

Trinidad and Tobago NGL Limited (TTNGL)

Executive Summary

TTNGL is recommended for investors who are able to withstand price volatility for higher returns. This investment is anticipated to provide capital appreciation and income flows over the medium to short term period. Periodic valuation updates would be disseminated.

Strengths

- PPGPL is a very important player in the local energy market, being the only operator to provide a service that is much needed by NGC and Atlantic.
- The lone energy stock offers a 7.14% dividend yield to investors, the most attractive amongst local trading stocks.
- Recent developments in the oil and gas industry are expected to have positive impacts on PPGPL's bottom line and by extension, TTNGL.
- The speculation of the possible US dollar dividend distribution to investors, increases our optimistic outlook on TTNGL.
- Selling prices of NGLs are expected to begin recovery from its current depression in 2017, with steadily increases year on year.
- PPGPL is able to charge a premium due to its close proximity to the Caribbean and Central America, providing flexibility in shipping and selling volumes.
- PPGPL benefits from the low break-even prices for propane, butane and natural gasoline.

Risks

- Despite recent developments in the form of new gas field findings, there is still a level of uncertainty with regards to the amount of NGLs that will be extracted, as it can only be determined by the gas quality removed from the fields.
- Mirroring the current global and local energy market, the stock has shown a high level of volatility.
- Lower feedstock quality and NGL content retrieved by PPGPL, in other words, the issue of drier gas means less NGLs extraction from the feedstock provided.
- High market price volatility.
- The non-renewal of existing supply contracts between NGC and the various gas producers as well as contracts between NGC and the various gas consumers.

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As part of the Sale of Assets Programme to support the National Budget, the Government has highlighted in the May 10th mid-year review, its intention to further divest the TTNGL shares held by National Gas Company (NGC). The proposed sale of 40,248,000 Class B shares to the public is expected to generate approximately \$800 million in revenues, approximately \$700 million less than the original proposal of \$1.5 billion. The APO began on June 5th, 2017 at a price of \$21.00 per share with an expected closure date of June 28th, 2017.

Following the initial public offering (IPO) in August 2015, public investors were allotted 49% shareholding in TTNGL, in the form of class B shares, while the residual 51% were held by NGC. Assuming that the offer is fully subscribed, the public will effectively hold a 75% share interest in TTNGL, through the 100% ownership in the company's class B shares.

Before APO

	Number of Shares		% Interest
	Class A Shares	Class B Shares	
NGC	38,700,000	40,248,000	51%
Public	0	75,852,000	49%
Total Shares	38,700,000	116,100,000	100%

Source: TTNGL prospectus

Post APO (assuming full subscription)

	Number of Shares		% Interest
	Class A Shares	Class B Shares	
NGC	38,700,000	0	25%
Public	0	116,100,000	75%
Total Shares	38,700,000	116,100,000	100%

Source: TTNGL prospectus

Business Overview

Recall, that TTNGL was created to retain 39% share of the net profit of Phoenix Park Gas Processors Limited (PPGPL). As such, to have a better understanding of TTNGL, we must focus on PPGPL's operations. PPGPL operates as Trinidad's sole natural gas processing and NGL fractionation plant with its core business centered on natural gas processing, natural gas liquids (NGL) aggregation, fractionation and product marketing. PPGPL is also the largest producer and marketer of propane, butane, isobutene and natural gasoline in Trinidad and Tobago.

Phoenix Park's three (3) main revenue streams include:

- 1) Revenue from gas processing - Extractions from wet natural gas in the form of NGLs (propane, butane, etc), fractioning those NGLs into the component products (refer to appendix) and retaining and marketing these products.
- 2) Revenue from Atlantic LNG Company of Trinidad and Tobago (ALNG) - derived from fractioning NGLs purchased from ALNG. PPGPL earns the excess over the cost of NGLs and the weighted average selling price for the products.
- 3) Third party processing/capacity fees - Generated from 1) under an arrangement with ALNG, PPGPL earns processing fees for fractioning NGLs stream from ALNG in products and delivering such products back to ALNG and 2) under an arrangement with Petrotrin, PPGPL receives a fee for maintaining the capacity to fractionate its mixed butane stream to produce isobutene and for delivering such isobutene to Petrotrin.

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In 2016, approximately 49% of PPGPL's revenue was derived from liquefied petroleum gas (LPG) sales, comprising of 30% propane and 20% butane, while 51% was derived from sales of natural gasoline. LPG's markets its products primarily to the Caribbean and Central America, where PPGPL is able to charge a premium due to its close proximity to these markets and has flexibility in shipping and selling volumes. The market for its natural gasoline is South America, with Colombia being the primary market. Over the last five (5) years, revenue levels have depleted due to ailing macro factors.

