TTNGL AND TRAIN 1: A ROADBLOCK OR A SPEEDBUMP?

Investors in shares of Trinidad & Tobago NGL Limited (TTNGL) appear to be scrambling for the exits over the past few days, with recent announcements in the energy sector creating an air of uncertainty around the prospects of TTNGL's investee company Phoenix Park Gas Processors Limited (PPGPL). Since the news broke, TTNGL's share price has slipped nearly 14% over 10 trading days, falling from $30.09 to $26.00.

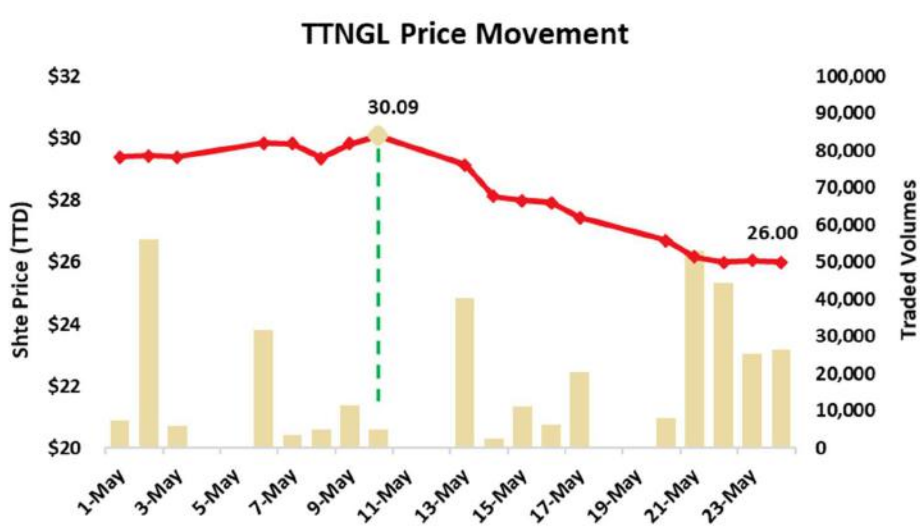
The big question: Is the market response to the news warranted, or is it an overreaction? We provide some context for investors below.

Key Inferences

- In a projected ***'worst case'*** scenario, PPGPL could lose around 11% of total NGLs supplied for processing, holding all other factors constant.
- PPGPL has embarked on several initiatives to diversify and expand its operations, which could partially offset lost feedstock from ALNG's Train 1.
- TTNGL retains robust cash positions, which could support dividends to shareholders.
- Forecast T&T gas production is expected increase through 2019-2021, which could further cushion the impact of Train 1's potential shutdown.

The Bourse View

- ALNG Train 1's shutdown, should it occur, may not have as significant an impact on TTNGL's performance as suggested by the share price adjustment.
- All other factors held constant, TTNGL appears capable of maintaining its dividend payment even through the challenging 2020 and 2021 periods.
- At its current price of $26.00, the dividend yield on the TTNGL is 5.75%
- Bourse maintains a **BUY** rating on TTNGL



THE ISSUE

BP Trinidad & Tobago (BPTT) announced on May 10th 2019 that recent disappointing results from its drilling programmes could impact the energy giant's forecast production in T&T, in particular for 2020 and 2021. Against this backdrop, BPTT noted that there could be "challenges" to its supply of gas to Atlantic LNG's Train 1 after 2019.

Subsequently, BPTT stated it would now be "unlikely to have 200-300 mmscf/d" of natural gas which would be expected to supply Train 1 in the 2020-2021 timeframe.

