

# PTTEP steps into the ring

With an aggressive foreign strategy, Thailand's state oil firm wants to put a string of setbacks behind it

**I**F THE oil and gas game were likened to a boxing match, then Thailand's PTT Exploration and Production (PTTEP) would be considered a featherweight. But the Asian firm certainly has ambitions to punch above its weight.

After making the headlines in 2009 for all the wrong reasons – the Thai operator was responsible for one of Australia's worst oil spills in the Timor Sea – the national oil company (NOC) grabbed the spotlight last year when it went head-to-head with Anglo-Dutch supermajor Shell in its bid to buy junior explorer Cove Energy.

At \$1.9 billion, many analysts were quick to say it paid over the odds. But the deal saw it snare a foothold in a prolific gas play offshore Mozambique.

Besides, the acquisition reflected the asset's importance to both the firm and to the nation, which produces most of its electricity from natural gas and has started importing liquefied natural gas (LNG) as supplies from the Gulf of Thailand are projected to begin declining in the next decade.

## Expansion plans

The move was part of the listed company's grand plan to triple production to around 900,000 barrels of oil equivalent per day (boe/d) by 2020. This is an ambitious target, even for a company that has been relatively successfully compared to its regional peers.

In its favour, the firm has a solid operating profile backed by less cyclical cash flows compared to its global peers, largely due to its natural gas production, which benefits from long-term sales deals.

But for all its acquisitions, PTTEP, which is 65%-owned by the government's integrated energy player PTT, is not expanding as fast as it should.

Towards the end of last year, management made a drastic cut to production targets, slashing them by a third to just 600,000 boe/d by 2020. The smaller number seems more realistic.

At the end of last year, the firm had total proved reserves of 901 million barrels of oil equivalent (boe), average daily production of 313,293 boe/d and a proved reserve life of eight years. Of those reserves, 56% lie in Thailand.



Established in 1985 as part of a national energy strategy, the company has expanded its overseas footprint with investments in Southeast Asia, North America, Australia, Africa and the Middle East.

Even though the bulk of its production remains in the Gulf of Thailand, it is starting to ramp up volumes from its Kai Kos Dehseh oil sands venture in Canada, as well as its 16-1 project in Vietnam.

Meanwhile, following the disastrous spill off Australia, the Montara project is back on track, pumping its first flows earlier this year.

While its reputation was tarnished by the accident, it certainly will not be improved by news of an oil spill near a high-profile tourist area in the Gulf of Thailand in late July.

The latest leak, caused by a faulty hose transferring crude from a tanker to a subsea pipeline, was not PTTEP's fault, but its sister company PTT Global Chemicals's. Nevertheless, it's the sort of international attention PTTEP could do without as it seeks to spread its wings.

To achieve its latest output goal, the Bangkok-based firm has an aggressive investment plan worth \$15 billion over the next five years to develop its projects in Myanmar, Algeria, Australia, Canada, as well as at home. On top of this, following its takeover of Cove, it will need to stomp up its share of capital expenditure for an LNG export scheme, pending

a final investment decision in 2014. But, whether PTTEP can even reach its lower production target without having to make another large acquisition remains to be seen.

A successful \$3 billion share issue at the end of 2012 helped ease the pressure on the Thai player, but reinforced the view that PTTEP overpaid for Cove. Still, the fundraiser improved its financial flexibility.

Consequently, ratings agency Moody's upped its acquisition headroom from low to moderate, saying it could carry out between \$2 billion and \$10 billion of debt-funded investments on top of its spending plans over the next year.

It's also exploring opportunities in South America, particularly Colombia, and has plans to dabble in floating LNG (FLNG) off Australia.

Nevertheless, with signs that global growth is slowing, its parent PTT is sending out more cautious signals.

Expect PTTEP to take a short breather while it digests its acquisition of Cove Energy and weighs up its next move. One thing, though, is for sure: if the Mozambique LNG scheme eventually morphs into a six-train scheme without too many hiccups, PTTEP should be well rewarded. The upside from the stakes in seven deep-water blocks that it collected off Kenya offer promise, too.

For the time being, PTTEP, while not quite a lightweight contender yet, has proved it can pack a punch. **DE ●**

Clean up: The recent oil spill in Thailand casts a shadow over PTTEP's ambitions