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Tellurian MoU with Petronet expires with no deal, leaving Driftwood LNG adrift

Struggling US LNG outfit Tellurian has failed to strike a highly anticipated deal with India's largest LNG importer Petronet LNG for crucial equity investment in its flagship Driftwood LNG export project in Louisiana, after a non-binding memorandum of understanding (MoU) between the two expired over the weekend. A source close to the talks confirmed to Gas Matters Today that the MoU was neither consummated nor extended, leaving Tellurian casting around for LNG buyers in a market awash with surplus supply [1] and hobbled by deep uncertainties [2] surrounding the pace of post-Covid-19 recovery of global LNG demand.

The MoU had envisaged Petronet buying up to 5 mtpa via an equity investment in Driftwood, and was signed to great fanfare in September in the presence of Indian prime minister Narendra Modi. In February, the deal was extended until 31 May 2020, but no agreement was reached before this date – meaning the MoU is now null and void, it is understood. A spokesperson for Tellurian declined to comment.

The signing of the MoU sparked widespread reports [3] of internal disagreement within Petronet over the merits of potentially committing USD 2.5 billion to US LNG equity, when India is located so much closer to Qatar – where Qatar Petroleum, the world's cheapest LNG supplier, has grand expansion plans of its own.

India's subsequent lockdown further complicated matters, as the collapse in downstream gas demand prompted Petronet to issue a force majeure notice [4] to Qatargas in a bid to defer some of the 8.5 mtpa of LNG it buys from Qatar under three long-term deals that run until 2028-29.

Indian gas demand started to recover in May after the country emerged from lockdown, but this did not provide sufficient impetus to convince Petronet to commit to the Driftwood investment. There are suggestions that the Modi's government's long-term energy planning has gone onto the backburner while it grapples with the task of restarting a stalled economy.

Tellurian is believed to remain hopeful that it is well positioned to capture any opportunities that may arise when state-run players such as Petronet look again at how to meet their long-term gas demand forecasts, which could see the country buying as much as 20 mtpa. This volume would be tricky to procure entirely on the spot market and could necessitate binding term deals, which might underpin new liquefaction capacity in the US or elsewhere.

But in the absence of a firm time horizon for resumption of negotiations, let alone the finalisation of any deal, the cash-burning LNG developer will need to find a way to keep creditors at bay and ensure its own survival.

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Keeping the wolf from the door

Under the chairmanship of co-founder Charif Souki, Tellurian is adept at spinning financial plates. The company performed its latest rejig in April, when it executed an agreement to sell USD 56 million of “zero coupon, unsecured notes” for gross proceeds of USD 50 million and provide the lender with warrants to purchase up to 20 million shares of TELL common stock.

The company also partially repaid a USD 75 million short-term loan agreed in 2019 by paying down USD 2.1 million in cash and by issuing 9.3 million shares to pay down a further USD 15 million.

In March, Tellurian extended the deadline [5] to repay the loan until 2021, in return for an even steeper interest rate and by offering the lender TELL stock at a knock-down price. Company bosses also slashed overheads [6] in a bid to preserve cash.

Tellurian will need all the cash it can muster to survive the long road ahead. The company has only one binding sales deal for the 27.6 mtpa Driftwood project, with French oil major Total for 1.5 mtpa from Tellurian Marketing. Total also intends to invest USD 500 million investment in Driftwood for a further 1 mtpa of LNG if the project achieves final investment decision (FID), which today seems elusive.

Energy trader Vitol signed in 2018 [7] a non-binding sales agreement to lift 1.5 mtpa indexed to Platts' JKM. This is believed to remain active, but Tellurian makes no mention in its latest corporate presentation of this, nor Vitol's mooted plan to invest in Driftwood. Similarly, Vitol is not mentioned in any of Tellurian's annual reports since then.

Time for Plan B?

Tellurian's travails have prompted speculation that the New York-listed company might be taken private until the market for liquefaction investment improves. For example, this could happen by way of Total paying down Tellurian's outstanding debt in return for full control of Driftwood.

Total agreed in April 2019 to buy almost 20 million Tellurian shares for USD 200 million, but with TELL stock currently trading at barely a dollar on Wall Street, the per-share price behind this deal has become wholly unattractive for Total.

If Total were to take Tellurian private, this would probably result in the French oil major – which has no lack of uncommitted LNG supply on its books [8] – putting Driftwood LNG marketing activities onto the backburner until global appetite for long-term LNG commitments returns.

Tellurian ended the first quarter of 2020 with approximately USD 56 million in cash and cash equivalents and USD 129 million in long-term debt. Tellurian's balance sheet consisted of USD 364 million in assets, according to the company's Q1'20 results statement.

Proforma for the financing transactions completed in April, Tellurian would have ended the quarter with approximately USD 101 million in cash and cash equivalents, USD 168 million in long-term debt, and USD 410 million in assets, the company says.

Tellurian stock was trading down more than 8% as markets opened on Tuesday. - SK

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