WHY IT MATTERS

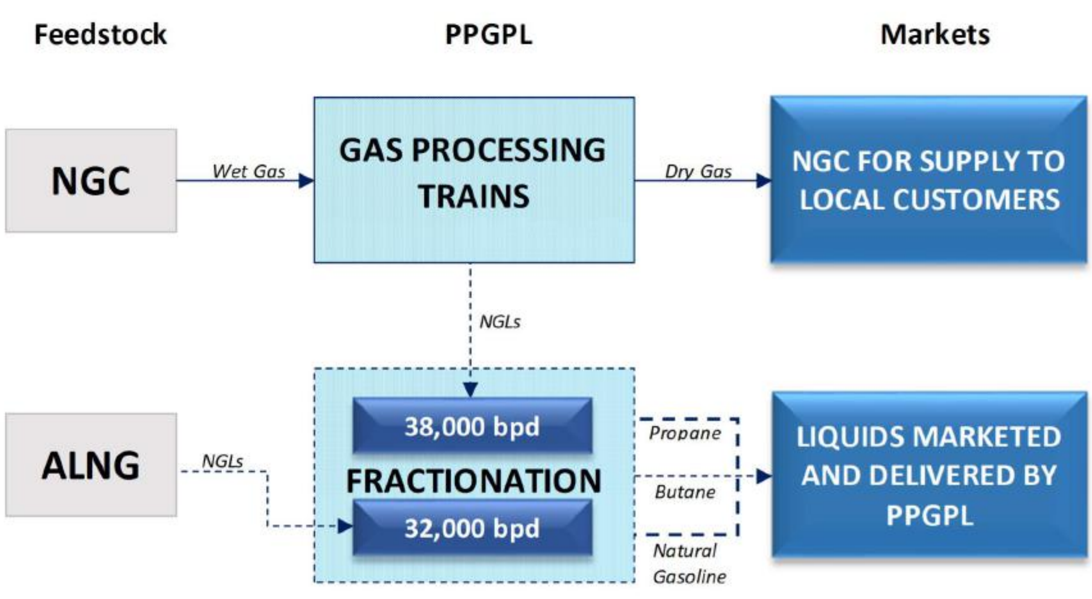
Atlantic LNG Company of Trinidad & Tobago (ALNG) and PPGPL's fortunes are - to some extent - intertwined, given that ALNG produces Natural Gas Liquids (or NGLs) which PPGPL processes under various agreements. Put differently, ALNG is a supplier of NGLs to TTNGL.

WHAT COULD HAPPEN

We assess what might be a 'worst case' outcome for TTNGL, using available information, should:

1. ALNG's Train 1 shut down in 2020-2021 (holding all other factors constant) **AND**
2. PPGPL provides no business response to this latest development

THE PPGPL BUSINESS MODEL



Investors may recall that PPGPL earns revenue from three main sources:

1. The processing of 'wet' gas (predominantly from the National Gas Company of Trinidad & Tobago or NGC), where NGLs are extracted and 'dry' gas is returned to NGC.
2. The fractionation of NGLs into Propane, Butane and Natural Gasoline and subsequent marketing and delivery of these products to various markets (for ALNG Trains 1,2 and 3)
3. Third party processing/capacity fees, where PPGPL effectively charges a fee for processing and returns the end product to the client (for ALNG Train 4).

With respect to Train 1, based on TTNGL's Prospectus dated August 2015:

- Under an agreement with ALNG, PPGPL is obligated to provide up to 8,000 barrels per day (BPD) of fractionation capacity and earns a price differential from ALNG 1 based on volumes received.
- The term of the contract is 10 years ended 2009, with automatic annual renewals.

From the description of the Agreement between ALNG and PPGPL for Train 1 (barring any changes to contractual terms), it would appear that PPGPL – in a 'worst case' scenario – could lose revenues associated from the fractionation and marketing of NGLs delivered from Train 1. Of equal importance, it would appear that PPGPL does not rely on Train 1 for volumes of gas to process.

If this is in fact the case, how much NGLs does Train 1 deliver to PPGPL?

PRODUCTION OF NGLs IN TRINIDAD & TOBAGO

PPGPL's sources of NGLs come from (i) NGLs extracted from 'wet' gas and (ii) NGLs received from ALNG's trains 1-4. Information from the Ministry of Energy and Energy Industries sheds some light on the contribution of ALNG Train 1 to Total NGL Production by PPGPL:

PPGPL production of NGLs

Production of NGLs	**From Atlantic LNG**				**From NGC**	**Total**
(millions of barrels)	**Train 1**	**Train 2**	**Train 3**	**Train 4**	**'Wet' Gas***	
2017	1.47	0.66	1.03	1.97	4.67	9.81
2018	1.06	0.57	1.10	1.76	4.21	8.69
Jan-Feb 2019	0.17	0.08	0.15	0.34	0.74	1.48
% of total NGLs produced						
2017	15%	7%	11%	20%	48%	100%
2018	12%	7%	13%	20%	48%	100%
Jan-Feb 2019	11%	5%	10%	23%	50%	100%

NGLs from NGC 'Wet' Gas estimated as difference between total PPGPL NGL production and Trains 1-4 production

ALNG's Train 1 accounted for about 15% of total NGLs produced by PPGPL in 2017, falling to 12% in 2018 and currently around 11% for the first two months of available data in 2019. From the data, then, a total shutdown of Train 1 in a 'worst case' scenario, holding all other factors constant, could result in a drop in NGLs supplied to PPGPL of around 11%.

