Asia-Pacific Oil & Gas Sectors

A Company and Industry Analysis

January 2016

Current Environment — Key Points

- The slow economic growth throughout the Asia-Pacific over the past six months continued to hit demand for oil and liquefied natural gas (LNG).
- Oil prices fluctuated gradually over the past six months between US$36.51 and US$62.87 per barrel.
- Global oil demand continued to slow in the second half of 2015, together with increased supply that caused the price to continue to fluctuate on the lower end.
- The stock prices of the top ten leading Asia-Pacific oil and natural gas companies by revenues fell by an average of 11.93% over the six months to November 30, 2015.
- The rate of Asia-Pacific oil and gas mergers and acquisitions (M&A) picked up slowly over the six months under review, amid a slowdown in the global economy.

Industry Profile — Key Points

- The Asia-Pacific has less than 4% of the world’s proven oil reserves and the industry have few options to expand or maintain its current levels of production.
- The region’s proved natural gas reserves fell by 1.1% from a year earlier to 534.488 Tcf in 2015.
- The region is trying to decrease its import dependency, and boost energy security and independence by increasing its domestic production, especially from its producing countries like China, India, Thailand, Malaysia and Indonesia.
- The Indonesian legislators have drafted a new oil and gas law where all production operations should be controlled by state-owned enterprises, while private investors could only provide capital and technology required.

Market Trends and Outlook — Key Points

- The low oil prices will affect the region’s oil and gas companies differently according to their place in the supply chain and the degree of state price controls.
- LNG prices will be lowered in the future if oil prices continued to fall, thus make LNG an attractive source energy.
- The growing Asians nations that have led the world’s oil demand over the past few years continued to lead on although the growth has slowed over the past six months.
- The region’s offshore capex is likely to grow significantly over the next five years as the oil and gas sector is dominated by offshore production.
Asia-Pacific

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Current Environment

Sector Overview

The slow economic growth throughout the Asia-Pacific over the past six months continued to hit demand for oil and liquefied natural gas (LNG). The global growth of new oil supply hardly exceeded declining production from the world’s large older oil fields, causing an overall net supply increase. Oil prices fluctuated gradually over the past six months between US$36.51 and US$62.87 per barrel. The low oil prices should be able to boost gross domestic product (GDP) growth in the region by 0.25% to 0.5%. This had significant economic implications as oil provides 60% of the world’s energy needs, with the other 40% coming from coal, nuclear, hydroelectric, wind, solar, tidal power and biomass.

Asia-Pacific oil consumption growth was the second highest globally at 47%, after the Middle East’s 57%, while

Table 1: Crude Oil Monthly Prices, June 2015 to November 2015

Table 2: Asian Oil Consumption, 2000-2013
Current Environment

Table 3: Asian Natural Gas Consumption, 2000–2013

![Graph showing Asian Natural Gas Consumption from 2000 to 2013. Source: Energy Information Administration](image)

Consumption in the European Union (EU) fell by 5% and in the US by 3%. The decline in EU and US consumption was due to the shift from oil to gas and renewable energy.

Natural gas consumption slowed over the past six months with weakened demand in key markets such as China, Japan, and South Korea despite the falling of gas prices. The previously high prices of natural gas have prompted users to switch to cheaper fuels and the recent low oil-link LNG prices could not boost much of its demand. Natural gas has a hard time competing with very cheap coal and the falling costs of renewables although Asia accounted for 70% of the world’s LNG market.

Nevertheless, natural gas continued to be the key to Asia-Pacific economic growth and environmental progress, with energy demand estimated to grow by 59% over the next three decades, after steady increases over the past decade. Natural gas can meet more of the demand for electricity, chemicals and plastics, improving quality of life and reducing environmental impact at the same time. Natural gas will slowly continue to replace coal as the region’s second biggest energy source, with the upstream oil and gas market offering new business opportunities for the growing number of independent and expanding state oil companies.

Sector Performance

Global oil demand slowed in the second half of 2015, together with increased supply, caused the price to continue to fluctuate on the lower end.

