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Gas Strategies Group

10 Saint Bride Street
London UK
EC4A 4AD

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T: +44(0) 20 7332 9900
W: www.gasstrategies.com
Twitter @GasStrategies

Editorials

+44(0) 20 7332 9957
editor@gasstrategies.com

Subscriptions

+44(0) 20 7332 9976
subscriptions@gasstrategies.com

2019 IN REVIEW: Total goes for broke with series of bold, risky LNG bets

Total cemented its position as the world's second largest publicly traded LNG player in 2019 by making a series of bold strategic investments that significantly widen the company's exposure across the entire LNG value chain – and all the risks and rewards that this entails.

The French major took the LNG bull by the horns this year, taking strategic positions in the upstream, liquefaction, trading and downstream segments. The company clearly sees breadth, scale and flexibility as the recipe for a successful integrated global LNG operation – as highlighted in Gas Strategies' 2019 LNG Outlook [1], released this week.

Total's actions support the view that those with aspirations to be LNG players must either take the plunge wholeheartedly – or leave the stage entirely. The company's LNG team, which was boosted with last year's acquisition of Engie's LNG operation, has had a busy 2019. Since the New Year, Total has:

- sketched out [2] and then finalised [3] plans to invest in and lift LNG from Tellurian's Driftwood liquefaction project in Louisiana;
- finalised [4] the gas agreement for the Papua LNG project in Papua New Guinea;
- acquired [5] Toshiba's North American business including its 20-year, 2.2 mtpa tolling agreement with Freeport Train 3;
- acquired [6] a 26.5% stake in the Mozambique LNG project, which took a final investment decision (FID) in the summer;
- signed a 10-year LNG sales and purchase agreement with Chinese integrated energy company Guanghui for 0.7 mtpa;
- signed joint development agreement with South African gas facilities developer Gigajoule on import of LNG into Maputo;
- bought [7] a strategic stake in India's largest energy and infrastructure conglomerate Adani Group;
- and signed [8] a short-term LNG purchase deal with ADNOC LNG.

Related developments in the upstream and by affiliated companies are also expanding Total's exposure across the gas value chain. Total hailed [9] a "significant gas condensate discovery" offshore South Africa in February, while Novatek took FID [10] in September on its Arctic LNG 2 project in Russia. Total owns 19% of Novatek and a direct 10% stake in Arctic LNG 2, and has the option to acquire 10-15% stakes in future Novatek LNG projects in Yamal and Gydan.

Bullish play

Total's strategy appears simple: maximise volumes of the lowest-cost gas resources while creating structural short positions to provide a crucial outlet for volumes to minimise the risk of being caught long on LNG as the portfolio fills up.

To that end, Total has already begun studying an additional two trains at the Mozambique LNG project that it only acquired in September. This is not surprising, as Total bought into the Area 1 gas resource offshore Mozambique principally due to its ability to underpin a much larger liquefaction plant than the two-train first phase of 12.88 mtpa that is now entering the construction phase.

At the other end of the value chain, Total's acquisition of a 37.4% stake in Adani Group gives Total fast-track access to the Indian gas market, which the company – alongside many other industry players – hope will become one of the world's fastest growing gas markets.

Meanwhile, production has ramped up at the Yamal and Ichthys LNG projects in which Total owns 20% and 30% stakes, respectively, allowing the company to boost sales revenue to mitigate the worst effects of a global price downturn.

Total's LNG bet is not without risks. The company's profits slumped by a fifth in the second quarter as the collapse in gas prices eclipsed a more-than-doubling in LNG production, illustrating the vulnerability of oil majors to LNG over-supply as they pivot their businesses towards natural gas.

Undeterred, Total ramped up LNG production by another 20% year on year in Q3'19, with LNG driving huge overall production gains that softened the blow of enduring soft prices.

By going for volume, Total is taking the view that it will price more costly producers out of the market, confident that its downstream investments and other structural positions will ensure its deep and diverse LNG portfolio will find lucrative routes to market.

To an extent, this strategy has tied Total's fortunes to the vagaries of LNG prices across Asia, the unpredictable Indian gas market and the broad challenges of doing business in Africa. In terms of the LNG market itself, the bearish price environment is undoubtedly an unwelcome factor that could well weigh on outturn.

However, Total is taking the long view and many of its investments create longer-term positions – the success or failure of which will be measured over the coming decade as new projects and downstream positions are realised. Next year marks merely the next step in that journey. - SK

Gas Strategies

Consulting

+44 (0) 20 7332 9900
consult@gasstrategies.com

Alphatania Training

+44 (0) 20 7332 9910
training@gasstrategies.com

Information Services

+44 (0) 20 7332 9976
subscriptions@gasstrategies.com