LNG shipping- new routes and old roots

Contributed by

Barry Parker

Barry Parker is a financial writer and analyst. His articles appear in a number of prominent maritime periodicals including Lloyds List, Fairplay, Seatrade, and Maritime Executive and Capital Link Shipping.

Poten & Partners- the well known tanker brokerage and consultancy, along with Bloomberg- a provider of valuable information on all markets (including LNG trade and shipping generally) hosted a panel of top owners- discussing LNG shipping, last week. The panelists debated a variety of issues while fielding questions from moderator Mike Tusiani. The subjects ranged from future shipping needs (with Poten looking for LNG demand of 379 million tonnes in 2020, up from 245 million in 2013) to optimal company structures. From the conversations, sales of gas out to Asia starting in 2016, from US Gulf and East Coast exporters (Poten data shows that four have been fully approved) seem to be a given; there was no pushback during the session on whether the Panama Canal widening might be delayed beyond its announced opening in early 2016.

The subtext permeating much of the discussion concerned the definition of "speculative" in the context of ordering vessels. Framed differently, if all signs point to dramatic increases in demand, are vessel orders sans firm contracts in hand really "speculation"? In general, the panelists thought not. Interestingly, Poten data revealed that a market in "spot" LNG cargoes, pegged at 2% of seaborne LNG tonnages in 2000, had grown to 21% in 2010, while average contract durations were shrinking from 23 years to 18 years (less than the life of a newbuild, in theory) during the same time-frame.

When talking to the owners of very expensive assets, the phrase "speculative ordering", the subject of moderator Tusiani's query, brought about varying reactions from the panelists. George Procopiou, from Dynagas LNG, opined that: "It's not a problem….we've entered a golden age of gas…" an observation supported by other panelists who highlighted tremendous future demand for LNG movements. Time did not permit Mr. Procopiou to discuss his company's emphasis on shipments from challenging origins; the company's website notes that: "The greater part of the fleet has been assigned with ice class notation 1A (or equivalent), and is fully winterized to enable the vessels to perform safe navigation and operations in sub-zero and ice condition environments." The company's LNG carrier Ob River was the carried the first cargo delivered through the Northern Sea route, in 2012.

Panelist Peter Livanos, from Gas Log, talked about the huge macro growth outlook (supported by all that rosy data), and reduced risk "when you are adding to an existing and competent platform.". He did caution "…you should not be buying ships if you don't know how to run them." A different take came from Sveinung Støhle, from Hoegh LNG- who commented that: "…in the FSRU sector, we need to have a vessel on order…before we make a bid…" on a project. Mr. Støhle stressed the long term nature of LNG shipping saying that it's a long term game and "we need to be in it for the long term." In a general comment, Mr. Trøim, , representing the Golar group of companies, expressed the view that we are near a cyclical low in LNG vessel pricing.

Mr. Trøim provided candid views on desired returns (…."we look for 20% - 25%..." and that the much trumpeted "7% to 10% from MLPs" a widely publicized FLNG project, Golar is converting an older LNG at Keppel into a floating production plant that he hoped could deliver inexpensive LNG, circa $5/MMbtu, to destinations presently facing double digit prices. He opined: "…it's a good business…the risk is high…but the possible returns can be massive…" As with other such presentations (or articles in the shipping press), there was no discussion of specific technology risks surrounding such projects.

The subjects of public versus private, and of structures- C corporation versus Master Limited Partnership's (MLPs) proved to be contentious amongst the owners. Dynagas's Mr. Procopiou explained that investors would be happy, getting 7% - 9% yields from a project but not taking the enormous risks (and earning commensurate returns) that a sponsor might get- putting projects together and then selling to an MLP. Like several listed peers, Dynagas has "dropped down" vessels into an MLP- in late September, a fifth vessel (and the 4th with ice class), Yenisei River, built 2013, on charter to Gazprom Global LNG Limited, joined the fleet of Dynagas LNG Partners LP.

Mr. Trøim, whose group includes Golar LP, chimed in, saying that MLP's were good for investors, but that MLP structures did not change the overall return of a project- which the sponsors needed to focus on. Most of the panelists felt that big projects required public money, with lone dissenter being John Angelicoussis, who said: "We can fund <our deals> through internal capital," and that he saw no need to seek public funding. Peter Livanos stressed that public listings imposed a discipline on valuations. Mr. Trøim reiterated a view that's already played out in the financing markets, ie public money comprised an integral part of huge financings for FLNG.

In summing up the two hour discussion, we can point to the polite repartee' among the panelists. Mr. Procopiou said "There's no one model for an LNG shipping company; each company is different", with Mr Angelicoussis replying: "There is one model, just fix your ships profitably." Peter Livanos brought in the point of view of the charterers (a group barely mentioned during the session), pointing to the numeraire of "delivering gas for the lowest cost per molecule."

At events of this type, shipping trivia always looms large. A drinks reception following the presentation featured a delightful Cabernet Sauvignon, from the Maipo region of Chile. A closer look at the label revealed that this wine, dubbed as "Armador" (a Spanish word for shipowner), originated in Odfjell Vineyards, linked to the same group that Mr. Livanos's predecessor company, Ceres, did a chemical tanker tie-up with, in the early 2000's. As readers begin thinking about their holiday gifts (and higher gas prices, maybe?), they might consider this fine vintage with the generations of deep nautical roots.