ARE ALNG TRAINS 1-4 CURRENTLY OPERATING AT FULL CAPACITY?

Referring to BPTT's statement, the company stated that there could be some shortfall in production of between 200-300mmscfd. This shortfall, holding all else constant, could cause a closure to ALNG Train 1. Is Train 1 currently running at full capacity? What would be the minimum gas supply required to run Train 1? These are questions which investors may want to have answered.

In terms of gas consumed, the Minister of Finance in an interview with CNC3 on May 17th 2019 stated that Train 1 was currently consuming around 490mmscfd. This was equivalent to operating at around 85% of its rated capacity. Production data of LNG published by the Ministry of Energy and Energy Industries data indicated that, relative to its rated output of 3 million tonnes of LNG per annum, ALNG Train 1 was operating at an estimated average capacity of around 80% in 2018, down from an average of 90% in 2017.

Overall, Trains 1-4 operated at an estimated average 75% of total rated capacity in 2017 and 85% in 2018.

In terms of NGLs produced, TTNGL's 2015 prospectus highlighted that ALNG Trains 1-4 have contracted PPGPL for a total of 32,000 barrels per day (bpd) of fractionating capacity of PPGPL's total 70,000 bpd capacity, broken down as follows:

- Up to 8,000 bpd from Train 1
- Up to 12,000 bpd in total from Trains 2 and 3
- Up to 12,000 bpd from Train 4

ALNG production of NGLs versus contracted capacity with PPGPL*

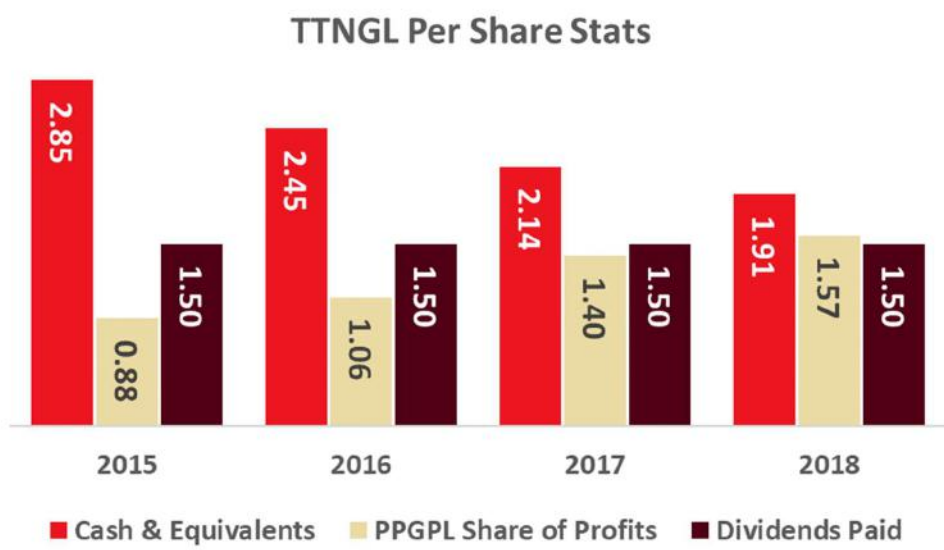
NGLs Produced by ALNG (barrels)	Train 1	Train 2	Train 3	Train 4	Total
2017	1,473,278	660,742	1,032,105	1,970,780	5,136,905
2018	1,055,439	568,457	1,103,478	1,756,263	4,483,637
YTD 2019	169,105	77,216	147,937	340,617	734,875
% of PPGPL Committed Fractionating Capacity					
2017	51%	31%	48%	46%	45%
2018	37%	26%	51%	41%	39%
YTD 2019	35%	21%	41%	47%	38%

Based on publicly available data regarding ALNG/PPGPL arrangements

From the table, Train 1 has been producing less than 40% of the NGLs it would have contracted PPGPL to process. Overall, Trains 1-4 are also producing less than 40% of the fractionating capacity available to them at PPGPL.

CAN TTNGL MAINTAIN ITS DIVIDEND PAYMENTS?

