

Acquisitions inevitable for Thailand's PTTEP

PTTEP boasts a large cash balance and reserves in need of a boost, which means the low oil price could make this a good time for the Thai company to pick up a bargain. Asia Pacific Contributor **Damon Evans** reports from Denpasar.

THAI upstream player PTT Exploration & Production (PTTEP) is cash-rich but reserve-poor. More acquisitions therefore seem inevitable, with BG Group's Thai assets likely to be among those snapped up.

With a balance sheet boasting \$3.3 billion in cash and access to some \$2-3 billion in debt financing, as well as single-digit gearing, PTTEP is best positioned among the Southeast Asian NOCs to scoop up new assets in the low-oil price environment. M&A will more likely focus on near-term production as PTTEP already holds longer-dated development assets in East Africa and Canada.

Trevor Buchinski, a Bangkok-based analyst at consultancy AWR Lloyd, told *Natural Gas Daily* PTTEP will probably avoid focusing on a single extremely large investment, and that it is more likely to choose multiple deals in the range of \$750 million to \$1 billion.

The Thai company has already put in an offer for BG's 22.2% stake in the Bongkot gas field in the Gulf of Thailand. A deal should be finalised in the first half of 2016 and could cost less than the reported \$1.2 billion asking price, PTTEP's Chief Executive Somporn Vongvuthipornchai told local media.

Thai banking sources told *NGD* that no foreign company will try to outbid PTTEP at home. The lack of clarity on licence extension also makes a foreign bid unlikely.

Bongkot, which produced 6% of BG's global gas output in 2014, came online in

1993. The field's licence is due to expire in 2023, but a 10-year extension is possible. However, Thailand's Petroleum Act is under review and its upstream sector is at risk. Licence extensions are likely to include lower producer stakes. The uncertainty surrounding expiration could be a motivating factor behind the sale.

BG will officially merge with Shell on 15 February, after which any decision will be taken by the Anglo-Dutch supermajor.

BG's net production from the Greater Bongkot project, which includes the north and south fields, stood at 39,000 barrels of oil equivalent per day (boe/d) in 2014, with gas making up about 85% of that.

The UK gas group also holds three exploration permits in the highly prospective, but disputed, waters of the 2.7 million hectare Thailand-Cambodia overlapping claims area (OCA). The Thai side of the OCA, where BG's blocks sit, is considered more prospective than the Cambodian side. BG has declined to comment on whether those blocks are on the market.

Estimates for the reserves in the OCA range widely, but the South East Asia Petroleum Society has published 'best guess' reserve estimates of 227-425 billion cubic metres of gas and between 400 million and 1 billion barrels of liquids.

Bankers are fairly certain PTTEP has its eyes on BG's exploration licences. However, it

remains to be seen how much they would be willing to pay and at what price Shell – whose Thai business is purely retail – would be willing to part with them, given the potential upside if the OCA issue can be resolved.

Dwindling reserves

PTTEP's organic reserve replacement was extremely weak in 2015, at 50% – the fourth consecutive year of less than 100% replacement – with its reserve life dropping from six years to five. The company will be forced to make acquisitions as a result, even though M&A has been value-destructive for shareholders in the past, according to Asian oil and gas specialists at Bernstein Research.

PTTEP's sales volumes were up by 3.2% year on year in 2015 at 322 million barrels of oil equivalent per day (MMboe/d), but below guidance of 343 MMboe/d.

PTTEP has ambitious plans to double domestic production to 600,000 boe/d by 2020 to boost Thailand's energy security. But this is under review given the volatile oil price environment.

To help weather the fall in oil prices the company has delayed new investments in three foreign projects in Canada, Australia and Myanmar, Somporn said. It has cut its five-year investment plan to \$11 billion from \$15 billion, although this excludes potential acquisitions.

Its large cash balance could help it lift reserves and production by up to 30% through acquisitions, according to ratings agency Moody's.

The company's primary M&A focus is within Thailand and Southeast Asia, but it continues to assess potential shale oil and gas investments in the United States.

PTTEP has a large but declining base of proven reserves. At the end of 2015, it had total proven reserves of 738 MMboe, a 33% decline from 1.1 billion boe in 2009

The company's proven reserves are expected to fall over the next two years before its longer-dated development assets in Mozambique and Canada are booked. PTTEP expects its share of the Mozambique Offshore Area 1 LNG project could add 150-170 MMboe of reserves when the partners take an FID. But this is unlikely to happen until 2017 at the earliest, given the oversupplied LNG market. ■

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