

THE CHINESE DEMAND FOR LNG



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Market Views

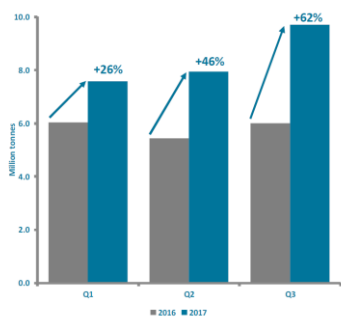
“Chinese LNG demand is expected to continue to rise, yet LNG ship orders are at a 7-year low. Given that it takes around 2.5 years to build a new vessel an imbalance could be reached next year, leading to a rise in shipping rates.”



Last year China launched the ‘2+26’ initiative, aiming to reduce air pollution in Beijing, Tianjin and 26 other cities. Most people tend to associate air pollution with cars, industrial manufacturing and electricity production. But the main problem in China is private individuals burning coal to heat their homes. They also tend to use one of the dirtiest variants of coal, which is much more polluting than that used by a power plant. The obvious solution is to switch those individuals away from coal to gas. In order to speed up the transition the Chinese government has decided to offer substantial subsidies covering connection fees, gas heaters and a contribution towards the cost of the gas itself.

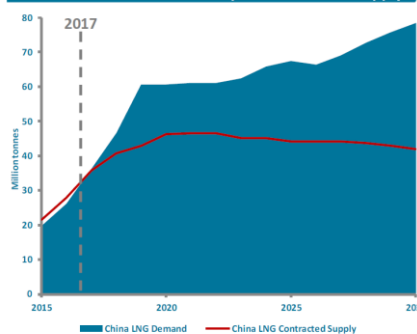
As a consequence of the above Chinese demand for natural gas has seen big increases. Given that Chinese owned resources are limited and there are still not enough direct pipelines, the best solution for the medium term seems to be the importing of LNG (liquefied natural gas) via specialized ships. Wood Mackenzie estimates that China’s LNG imports this winter will be up by 40% year-on-year.

Chinese LNG Imports +44% YTD 2017 vs YTD 2016



Source: GasLog Ltd Q3 earnings presentation

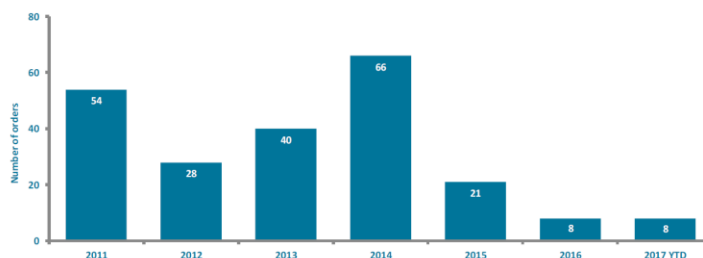
Chinese LNG Demand To Outpace Contracted Supply



Source: GasLog Ltd Q3 earnings presentation

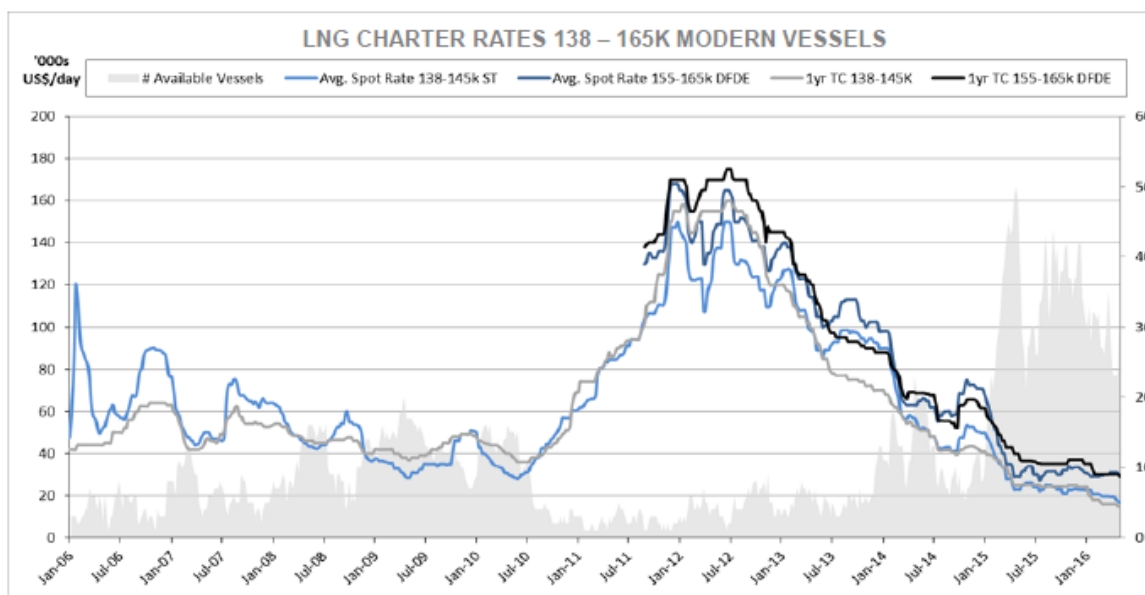
While Chinese LNG demand is expected to continue to rise, LNG ship orders are at a 7-year low, or at around 3% of the total current fleet, which compares to 19% back in 2014 (source: Credit Suisse). Given that it takes around 2.5 years to build a new vessel an imbalance could be reached next year. As a consequence, LNG shipping rates should continue to bounce back from the lows reached last year.

New LNG Carrier Orders Placed



Source: GasLog Ltd Q3 earnings presentation

The graph below shows historic LNG shipping rates (scale on the left). In 2016 they fell to around 30,000 USD per day. The peak was at over 160,000 USD per day. The shaded area shows vessel availability, which has an inverse relationship to shipping rates. With ship orders at 7-year lows, the potential for shipping rates to mean-revert seems likely.



Source: AWILCO LNG Q1 2016 results presentation

If shipping rates revert back towards to those previous highs the LNG shipping companies could see their revenues double or triple. Pushed up by high operational gearing, profitability will also see a major jump, putting the stocks in the industry on attractive valuations.

## INFORMATION

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