

China Oil & Gas

Expert: +4% demand growth in '24E with improved dollar margin in downstream

Industry Overview

Sees 4% demand growth in FY24, driven by residential gas

We hosted a conference call with Mr. Miao, Lv from the China Gas Association on the natural gas downstream market outlook. In FY23, China gas demand was 394.5bcm vs. 366.3bcm in FY22, +8% YoY, per NDRC's data. Lv reckoned the post-pandemic recovery was mainly driven by residential gas (incl. heating, utilities etc.), which contributed up to 20bcm increments. The expert also forecasted that China's gas demand in FY24, fueled by a further rise in residential and heating demand, will grow by 4% YoY to 410bcm. By sectors, Mr. Lv projected: 1) city gas demand to be c.152bcm in total.

Residential/heating will add 43/46bcm amid stable urbanization and weak coal-to-gas process; the utilities sector will sustain its recovery in FY23 and thus maintain growth of c.6% to 30bcm; transportation demand will be around 33-34bcm, with the majority of growth likely from LNG-powered heavy trucks; 2) power generation will contribute 67-69bcm in FY24; 3) industrial and chemical sector will be likely to have stagnant demand, flat at their FY23's level of 150/30bcm.

Dollar margins could improve in FY24 but not significantly

Mr. Lv believed the average cost for gas distributors was RMB3.3-3.6/cm in FY23, which could be stable in FY24. According to our channel check with industrial consultancy SIA, PetroChina is highly likely to keep their gas contract price stable in FY24/25 contracts with downstream city gas companies, given: 1) slumped imported-gas cost; 2) soft cost of whole resources pool; 3) social responsibilities to stabilize gas prices. On the sales front, the ASP for distributors was RMB3.9-4.6/cm in FY23. Meanwhile, more than 30 municipal Development and Reform Commissions (DRC) announced higher residential and C&I gas prices after NDRC unveiled a new mechanism linking retail gas price with distributors' purchasing costs, to help the cost pass-through. Lv expects more cities to follow the price reform steps in FY24, but the number may be fewer. That said, the current premium range (c.RMB0.4-0.6) may be highly likely to moves upward, but moderately.

Upstream oil majors' entries impose limited impacts

The upstream oil majors started to develop their downstream specialty arms years ago riding on their ample resources (PTR's Kunlun, SNP's GreatWall Gas and CNOOC's Gaspower). However, its progress has lagged behind the expectations. Lv believes the upstream oil giants' participation to have limited impacts on the downstream market, given: 1) the exposure was limited via point-to-point industrial users, a tiny slice of the pie; 2) upstream oil companies were less advantageous in gaining shares from the existing market than city gas companies due to the franchise license issues. Rather, the major mode for them to enter the downstream market was to cooperate with local city gas companies.

25 January 2024

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China
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bcm: billion cubic meters

NDRC: National Development and Reform Commission

LNG: Liquefied natural gas

C&I: Commercial & industrial

ASP: Averaged selling price

PTR: PetroChina

SNP: Sinopec

CNOOC: China National Offshore Oil Corporation

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Timestamp: 24 January 2024 12:22PM EST

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