The share prices of the top ten Asia-Pacific oil and natural gas companies by revenue fell by an average 11.93% over the six months to November 30, 2015, when crude oil closed at US$43.73 per barrel. Four companies’ share prices finished higher, while those of six ended weaker. The best performer was Petronas Dagangan Bhd (KLSE: PETD), whose shares started at RM20.02 (US$4.64) on June 1, 2015, fluctuated moderately over the next two months and fell to a period low of RM19.82 (US$4.59) on August 20, 2015. It then rose steadily over the next three months and ended the period with a period high of RM25.00 (US$5.80) on November 30, 2015. Another company whose shares did well was Hindustan Petroleum Corp (BSE: HPCL), starting at Rs694.55 (US$10.49). It rose steadily over the next two months to a period high of Rs970.45 (US$14.65) on August 7, 2015 before plunged to Rs772.10 (US$11.66) on August 24, 2015, where it fluctuated moderately over the next three months and ended the period at Rs840.10 (US$12.69) on November 30, 2015.
Current Environment

Table 4: Key Asia-Pacific Oil and Gas Stock Performances

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Closing Stock Prices</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Petroleum &amp; Chemical Corp (Sinopec)</td>
<td>SSE: 600028</td>
<td>RMB7.50 - RMB4.91</td>
<td>(34.5)</td>
</tr>
<tr>
<td>PetroChina Co Ltd</td>
<td>SSE: 601857</td>
<td>RMB12.40 - RMB8.40</td>
<td>(32.3)</td>
</tr>
<tr>
<td>China National Offshore Oil Co Ltd (CNOOC)</td>
<td>HKSE: 883</td>
<td>HK$12.16 - HK$8.58</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Indian Oil Corp Ltd (IOCL)</td>
<td>BSE: IOCL</td>
<td>Rs354.75 - Rs421.05</td>
<td>18.7</td>
</tr>
<tr>
<td>Hindustan Petroleum Corp</td>
<td>BSE: HPCL</td>
<td>Rs694.55 - Rs840.10</td>
<td>21</td>
</tr>
<tr>
<td>Oil and Natural Gas Corp Ltd (ONGC)</td>
<td>BSE: ONGC</td>
<td>Rs324.10 - Rs234.15</td>
<td>(27.8)</td>
</tr>
<tr>
<td>Caltex Australia</td>
<td>ASX: CTX</td>
<td>A$33.51 - A$33.32</td>
<td>2.4</td>
</tr>
<tr>
<td>Woodside Petroleum Ltd</td>
<td>ASX: WPL</td>
<td>A$36.56 - A$30.11</td>
<td>(17.6)</td>
</tr>
<tr>
<td>Santos Ltd</td>
<td>ASX: STO</td>
<td>A$7.25 - A$4.01</td>
<td>(44.7)</td>
</tr>
<tr>
<td>Petronas Dagangan Bhd</td>
<td>KLSE: PETD</td>
<td>RM20.02 - RM25.00</td>
<td>24.9</td>
</tr>
<tr>
<td>Average Rise/Fall (%)</td>
<td></td>
<td></td>
<td>(11.93)</td>
</tr>
</tbody>
</table>

Source: Mergent analysis

The worst performing stock was that of Santos Ltd (ASX: STO), whose share price starting at A$7.25 (US$5.20) on June 1, 2015, fluctuated downwards over the next four months to a period low of A$3.47 (US$2.49) on September 3, 2015, peaked at A$5.63 (US$4.04) on October 23, 2015 before ending the period lower at A$4.01 (US$2.88) on November 30, 2015. Another company that did badly was China Petroleum & Chemical Corp (Sinopec) (SSE: 600028), whose share price started at RMB7.50 (US$1.16) on June 1, 2015. It fluctuated downwards over the next three months to a period low of RMB4.49 (US$0.69) on August 25, 2015 and fluctuated moderately over the next three months, ending the period slightly higher at RMB4.91 (US$0.76) on November 30, 2015.

