BUSINESS


Reuters

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ENERGY UP FOR GRABS

Western producers are selling billions in Asian oil and gas assets

DENPASAR, Indonesia Merger and acquisition activity in Asia's energy sector will accelerate this year as crude oil prices stabilize and major Western oil producers seek to divest assets in the region, analysts say.

Royal Dutch Shell announced plans in late January to sell its stake in a Thai field to a Kuwait company for $900 million. Shell, Chevron, Total, ExxonMobil and Eni are believed to be willing to potentially sell up to $40 billion in assets, with disposals expected in Myanmar, Bangladesh, Malaysia, China and New Zealand.

Likely buyers include Chinese state-owned oil companies, private equity companies and local independent energy groups, according to Wood Mackenzie, a U.K.-based energy research company.

In 2016, only $6 billion worth of oil and gas deals, by Wood Mackenzie's tally, closed in the Asia-Pacific region, where energy demand is projected to almost double by 2030. Last year's 20 deals were the fewest since 2012, and a tiny proportion of the global spend of $130 billion.

Vandana Hari, founder of Singapore-based research company Vanda Insights, said oil and gas M&A activity in Asia is expected to pick up in 2017, particularly in the upstream exploration and production sector, in response to firmer oil prices following output cuts by the OPEC and other producers. Oil prices are expected to stabilize at $50-60 a barrel this year, rising to $60-65 next year, Hari said.

M&A activity in the energy sector is already rebounding across the globe, with a record $20 billion worth of deals sealed in January alone. Angus Rodger, Asia-Pacific research director at Wood Mackenzie, said that Shell's sale in Thailand could be followed in the next four months by deals involving another five or six large and mainly mature upstream assets. The bigger assets are valued at between $500 million and $1 billion, Rodger said.

Chevron and Shell, which hold the largest portfolios of legacy assets in Asia, signaled last year that they plan to sell holdings in Myanmar, Bangladesh, Thailand, New Zealand, Malaysia and China. ExxonMobil, Total and Eni are also expected to continue to divest as they refocus their global portfolios.

The Anglo-Dutch Shell has a vast portfolio of assets in the Asia-Pacific region following its 47 billion pounds (around $70 billion at the time) merger in 2016 with BG, a U.K. gas producer. "I would not be surprised if Shell negotiates with China's CNOOC or China Petroleum & Chemical to divest some of its LNG (liquefied natural gas) portfolio in the region to ensure it can maintain its dividend payout," said Gordon Kwan, an oil and gas specialist with Nomura in Hong Kong.

Asian demand for LNG is expected to rise by 43% to 270 million tons by 2025 from 190 million tons in 2016, Wood Mackenzie estimates.

"The Chinese will not just be looking for gas, but potentially oil too if any quality assets are on the market in Asia, especially Central Asia, as domestic production is in structural decline," Kwan said.

China's outbound upstream M&A boom, which saw its national oil companies spend almost $170 billion over the past decade, ended in 2014 when global oil prices retreated. But energy security in China has become more tenuous, suggesting that dealmaking will recover, according to Neil Beveridge, senior oil analyst in Hong Kong with fund management group Sanford C. Bernstein.

In a report last month, Beveridge said, "China will want to continue acquiring LNG-related assets and gas assets in Central Asia or Russia, which could be tied back to the Chinese market." But he warned, "With China offering the most important end market for demand globally ... Chinese NOCs (national oil companies) have significant bargaining power."

CASH-GENERATIVE Beveridge said there is a diverse group of more than 70 private Chinese companies buying into upstream assets, at home and abroad. While some are linked to energy -- such as oilfield services companies and gas and

PHOTO: Chevron and Shell plan to sell holdings in Thailand, Myanmar, Bangladesh, New Zealand, Malaysia and China.

power generators and distributors -- many are not, including domestic conglomerates, venture capital companies and even real estate, fashion and jewelry companies.

"They are pivoting into the upstream business because they see oil and gas assets as cheap and extremely cash-generative," said Rodger. "U.S. dollar-denominated assets can also help [Chinese companies] to hedge against an expected [yuan] depreciation."

Wood Mackenzie also expects more buying activity in Malaysia, Thailand and Indonesia by independent local energy companies, which are often more comfortable dealing with domestic politics and license-extension risks than foreign owners. Private equity-backed companies will also play a role, as will Asian refiners and utilities, Japanese companies and Middle Eastern national oil companies, all looking for upstream growth opportunities.