Financial Performance

For the FY 2016, PPGPL suffered a further loss in sales revenues, approximately ↓21.6%. This comes after the 44.9% drop off in revenues in 2015 levels due to the precipitous fall in price and volume levels. From a trailing five year stand point, the company generated its lowest sales revenue in 2016, cascading from US \$844.2 million to US \$300.9 million, reflected by depressed sales from gas processing and sales from ALNG volumes. Gross Profit fell an average of 23.4% over the past five years, moving from US \$368.6 million in 2012 to US \$126.8 million in 2016. A lowered gross profit coupled with increasing expenses, PPGPL's profit after tax contracted approximately 70% to US \$63.3 million at the end of the five year period. As such, profit margins reduced significantly.

	2012 A	2013 A	2014 A	2015 A	2016 A	Average
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Income Statement						
Revenue	844,165	808,300	696,813	383,810	300,902	
% Change	-28.0%	-4.2%	-13.8%	-44.9%	-21.6%	-22.5%
Cost of Sales	475,543	463,511	404,667	238,321	174,077	
% Change	-24.5%	-2.5%	-12.7%	-41.1%	-27.0%	-21.6%
Gross Profit	368,622	344,789	292,146	145,489	126,825	
% Change	-32.1%	-6.5%	-15.3%	-50.2%	-12.8%	-23.4%
EBT	213,226	202,613	257,343	90,449	99,137	
% Change		-5.0%	27.0%	-64.9%	9.6%	-8.3%
Tax	112,846	107,024	90,731	35,452	35,832	
% of EBT	53%	53%	35%	39%	36.1%	43.3%
NOPAT	213,226	202,613	166,612	54,997	63,305	
% Change	-34.0%	-5.0%	-17.8%	-67.0%	15.1%	-21.7%
Balance Sheet						
Non- Current Assets	333,458	323,554	317,281	299,111	278,717	
Current Assets	290,058	257,233	204,023	149,386	141,783	
Total Assets	623,516	580,787	521,304	448,497	420,500	
% Change		-6.9%	-10.2%	-14.0%	-6.2%	-9.3%
Equity	322,373	304,986	306,598	239,895	238,200	
% Change		-5.4%	0.5%	-21.8%	-0.7%	-6.8%
Non-Current Liabilities	177,265	157,743	138,579	141,300	124,752	
Current Liabilities	123,878	118,058	76,127	67,302	57,548	
Total Liabilities	301,143	275,801	214,706	208,602	182,300	
% Change		-8.4%	-22.2%	-2.8%	-12.6%	-11.5%

Domestic Gas Supply

Between 2015 and Q1 2017, Trinidad and Tobago has experienced declines in the supply of natural gas, resulting in a drop in gas consumption to 1.39 billion cubic feet per day (bcfd) by the end of Q1 2017. The industry's annual average natural gas production fell approximately 13% to 3.33 bcfd at to end of 2016, based on statistics retrieved from the Ministry of Energy. Consequently, total NGLs production from PPGPL also experienced a decline of 16% during 2016, while the total export levels faltered by 21%. These short comings have been

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reflected in the FY 2016 PPGPL financials. PPGPL feedstock is supplied by NGC and ALNG under long term feedstock agreements. PPGPL competitors comprise of regional producers in its export destination countries, primarily in North America as well as South America and Central America.

Turning Points?

Energy giants continue to show optimism in the domestic energy sector via large cash investments.

Earlier this year, bpTT announced the introduction of the Trinidad Regional Onshore Compression (TROC) Project – one of seven major upstream projects that the oil giant expects to bring online during the year. Once fully on stream, it is anticipated that the TROC facility would have the potential to deliver approximately 200 million cubic feet per day (mmscfd) of gas and expected to improve production capacity by increasing production from low – pressure wells. The Juniper project, another major bpTT project, is expected to yield additional gas supply in Q3 2017 of approximately 550 mmscfd.

bpTT highlighted that it will be able to maintain its natural gas production at 2 bcfd, approximately 60% of the industry's 2016 average natural gas production. The majority of which will be funneled to NGC or Atlantic for exports. Based on the prospectus, PPGPL's contract with NGC gives it the sole right to process all gas delivered by NGC, up to 2.0 bcfd. Other projects expected to come on stream over the next six (6) years, are anticipated to bring an additional supply of approximately 2.1 mmscfd.

Royal Dutch Shell PLC (Shell) presented its strategic vision to the Government, which entails an investment commitment from the company to invest billions over the next four years. Further, Shell is expected to build a pipeline from Venezuela's shallow-water Dragon gas field to its Hibiscus platform off the north coast of Trinidad. This investment, of more than US\$100 million, will supply approximately 200 or 300 mmscfd of natural gas to the Trinidadian domestic market as well as to a local gas plant, from where it is expected to be sold to the international market. It should be noted that this agreement is still in its preliminary stages. Additionally, Shell signed an agreement, worth \$250 million, to acquire the interests of Chevron Corp.'s subsidiary in Trinidad and Tobago, expected to close around midyear.

