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Woodside betting big on LNG price rise

The Australian company is expecting an upturn in LNG prices and is planning to take FIDs on brownfield expansion projects in 2020

By Damon Evans 8 March 2019



The Pluto LNG plant in Australia. (Woodside)

Australia's Woodside Petroleum is preparing to take FIDs on large gas developments off the Australian coast as it expects future LNG prices to swing in its favour.

The Perth-based company is targeting FIDs next year on the Scarborough-Pluto 2 project, which has an estimated capital budget of \$11 billion, and the much larger Browse development, which is estimated to cost around \$20 billion. Significantly, these brownfield expansion projects could be sanctioned without long-term sales deals being agreed, as Woodside has the financial power to start development and hold out for more favourable LNG prices.

The Scarborough field offshore Western Australia will supply gas for a new 5 mtpa train at the Pluto liquefaction plant, while Browse is expected to underpin 10-12 mtpa of new production capacity via the existing North West Shelf LNG complex, which Woodside also operates.

Woodside expects global LNG demand to rise by 230 mtpa by 2030 compared with 2018, meaning the challenge with the current LNG market is not demand – but pricing.

“What we have not said openly is that prices are terrible. It is very difficult to make investments at this point, with the exception of the very big players that can see their way through the price cycles,” Woodside Chief Executive Peter Coleman told delegates at the LNG Supplies for Asian Markets Conference in Singapore on Wednesday.

Coleman said the environment is not conducive for long-term investment while Japan/Korea Marker-indexed prices are below \$6/MMBtu. He added that developers will be doing well if they can lock in deals at around \$8/MMBtu. This indicates the price Woodside is likely to be seeking for its new LNG production.

The company is in no hurry to sign up buyers until LNG pricing improves. Scarborough and Browse will double Woodside’s equity LNG production by 2027 – right at the time when the world is expected to need more of the fuel. It should therefore come as no surprise that the company is betting now is not the time to sign sales deals at bargain prices. The lack of investment in new production capacity in recent years is expected to lead to a much tighter market by 2023, and this is set to result in improved LNG pricing for suppliers.

Equity sales

Crucially, Woodside’s balance sheet is big enough for it not to need to sign deals before taking FIDs. It also helps that the company has only one partner, which makes decision-making straightforward. Woodside has a 100% stake in Pluto’s second train and a 75% operating interest in Scarborough, in which BHP has a 25% stake. However, Woodside aims to divest up to 35% of its Scarborough interest and up to 50% of Pluto Train 2.

There has not been much interest recently in equity participation from traditional buyers, who see much more liquidity and optionality in the market than ever before. As a result, these buyers do not feel the need to commit large chunks of capital to help develop new LNG supply projects.

However, Coleman told Interfax that Woodside is in talks with potential investors – including large companies in Asia and multiple Middle Eastern players – that could take equity shares in the projects later in 2019. Still, Woodside will probably push ahead with FIDs on the projects even if the divestments are not agreed this year.

This might seem like a bold move, but Woodside has developed a contracting strategy to improve capital efficiency and better manage risk. The company has taken advantage of the current lack of demand for construction services in the industry to lock in fixed lump-sum deals with builders and engineering companies. The contract pricing is secured at the FEED stage rather than at FID, which means Woodside already knows roughly what the projects will cost to develop.

FEED is already under way on the Scarborough offshore project and the new train at Pluto, while it is scheduled to start this year on Browse. The potential development scenarios for Browse have been talked about for years but never really progressed. This time it is different. As Coleman said, “it’s now or never”.