"Smaller-scale deals are most likely to happen, where there is ready cash and quick deals can be done almost under the radar," said Ashley Wright, an energy lawyer with Pinsent Masons in Singapore. "Big deals with major tender processes take a long time, and may be overly complicated for the Asian market."

While some smaller mature assets are available, Rodger said there are also gas assets with significant remaining value on the market in Bangladesh, New Zealand, Myanmar and Malaysia.

Chevron is looking to sell or partially divest up to $2 billion worth of assets in three fields in Bangladesh, with Indian and Chinese entities reportedly interested. The Bangladeshi government announced in late January that it would make a formal bid for the fields, which produce the bulk of the South Asian nation's gas supplies, given their strategic importance.

Chevron is also seeking to divest assets in Myanmar, where it holds a stake in the Yadana project reportedly valued at around $1.3 billion. Chevron also owns the rights to the very promising and much coveted A-5 exploration block off Myanmar.

"Block A-5 is a good asset with plenty of buyers interested, but Chevron wants a competitive price. Otherwise they will keep it," said Blair Miller, a Singapore-based energy trade and investment adviser with Scottish Development International.

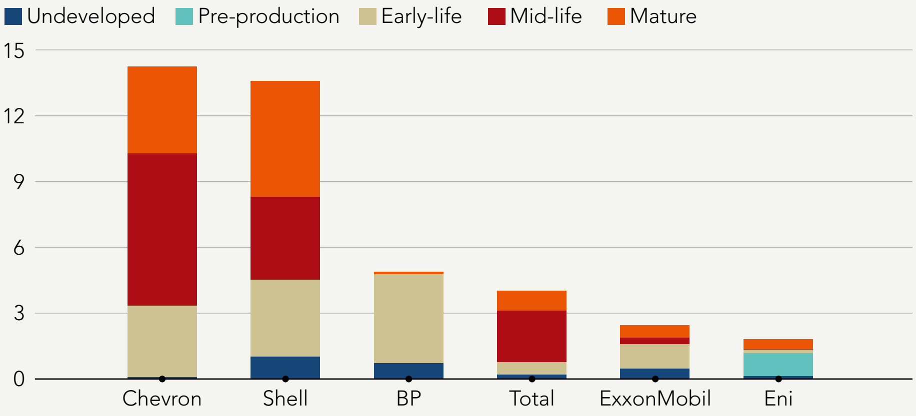
Shell, which holds stakes in seven offshore exploration blocks in Myanmar's potentially gas-rich waters, is also likely to divest some of its assets, said Adrian Pooh, an upstream specialist at Wood Mackenzie.

Myanmar remains attractive not just because of nearby energy-export markets like China and Thailand, but also because of its expanding domestic demand.

Australia's Woodside Petroleum, Thailand's PTT Exploration and Production, Japanese trading houses and Chinese companies, among others, may feature in the list of potential buyers. Aside from the Western oil majors, Malaysian state oil company Petroliam Nasional, or Petronas, is seeking to sell a stake in an offshore gas block, which feeds a Malaysian LNG export plant, for up to $1 billion, Reuters reported on Feb. 20.

It is not just upstream oil and gas assets up for sale; pipelines and gas stations could also be up for grabs. "Expect the NOCs in China to divest 30-40% of their pipelines to Chinese-based private equity as the government introduces reforms to break down monopolies and encourage more competition," said Nomura's Kwan. "Refining and storage opportunities in China should also interest the big trading houses." It could be a busy year. N

Asian holdings of Western oil, gas majors *(present asset valuation; in billions of dollars)*



Source: Wood Mackenzie

Major 2016 Asia-Pacific oil, gas deals

ANNOUNCEMENT DATE	SELLER	BUSINESS SOLD	BUYER	DEAL VALUE*
Oct. 15	Essar Group	Essar Oil	Rosneft and Trafigura consortium	12.9
Aug. 31	*(Stockholders)*	TonenGeneral Sekiyu	JX Holdings	6.3
Sept. 10	China National Petroleum	CNPC engineering units	Xinjiang Dushanzi Tianli High & New Tech	3.7
July 21	*(Stockholders)*	InterOil	Exxon Mobil	2.5
Dec. 28	Woolworths	Woolworths gas stations	BP	1.3

**in billions of dollars* — *Source: Dealogic*