The bullish outlook for the energy sector within the medium to long term is a positive for the economy of Trinidad and Tobago. Despite being a volume taker, PPGPL is expected to benefit from the increased inflows of natural gas over the next couple of years.

NGL's Intrinsic Value

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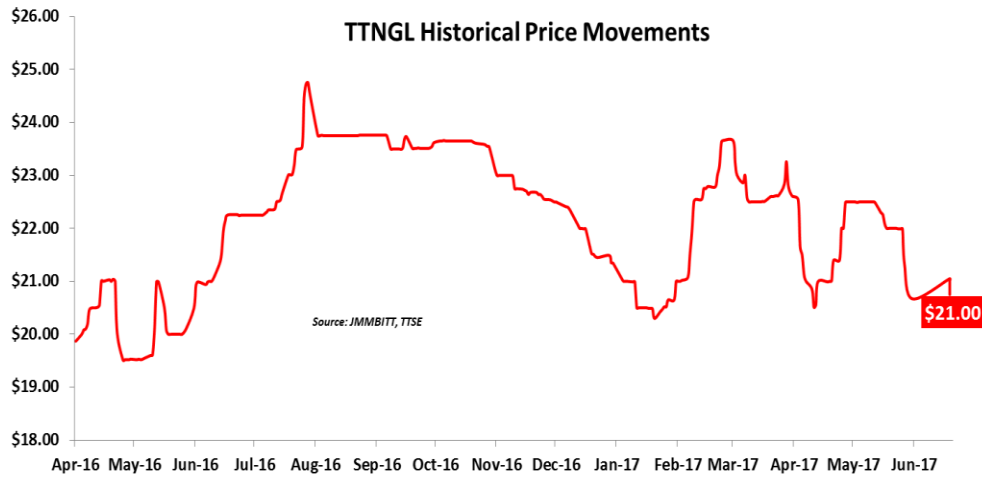
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TTNGL	
APO Price	\$21.00
YTD Price Movement	↑0.52%
52 Week High	\$23.66
52 Week Low	\$18.25
Dividend Payment Frequency	Semi-annually
Trailing Dividend Payment	\$1.50
Trailing Dividend Yield	7.14%



INVESTMENT AND SOVEREIGN RESEARCH Wednesday 21st June, 2017

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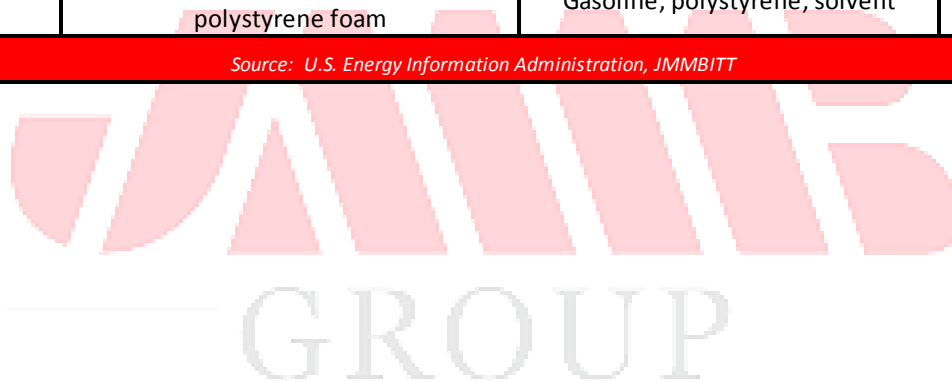
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APPENDIX

What are NGLs and how are they used?

NGL Attribute Summary			
Natural Gas Liquid	Applications	End Use Products	Primary Sectors
Ethane	Ethylene for plastics production; petrochemical feedstock	Plastic Bags; plastics; anti-freeze; detergent	Industrial
Propane	Residential and commercial heating; cooking fuel; petrochemical feedstock	Home heating; small stoves and barbaques; LPG	Industrial, Residential, Commercial
Butane	Petrochemical feedstock; blending with propane or gasoline	Synthetic rubber for tires ; LPG; lighter fuel	Industrial, Transportation
Isobutane	Refinery feedstock; petrochemical feedstock	Alkylate for gasoline; aerosols; refrigerant	Industrial
Pentane	Natural Gasoline; blowing agent for polystyrene foam	Gasoline; polystyrene; solvent	Transportation

Source: U.S. Energy Information Administration, JMMBITT



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