

China Oil & Gas

SIA: Gas demand +7.0% YoY, more Russia gas in '24E; mega LNG arrival after '26E

Industry Overview

'24E: Gas demand +7.0% YoY and more Russia gas imports

Today, we hosted a conference call with Yao Li, CEO of China's leading natural gas consultancy SIA Energy. Li reviews China gas market and forecasts real demand growth to be 27.1bcm in FY23 (+7.3% YoY, +3.4% CAGR in 2021-2023), mainly driven by residential and commercial sectors, and gas-based power generation. SIA also projects China's gas demand growth to maintain stable in 2024, with total real demand growth of 27.4 (+7.0% YoY), given: 1) domestic industrial sector will recover and export will improve; 2) a likely further rise in residential and commercial demand; and 3) likely additional demand stimulated by lower-than-expected gas price and ample resources. On the supply front, SIA reckons domestic output at 232/247bcm (+6/6 % YoY) in FY23/24, with 66/74bcm of PNG import (+8/10% YoY) and 71/74mnt of LNG import (+11/6% YoY) making up the supply. The marginal supply mainly comes from major domestic gas field including Odors, Tarim, offshore deep-water region and Sichuan as well as Russia's Siberia Power piped gas imports. Specifically, SIA emphasizes imported Russian PNG at 22bcm and 30bcm in FY23/24, and expects Siberia Power II pipeline will not achieve materialized progress before 2030 given unsettled pricing and ample LNG imports.

PTR likely to maintain gas price in FY24/25 contract

China imported LNG price is linked to crude oil price in prior 3-6 months and imported PNG price is linked to crude oil price in prior 9-12 months. Considering the time lags of PNG and LNG, SIA estimates the imported prices of LNG and PNG in 2024 to be downtrend YoY. That said, PTR highly likely to keep their gas contract price stable in FY24/25 contract with downstream city gas companies, given: 1) slumped imported gas cost; 2) soft cost of whole resources pool; 3) social responsibilities to stabilize gas price. Taking Guangdong province as an example, the demand center in South China, PTR gas ASP in 4Q23 was RMB3.5-3.6/cm, which was lower than expected, compared with ASP of RMB3.0-3.3/cm in summer season 2023 and ASP of RMB3.8-4.0/cm in 4Q22. Meanwhile, Sinopec and CNOOC are more willing to slash their gas ASPs, given 1) imported LNG price slump; and 2) lower gas ASP should help gain more market share.

Terminal tariff to drop until mega LT LNG arrival in '26E

China now has 25 LNG terminals along its coast, with a total import handling capacity of 120mntpa. SIA expects LNG terminal run rate to drop from 90% in 2021 to 60% in 2024, and further down to 50% in 2025, as a result of more LNG terminal capacity (~170mntpa) expected to come online in 2024-25. SIA believes the pressure of lower utilization rate will push operators to squeeze terminal tariff, and the pivot point is likely at 2026 when mega LT LNG contract to be implemented (c.60.5mntpa of LT LNG contract after 2026). Meanwhile, SIA also reckons China will continue to construct under gas storage (5bcmpa) considering current storage capacity is 20bcm, only accounting for 5% of demand (vs. 20%-30% of storage capacity to demand ratio in OECD).

10 January 2024

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CAGR: Compound annual growth rate

LNG: Liquefied natural gas

PNG: Piped natural gas

ASP: Averaged selling price

Mntpa: Million tons per year

PTR: PetroChina

LT: Long term

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Timestamp: 09 January 2024 12:24PM EST

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