



Things You Should Know About Petronas' Big LNG Investment

Description

Petronas, Malaysia's state-owned oil and gas company has committed to spend \$36 billion to build a liquefied natural gas (LNG) plant and pipeline in B.C. Petronas bought Progress Energy last year for more than \$5 billion as part of its strategy to enter the natural gas market here in Canada and to gain access to some of the vast natural gas resources that we have in order to participate in the Canadian LNG opportunity.

Bridging the Gap to New Markets

With the United States experiencing a natural gas boom, there is less need for Canada's natural gas south of the border. This, along with Canada's abundant reserves of natural gas has driven the industry to seek other markets. This search has led Canadian natural gas producers to Asia.

It's estimated that LNG trade has grown by 36% in the last 5 years, and all indications are that it's set to grow further. Canadian access to Asia's estimated \$150 billion market, where Japan and South Korea consume more than half of the world's natural gas stocks, would be a game changer for Canadian producers of natural gas. **Encana** (TSX: ECA, NYSE:ECA) is well positioned to be a major supplier to LNG terminals when the time comes. It is one of the largest natural gas producers with decades of inventory. While management has intentions to divest of some of its assets and restructure in order to diversify away from natural gas, the company will still have exposure.

\$36 billion "Commitment"

The \$36 investment announcement is a "commitment". To be clear, nothing is in writing. Petronas' intention to build out LNG infrastructure in B.C. was already known, but this is the first time that the company put a number behind that investment. So while nothing is in writing, this commitment is another sign that the LNG opportunity is more than a pipe dream.

Petronas: Positioning Itself to Become a Major LNG Player in B.C.

Back in June 2012, Petronas bought Progress Energy and became the largest player in the Montney shale-gas area of B.C. And with Petronas' planned \$36 billion investment in LNG infrastructure, it will

have the resource and the infrastructure to support its goal of making LNG exports out of Canada a reality.

Infrastructure Build-Out Opportunity

\$36 billion is a massive amount of money. Who will benefit from these expenditures? Off the top, infrastructure related companies are sure to be first in-line. That means companies like **TransCanada** (TSX: TRP, NYSE:TRP), who builds and operates a sizeable share of Canada's energy infrastructure, and **Shawcor** (TSX: SCL), the global leader in pipe coating and related products, for example. Petronas is already a client of Shawcor and Shawcor is already doing work for different LNG projects around the world. For example, Shawcor is currently working on a \$100 million contract to provide pipeline coatings and related products and services for the flowlines and tie-ins for the Ichthys LNG Project in offshore Western Australia.

Bottom Line

Petronas' announcement is yet another data point that adds credibility to the LNG opportunity. While there are still questions with regard to taxation, and pricing, it's clear that the industry's motivation to pursue this opportunity is building. And while the build-out of LNG terminals and infrastructure will be very capital intensive for the developers, there will be many who will reap the rewards.

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Fool contributor Karen Thomas owns shares of Encana. Stock Advisor Canada has recommended shares of ShawCor. The Motley Fool does not own any companies mentioned at this time.

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