Malaysia primed to rival Qatar in LNG market shake-up

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MALAYSIA could be the largest supplier of flexible liquefied natural gas (LNG), even larger than Qatar, the world's biggest producer, by 2020.

The southeast Asian nation's supply capacity is ballooning with expansions in eastern Malaysia and Canada, as well as offtake agreements with other suppliers and stakes in projects such as the Santos-led Gladstone LNG scheme in Australia.

Its supply potential could expand by over 55% from 27 million tonnes per year (t/y) in 2013 to 42 million t/y in 2020, data from energy research firm Wood Mackenzie shows. Some of this new supply is committed to buyers, but some is not. In parallel some of its legacy supply contracts are set to expire over the next 10 years.

Rising stocks

Wood Mackenzie's analysis shows Malaysian national oil company Petronas' flexible LNG volumes will jump from 2.5 million t/y in 2013 to 26 million t/y – roughly equal to one-tenth of global demand in 2012 – by 2022. In contrast, Qatar, which has no plans to expand its nameplate capacity of 77 million t/y, was estimated to have swing supplies of 20 million tonnes last year.

Although Qatar has the lowest production costs in the world, Petronas will still compete favourably because they can blend their cheaper domestic LNG supply with their higher cost projects in Australia and Canada, making them competitive on a portfolio basis, Zhi Xin Chong, an Asian-LNG specialist at Wood Mackenzie, told *Petroleum Economist*.

Aside from challenging Qatar, Malaysia's growing volume of uncontracted LNG will provide strong competition to new projects, such as those in the US, Canada and East Africa, said Chong.

With seven LNG projects due to start exporting LNG from Australia over the next three to four years, as well as the ramp up of US output, the market looks well supplied. Spot prices are falling and the supply-demand balance appears to be easing.

Yet in the longer run the market could tighten as buyers, spoilt for choice, are holding out for cheaper deals, which could delay proposed new projects that need sales agreements in place to underpin their investment, Chong added.

"Should other new supply struggle to get developed, a long LNG portfolio would position Petronas well for a tight global gas market."

Petronas' swing capacity could be used to support its Pacific North West LNG project in Canada prior to production too, differentiating it from other greenfield projects with uncertain start-ups. It also removes the pressure on delivery and offers customers a diverse supply source.

But should there be a glut of supply its flexible portfolio might not be such a blessing. Nevertheless Petronas has the ability to find a market for its LNG at home, an option not available to its competitors, said Chong.

Data from the energy research firm shows that about 4 million t/y of LNG will be needed to balance the peninsular Malaysia market by 2022, up from 1.5 million t/y in 2013, as domestic prices are expected to hit parity with international LNG markers.

Petronas' management of indigenous pipe gas – both new supply and existing contracts – could enable some piped gas to be backed out in favour of LNG, meaning imports could even reach 8 million t/y in 2022.

Indeed, peninsular Malaysia could be Petronas' hidden trump card to balance excess LNG, Chong said.

Since the global financial crisis, Qatar's control of a third of the global LNG business has allowed it to influence prices, ride out market shocks and profit immensely. But clearly Qatar faces new challenges, for which there is no easy solution, Robin Mills, head of consulting at Middle East-based Manaar Energy, wrote in *The Nation*.

Its growing volume of uncontracted LNG will provide strong competition to new projects

Still, the Gulf nation's LNG exports will continue to be enormously lucrative, says Mills, but if it is not going to strategically expand capacity further it will not be able to deter competitors.

Australia is primed to be the world's biggest producer with 85 million tonnes of capacity by 2018, while the US is eyeing 50 million tonnes by the mid-2020s, not to mention the emerging suppliers in Canada, East Africa and Russia.

Reserves

Qatar could add another 12 million t/y of capacity by de-bottlenecking its existing liquefaction complex, while the North Field, which feeds its plants, has ample reserves for more trains, but Doha seems in no hurry to lift its moratorium on expanding the giant field.

Qatar probably does not want to expand its LNG production into a market that appears likely to be oversupplied later this decade, but they might do some de-bottlenecking, Mills told *Petroleum Economist*.

Of course, Qatar Petroleum along with ExxonMobil, is planning to build an LNG export plant in the US. "This will give its portfolio greater depth and diversity, but with nothing like the profitability of its domestic investments," Mills said.

Nevertheless, he expects the LNG powerhouse will do more international ventures to develop its trading portfolio to serve customers in Europe, while preserving its grip on the premium Asian market.

And should Qatar build any new liquefaction at home, despite being more expensive than its existing capacity, it would still have the lowest-cost LNG in the world due to its sheer scale, low production costs, associated liquids, as well as easy permitting and land access, cheap labour and existing infrastructure.

Qatar's break-even cost is close to zero because of its byproducts – high-value condensate and natural gas liquids. ●