A key factor in maintaining investor confidence is whether or not TTNGL is perceived as being able to maintain its dividends paid, one of the major value drivers of the stock. The chart below highlights several per-share metrics of the stock including cash & equivalents, share of profits from PPGPL and dividends paid.



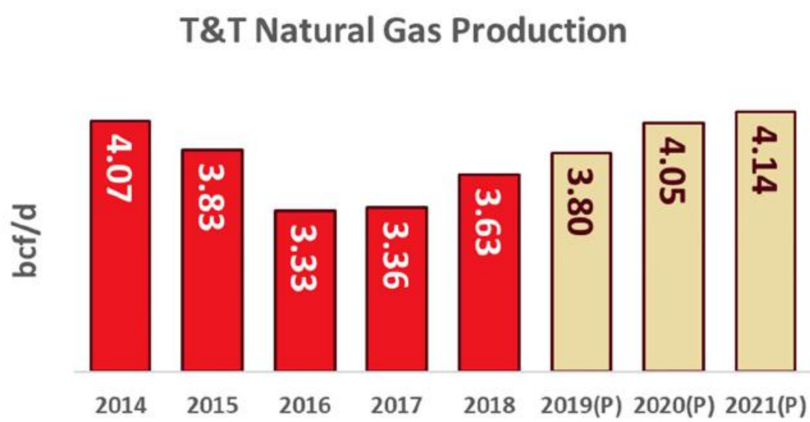
As observed, dividends paid by TTNGL have been stable since its IPO in 2015, at an annual $1.50 per share. TTNGL's share of profits – which excludes non-cash items such as impairment reversals related to the value of TTNGL's 39% shareholding in PPGPL – have been climbing amidst an improving energy environment. Share of profits from PPGPL ($1.57) exceeded dividends paid ($1.50) for the first time in FY2018. To maintain stable dividends, TTNGL would have had to draw on its considerable cash resources over the past 4 years. Accordingly, cash per share has declined from $2.85 at the end of FY2015 to $1.91 at the end of FY2018. *Note: As at March 31st 2019, cash per share was $2.86.*

The data suggests that, while lower than its 2015 figure, TTNGL still maintains a very healthy cash per share buffer. This buffer could be further enhanced should earnings improve/stabilize at current levels.

WHAT ABOUT NATURAL GAS PRODUCTION?

TTNGL's performance is impacted by Natural Gas production, given that its investee company PPGPL directly processes approximately half of the gas produced in T&T and fractionates virtually all NGLs from ALNG. In simple terms, the more gas that is processed, the better for TTNGL, holding other factors constant.

The forecast for domestic Natural Gas production paints a positive tone, with volumes expected to grow from 3.63 billion standard cubic feet per day (bcf/d) in 2018 to 4.14 bcf/d in 2021. Even after adjusting for BPTT's shortfall of 0.3 bcf/d in 2020 and 2021, production should be improved relative to 2016-2018 levels.



Should the gas forecast remain largely intact, TTNGL could expect to receive larger volumes of gas to be processed, with the potential for larger volumes of NGLs to be fractionated.

CONCLUSION

The announcement by BPTT of lower forecast gas production would expectedly weigh on the minds of TTNGL investors, given the PPGPL's critical position in the local energy landscape.

From the data reviewed, we hold the view that the loss of 11% of total NGLs produced from a shutdown of ALNG Train 1 in a 'worst case' scenario – on its own – is unlikely to result in an equivalent decline in earnings. This view is put forward on the basis that:

- NGLs fractionating and marketing is one facet of PPGPL's business. Historically, revenues from sales of ALNG volumes would have comprised just over 40% of PPGPL's total revenues. Revenues from Gas Processing would have accounted for almost 55%[1].
- Even if BPTT's forecast shortfall in production materializes in 2020 and 2021, Aggregate Gas Production is still forecast to increase from current levels.
- PPGPL has been developing infrastructure for the import of condensates (NGLs), for subsequent processing and marketing. This initiative should support corporate earnings for the company, potentially becoming a bigger part of the business over time.

Finally, TTNGL still retains significant cash resources, which - if needed- could be utilized to support dividend payments through challenging periods. This has, in fact, been the case from 2015 until its most recent financial year 2018.

Accordingly, with an attractive dividend yield (5.8%) and a supportive outlook for PPGPL's business activities, Bourse maintains a BUY rating on TTNGL.

END

[1] Estimated using PPGPL financial information (FY2010-2014) from TTNGL 2015 IPO prospectus.

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