# Flash Analysis
Credit Analysis

# Energy Infrastructure

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## Introduction

**Storing and handling of liquid bulk commodities requires dedicated facilities along the entire value chain. The special treatment of hazardous prime materials gave birth to the independent tank storage sector. Liquid energy commodities still command the lion's share of the storage market which is therefore traditionally viewed as a midstream component of the oil & gas value chain. Ongoing discussions about climate policies, geopolitical impacts on energy supply and ongoing investor pressure on returns do not ease the selection of the needed future tank storage services. The decelerated energy transformation of the global oil market makes it increasingly difficult to elaborate far-reaching decisions on business strategies.**

## Helicopter perspective

The tank storage industry operates in a reciprocal relation with globally produced and marketed liquid bulk commodities, whose title almost never passes to the storage operator. Storage companies are never trailblazers but deemed to be followers in a customer-driven energy architecture. In essence, storage is a local business, that relies on trade routes, downstream energy demand and structural products imbalances. Regional storage clusters have evolved (Amsterdam, Rotterdam, Antwerp - ARA, Singapore, Houston) that will attract the bulk of future investment. Diversifying away from crude oil has at least in Europe been taken somewhat seriously. European economies have moved away from Russian pipeline oil and gas. Instead, they increased their seaborne energy imports (LNG, diesel, methanol). Security of supply remains at the top of the agenda of politics and acts as a boon for the fuel storage part of the business.

## Good vibes from the StocExpo

The recent 20$^{th}$ anniversary of the flagship industry gathering in Rotterdam (StocExpo) spotlighted an overall satisfying view of the future. Standing only at the dawn of a global transition away from fossil fuels towards more sustainable energy sources, market participants overwhelmingly expect to operate in a fundamentally healthy industry for the time being. Although the shifting energy landscape entails hefty challenges, it seems that the storage sector is well prepared to adapt and to continue to offer an essential service. Without the storing element, the energy transition with several types of new fuels will not come to fruition. The convention tried to connect the closed ecosystem of tank terminals with the abundance of innovative services (robotics, safety technologies, data analytics, automation, virtual reality, etc.). From terminal to terminal, the potential for efficiency gains is enormous and will likely be a low hanging fruit even for financial improvements. The addition of new tank capacity lags behind, as the sector is cautious to invest as long as firm commitments and offtaker's support are rather scarce. We do not consider this to be a disadvantage with respect to avoiding overcapacity and speculative maneuvers.

## Key themes of the storage convention

1. The future is blue and green instead of grey and brown. Carbon Capture and Storage (CCS) is emerging as the leading net-zero emission solution to fossil fuels. It makes conventional fuels more climate-neutral, slowing down the fuel transition towards hydrogen and its demand for storage. Simultaneously, CCS makes alternative fuels more cost competitive. By 2030, blue ammonia and hydrogen (production involving CCS) are projected to be cheaper than their grey equivalents (production using gas without CCS) due to CO2 taxation. While green alternatives will take longer to become cost-competitive, they are on the horizon (by 2030 still 2x more expensive than their blue peers).

2. Alternative fuels usage will turbocharge. While hydrogen and ammonia usage will only begin to rise post-2030, by 2045, alternative fuels are expected to account for more than 50% of total fuel demand in Europe.
3. For the time being, the phase-out of traditional fossil fuels will take longer than expected, supporting the traditional business case for storage terminals for much longer. The slower EV penetration and signs to renegotiate the ban on the combustion engine from 2035 onwards decelerates the energy transition. Additionally, the hard-to-abate users, e.g. due to ideological reasons, will not cease to generate fossil fuel demand.
4. There is some indication that within the given infrastructure set-up, the storage sector will defend its position on the value chain better than assumed. High tank utilization, returning interest of the global trading houses for capacity and a slightly better relative positioning of storage versus the refining sector on the "merit" order backs the storage sector.
5. US-led tariff war has currently no significant and tangible effect on the fortune of the EU terminal operators.

**Increasing activity on the M&A side expected**

The Japanese shipping group Mitsui O.S.K. Lines recently acquired 100% of the membership rights of LBC Tank Terminals for a whopping USD 1.7 bln which translates into an eye-watering enterprise-valuation, most likely never recorded in the sector. As the heydays following the COVID-pandemic with brimming levels of global inventories have not returned, industrial logic (i.e. expected savings and synergies) and a very high expected growth-potential for chemical storage must have been responsible. As a huge part of the sector is owned by institutional investors, we would not be surprised if we saw more private-equity-transactions in the time to come. Especially owners who have been invested for a longer time period could be enticed to sell their equity shares. We think premium prices will be restricted to diversified players with focus on chemicals and non-fossil fuel oils.

**Stable outlook not in peril**

Slightly upward trending storage rates, robust product flows, high utilization and other supportive elements (security of supply, deindustrialization) encounter some manageable headwinds (longer payback time for new energy storage, backwardated market structure, policy uncertainty, rising interest rates). Considering long-term prospects, the outlook for the sector remains stable. Oil products will command their share within the energy mix longer than expected. Growing volumes of alternative fuels will secure more tank occupation letting the tank storage sector profit from the extended usage of its infrastructure.