



3 Big Positive Developments From the LNG Industry

Description

With six LNG projects proposed at this time in B.C., and after what seems like what was been a long wait for the development to begin, we can now point to some concrete, tangible events that signal that things are progressing. This has the market buzzing. Let's look at these developments and how investors can best profit from the emerging LNG industry in Canada.

1. First Nations sign revenue-sharing agreement

This week, two B.C. North Coast First Nations groups signed a revenue-sharing agreement related to LNG development. As we know, collaborating with First Nation communities is vital in order to move ahead with LNG development in a smooth and co-operative way. The B.C. government issued a media advisory which states that in signing this agreement, the First Nations groups "signal their support for co-operating in respect of prospective LNG development at Grassy Point."

There are currently six LNG projects that have been proposed in B.C., and some of the biggest energy companies are involved, such as Chevron, Shell, PetroChina, and Nexen to name a few. The B.C. government's target is to have three LNG facilities in operation by 2020. This may be a bit ambitious, but clearly, the motivation to get this going is there and things are happening.

2. B.C. Premier Christy Clark is pushing hard to get LNG development on the National Agenda.

Along with some key players in the B.C. government, LNG project developers, and First Nations leaders, Christy Clark is scheduled to meet with Prime Minister Harper on Monday in order to get the backing from the Federal government. While there are still many uncertainties, such as British Columbia's taxation of LNG projects, this meeting will bring the spotlight on the LNG opportunity for B.C. and for Canada.

Although there has been no final decision yet, the latest B.C. budget proposed a two-tier LNG tax that has left many involved a little squeamish. The first tier is 1.5% of the project's net proceeds, and then the second tier would kick in when the LNG facility recovered 100% of its capital investment, and would rise to 7%.

3. Hawaii receives first LNG shipment

Clean Energy Fuels Corp. ([Nasdaq: CLNE](#)) delivered approximately 7,100 LNG gallons to Hawaii Gas, in the first-ever LNG shipment to Hawaii. The container came from Clean Energy's liquefaction plant in Boron, California, and made its way to Honolulu, where it was re-gasified and injected into Hawaii Gas's utility distribution line.

Greater usage and acceptance of LNG exports goes a long way. It will encourage more usage and acceptance.

Investment opportunities

As an investor, when I think of this opportunity, I tend to shy away from those companies that are taking the biggest risks, that is, those companies that are involved in the capital-intensive and time-consuming task of building out these LNG plants.

Let's instead focus on those companies that will be supplying the LNG facilities with natural gas. The Montney Shale Gas Basin will be a big supplier to British Columbia's LNG facilities because of the vast resource as well as its location, which makes it easily accessible to the proposed LNG facilities.

Encana (TSX: ECA)(NYSE: ECA) has been in the Montney basin for years and this is one of the five key areas that the company will be focused on going forward. Encana has an unparalleled position in the Montney, with 575,000 net acres of land, and with plans to spend \$800-900 million on this area in 2014.

A couple of the smaller energy names in the Montney basin are **Birchcliff Energy** ([TSX: BIR](#)) and **Crew Energy** ([TSX: CR](#)).

Birchcliff Energy's production is almost 84% weighted to natural gas and the company recently increased the potential natural gas well drilling locations in the Montney to 2,254 wells as a result of land acquisitions and drilling. In 2013, Birchcliff achieved 13% production growth and the company recently released an update saying that it expects 22% production growth in the first quarter of 2014.

Crew Energy announced yesterday that it has added to its B.C. Montney position in a \$105 million acquisition. The properties are either contiguous with existing Crew lands or they add to the working interest in their existing lands, which are both very good things. Crew will increase its 2014 capital expenditures plan to \$285 million (from \$246 million) in order to accelerate Montney development. The stock was up almost 16% last week on this news.

Foolish bottom line

The emerging LNG industry continues to take steps ahead, bringing it closer to a reality. These latest developments are encouraging signs that things are moving along nicely. And as we know, opening up Canada's natural gas industry to demand from Asia and others will obviously be extremely beneficial for natural gas demand and natural gas pricing. Not only will the companies who directly supply the LNG terminals benefit, but so too will all natural gas weighted companies.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CLNE (Clean Energy Fuels Corp.)
2. TSX:BIR (Birchcliff Energy Ltd.)
3. TSX:CR (Crew Energy)

Category

1. Investing

Date

2025/07/05

Date Created

2014/04/14

Author

karenjennifer

default watermark

default watermark