Leading Companies

China National Offshore Oil Co Ltd (CNOOC) (HKSE: 883)

China’s biggest offshore oil producer CNOOC reported revenue of RMB37.721 billion (US$5.820.35 million) for the third quarter of 2015, a drop of 31.5% from a year earlier due to the sharp decline in global oil prices. Its average realized oil price decreased by 50.7% to US$48.84 per barrel and average realized gas price by 3% to US$6.41 per thousand cubic feet (Mcf). Capital expenditure decreased by 44% to RMB14.753 million (US$2.276.388 million). Production levels were up by 23.8% from a year earlier to 127.5 million barrels of oil equivalent (boe) due to the production contribution from new projects that came on stream in offshore China since 2014.

The company made three discoveries and 14 successful appraisal wells in offshore China during the quarter under review. The successful appraisal of Caofeidian 6-4 in Shijiuqiu Uplift of Bohai is a significant breakthrough after several years of exploration in western Bohai. Luda 10-1 in Bohai comprehensive adjustment came to stream during the quarter and new projects progressed smoothly.

Indian Oil Corp Ltd (IOCL) (BSE: 530965)

State-owned IOCL reported a net loss of Rs329.17 crore (US$49.705 million) for the third quarter of 2015 and operating income decreased by 23.5% from a year earlier to Rs85,384.81 crore (US$12,893.106 million). Its product sales volume including exports increased by 5.8% to 19.065 million tonnes, refining throughput by 2.1% to 13.683 million tonnes, and the company’s pipelines network by 5% to 19.982 million tonnes. The company has increased its presence in the upstream sector and enhanced its capability in exploration and production (E&P). It has participating interests in 13 domestic and nine overseas blocks and made discoveries in some of them, while many others are undergoing geological and geophysical studies.
Current Environment

*Petronas Dagangan Bhd (Petronas) (KLSE: PETD)*

Petronas is Malaysia’s most profitable firm and the country’s only company in the Fortune 500. Its third quarter of 2015 profit of RM1,351 million (US$313.162 million) was 91% down from a year earlier and earnings before interest, taxes, depreciation and amortization (EBITDA) by 50.2% to RM14,548 million (US$3,372.226 million) due to lower prices and higher assets impairment losses.

Its revenue fell by 25.3% from a year earlier to RM60,064 million (US$13,922.835 million) due to lower average realized prices recorded across all products in line with the downward trend of benchmark crude oil price, and the lower trading volume for petroleum product and crude oil and condensate. It was partially offset by the favorable US dollar exchange rate movement against the Malaysian ringgit.

Cash flow from operating activities was down by 35% to RM16,729 million (US$3,877.782 million) due to lower revenue, while crude oil and condensate production volume increased by 5% to 2,182 thousand boe per day due to production enhancement efforts and new production stream from Malaysia, negated by natural decline rate.

*Mergers and Acquisitions*

The rate of Asia-Pacific oil and gas mergers and acquisitions (M&A) picked up slowly over the six months under review, amid a slowdown in the global economy. The motivation for deals varied in different countries and companies. China and India’s national oil companies (NOCs) continued their quest to acquire as much technology and knowledge as possible from their western partners to exploit their own huge unconventional assets, while Malaysia and South Korea focused on diversifying their reserves and production bases to boost national energy self-sufficiency.

High growth in emerging markets, over-capacity in developed regions and the need to develop new and efficient technology solutions for company development also drove M&As. Japan actively acquired overseas gas assets to replace lost nuclear power capacity after the Fukushima nuclear plant crisis, and to secure supplies of LNG before long-term contracts expire.

In October 2015, Australia’s Clough Ltd (ASX: CLO) acquired Enercore Projects Limited (Enerco), a privately owned engineering services company in Canada that specializes in the provision of engineering, procurement and construction management services to Canadian oil and gas sector. The acquisition valued to US$7.7 million and formed a new group co-branded ‘Clough Enerco’. This will form part of Clough’s global network of engineering centers and build the company’s North America presence, which aligned with the company’s international expansion strategy.

While M&As might not offer much immediate return, they should boost reserves and production of NOCs in the long term and help companies diversify from declining domestic reserves. They are important for energy security and supplement domestic crude oil and natural gas production.