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THE COMPASS

Margin risk for CGD players on higher LNG prices

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Gas demand has soared, hitting high levels of an average 198 million metric standard cubic metres per day (mmscmd) in October 2023, after averaging between 193 and 198 mmscmd during August-September.

The consumption was split among fertiliser (61.1 mmscmd in October 2023, vs. 57-59 mmscmd in August-September 2023); power (28.3 mmscmd in October, down slightly compared to August-September; city gas distribution or CGD (38 mmmcd in October, vs. 36.3 mmscmd in September) and other industrials (70.7 mmscmd in October vs. 70 mmscmd in September).

Till date, gas consumption in FY24 is up 15 per cent year-on-year (Y-o-Y) after three years of decline. About 103 mmscmd is supplied by domestic production, up from 93 mmscmd Y-o-Y.

At KGD-6, the Reliance Industries (RIL)-BP combine is producing 27 mmscmd (up from 20 mmscmd a year ago).

Liquefied natural gas (LNG) imports amount to 95 mmscmd, up from 59 mmscmd Y-o-Y.

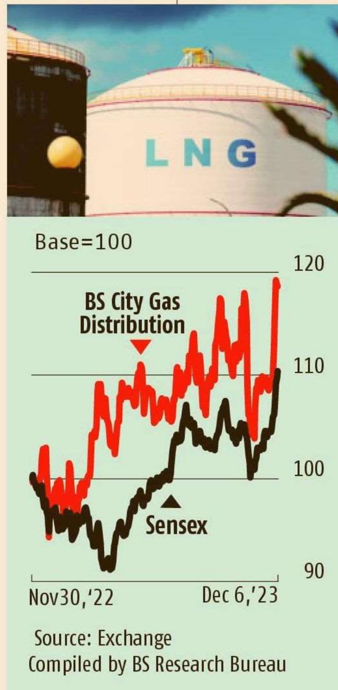
KGD-6 may ramp up to 30 mmscmd very soon. But exposure to spot LNG imports is high and may rise.

Surges in LNG prices could lead to volume and margin risks for gas companies, particularly CGD players. The CGD demand is currently being met by higher allocation of high pressure high temperature (HPHT) gas.

Spot LNG prices have almost normalised from record highs in 2022. Asian spot LNG prices have been in the range of $13-18/metric million British thermal unit (mmbtu). This is 19 per cent of the Brent crude price, and higher than the historical average of 15 per cent of Brent.

Among CGD players, Gujarat Gas has the highest dependency on spot LNG, at 20-30 per cent of consumption. Higher spot LNG prices could impact domestic demand and lead to volume contraction for Petronet LNG, GAIL and GSPL.zThe cost of gas will rise due to an increasing shortfall of administered pricing mechanism (APM), rising share of new wells in the APM portfolio (at 20 per cent higher prices) and APM ceiling price increases. There's likely to be a rising APM shortfall and CGDs' gas cost will rise again if LNG prices don't moderate.

High prices will lead to weaker demand for other segments. Segments like fertiliser will seek alternatives like green hydrogen and green ammonia where there is policy support. In transport, gas remains cheaper versus diesel/ petrol but electric vehicles are a long-term threat.



Source: Exchange
Compiled by BS Research Bureau

Petronet LNG saw higher LNG imports in FY24, and if volume assumptions are maintained, operating profit could witness three-year compound annual growth rate (CAGR) of 7-9 per cent. New LNG terminals have led to higher competitive intensity.

The company has struggled to recover use-or-pay charges from customers, including its promoters.

The key Qatar contracts are due for renewal, which need to be monitored. The recent decision to diversify into petrochemicals with a capex of ₹20,700 crore will be a drag on the balance sheet.

For GAIL, the worst may be over due to the integrated transmission tariff revisions, and decline in gas prices from the record highs.

GAIL's tariffs are at premium to the Petroleum and Natural Gas Regulatory Board (PNGRB) recommendations and this is positive. But costs are rising due to the demand-supply gap in APM allocation. GAIL also has high capex in new pipelines.

In Indraprastha Gas (IGL) and Mahanagar Gas (MGL), demand doesn't seem to have risen much with the new APM pricing formula kicking in from April. For H1FY24, MGL's volumes were flat Y-o-Y. IGL saw just 3.3 per cent volume growth.

Gujarat State Petronet (GSPL) has seen delays in tariff revision for GSPL's high pressure pipeline and a tariff cut is likely.

But the current share price has a very high discount of around 70 per cent to the current market price for the 54 per cent stake GSPL holds in Gujarat Gas and could narrow, going ahead.