

Project Insights

Chinese finance bolsters East Timor LNG plan

China International Capital Corp.'s agreement to help finance the onshore element of East Timor's Greater Sunrise project is a positive development, but doubts remain

By *Damon Evans* 16 May 2019 *Interfax Global Energy / Asia Pacific / Exploration & Production*



ConocoPhillips' Bayu Undan platform in the Timor Sea. (ConocoPhillips)

The key issue: *East Timorese NOC TimorGAP announced last week that it had signed a contract with China International Capital Corp. to help finance the downstream section of the proposed Greater Sunrise gas project.*

Interfax analysis: A new finance agreement between TimorGAP and China International Capital Corp. (CICC) is set to provide a boost to plans to bring gas onshore from the Greater Sunrise fields off East Timor, but major questions remain about the project's economic viability.

Francisco Monteiro, TimorGAP's president and chief executive, did not specify how much finance the Chinese investment bank will provide but told state-run *Timor-Leste News Agency* that \$5.5-6.0 billion of downstream capital will be needed. Monteiro said another \$5-6 billion of upstream capital will be required to develop the fields, which straddle the Australian and East Timorese seabeds.

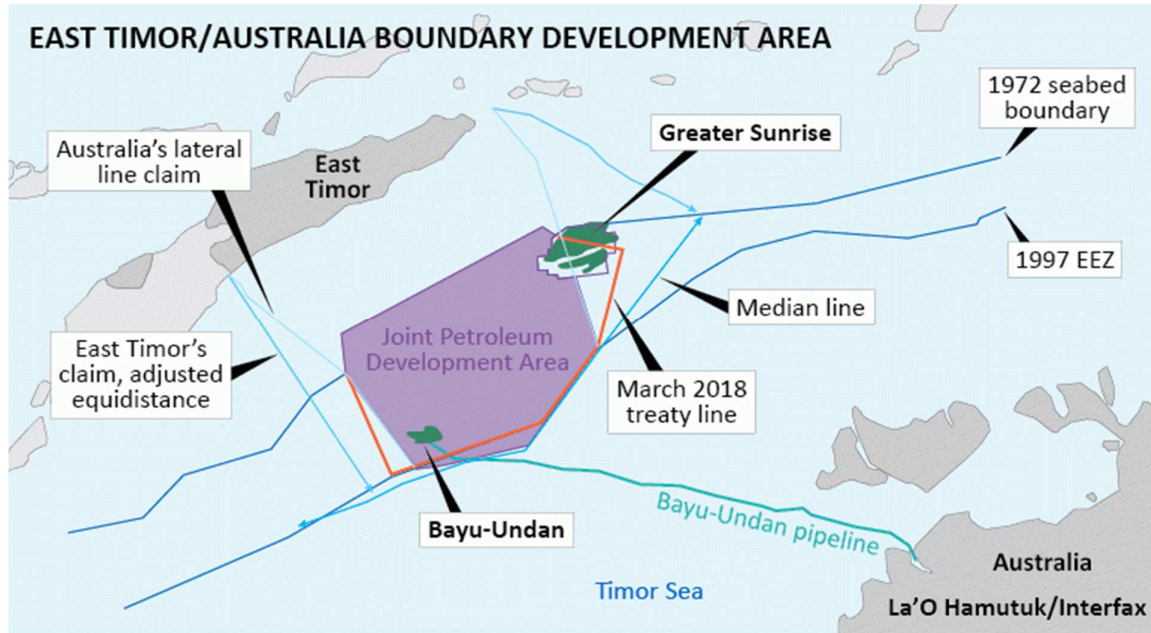
News of CICC's involvement follows an announcement on 25 April that China Civil Engineering Construction Corp. will start building a port next year at Beaco on East Timor's

southern coast as part of a \$943 million contract awarded by TimorGAP. CICC will provide finance for the port, which will cover materials and equipment needed for developing Greater Sunrise. The NOC also said the port would be used to export LNG following the completion of a proposed liquefaction plant, known as Timor LNG.

Following TimorGAP’s buyout of the equity held by Shell and ConocoPhillips in the Sunrise joint venture, which was completed on 16 April, the NOC is quickly moving forward with its plans for an onshore petroleum complex to process hydrocarbons from Greater Sunrise. Following the buyout, TimorGAP holds a 56.6% stake in the Sunrise JV. However, minority partner Woodside Petroleum maintains that it will not invest in a new onshore LNG facility. This could create a major funding and expertise gap.

Nevertheless, East Timor’s leaders have made it clear they are looking to tap China – and the massive pool of finance on offer under the Chinese Belt and Road Initiative (BRI) – if Australia, the United States, Japan and South Korea are unwilling to help finance the project, which appears to be based on questionable economic assumptions.

Significantly, the lack of international private investor interest in funding the onshore infrastructure in East Timor raises key questions over whether TimorGAP’s development proposal is commercially and financially viable.



Funding gap

TimorGAP’s estimate of \$10.5-12.0 billion for a 5 mtpa greenfield LNG export project seems unreasonable. Given the Greater Sunrise fields are estimated to hold 142 billion cubic metres of gas, 3 mtpa would be a more appropriate capacity for an onshore LNG project, unless more gas is discovered. A capital cost of \$14-16 billion for a 3 mtpa project seems more reasonable, especially in a country with limited infrastructure and resources.

In comparison, northern Australia – which has extensive infrastructure and experience – is home to the Inpex-led Ichthys greenfield LNG project. Ichthys has a capacity of 8.9 mtpa, nearly double the size of TimorGAP’s proposed plant, and cost more than \$45 billion to complete.

Ichthys was initially estimated to cost \$34 billion, but a series of cost overruns and delays during construction underscored the risks and challenges of developing extremely complicated LNG projects, even when they are undertaken by experienced oil and gas companies.

Given that credit ratings agency Fitch Solutions has recently warned of significant risks associated with the proposed Greater Sunrise onshore development, it seems unlikely that countries other than China will be happy to funnel billions of dollars in finance towards East Timor.

TimorGAP claims its Greater Sunrise scheme will net a \$28 billion windfall for the nation. But assuming a 3 mtpa LNG project is developed at a cost of \$14.5 billion, and assuming the price for East Timorese gas remains at the \$7.99/MMBtu four-year average seen for volumes from the Bayu-Undan field, the scheme could lose more than \$10 billion over its lifespan. To break even, the average price of LNG from the plant would need to be \$12/MMBtu – which is 20% higher than the highest price of gas from Bayu-Undan over the past four years.

It is therefore unsurprising that experienced LNG developers Shell and Conoco jumped at the chance to sell their shares of Sunrise or that Woodside will not invest in the onshore scheme.

Beijing could still finance the megaproject under the BRI, but this would place a huge fiscal burden on East Timor – especially as the onshore scheme does not appear to make economic sense.