low JKM price case scenarios before they can be satisfied with a project's bankability.

Oil-linked contracts should also be subjected to more lender scrutiny prior to contract start, particularly price review provisions around index switching. A sustained scenario of high oil price and low JKM price is a real possibility and this scenario puts pressure on oil-linked contracts.

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Changeable forecasts

How should lenders and sponsors determine price forecasts against a backdrop of such market uncertainty? LNG projects require long-term pricing assumptions – traditionally for up to 20 years – that are increasingly hard to credibly produce. The current uncertainties, reflected in TTF/JKM volatility, have substantially increased the range of forecasts at a time when forecasts matter more than ever. It may be tempting for sponsors to put forward advisors whose projections put their projects in the best light. Lenders, who have always been aware of the potential for this 'assumption shopping', need to be particularly alert for it in the current circumstances.

In this context, a credible, truly independent market advisor becomes key. In assessing forward markets to form a new view on price outlooks, upside opportunity is less important than downside risk in a financing where revenue security is the name of the game for lenders. A challenging market does not give license for market advisors to publish overly bullish price projections.

This forecasting challenge also impacts the re-financing of projects previously financed under stable assumptions, a challenge Gas Strategies has seen through its continued support of some of the largest LNG project re-financings in the world. Whilst established projects are partially de-risked, they remain reliant on their contract pricing and competitive position to remain bankable. In a higher-risk LNG market, projects will find it hard to achieve the same degree of leverage, presenting a further challenge for highly-leveraged LNG producers who may require more equity for re-financing.

Competitiveness is king

Bankability is the end game for LNG project financings, and bankability is being squeezed by market uncertainty and volatility. Lenders must cast a more critical eye over every element of projects' competitiveness and how it stacks up against the global project set. In a volatile, potentially oversupplied market, only the most competitive projects will remain financeable.

Projects in low-cost feedgas environments (e.g. Argentina, Canada), with shorter shipping distances and lower transport costs to key consumer markets (e.g. APAC, Canada), will be more commercially robust in a market of lower prices and greater spot or short-term trade. Projects will need strong margin resilience at low prices to pass the competitiveness test, as well as healthy performance against tightening emissions standards.

The implication is clear; bankability is no longer secured through contract structure but earned by cost competitiveness and robust offtakers. This shift will expose projects that are less compelling on either count.

For less bankable projects, alternative financing routes are increasingly required. Projects such as Louisiana LNG have not been debt financed, relying instead on private equity investment and a commercial structure in which infrastructure is separated and the 'buy and sell' project entity pays a tolling fee to the infrastructure holder. This sort of approach will become more common for new LNG projects as lenders take a more discerning view. However, we are also likely to see more projects remain 'on the shelf' when the cost stack is simply not competitive enough. For potential signs of what's to come, see the myriad of US LNG projects that have been on the precipice of taking FID for some time. On the flip side, those projects that do have competitive advantages can capture significant value in a more volatile market.

Conclusion

- There is no precedent for current market conditions, nor for many of the changes impacting our clients.
- Amidst a backdrop of unprecedented supply disruptions, structural demand uncertainty, and pricing complexity, the relatively steady, low-risk world of LNG project financings in which lenders have operated is being rapidly supplanted.
- Sponsors, their advisors, and their lenders are instead entering an era of higher risk and unpredictability, in which the stakes are higher for all parties.
- This challenge requires a mindset shift from reliance on antecedents to confronting greater complexity, new risks, and ensuring you are equipped with the right insights to make key decisions: uncertainty comes with upside for those that can adapt.

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